INTERLEAF, INC.

CONFIDENTIAL MEMORANDUM

Dated

December 13, 1985

$5/7 \times 1190 = 850$ (\$4420)

$2/7 \times 1190 = 340$ (\$1768)

No. 17

Name of Offeree Mark Dionne

Maximum Number of Shares Offered 1,190

Maximum Offering Price \$6,188

INTERLEAF, INC.

57,500 Shares

Common Stock, $.01 Par Value

Price: $5.20 per share
Minimum Investment: $2,210 (425 shares)
Unless extended, this offering will terminate on
December 31, 1985

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. Investors will be required to represent that they are familiar with and understand the risks and merits of this offering. See "RISK FACTORS."

THE SHARES OF COMMON STOCK OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF CERTAIN STATES, AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OR THE ACCURACY OR ADEQUACY OF THIS CONFIDENTIAL MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OF SHARES TO YOU UNLESS YOUR NAME AND AN IDENTIFICATION NUMBER APPEAR ON THE FRONT COVER. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED. THIS OFFERING IS MADE SUBJECT TO WITHDRAWAL, CANCELLATION OR MODIFICATION BY INTERLEAF, INC. WITHOUT NOTICE, AT ANY TIME. INTERLEAF, INC. RESERVES THE RIGHT TO REJECT ANY SUBSCRIPTION IN WHOLE OR IN PART OR TO ALLOT TO ANY PROSPECTIVE INVESTOR LESS THAN THE NUMBER OF SHARES APPLIED FOR BY SUCH INVESTOR.

THERE IS NO PUBLIC MARKET FOR THE SHARES OFFERED HEREBY, AND IT IS NOT EXPECTED THAT A PUBLIC MARKET WILL DEVELOP. FOR THIS REASON, AS WELL AS RESTRICTIONS IMPOSED BY FEDERAL AND STATE SECURITIES LAWS, THE TRANSFER OF SHARES SHOULD NOT BE DEEMED FEASIBLE, AND SHARES SHOULD BE PURCHASED ONLY FOR PURPOSES OF LONG-TERM INVESTMENT. CERTIFICATES FOR THE SHARES OFFERED HEREBY WILL BEAR A RESTRICTIVE LEGEND UNDER THE SECURITIES ACT OF 1933.

THE SHARES ARE BEING OFFERED IN A PRIVATE PLACEMENT TO A LIMITED NUMBER OF PERSONS MEETING CERTAIN SUITABILITY STANDARDS. NO ONE SHOULD INVEST IN THE SHARES WHO IS NOT PREPARED TO LOSE HIS ENTIRE INVESTMENT.

No dealer, salesman, or any other person has been authorized to give any information or to make any representation on behalf of Interleaf, Inc. relating to this offering other than as set forth in this Memorandum. Additional information, including copies of the Articles of Organization and By-laws of Interleaf, Inc., will be made available to the offeree named above or his representative upon his written request to Interleaf, Inc., 10 Canal Park, Cambridge, Massachusetts 02141 (telephone: (617)577-9800).

This Memorandum has been prepared solely for the benefit of persons interested in the proposed private placement of the shares offered hereby, and any reproduction or distribution of this Memorandum in whole or in part, or the divulgence of any of its contents, without the prior written consent of Interleaf, Inc. is prohibited.

The offeree, by accepting delivery of this Memorandum, agrees to return it and all enclosed documents to Interleaf, Inc., if the offeree does not undertake to purchase any of the shares offered hereby.

Each prospective investor will be afforded the opportunity to obtain additional information which such investor may reasonably request and to ask questions of, and receive answers from, officers and representatives of Interleaf, Inc. concerning the terms and conditions of this offering, the information set forth herein and any additional information requested by and supplied to such investor, and to obtain any additional information which Interleaf, Inc. possesses or can acquire without unreasonable effort or expense that is necessary to verify the accuracy of any such information furnished to such investor.

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INTRODUCTION

Interleaf, Inc. (the "Company") designs, develops and markets document preparation systems and software. The Company was incorporated in Massachusetts on May 27, 1981. The Company's principal executive office is located at 10 Canal Park, Cambridge, Massachusetts 02141 and its telephone number is (617)577-9800.

This Memorandum relates to an offering to certain employees of the Company of 57,500 shares of Common Stock, $.01 par value per share, of Interleaf, Inc., at a price of $5.20 per share. The shares offered hereby were repurchased by the Company on November 8, 1985 from five existing stockholders at a price of $5.00 per share in order to enable the Company to consummate this offering.

This offering will terminate (unless extended by the Company in its sole discretion) on December 31, 1985. The minimum investment per investor is $2,210, but this minimum may be waived and reduced for certain investors in the sole discretion of the Company. The Company reserves the right to increase the number of shares of Common Stock to be offered hereunder upon written notice to all offerees. The shares of Common Stock will be offered to prospective investors on behalf of the Company by certain of its directors and officers without additional remuneration in connection therewith.

RISK FACTORS

The shares of Common Stock offered hereby involve a high degree of risk. Careful attention should be given to the following risk factors:

1. <u>Losses and Limited Operations</u>. The Company was incorporated in May 1981. While the Company's cumulative net revenues from its inception through September 30, 1985 were $15,224,000, its cumulative net loss during that period was $5,782,000. There can be no assurance that the Company will be able to operate in the future on a profitable basis.

2. Competition. The electronic publishing industry is a highly competitive industry. The Company competes with several other companies which sell text processing and publishing and business graphics products, some of which companies are large and well established companies with financial and technical resources which far exceed those presently available to the Company. See "Business-Competition."

3. Outstanding Preferred Stock. As of September 30, 1985, there were issued and outstanding 4,243,468 shares of Common Stock (excluding 1,500 shares held in the treasury), 1,777,778 shares of Series C Preferred Stock, 921,092 shares of Series D Preferred Stock and 1,501,838 shares of Series E Preferred Stock. The rights of the holders of Common Stock to receive dividends and to share in the assets of the Company upon the liquidation of the Company are subject to the prior rights of the holders of Preferred Stock. See "Description of Capital Stock" and "Previous Financings."

