



Interleaf

**Ten Canal Park
Cambridge, Massachusetts 02141**

**Special Meeting in Lieu of Annual Meeting of Stockholders
to be held September 29, 1986**

The Special Meeting in Lieu of the Annual Meeting of Stockholders of Interleaf, Inc. (the "Company") will be held at The Bank of Boston, 100 Federal Street, Boston, Massachusetts on Monday, September 29, 1986 at 9 a.m., local time, to consider and act upon the following matters:

1. To fix the number of directors at seven and to elect seven (7) directors to serve for the ensuing year.
2. To approve an amendment to the Company's 1983 Stock Option Plan.
3. To approve an amendment to the Company's By-laws with respect to the applicable standard of conduct required for indemnification.
4. Subject to stockholder approval of the amendment to the By-laws, to approve the Agreement to Defend and Indemnify to be entered into with each director and officer of the Company.
5. To ratify the selection of Ernst & Whinney as the Company's independent auditors for the 1987 fiscal year.
6. To transact such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record at the close of business of August 25, 1986 will be entitled to vote at the meeting or any adjournment thereof. The stock transfer books of the Company will remain open.

By Order of the Board of Directors,

Anil Khosla, Clerk

Cambridge, Massachusetts
September 11, 1986

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

INTERLEAF, INC.

Ten Canal Park
Cambridge, Massachusetts 02141

**Proxy Statement for the Special Meeting in Lieu of the Annual Meeting
of Stockholders**

September 29, 1986

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Interleaf, Inc. (the "Company") for use at the Special Meeting in Lieu of the Annual Meeting of Stockholders to be held on September 29, 1986 and at any adjournment of that meeting. All proxies will be voted in accordance with the stockholders' instructions, and if no choice is specified, the proxies will be voted in favor of the matters set forth in the accompanying Notice of Meeting. Any proxy may be revoked by a stockholder at any time before its exercise by delivery of written revocation to the Clerk of the Company.

On August 25, 1986, the record date for the determination of stockholders entitled to vote at the meeting, there were outstanding and entitled to vote an aggregate of 11,109,410 shares of Common Stock of the Company. Each share is entitled to one vote.

The Company's Prospectus, dated June 26, 1986, which serves as its 1986 Annual Report to Stockholders, was mailed to the stockholders together with the mailing of this Proxy Statement on or about September 11, 1986.

Principal Stockholders

The following table sets forth certain information, as of July 31, 1986, with respect to the beneficial ownership of the Company's Common Stock by (i) each person known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock, and (ii) all directors and officers of the Company as a group:

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percentage of Common Stock Outstanding</u>
CEDE & Co. (1) P.O. Box 20 Bowling Green Station New York, NY 10004	3,319,424	29.88%
First Capital Corporation of Chicago (2) Suite 1330 Three First National Plaza Chicago, IL 60602	1,284,560	11.56%
Venture capital funds managed by Hambrecht & Quist Venture Partners (3) One Post Street San Francisco, CA 94104	829,844	7.47%
Harry A. George c/o Interleaf, Inc. Ten Canal Park Cambridge, MA 02141	557,694	5.02%
All directors and officers as a group (14 persons) (4)	2,063,665	18.58%

- (1) CEDE & Co., the nominee of the Depository Trust Co., New York, New York, is used primarily by banks and brokers to hold shares as nominee for themselves and their customers. The Company does not have information from which it can determine the beneficial ownership of the shares held by Cede & Co. The Company does not know of any other person or group of persons holding 5% or more of the outstanding shares of Common Stock.
- (2) Includes 48,456 shares held by Madison Dearborn Partners, an entity which may be considered to be part of a group with First Capital Corporation of Chicago.
- (3) Does not include 2,400 shares held by Patrick J. Sansonetti, a director of the Company, who is a General Partner of Hambrecht & Quist Venture Partners.
- (4) Does not include 158,000 shares held by spouses and irrevocable trusts of certain directors and officers as to which these directors and officers disclaim beneficial ownership. Includes 10,000 shares held by the spouse of a director. 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 119,500 shares issuable upon exercise of options held by six officers, which options are currently exercisable or become exercisable within the 60-day period after July 31, 1986.