4. Lack of Marketability. The shares of Common Stock offered hereby have not been registered under the Securities Act of 1933, as amended (the "Act"), or applicable state securities laws, and are "restricted securities" within the meaning of Rule 144 under the Act. THE SHARES MAY NOT BE RESOLD UNLESS THEY ARE SUBSEQUENTLY REGISTERED UNDER SUCH LAWS OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE. THE EXEMPTION FROM REGISTRATION UNDER RULE 144 WILL NOT BE AVAILABLE FOR AT LEAST TWO YEARS AND EVEN THEN WILL NOT BE AVAILABLE UNLESS A PUBLIC MARKET THEN EXISTS FOR THE COMMON STOCK AND CERTAIN OTHER CONDITIONS ARE SATISFIED. There is at present no public market for the Company's Common Stock, and there can be no assurance that any such market will ultimately develop. Certificates evidencing the shares of Common Stock offered hereby will bear appropriate restrictive legends under both the Securities Act of 1933 and any applicable state securities laws.

5. Dividends. The Company has paid no cash dividends to date, and does not expect to do so in the foreseeable future.

USE OF PROCEEDS

The net proceeds from the sale of shares of Common Stock offered hereby are estimated to be $287,500, after the payment of expenses estimated at $11,500. These proceeds will be used primarily for general working capital purposes.

DILUTION

At September 30, 1985, the net tangible book value of the Company was $11,116,845, or $1.32 per share of Common Stock (assuming the conversion of the outstanding shares of Preferred Stock into Common Stock on that date). Without taking into account any changes other than to give effect to the repurchase by the Company of 57,500 shares of Common Stock from five existing stockholders on November 8, 1985 at a price of $5.00 per share (the "Repurchase") and the subsequent sale of such 57,500 shares offered hereby at a price of $5.20 per share, the pro forma net tangible book value of the Company as of September 30, 1985 would have been $11,128,345 or $1.32 per share, resulting in no material increase in net tangible book value to existing stockholders and an immediate dilution of $3.88 per share to the investors purchasing shares hereunder at a price of $5.20 per share ("new investors"). The following table illustrates this per share dilution:

Offering price (1)		$5.20
Net tangible book value before offering(2)	$1.32	
Increase attributable to new investors	$ -	
Pro forma net tangible book value after offering		1.32
Dilution to new investors		$3.88

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(1) Before deduction of offering expenses.

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

The following table sets forth, as of September 30, 1985, the number of shares purchased, the total consideration paid and the average price per share paid by new investors and by existing stockholders (taking into account the Repurchase):

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	8,386,676	99.32%	$16,846,925	98.26%	$2.01
New Investors	57,500	.68	299,000	1.74%	$5.20
Total	8,444,176	100%	$17,145,925	100%	

The above computations assume the conversion of all outstanding Preferred Stock, but no exercise of outstanding stock options and warrants. As of October 31, 1985, there were outstanding options to purchase 444,725 shares of Common Stock, at a weighted average exercise price of $2.40 per share, under the Company's 1983 Stock Option Plan.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of September 30, 1985 as adjusted to reflect (1) the Repurchase and (2) the issuance of 57,500 shares of Common Stock offered by the Company hereby:

	Actual	As Adjusted
Long-term debt, less current portion	$ 1,588,114	$ 1,588,114
Convertible Preferred Stock, $.10 par value, 5,000,000 shares authorized, issued in series as follows:		
Series C - 1,777,778 shares designated, issued and outstanding(1)	177,778	177,778
Series D - 921,092 shares designated, issued and outstanding (1)	92,109	92,109

Series E - 1,501,838 shares designated, issued and outstanding (1)	150,184	150,184
Common Stock, $.01 par value, 20,000,000 shares authorized, 4,244,968 shares issued and outstanding (4,244,968 shares as adjusted)(2)	42,450	42,450
Additional Paid-In Capital	16,438,997	16,450,497
Accumulated Deficit	(5,782,374)	(5,782,374)
Less 1,500 shares of Common Stock in treasury, at cost	1,695	1,695
Total Capitalization	$11,117,449	$11,128,949

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(1) Each share of Preferred Stock is convertible into one share of Common Stock.

(2) Does not include 4,200,708 shares of Common Stock issuable upon conversion of outstanding shares of Preferred Stock or 444,725 shares of Common Stock issuable upon exercise of options outstanding under the Company's 1983 Stock Option Plan.

DIVIDENDS

The Company has never paid any cash dividends. The Company presently intends to reinvest earnings, if any, for use in its business, and therefore does not expect to pay any cash dividends in the foreseeable future.

BUSINESS

The Company designs, develops and markets document preparation systems and software that allow a computer workstation user to compose and edit documents containing multifont text, business graphics, diagrams, scanned images and drawings created on other CAD systems, and to print those documents on demand on a high quality laser printer or typesetter. The Company markets its products principally through a direct sales organization, through OEM agreements with major computer manufacturers and, to a minor extent, through international distributors. The Company was founded in May 1981 by David A. Boucher, President, and Harry A. George, Vice President of Finance. Since its inception, a total of approximately $16,900,000 has been invested in the Company by venture capital and other investors. In October 1983, the Company announced its first product, a document preparation system, and in May 1984 the Company began volume shipments. As of October 31, 1985, the Company's hardware and software products have been installed by more than 1,500 users.

Products

The Company markets three principal electronic publishing products: turn-key systems (consisting of both hardware and software); Workstation Publishing Software™ ("WPS") and Technical Publishing Software™ ("TPS"). The Company also markets, in conjunction with these three products, two laser printers manufactured by others.

WPS is document preparation software that enables a user through a WYSIWYG ("what-you-see-is-what-you-get") editor and icon based user interface to prepare and edit documents containing text and graphics, including data-driven business charts, free form drawings and technical drawings done on CAD systems. TPS includes all of the capabilities of WPS and, in addition, supports an optical scanner for image input, an interface to CAD systems, image editing and typesetter interfaces.

The Company believes that it is strategically important that its software is compatible with hardware products manufactured by significant companies. The Company's software products operate on and are delivered by the Company on all workstations of Apollo Computer Inc. ("Apollo"), all workstations of Sun Microsystems, Inc. ("Sun") and the VAX Stations I and II of Digital Equipment Corporation ("Digital").