Votes Required

The affirmative vote of the holders of a majority of the shares of Common Stock present or represented at the meeting is required to fix the size of the Board at seven, to elect the directors, to approve amendments to the Company's 1983 Stock Option Plan and its By-laws, to approve the Agreement to Defend and Indemnify to be entered into with each director and officer and to ratify the selection of Ernst & Whinney as the Company's independent auditors for the fiscal year ended March 31, 1987.

ELECTION OF DIRECTORS

At the Special Meeting in Lieu of the Annual Meeting of Stockholders, action will be taken to fix the size of the Company's Board of Directors at seven directors and to elect seven (7) directors to hold office until the next Annual Meeting of Stockholders and their successors are elected and qualified. All of the nominees have indicated their willingness to serve, if elected, but if any should be unable to serve, the proxies may be voted for a substitute nominee or nominees designated by management.

The following table sets forth the names and ages of each nominee, the period during which he has served as a director of the Company, the number of shares of Common Stock of the Company beneficially owned by him on July 31, 1986 and the percentage of all outstanding shares of Common Stock owned by him:

<u>Name and Age</u>	<u>Commencement of Term as a Director</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percentage of of Common Stock Outstanding</u>
David A. Boucher, 37	1981	485,444 (1)	4.37%
Harry A. George, 38	1981	557,694	5.02%
George D. Potter, Jr., 49	1983	250,070 (2)	2.25%
Frederick B. Bamber, 43	1984	— (3)	—
Michael Hammer, 38	1982	70,660	*
William J. Hunckler, III, 33	1984	— (4)	—
Patrick J. Sansonetti, 41	1985	2,400 (5)	*

* Less than 1%

- (1) Includes 10,000 shares held by Mr. Boucher's wife. Does not include 100,000 shares held by an irrevocable trust established for the benefit of Mr. Boucher's children, as to which Mr. Boucher disclaims beneficial ownership.
- (2) Does not include 30,000 shares held by an irrevocable trust established for the benefit of Mr. Potter's children, as to which Mr. Potter disclaims beneficial ownership.
- (3) 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 all such shares.

- (4) Does not include 1,236,104 shares held by First Capital Corporation of Chicago, of which Mr. Hunckler is a Vice President, 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, but disclaims beneficial ownership of, all such shares.
- (5) Does not include 829,844 shares held by the funds managed by Hambrecht & Quist Venture Partners, of which Mr. Sansonetti is a General Partner. Mr. Sansonetti shares voting and investment power with respect to, but disclaims beneficial ownership of, all such shares.

Principal Occupation of Nominees

David A. Boucher has served as President and a Director of the Company since its inception in 1981.

Harry A. George has served as Vice President of Finance, Treasurer and a Director of the Company since its inception in 1981.

George D. Potter, Jr. has served as Vice President of Marketing and a Director of the Company since February 1983. From 1979 to 1983, he was employed by Wang Laboratories, Inc., most recently as New England District Sales Manager.

Frederick B. Bamber has been a Director of the Company since January 1984. Since January 1982 he has been a General Partner of Applied Technology Partners, L.P., a venture capital limited partnership. He was an independent consultant from 1979 to 1982.

Michael Hammer has served as a Director of the Company 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 of the Company 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 since July 1983, currently as a General Partner. From 1982 to 1983, Mr. Sansonetti was Vice President, Business Development, of Fidelity Systems Company, a subsidiary of Fidelity Investments. From 1981 to 1982, he was a co-founder and Director, International Marketing, of TransTechnology Trading, a high technology export trading company.

Board and Committee Meetings

The Company established a standing Audit Committee of the Board of Directors in May 1986, which provides the opportunity for direct contact between the Company's independent auditors and the Board. The Audit Committee will meet during the 1987 fiscal year to review the effectiveness of the auditors during the annual audit, to discuss the Company's internal control policies and procedures and to consider and recommend the election of the Company's independent auditors. The current Audit Committee members are Messrs. Hunckler (Chairman), Bamber and Sansonetti.

The Company established a standing Compensation Committee of the Board of Directors in August 1986, which provides recommendations to the Board regarding compensation programs of the Company and administers the Company's 1983 Stock Option Plan, including making recommendations regarding issuance of stock options to employees. The current members of the Compensation Committee are Messrs. Boucher (Chairman), Bamber and Sansonetti.

The Company has no Nominating Committee.

The Board of Directors met 10 times during the fiscal year ended March 31, 1986. With the exception of Mr. Hammer, each current director attended at least 75% of the aggregate number of meetings of the Board of Directors and of all Committees of the Board on which he served.

There are no arrangements or understandings between any director or officer and any other person pursuant to which such director or officer is to be elected as a director or officer. There are no family relationships between or among any directors or officers of the Company.

Executive Compensation

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

<u>Name of Individual or Number of Persons in Group</u>	<u>Capacities in Which Served</u>	<u>Cash Compensation</u>
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, Marketing Programs and Communications	110,008
George D. Potter, Jr.	Vice President of Marketing	94,338
Craig Cervo	Vice President of Engineering	86,306
All executive officers as a group (9 persons)		\$685,399

Directors' Compensation

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

Certain Transactions

During the three-year period ended March 31, 1986, the Company recorded revenues from product sales, license fees and royalties from Eastman Kodak Company ("Kodak") in the aggregate amount of \$3,146,315, representing approximately 12% of Interleaf's revenues during such period. Prior to the Company's initial public offering, Kodak owned stock of the Company convertible into 624,850 shares of Common Stock, all of which were converted and sold in the initial public offering. Until May 1986, an officer of Kodak was a Director of the Company.

APPROVAL OF AMENDMENT TO STOCK OPTION PLAN

On January 26, 1986 the Board of Directors amended, subject to the approval of the Company's stockholders, the Company's 1983 Stock Option Plan (the "Plan") to increase the number of shares reserved for issuance under the Plan from 700,000 to 1,200,000 shares. The Company believes this amendment will enhance its ability to attract and retain key employees. The Board recommends to the shareholders that they vote FOR the amendment of the Plan.

Description of Stock Option Plan

The Plan is administered by the Board of Directors which has delegated its administration to the Compensation Committee subject to the Board's ultimate control. 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 Compensation Committee 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 of incentive stock options, and (iv) the duration of the option, which cannot exceed 10 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.

As of July 31, 1986, incentive stock options to purchase an aggregate of 693,130 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.

The following table shows as to certain executive officers of the Company, and as to all executive officers as a group, certain information with respect to options to purchase Common Stock granted and exercised between the effective date of the Plan on July 20, 1983 and July 31, 1986, inclusive:

	<u>David A. Boucher</u>	<u>Harry A. George</u>	<u>Steven M. Schwartz</u>	<u>George D. Potter, Jr.</u>	<u>Craig Cervo</u>	<u>Executive Officers as a Group (9 persons)</u>
Granted:						
Number of shares	—	—	19,500	70,000	30,000	196,500
Average per share option price	—	—	\$ 3.62	\$ 1.20	\$ 1.13	\$ 2.42
Exercised:						
Aggregate net value realized (1)	—	—	\$17,220	\$33,900	—	\$62,160

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

Mr. Pelletier sold 8,000 shares of Common Stock in the Company's initial public offering.

During the period from July 20, 1983 to July 31, 1986, options for the purchase of an aggregate of 714,206 shares of Common Stock (net of cancellations and terminations) were granted to employees of the Company other than executive officers. As of July 31, 1986, an aggregate of 217,576 shares of Common Stock had been issued to employees (including executive officers and net of repurchases) upon exercise of options granted under the Plan, and options to purchase an aggregate of 693,130 shares of Common Stock at an average exercise price of \$3.91 per share were outstanding and held by 274 employees (including executive officers), with expiration dates ranging from July 30, 1993 to June 17, 1996.