Marketing

The Company markets its systems primarily through its direct sales and support organization, which includes offices in 16 locations in the United States. Each office has both a sales and support staff. The Company's customers generally desire a significant amount of support in their publishing requirements, and the Company believes that its support organization is an important component of its marketing effort. The Company's direct sales organization also sells WPS and TPS to the installed base of users of compatible hardware (such as that manufactured by Apollo, Sun and Digital). Interleaf Canada, Ltd., in which the Company owns a 20% equity interest, maintains similar offices in three locations in Canada for the marketing and support of such system and software products.

The Company's second major marketing channel utilizes OEM agreements with major computer manufacturers. Generally, the Company will agree to adapt or "port" its WPS product to the manufacturer's hardware, in return for an advance porting fee and payment of royalties by the OEM for each WPS sale by the OEM for use with OEM hardware. These OEM relationships permit the Company to benefit from the additional distribution capabilities of OEM sales organizations without significant additional costs. These OEM agreements also generally include a joint marketing program, under which the OEM and the Company will make joint sales calls on major prospective customers and the OEM will refer prospective customers to the Company for TPS sales or for TPS upgrades.

Generally, the Company does not license TPS to OEMs for resale, but only sells this product directly because of the significant customer support TPS customers require and which the Company is most qualified to provide. The Company believes that the upgrading of OEM customers from WPS to TPS may represent significant revenue potential. OEMs may also refer their WPS customers to the Company for laser printer requirements or specialized products or support. The Company has announced OEM agreements with CAE Systems Inc., Computervision Corporation, Digital Equipment Corporation, Eastman Kodak Comany and Filenet Corporation. The Company also has entered into OEM agreements with three other major companies, none of which agreements has been publicly announced.

The Company intends to pursue OEM agreements with several additional hardware manufacturers which have indicated to the Company that they will be introducing appropriate products over the next several years. The Company employs an OEM sales organization which operates out of the Company's headquarters and which is actively pursuing additional OEM customers. However, there can be no assurance that these agreements will be obtained or, even if obtained, that the Company's software will perform adequately on such products.

While the Company believes that the royalties and other revenues to be derived by it from OEM arrangements are potentially significant, it should be noted that the hardware products which are subject to these agreements generally either have been only very recently introduced or are scheduled for future release. Therefore, significant income, if any, to the Company from such agreements is dependent on acceptance of the hardware products sold by the OEMs and on the willingness of the OEMs to use and market WPS with such products, and cannot be predicted with any certainty.

The Company's third marketing channel is distribution agreements for territories outside the United States. The Company has begun delivering products abroad, but additional product development, including the accommodation of foreign language characters and translation capabilities, must be completed before foreign sales revenue has the potential of being significant to the Company. The Company has entered into distribution agreements covering Belgium and France under which the Company will supply software and laser printers. The Company is currently negotiating similar agreements for other foreign territories.

The Company also has entered into a Technology Development and Licensing Agreement with Dataproducts Corporation ("Dataproducts") pursuant to which the Company, in exchange for certain advance payments and continuing royalties, has licensed and delivered to Dataproducts certain raster image processing hardware and software technology developed by the Company. Dataproducts has incorporated such technology in a recently introduced laser printer product line.

Competition

The computer-aided publishing (electronic publishing) market is composed of corporate publishing, the traditional graphic arts market, government and others who print complex or technical documents containing text, diagrams, graphics, or a combination of them, using multiple type fonts. The Company competes in this market with a number of firms, many of which are more established than the Company and possess significantly greater financial and other resources.

A number of companies, including Qubix, Inc., Texet, Inc., Xyvision Corp., and Viewtech Inc., compete with the Company in the market for turnkey system sales. The Company believes that it can compete favorably with these companies for the following reasons:

The Company believes that its products are superior in performance.

To the best of the Company's knowledge, none of these companies currently offers its products on an OEM basis. Therefore, none is presently in a position to take advantage of what the Company believes is a significant opportunity for market penetration.

Each of these companies delivers its existing products on a single hardware system, which it assembles or manufactures. In contrast, the Company's software runs on hardware of several different manufacturers, consistent with the Company's intention to avoid dependence on hardware of a particular manufacturer.

The Company believes that its installed base of systems is larger than that of all these companies combined.

Texet, Inc. and Xyvision Corporation have focused their product offerings on the more traditional graphic arts market. Because of this focus, their products do not include several functions the Company believes are important in its markets, such as data-driven charts and certain drawing capabilities. In addition, these companies' products are significantly higher in price than those of the Company. Qubix Inc. and Viewtech Inc., to the best of the Company's knowledge, have only recently begun delivering products to customers, and the Company believes that its products offer significant functional advantages over the products offered by these companies.

The Company also expects to encounter increasing competition from the Star product line of Xerox Corporation ("Xerox"). While the Company believes that its products offer significant functional advantages over the Star products, Xerox has in recent months begun offering large discounts on certain Star products. In addition, Xerox recently introduced a lower-priced Star workstation which will result in increased competition for the Company's products at the lower end of the market.

Apple Computer, Inc. ("Apple") recently announced several new products in its Macintosh product line intended to increase the functionality of that product, which may become increasingly competitive with the Company's products at the lower end of the market. The Company believes that its products offer significant functional advantages over the products announced by Apple, in particular in the areas of data capacity, speed, networking, screen size, and user interface.

The Company knows of no other companies who sell publishing software to the installed base of users of compatible hardware (such as that manufactured by Apollo, Digital, Sun and Computervision) who are potential users of publishing software.

Engineering and Development

The Company believes that its skilled engineering and development team of 31 people is a major competitive advantage. While the long-term focus of this group will be on the development of complex software applications for the supermicrocomputer marketplace, near-term development will focus on maintaining functional leadership in integrated graphics and text processing. Enhancements to the Company's existing products scheduled for the next several months include auto-indexing support and additional table make-up utilities. In addition, the Company's engineering organization will be devoting significant effort to additional ports and modifications necessary for foreign markets. The Company also expects to develop a color output option. During the fiscal years ended March 31, 1984 and March 31, 1985, the Company's direct product development and engineering expenses were $622,927 and $1,421,724, respectively.