APPROVAL OF AMENDMENT TO BY-LAWS AND INDEMNITY AGREEMENTS WITH DIRECTORS AND OFFICERS

Background

On August 15, 1986, the Board of Directors adopted, subject to the approval of the Company's stockholders, an amendment (the "Amendment") to the Company's By-laws whereby, as indicated on *Exhibit A* attached to this Proxy Statement, the bracketed sentence in Article 5 is to be deleted and the italicized paragraphs are to be inserted.

On August 15, 1986, the Board of Directors also adopted a resolution authorizing the Company, subject to approval of the Company's stockholders, to enter into an Agreement to Defend and Indemnify ("Indemnity Agreement") in the form attached as *Exhibit B* to this Proxy Statement with each director and officer of the Company.

The Board's actions to amend the Company's By-laws and to approve the Indemnity Agreements were motivated by (i) the growing risk and expense of unfounded litigation against the directors and officers of public companies, (ii) the increasing difficulty of obtaining directors' and officers' liability insurance at reasonable cost; and (iii) the inability of public companies to continue to attract and retain qualified directors and officers without adequate alternative protection against liability.

The indemnification coverage presently provided under the Company's By-laws has three significant limitations: (i) except for litigation in which a director or officer is successful on the merits, indemnification is discretionary rather than mandatory; (ii) the Company is under no obligation to advance litigation expenses to a director or officer on an ongoing basis; and (iii) the Company cannot indemnify a director or officer for amounts paid in settlement or compromise without the prior approval of a disinterested majority of the Board of Directors or a disinterested majority of the Company's stockholders.

For these reasons, the Board of Directors has determined that the best interests of the Company would be served by the adoption of the Amendment and the execution of the Indemnity Agreements. The Board recommends to the shareholders that they vote FOR the amendment to the By-laws and FOR the Indemnity Agreements.

Existing Indemnification Protection

The Company is a Massachusetts corporation governed by the Massachusetts Business Corporation Law. Section 67 of the Massachusetts Business Corporation Law, the full text of which is set forth as *Exhibit C* attached to this Proxy Statement, permits a Massachusetts corporation to indemnify its directors, officers, employees and other agents to whatever extent specified in or authorized by (i) the articles of organization, (ii) a by-law adopted by the stockholders or (iii) a vote adopted by the holders of a majority of the shares of stock

entitled to vote on the election of directors. Except as otherwise provided in the articles of organization or the by-laws, any of these persons who are not directors may be indemnified to the extent authorized by the directors.

Furthermore, Section 67 provides that the absence of any express provision for indemnification does not limit any right of indemnification existing independently of that section.

Indemnification may include payment of expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition of such action or proceeding, and may be provided although the person is no longer affiliated with the corporation. No indemnification may be provided, however, for any person with respect to any matter as to which he is adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his action was in the best interests of the corporation.

A corporation also has the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or other agent of the corporation against any liability incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability. The Company does not presently maintain directors' and officers' liability insurance. The foregoing discussion of Section 67 is qualified in its entirety by reference to the text of Section 67 which is set forth in *Exhibit C* attached to this Proxy Statement.

Article 5 of the Company's By-Laws presently provides that the Company shall, to the extent legally permissible, indemnify directors and officers against all liabilities and expenses incurred by any such person in connection with, or arising out of, the defense or disposition of any action, suit or other proceeding, whether civil or criminal, in which he may be a defendant or with which he may be threatened or otherwise involved, directly or indirectly, by reason of his being or having been a director or officer.

Article 5 further presently provides that the Company may provide no indemnification with respect to any matter settled or compromised, unless such settlement or compromise shall have been approved as in the best interest of the Company by (i) a disinterested majority of the Board or (ii) the holders of a majority of the outstanding stock entitled to elect directors, excluding any stock owned by an interested director or officer.

The Company may pay expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition of such proceeding upon receipt of an undertaking by the person indemnified to repay such advances if it is ultimately determined that such person is not entitled to indemnification.

Amendment to the By-laws

The purpose of the Amendment is to establish the presumption that the director or officer has met the applicable standard of conduct required for indemnification. The amendment shifts the presumption in the case of settlement or compromise so that approval of the Board of Directors or the Company's stockholders is no longer a prerequisite to indemnification. Indemnification will be made unless the Board of Directors, the stockholders or independent counsel determines that the applicable standard of conduct has not been met. Under Massachusetts law, the Amendment requires the approval of the Company's stockholders.

The foregoing discussion of the Amendment is qualified in its entirety by reference to the complete text of Article 5 as proposed to be amended, which is attached as *Exhibit B* to this Proxy Statement.

Indemnity Agreements

Each Indemnity Agreement will be in the same form as is attached as *Exhibit B* to this Proxy Statement. The principal terms of the Indemnity Agreement are described below.

First, the Indemnity Agreement establishes the presumption that the individual director or officer party thereto has met the applicable standard of conduct required for indemnification and provides that the Company

shall indemnify the director or officer to the extent legally permissible. With respect to any proceeding which is disposed of without: (i) the disposition being adverse to the director or officer; or (ii) an adjudication that the director or officer was negligent or guilty of misconduct; or (iii) a plea of guilty or of *nolo contendere*; or (iv) an adjudication that the director or officer has not met the applicable standard of conduct, the director or officer will be considered to have been wholly successful and entitled to indemnification. Otherwise, indemnification will be provided unless the Board of Directors, the disinterested holders of a majority of the outstanding stock entitled to elect directors, or independent counsel determines that the applicable standard of conduct has not been met.

Second, the Indemnity Agreement provides that litigation expenses shall be advanced to a director or officer at his request without consideration of his financial circumstances provided he undertakes to repay the amount advanced if it is ultimately determined that he is not entitled to indemnification for such expenses.

Although the enforceability of the provisions of the Indemnity Agreement has not been tested in court and remains subject to public policy considerations, the Board of Directors believes that such provisions are permitted under Massachusetts law and are in the best interests of the Company because they will better enable the Company to attract and retain qualified individuals to serve as directors and officers. However, the signing of the proposed Indemnity Agreements may result in significant expenses to the Company which it would not otherwise incur for the indemnification of its directors and officers.

The foregoing discussion of the Indemnity Agreement is qualified in its entirety by reference to the Indemnity Agreement attached hereto as *Exhibit B*, which you are urged to read and consider carefully.

No litigation has been commenced against the Company or any of its directors or officers in their respective capacities as such. The Company knows of no pending or threatened claims which may be the subject of an indemnification claim under the Company's By-laws or the proposed Indemnity Agreements.

The Board of Directors considers it appropriate to submit the Indemnity Agreements to the Company's stockholders for their approval due to the potential conflict of interest which exists because (i) the Indemnity Agreements provide for the mandatory advance of litigation expenses and (ii) each director and officer of the Company will be a party to and beneficiary of an Indemnity Agreement. The Indemnity Agreements will not be executed unless the Company's stockholders approve the amendment to the By-laws and such execution. If such approval is not obtained, the Company will explore alternative indemnification protection for its directors and officers if required to retain their services.

RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

Subject to ratification by the stockholders, the Board of Directors, on the recommendation of the Audit Committee, has selected the firm of Ernst & Whinney as the Company's independent auditors for the current fiscal year. Ernst & Whinney has served as the Company's independent auditors since 1981.

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

OTHER MATTERS

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

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

Deadline For Submission Of Stockholder Proposals

Proposals of stockholders intended to be presented at the 1987 Annual Meeting of Stockholders must be received by the Company at its principal office in Cambridge, Massachusetts by not later than May 5, 1987 for inclusion in the proxy statement for that meeting.

By Order of the Board of Directors,

Anil Khosla, Clerk

September 11, 1986

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

Excerpt from By-laws of Interleaf, Inc.

as Proposed to be Amended

ARTICLE 5 - Indemnification

Except as otherwise provided below, the corporation shall, to the extent legally permissible, indemnify each person who is, or shall have been, a Director or officer of the corporation or who is serving, or shall have served, at the request of the corporation as a Director, officer or trustee of another organization in which the corporation directly or indirectly has any interest, as a shareholder, creditor or otherwise, against all liabilities and expenses (including judgments, fines, penalties and reasonable attorneys' fees and all amounts paid, other than to the corporation or such other organization, in compromise or settlement) imposed upon or incurred by any such person in connection with, or arising out of, the defense or disposition of any action, suit or other proceeding, whether civil or criminal, in which he may be a defendant or with which he may be threatened or otherwise involved, directly or indirectly, by reason of his being or having been such a Director, officer or trustee.