Employees

At November 30, 1985, the Company employed 181 persons, including 31 in research and development, 130 in sales and marketing and 20 in general management and administration. The Company's employees are not represented by a labor union, and the Company has experienced no work stoppage. The Company believes that its employee relations are good.

Properties

In November 1985, the Company relocated its principal executive, administrative, research and development and manufacturing facilities to a 62,000 square foot portion of a new building in Cambridge, Massachusetts, which the Company will occupy under a lease expiring in December 1990 (with a right to renew for an additional five years). The Company also leases small sales and support offices in 16 locations throughout the United States. The Company believes that its existing facilities and equipment are well-maintained and in good condition.

MANAGEMENT

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

Name	Position
David A. Boucher	President and Director
Harry A. George	Vice President of Finance, Treasurer and Director
George D. Potter, Jr.	Vice President of Marketing and Director
Craig Cervo	Vice President of Engineering
Bern Niamir	Vice President of Research and Development
Stephen J. Pelletier	Vice President of Product Development
Steven M. Schwartz	Vice President of Corporate Communications
Frederick Bamber	Director
Michael Hammer	Director
William J. Hunckler, III	Director
Robert B. Murray	Director
Patrick J. Sansonetti	Director
Anil Khosla	Clerk
J. John Brennan	General Counsel and Assistant Clerk

David A. Boucher, age 35, has been President and Director of the Company since its inception. From 1974 through 1980, Mr. Boucher was a founder and Vice President of Manufacturing of

Kurzweil Computer Products, Inc. (a subsidiary of Xerox Corporation), a manufacturer of computer/mechanical devices which perform optical character recognition and speech synthesis.

Harry A. George, age 37, has been Vice President of Finance and a Director of the Company since its inception. From 1974 to 1979, Mr. George was a founder of Kurzweil Computer Products, Inc., where he served first as Controller and later as Vice President of Finance. 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, initially as Senior Corporate Controller and later as a financial consultant.

George D. Potter, Jr., age 48, has been Vice President of Marketing and a Director since February 1983. From 1979 to 1983, Mr. Potter was employed by Wang Laboratories, Inc., most recently as New England District Sales Manager.

Craig Cervo, age 39, has been Vice President of Engineering since August 1984. Prior to joining the Company, he was employed by Atex, Inc. for ten years, most recently as Director of Software Manufacturing, in which capacity he was responsible for the design, implementation and support of that company's editing, pagination and typesetting system.

Bern Niamir, age 33, joined the Company as Principal System Architect in August 1982 and became Vice President of Research and Development in September 1983. Prior to joining the Company, he was a research staff member at MIT's Laboratory for Computer Science, where he worked in the development of complex text and graphics editing systems and also in computer data base management systems.

Stephen J. Pelletier, age 32, joined the Company as a senior software engineer in February 1983 and became Vice President of Product Development in October 1985. From October 1982 to February 1983, Mr. Pelletier was a staff engineer at NBI, Inc. and from October 1975 to October 1982 he was an engineer at Kurzweil Computer Products, Inc.

Steven M. Schwartz, age 37, has been Vice President of Corporate Communications since September 1984. Prior to joining the Company, he was employed by General Electric Corporation for five years, most recently as Manager, Executive Communications, where his primary responsibility was serving the communication needs of the Chairman of the Board and Chief Executive Officer.

Frederick Bamber, age 42, has been a Director since January 1984. He has been a General Partner of Applied Technology Partners since 1982 and was an independent consultant from 1979, after leaving his position as Vice President of Data Resources, Inc., to 1982.

Michael Hammer, age 37, has been a Director since July 1982. He has been President of Hammer and Company, Inc. since 1982. Prior thereto, Dr. Hammer was Associate Professor of Computer Science at Massachusetts Institute of Technology.

William J. Hunckler, III, age 32, has been 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.

Robert B. Murray, age 62, has been a Director since October 1984. He has been Vice President and Director of Corporate Planning of Eastman Kodak Company since 1978.

Patrick J. Sansonetti, age 41, has been a Director since July 1985. He has been associated with Hambrecht & Quist Venture Partners since 1983, currently as a General Partner. Prior to 1983, Mr. Sansonetti was Vice President, Technology and Business Development, of Fidelity Group. From 1981 to 1982, he was Director, International Marketing Development, of Trans Technology Trading, and from 1976 to 1981, he was employed by Prime Computer, Inc. in various sales and marketing positions.

Anil Khosla, age 40, has served as Clerk of the Company since its inception. Mr. Khosla has been a partner of the law firm of Hale and Dorr since 1977.

J. John Brennan, age 40, has been General Counsel and Assistant Clerk 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.

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 stockholders or at such time as his successor is duly elected. Officers serve at the discretion of the Board of Directors.

The Company, Messrs. Boucher, George and Potter (collectively, the "Shareholders") and the holders of the Company's Series C, D and E Preferred Stock have entered into a Voting Agreement dated as of July 19, 1985 which provides that the

Board of Directors shall consist of two directors designated by the holders of Series C Preferred Stock, four directors designated by the Shareholders (of which one shall be Mr. Hammer so long as he is willing and able to serve), and, subject to certain conditions, one director designated by Eastman Kodak Company and one director designated by Hambrecht & Quist. Messrs. Boucher, George, Potter and Hammer are the designees of the Shareholders, Messrs. Bamber and Hunckler are the designees of the holders of Series C Preferred Stock, Mr. Murray is the designee of Eastman Kodak Company, and Mr. Sansonetti is the designee of Hambrecht & Quist.

There are no family relationships between or among any executive officers or directors.

The Company's by-laws provide generally that the Company will indemnify its directors and officers against liabilities and expenses imposed upon or incurred by them in connection with or arising out of the defense or disposition of any action, suit or other proceeding in which a director or officer may be a defendant or otherwise involved by reason of his being or having been a director or officer, except that the Company shall provide no indemnification with respect to any matter as to which any such director or officer shall be finally adjudicated not to have acted in good faith in the reasonable belief that his action was in the best interests of the Company, and shall provide no indemnification with respect to any matter settled or compromised unless such settlement or compromise shall have been approved as in the best interests of the Company by a disinterested majority of the Board of Directors or by the holders of a majority of the outstanding stock entitled to elect directors exclusive of any stock owned by an interested director or officer.