The corporation shall provide no indemnification with respect to any matter as to which any such Director, officer or trustee shall be finally adjudicated in such action, suit or proceeding not to have acted in good faith in the reasonable belief that his action was in the best interests of the corporation. [The corporation shall provide no indemnification with respect to any matter settled or compromised, pursuant to a consent decree or otherwise, unless such settlement or compromise shall have been approved as in the best interests of the corporation, after notice that indemnification is involved, by (i) a disinterested majority of the Board of Directors or, (ii) the holders of a majority of the outstanding stock entitled to elect Directors, voting as a single class, exclusive of any stock owned by any interested Director, officer or trustee.]

If any claim, action, suit or proceeding in which such persons become involved as aforesaid is disposed of, on the merits or otherwise, without the disposition being adverse to such person, without a plea of guilty or of nolo contendere or its equivalent by such person and without an adjudication that such person did not act in good faith in the reasonable belief that his action was in the best interests of the Company, he shall be considered for the purposes hereof to have been wholly successful with respect thereto and shall be entitled to indemnification hereunder as of right.

In all cases other than those with respect to which such person is entitled to indemnification as of right pursuant to the above paragraph, any indemnification hereunder shall be made as of right unless after investigation (a) by the Board of Directors by a majority vote of a quorum consisting of Directors who are not parties to such action, suit or proceeding, or (b) if such a quorum is not obtainable or, even if obtainable, a quorum of disinterested directors so directs, by written opinion of independent legal counsel (who may be the regular counsel of the Company), or (c) by the holders of a majority of the outstanding stock entitled to elect Directors, voting as a single class, exclusive of any stock owned by any interested Director, officer or trustee, it shall be determined by clear and convincing evidence that such person did not act in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Company.

Indemnification may include payment by the corporation of expenses in defending a civil or criminal action or proceeding in advance of the final disposition of such action or proceeding upon receipt of an undertaking by the person indemnified to repay such payment if it is ultimately determined that such person is not entitled to indemnification under this Article.

As used in this Article, the terms "Director", "officer" and "trustee" include their respective heirs, executors, administrators and legal representatives, and an "interested" Director, officer or trustee is one against whom in such capacity the proceeding in question or another proceeding on the same or similar grounds is then pending.

To assure indemnification under this Article of all persons who are determined by the corporation or otherwise to be or to have been "fiduciaries" of any employee benefit plan of the corporation which may exist from time to time, this Article shall be interpreted as follows: (i) "another organization" shall be deemed to include such an employee benefit plan, including, without limitation, any plan of the corporation which is governed by the Act of Congress entitled "Employee Retirement Income Security Act of 1974", as amended from time to time ("ERISA"); (ii) "trustee" shall be deemed to include any person requested by the corporation to serve an employee benefit plan where the performance by such person of his duties to the corporation also imposes duties on, or otherwise involves services by, such person to the plan or participants or beneficiaries of the plan; (iii) "fines" shall be deemed to include any excise taxes assessed on a person with respect to an employee benefit plan pursuant to ERISA; and (iv) actions taken or omitted by a person with respect to an employee benefit plan in the performance of such person's duties for a purpose reasonably believed by such person to be in the interest of participants and beneficiaries of the plan shall be deemed to be for a purpose which is in the best interests of the corporation.

The right of indemnification provided in this Article shall not be exclusive of or affect any other rights to which any Director, officer or trustee may be entitled under any agreement, statute, vote of stockholders or otherwise. The corporation's obligation to provide indemnification under this Article shall be offset to the extent of any other source of indemnification or any otherwise applicable insurance coverage under a policy maintained by the corporation or any other person. Nothing contained in this Article shall affect any rights to which corporate personnel other than Directors, officers or trustees may be entitled by contract or otherwise.

AGREEMENT TO DEFEND AND INDEMNIFY

THIS AGREEMENT is made this _____ day of October, 1986 between [director/officer] and INTERLEAF, INC. ("Interleaf" or "the Company").

WHEREAS [director/officer] is currently a member of Interleaf's Board of Directors or is an officer of the Company; and

WHEREAS [director/officer] may resign from Interleaf's Board of Directors or resign as an officer of the Company if contractual indemnification co-extensive with that currently provided for in Article 5 of Interleaf's By-Laws is not provided; and

WHEREAS, Interleaf desires to retain the valuable services of [director/officer] as a member of its Board of Directors or as an officer; and

WHEREAS, the parties hereto wish to provide for contractual indemnification to the limit currently authorized in Article 5 of Interleaf's By-laws;

NOW, THEREFORE, the following is mutually agreed upon and understood:

(1) To the extent legally permissible, the Company shall indemnify [director/officer] against any and all loss and reasonable expense incurred by him in connection with or as a result of any claim, action, suit or proceeding (whether brought by or in the right of the Company or otherwise), civil or criminal, or in connection with an appeal relating thereto, in which he may become involved, as a party or otherwise, by reasons of his being or having been a director of the Company, or by reason of any past or future action taken or not taken in his capacity as such director, or by reason of his being or having been in his capacity as such director a fiduciary of an employee benefit plan or trust maintained for the benefit of employees of the Company, whether or not he continues to be such at the time such loss or expense is incurred, provided that no indemnification shall be provided for any person with respect to any matter as to which he shall not have acted in good faith in the reasonable belief that his action was in the best interests of the Company.

(2) For the purposes of this Agreement (i) the term "loss" shall include, but shall not be limited to, amounts of judgments, fines or penalties against [director/officer], (ii) the term "fines" shall be deemed to include excise taxes assessed on [director/officer] pursuant to the Employee Retirement Income Security Act of 1974, as amended from time to time, (iii) the term "expense" shall include but not be limited to, amounts paid in settlement by [director/officer] and counsel fees and disbursements, and (iv) action taken or omitted by [director/officer] while serving as such fiduciary in the reasonable belief that it is in the best interests of the participants and beneficiaries of such employee benefit plan or trust shall be deemed to be action that is also in the best interests of the Company.

(3) If any claim, action, suit or proceeding in which [director/officer] becomes involved as aforesaid is disposed of, on the merits or otherwise without the disposition being adverse to [director/officer], without a plea of guilty or of *nolo contendere* or its equivalent by [director/officer] and without an adjudication that [director/officer] did not act in good faith in the reasonable belief that his action was in the best interests of the Company he shall be considered for the purposes hereof to have been wholly successful with respect thereto and shall be entitled to indemnification hereunder as of right.

(4) In cases other than those described in paragraph 3 hereof, any indemnification hereunder shall be made (a) by the Board of Directors, a quorum consisting of directors who are not parties to (or who have been wholly successful with respect to) such claim, action, suit or proceeding, shall find that [director/officer]'s conduct con-

formed to the standard of having acted in good faith in the reasonable belief that his action was in the best interest of the Company, or (b) independent legal counsel (who may be the regular counsel of the Company), or (c) the holders of a majority of the outstanding stock entitled to elect Directors, voting as a single class, exclusive of any stock owned by any interested Director, officer or trustee, shall advise the Company in writing that in their opinion [director/officer]'s conduct conformed to such standard, and the fact that [director/officer]'s conduct conformed to such standard, and the fact that [director/officer] has not been wholly successful with respect to any such claim, action, suit or proceeding shall not create a presumption that his conduct did not conform to such standard.

(5) Expense incurred with respect to any such claim, action, suit or proceeding may be advanced by the Company prior to the final disposition thereof upon receipt of an undertaking by or on behalf of [director/officer] to repay such amount unless it shall ultimately be determined that he is entitled to indemnification under this Agreement. The consent to such advance shall not be unreasonably withheld by the Company.

(6) The rights of indemnification provided in this Agreement shall be in addition to any rights to which any person concerned may otherwise be entitled by other agreements or as a matter of law, and shall inure to the benefit of the heirs, executors and administrators of [director/officer].