Executive Compensation

The following table sets forth the cash compensation paid by the Company during the fiscal year ended March 31, 1985 to each of its five most highly compensated executive officers whose cash compensation equalled or exceeded $60,000, and to all executive officers as a group:

Name of Individual or Number of Persons in Group	Capacities in Which Served	Cash Compensation
David A. Boucher	President	$81,346
Harry A. George	Vice President of Finance and Treasurer	70,500

George D. Potter, Jr.	Vice President of Marketing	84,230
Bern Niamir	Vice President of Research and Development	64,230
Steven M. Schwartz	Vice President of Corporate Communications	60,486
All executive officers as a group (7 persons)		$469,624

Stock Option Plan

An aggregate of 700,000 shares of Common Stock is reserved for issuance under the Company's 1983 Stock Option Plan, as amended (the "Plan"). The Plan is administered by the Board of Directors. Both non-incentive 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 non-transferable 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. In the event that termination is due to death or disability, the option is exercisable for a one-year period thereafter.

At September 30, 1985, incentive stock options to purchase an aggregate of 444,725 shares of the Company's Common Stock were outstanding under the Plan. Any such outstanding option which is not immediately exercisable may be amended by the optionee and the Company so as to be immediately exercisable. Thereafter, such option may be exercised at any time provided that the optionee enters into an Incentive Stock Option Exercise Agreement with the Company which imposes certain transfer restrictions and provides the Company with repurchase rights as to the stock commensurate with the original vesting schedule.

The following table sets forth as to all executive officers as a group, certain information with respect to options to purchase shares of Common Stock granted or exercised from April 1, 1984 through October 31, 1985:

	Options Granted		Options Exercised
Name of Individual or Number of Persons in Group	Number of Shares	Average Per Share Exercise Price	Aggregate Net Value Realized (1)
All executive officers as a group (7 persons)	46,500	1.86	$51,120

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(1) Represents the difference between the option price and the fair market value, on the date of exercise, of the Common Stock acquired, as determined by Board of Directors.

Certain Transactions

During the fiscal year ended March 31, 1985, the Company made sales and paid royalties to Eastmen Kodak Company ("Kodak") in the aggregate in excess of $60,000. Robert B. Murray, a director of the Company, is Vice President and Director of Corporate Planning of Kodak. Mr. Murray is entitled to exclude himself, and the Company may require that he exclude himself, from all deiberations and discussions of, and disseminations of infomation to, the Board of Directors concerning relationships between Kodak and the Company. He will exclude himself from all such deliberations, discussions or disseminations of information concerning products and services of Kodak and the Company as to which they are competitors.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information, as of October 31, 1985, with respect to the beneficial ownership of the Company's Common Stock and Preferred Stock by (i) each stockholder known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock or Preferred Stock, (ii) each director of the Company, and (ii) all directors and officers as a group:

Name or Identity of Group	Common Stock: Number of Shares Owned	Common Stock: Percent of Class Outstanding	Preferred Stock: Number of Shares of Owned(1)	Preferred Stock: Percent of Class Outstanding	Capital Stock: Percent of Shares Outstanding(2)
First Capital Corporation of Chicago (3)	320,000	7.6%	964,560	23.0%	15.2%
Hambrecht & Quist Entities (4)	--	--	829,844	19.8	9.8
Eastman Kodak Company (5)	--	--	624,850	14.9	7.4
Applied Technology Partners, L.P. (6)	--	--	391,700	9.3	4.6
Dover Investments, Inc. (7)	--	--	250,000	6.0	3.0
Massachusetts Technology Development Corporation (8)	235,548	5.6	--	--	2.8
David A. Boucher (9)	629,444	14.9	--	--	7.5
Harry A. George (10)	625,444	14.8	--	--	7.4
George D. Potter, Jr. (10)	290,070	6.8	--	--	3.4
Bern Niamir (11)	374,000	8.8	--	--	4.4

Frederick Bamber (12)	--	--	--	--	--
Michael Hammer	70,660	1.7	--	--	*
William J. Hunckler, III (13)	--	--	--	--	--
Robert P. Murray (14)	--	--	--	--	--
Patrick J. Sansonetti (15)	2,400	*	--	--	*
All officers and directors as a group (12 persons) (16)	2,164,034	50.5	--	--	25.5

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* Less than 1%

(1) Represents the number of shares of Common Stock issuable upon conversion of Preferred Stock.

(2) Assumes the conversion of Preferred Stock into Common Stock.

(3) Includes 32,000 shares of Common Stock and 16,456 shares of Preferred Stock held by Madison Dearborn Partners which may be considered an affiliate of First Capital Corporation of Chicago. The addresses of First Capital Corporation of Chicago and Madison Dearborn Partners are: 133 Federal Street, Sixth Floor, Boston, MA 02110.

(4) Includes shares held by eight entities managed by Hambrecht & Quist Group and its affiliates. Does not include shares held by Patrick J. Sansonetti, who is a General Partner of Hambrecht & Quist Venture Partners. The address of Hambrecht & Quist entities is: Hambrecht & Quist, 235 Montgomery Street, San Francisco, CA 94104.

(5) The address of Eastman Kodak Company is: 343 State Street, Rochester, NY 14650.

(6) The address of Applied Technology Partners, L.P. is: 55 Wheeler Street, Cambridge, MA 02138.

(7) The address of Dover Investments, Inc. is: 1006 Wilmington Trust Center, Rodney Square North, Wilmington, DE 19801.

(8) The address of Massachusetts Technology Development Corporation is: 84 State Street, Boston, MA 02109.

(9) Includes 10,000 shares of Common Stock held by Mr. Boucher's wife. Mr. Boucher's address is: c/o Interleaf, Inc., 10 Canal Park, Cambridge, MA 02141.

(10) The addresses of Messrs. George and Potter are c/o Interleaf, Inc., 10 Canal Park, Cambridge, MA 02141.

(11) Includes 36,000 shares or Common Stock held by Mr. Niamir's wife. Mr. Niamir's address is c/o Interleaf, Inc., 10 Canal Park, Cambridge, MA 02141.

(12) Does not include shares held by Applied Technology Partners, L.P. Mr. Bamber is a General Partner of Applied Technology Associates, which is the General Partner of Applied Technology Partners, L.P.

(13) Does not include shares held by First Capital Corporation, of which Mr. Hunckler is a Vice President, or Madison Dearborn Partners, of which Mr. Hunckler is a General Partner.

(14) Does not include shares held by Eastman Kodak Company, of which Mr. Murray is a Vice President.

(15) Does not include shares held by the Hambrecht & Quist entities. Mr. Sansonetti is a General Partner of Hambrecht & Quist Venture Partners.

(16) Does not include shares held by Applied Technology Partners, L.P., First Capital Corporation of Chicago, Madison Dearborn Partners, Eastman Kodak Company or the Hambrecht & Quist entities, of which certain directors of the Company may be deemed to be beneficial owners. See notes (12), (13), (14) and (15) above. Includes an aggregate of 40,500 shares issuable upon exercise of currently exercisable options held by four officers.

Messrs. Boucher, George, Potter and Niamir (the "Executives") have each entered into an agreement with the Company and the holders of the Company's Series C, D and E Preferred Stock pursuant to which the Company and, if the Company does not wish to participate, the holders of Preferred Stock, have rights of first refusal with respect to proposed transfers of Common Stock by such Executive. Pursuant to those agreements, if neither the Company nor the holders of Preferred Stock elect to exercise their rights to purchase all shares of Common Stock proposed to be transferred by the Executive, any holder of Preferred Stock is entitled to participate as a seller in the contemplated transfer of Common Stock. The restrictions in these groups do not apply to transfers within the family group upon his death, Company's initial public public offering, or (i) the closing of the Company's initial public offering, or (ii) December 31, 1985. The restrictions in these agreements do not apply to transfers within the Executive's family group or upon his death, and will terminate upon the earlier of (i) the closing of the Company's initial public offering, or (ii) December 31, 1988.

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 ("Common Stock"), and 5,000,000 shares of Preferred Stock, $.10 par value per share ("Preferred Stock"), 1,777,778 shares of which have been designated Series C Convertible Preferred Stock ("Series C Preferred Stock"), 921,092 shares of which have been designated Series D Convertible Preferred stock ("Series D Preferred Stock") and 1,501,838 shares of which have been designated Series E Convertible Preferred Stock ("Series E Preferred Stock"). As of September 30, 1985, there were issued and outstanding 4,243,468 shares of Common Stock (excluding 1,500 shares held in the treasury), 1,777,778 shares of Series C Preferred Stock, 921,092 shares of Series D Preferred Stock and 1,501,838 shares of Series E Preferred Stock. All of the issued and outstanding shares of capital stock of the Company are fully paid and non-assessable.

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. Subject to the prior rights of holders of Preferred Stock, holders of Common Stock are entitled to receive dividends when and if declared by the Board of Directors and to share ratably in the assets of the Company legally available for distribution to its stockholders upon the liquidation, dissolution or winding up of the Company. Holders of Common Stock have no preemptive, subscription, redemption or conversion rights.

Pursuant to Article 7 of the Company's by-laws, the Company has rights of first refusal with respect to any proposed transfers of Common Stock, other than transfers upon death or transfers to certain family members or, if the stockholder is a partnership, transfers to its partners. The Company has waived these rights with respect to all shares of Common Stock issuable upon conversion of Preferred Stock heretofore issued and an aggregate of approximately 300,000 shares of Common Stock, including the shares issuable in this offering.

Preferred Stock.

The following is a summary of the terms of the Series C, Series D and Series E Preferred Stock:

1. Voting. Each share of Preferred Stock is entitled to the number of votes equal to the number of shares of Common Stock into which each such share is convertible. As of October 31, 1985, each share of Preferred Stock was convertible into one share of Common Stock. Generally, holders of Common Stock and Preferred Stock vote together as a single class, except as provided by law and except that the approval of at least 60% of the outstanding shares of each series of Preferred Stock is required to amend or alter the terms of such series of Preferred Stock so as to affect detrimentally the interests of the holders of such series of Preferred Stock.

2. Dividends. Holders of Preferred Stock are entitled to receive, before any cash dividends are paid to holders of Common Stock, cash dividends in an amount per share equal to the amount, if any, of cash dividends payable with respect to each such share of Common Stock, multiplied by the number of shares of Common Stock into which such share of Preferred Stock is convertible. There are no mandatory dividends.

3. Liquidation Preference. Upon any liquidation, dissolution or winding up of the Company, holders of Preferred Stock are entitled to receive out of the assets remaining after payment of liabilities, prior to any payments to holders of Common Stock, an amount equal to $1.125 per share for each share of Series C Preferred Stock, $5.54 per share for each share of Series D Preferred Stock, and $6.00 per share for each share of Series E Preferred Stock, plus an amount equal to dividends, if any, then declared and unpaid on account of each such series of Preferred Stock. If such assets are insufficient to pay such amount in

full, then the holders of Preferred Stock shall share ratably in such assets according to the respective amounts which they would have received upon liquidation if such amounts had been paid in full.

4. Optional Conversion. Each share of each series of Preferred Stock is convertible at the option of the holder thereof into Common Stock at the then current conversion rate, subject to adjustment in the event of stock dividends, splits, combinations, recapitalizations or similar events and subject to adjustment on a formula basis if the Company issues shares of Common Stock at a price less than the current conversion price of such series of Preferred Stock. As of October 31, 1985, the conversion rate for each series of Preferred Stock was one share of Common Stock for each share of Preferred Stock.

5. Mandatory Conversion. The Company may, at its option, require all (but only all) holders of any series of Preferred Stock to convert their shares of such series of Preferred Stock into shares of Common Stock at the then current conversion rate, if the Company is at such time effecting a firm commitment underwritten public offering of shares of Common Stock in which the aggregate price to be paid by the public for such shares will be at least $10,000,000 and the price per share to be paid by the public will be at least 150% of the conversion price for such series of preferred Stock in effect immediately prior to the sale of shares pursuant to the public offering.

PREVIOUS FINANCINGS

In private placement transactions, the Company has sold (i) 666,660 shares (as adjusted for subsequent stock dividends) of Series A Convertible Preferred Stock at a price equivalent to $.23 per share (200,000 of which were subsequently repurchased by the Company) and a subordinated convertible promissory note in the principal amount of $50,000 in August 1982; (ii) 910,200 shares (as adjusted) of Series B Convertible Preferred Stock in March 1983 at a price equivalent to $.56 per share; (iii) 1,777,778 shares (as adjusted) of Series C Convertible Preferred Stock in November 1983 at a price equivalent to $1.13 per share; (iv) 921,092 shares of Series D Convertible Preferred Stock in October 1984 at a price of $5.54 per share, and (v) 1,501,838 shares of Series E Convertible Preferred Stock in August 1985, at a price of $6.00 per share. The shares of Series A and Series B Convertible

Preferred Stock and the convertible note have been converted into 466,660, 910,200 and 88,888 shares of Common Stock, respectively.

Upon completion of this offering, the Company will have outstanding 8,444,176 shares of Common Stock (assuming conversion of all of the outstanding shares of Preferred Stock), based upon shares outstanding as of September 30, 1985. All of these shares (the "Restricted Shares") were issued and sold by the Company in private transactions in reliance upon exemptions contained in Section 4(2) or Section 3(b) of the Act. 70,000 of these Restricted Shares held by persons who are not deemed to be "affiliates" of the Company are currently eligible for sale in the open market pursuant to Rule 144(k) under the Act. The balance of the Restricted Shares may be sold in the open market only if and when eligible pursuant to Rule 144 as described herein.

In general, under Rule 144 as currently in effect, an "affiliate" of the Company or holder of Restricted Shares who has beneficially owned such shares for at least two years would be entitled to sell within 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 or the average weekly trading volume in the over-the-counter market during the four calendar weeks 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 manner of sale provisions, notice requirements and availability of current public information about the Company. Under Rule 144(k), a person who is not deemed an "affiliate" of the Company and has beneficially owned Restricted Shares for at least three years is entitled to sell such shares without regard to the volume limitations, manner of sale provisions, notice requirements or availability of public information described above. At present there is not available with respect to the Company "current public information" as defined in Rule 144, and the Company does not expect that such information will be available until at least 90 days following the Company's initial public offering.

The holders of 4,200,708 shares of Common Stock issuable by the Company upon the conversion of shares of its Series C, D and E Preferred Stock are entitled to certain rights to register such shares for offer and sale to the public under the Act. Under the terms of an agreement among the Company and such holders, if the Company proposes to register any of its Common Stock for sale (other than in an offering solely to employees of the Company), such holders are entitled to notice of such registration and to include shares of such Common Stock therein, subject to certain conditions and limitations. In addition, at any time after November 1, 1986, or the earlier closing of a public offering of securities, the holders of 40% or more of such shares which are then unregistered may require the Company on not more than three occasions to register such shares, Eastman Kodak may require the Company on not more than one occasion to register such shares, and the holders of Common Stock issuable upon conversion of the Series C Preferred, as a group, may require the Company on not more than one occasion to register such shares, in each case subject to certain conditions and limitations. Further, the holders of then unregistered shares may require the Company to file up to six additional registration statements on Form S-3 (if available) to register then unregistered shares, subject to certain conditions and limitations.

There has been no market for the Common Stock of the Company, and the Company will take no steps to develop or maintain a trading market. Accordingly, no assurance can be given that any purchaser will ever be able to resell the shares acquired hereunder, or that, in the event of such resale, the resale price would approximate the purchase price.

TERMS OF THE OFFERING

The Company is offering to certain of its employees an aggregate of 57,500 shares of its Common Stock, $.01 par value (the "Shares"), at a purchase price of $5.20 per share, for an aggregate purchase price of $299,000. The purchase price has been determined by the Board of Directors of the Company based upon a number of factors, including results of operations, net worth, status of product development, future prospects, market prices for competitors' securities and general market conditions for equity securities. There is no public market for any of the shares of capital stock of the Company.

<u>Minimum Investment</u>. Each investor will be required to purchase shares of Common Stock having an aggregate purchase price of a minimum of $2,210 (425 shares), or such lesser number of shares as the Company, in its sole discretion, shall permit.

<u>Termination</u>. This offering will terminate, and subscriptions will not be accepted after, December 31, 1985. The Company may at any time in its discretion extend this offering period without prior notice. The Company reserves the right to increase the number of shares sold in this offering upon written notice to all offerees.

Suitability. The shares of Common Stock being offered hereby are suitable only for prospective investors whose business and investment experience makes them capable of evaluating the merits and risks of their proposed investment in the Company, who can afford to bear the economic risk of their investment for an indefinite period, and who have no need for liquidity in their investment. Each investor will be required to represent, among other things, that (a) he is acquiring the Shares being purchased by him for his own account as principal, for investment, and not with a view to resale or distribution thereof; (b) his overall commitment to investments which are not readily marketable is not disproportionate to his net worth and his investment in the stock of the Company will not cause such overall commitment to become excessive; (c) he has adequate net worth and means of providing for his current needs and personal contingencies to sustain a complete loss of his investment in the Company; and (d) he has evaluated the risks of an investment in the Company.

Subscription Agreements and Procedures. In order to subscribe for shares of Common Stock in this offering, each investor must complete, sign and return to the Company, as provided below, two copies of a Subscription Agreement in the form attached as Exhibit A. The Subscription Agreement contains certain representations and warranties by the investor, including those described under "Suitability" above.

In order to subscribe to purchase shares, a prospective investor should complete, sign and return the following to Interleaf, Inc., c/o Hale and Dorr, 60 State Street, Boston, Massachusetts 02109, Attention: Anil Khosla, Esquire:

1. Both copies of the Subscription Agreement; and

2. A check payable to Interleaf, Inc., in the amount of $5.20 times the number of shares of Common Stock subscribed for (the minimum permitted subscription is for 425 shares ($2,210) unless the Company in its discretion permits subscription for a lesser number of shares).

If a prospective investor's subscription is not accepted by the Company, the payment accompanying such investor's subscription agreement will be returned to him with any interest actually earned thereon.

Additional Inquiry. The Company will require subscribers to complete the requested information in the Subscription Agreement, and may make or cause to be made such further inquiry as it deems appropriate. The sale of shares of Common Stock to any prospective purchaser or offeree will be subject to the sole discretion of the Company.

Audited Financial Statements

INTERLEAF, INC.

March 31, 1984

Ernst & Whinney

200 Clarendon Street
Boston, Massachusetts 02116

617/266-2000

Board of Directors and Shareholders
Interleaf, Inc.
Cambridge, Massachusetts

We have examined the balance sheet of Interleaf, Inc. as of March 31, 1984, and the related statements of operations, changes in shareholders' equity, and changes in financial position for the year then ended and for the period from May 26, 1981 (date of inception) to March 31, 1984. Our examination was 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 financial position of Interleaf, Inc. at March 31, 1984, and the results of its operations and the changes in its financial position for the year then ended and for the period from May 26, 1981 to March 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Boston, Massachusetts
April 20, 1984

BALANCE SHEET

INTERLEAF, INC.

March 31, 1984

ASSETS

CURRENT ASSETS		
Cash		$ 664,841
Inventory		202,581
Prepaid expenses and other assets		60,692
TOTAL CURRENT ASSETS		928,114
EQUIPMENT AND IMPROVEMENTS		
Equipment	$544,286	
Furniture	125,795	
Office equipment	62,993	
Leasehold improvements	41,485	
	774,559	
Less allowances for depreciation and amortization	(97,093)	677,466
OTHER ASSETS		
Deferred charges, net of amortization	48,216	
Organization costs, net of amortization	1,918	50,134
		$1,655,714

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable and accrued expenses		$ 246,999
Accrued salaries, wages and related taxes		112,677
Current portion of long-term debt		59,423
TOTAL CURRENT LIABILITIES		419,099
LONG-TERM DEBT, less current portion--Note E		104,993
UNEARNED REVENUE--Note G		240,000
SHAREHOLDERS' EQUITY--Note F		
Convertible Preferred Stock, par value $.10 per share, authorized 2,250,000 shares, issued and outstanding 888,889 shares of Series C	$ 88,889	
Common Stock, par value $.01 per share, authorized 4,000,000 shares, issued and outstanding 2,020,563 shares	20,206	
Additional paid-in capital	2,603,282	
Deficit accumulated during the development stage--Note B	(1,820,755)	891,622
		$1,655,714

See notes to financial statements.

STATEMENTS OF OPERATIONS

INTERLEAF, INC.

	Year Ended March 31, 1984	Period from May 26, 1981 (Inception) to March 31, 1984
Sales of systems and software	$ 78,500	$ 78,500
Software license revenues	200,000	200,000
Miscellaneous income	40,620	47,051
	319,120	325,551
Operating costs and expenses:		
Cost of goods sold	45,145	45,145
Research and development	622,927	819,886
General and administrative	532,777	696,131
Marketing	560,340	560,340
Interest	18,770	24,804
	1,779,959	2,146,306
NET LOSS	$1,460,839	$1,820,755

See notes to financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

INTERLEAF, INC.

Period from May 26, 1981 (date of inception) to March 31, 1984

	Common Stock	Convertible Preferred Stock--Series A	Convertible Preferred Stock--Series B	Convertible Preferred Stock--Series C	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total Shareholders' Equity
Proceeds from sale of Common Stock:							
65,000 shares (650,000 after split and change in par value--see Note F)	$ 6,500				$ 13,500		$ 20,000
23,580 shares (235,800 after split and change in par value--see Note F)	2,358				13,366		15,724
Net loss						($ 30,674)	(30,674)
BALANCE AT MARCH 31, 1982	8,858				26,866	(30,674)	5,050
Proceeds from sale of 33,333 shares (333,330 after split and change in par value--see Note F) of Convertible Preferred Stock--Series A		$33,333			116,667		150,000
Proceeds from sale of 30,300 shares (303,000 after split and change in par value--see Note F) of Common Stock	3,030				17,271		20,301
Proceeds from sale of 45,510 shares (455,100 after split and change in par value--see Note F) of Convertible Preferred Stock--Series B			$45,510		466,477		511,987
Professional fees related to issuance of Series A and B Convertible Preferred Stock					(21,967)		(21,967)
Net loss						(329,242)	(329,242)
BALANCE AT MARCH 31, 1983	11,888	33,333	45,510		605,314	(359,916)	336,129

INTERLEAF, INC.

	Common Stock	Convertible Preferred Stock--Series A	Convertible Preferred Stock--Series B	Convertible Preferred Stock--Series C	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total Shareholders' Equity
Balance forward	$11,888	$33,333	$45,510		$ 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	2,778	(27,777)			24,999		
Conversion of 455,000 shares of Convertible Preferred Stock--Series B to 455,100 shares of Common Stock	4,551		(45,510)		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	$20,206	$ -0-	$ -0-	$88,889	$2,603,282	($1,820,755)	$ 891,622

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

INTERLEAF, INC.

	Year Ended March 31, 1984	Period from May 26, 1981 (Inception) to March 31, 1984
USE OF FUNDS		
Net loss	$1,460,839	$1,820,755
Charges not affecting working capital:		
Depreciation and amortization	(90,778)	(100,755)
TOTAL TO OPERATIONS	1,370,061	1,720,000
Additions to equipment and improvements	669,483	774,559
Additions to other noncurrent assets	35,917	53,796
Decrease in long-term debt	75,572	75,572
Repurchase of Common Stock	225,670	225,670
	2,376,703	2,849,597
SOURCE OF FUNDS		
Net proceeds from sales of capital stock	2,295,276	3,068,612
Conversion of Subordinated Convertible Promissory Note to Convertible Preferred Stock--Series A	50,000	50,000
Unearned revenue received	240,000	240,000
	2,585,276	3,358,612
INCREASE IN WORKING CAPITAL	$ 208,573	$ 509,015

STATEMENTS OF CHANGES IN FINANCIAL POSITION--CONTINUED

INTERLEAF, INC.

	Year Ended March 31, 1984	Period from May 26, 1981 (Inception) to March 31, 1984
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase in current assets:		
Cash	$ 261,411	$664,841
Inventory	202,581	