(7) The rights of indemnification provided hereby shall be in addition to and shall not be affected by the existence of any directors' and officers' liability insurance policy which exists as of the date of this Agreement or as of the date a claim is made under this Agreement; *provided*, however, that to the extent that any claim made under this Agreement is covered by a directors' and officers' liability insurance policy, the Company will only provide coverage for such a claim under this Agreement after the full coverage under any applicable directors' and officers' insurance policies is exhausted or coverage thereunder otherwise becomes unavailable.

(8) [Director/officer] upon learning of any claim, action, suit or proceeding for which a claim will be made by [director/officer] under this Agreement, must notify Interleaf in writing within a reasonable time after he first obtains knowledge of such claim, action, suit or proceeding. Upon receiving such notice, the Company may at its election take control of the defense of such claim, action, suit or proceeding.

(9) All notices required to be given to Interleaf under this Agreement shall be delivered to it in care of:

David A. Boucher, President and
Chief Executive Officer
Interleaf, Inc.
Ten Canal Park
Cambridge, MA 02141

with a copy to:

Anil Khosla, Esq.
Hale and Dorr
60 State Street
Boston, MA 02109

(10) All notices required to be given to [director/officer] under this Agreement shall be delivered to [director/officer] at the following address:

(11) This Agreement shall not be construed against the party preparing it, but shall be construed as if all parties jointly prepared this Agreement and any uncertainty and ambiguity shall not, on that ground, be interpreted against any one party.

(12) Both parties hereto expressly retain the right from time to time to seek to amend the terms of this Agreement, provided that any such amendment is accomplished in writing and executed by both parties hereto.

(13) In consideration of obtaining this Agreement [director/officer] hereby agrees not to exercise his voluntary right under Article [2.6/3.5] of Interleaf's By-Laws to resign as a director or officer of Interleaf for a period of one year after the date of this Agreement unless during that year such resignation is accepted by a unanimous vote of the Board of Directors.

(14) This Agreement will expire one year from the date first written above, except that it will continue in effect with respect to any claim, action, suit or proceeding pending on such expiration date until the final resolution or disposition thereof.

(15) This Agreement (i) constitutes the entire agreement, and supersedes all other prior agreements and understandings, both written and oral, between the parties, or any of them, with respect to the subject matter hereof, and (ii) shall be binding upon the successors and assigns of the Company.

(16) If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

(17) This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

[DIRECTOR/OFFICER]

[Director/Officer]

INTERLEAF, INC.

By: _____
David A. Boucher, President
and Chief Executive Officer

Section 67 of the Massachusetts Business Corporation Law

67 INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, ETC. Indemnification of directors, officers, employees and other agents of a corporation and persons who serve at its request as directors, officers, employees or other agents of another organization or who serve at its request in any capacity with respect to any employee benefit plan, may be provided by it to whatever extent shall be specified in or authorized by (i) the articles of organization or (ii) a by-law adopted by the stockholders or (iii) a vote adopted by the holders of a majority of the shares of stock entitled to vote on the election of directors. Except as the articles of organization or by-laws otherwise require, indemnification of any persons referred to in the preceding sentence who are not directors of the corporation may be provided by it to the extent authorized by the directors. Such indemnification may include payment by the corporation of expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition of such action or proceeding, upon receipt of an undertaking by the person indemnified to repay such payment if he shall be adjudicated to be not entitled to indemnification under this section which undertaking may be accepted without reference to the financial ability of such person to make repayment. Any such indemnification may be provided although the person to be indemnified is no longer an officer, director, employee or agent of the corporation or of such other organization or no longer serves with respect to any such employee benefit plan.

No indemnification shall be provided for any person with respect to any matter as to which he shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his action was in the best interest of the corporation or to the extent that such matter relates to service with respect to an employee benefit plan in the best interests of the participants or beneficiaries of such employee benefit plan.

The absence of any express provision for indemnification shall not limit any right of indemnification existing independently of this section.

A corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or other agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or other agent of another organization or with respect to any employee benefit plan against any liability incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability.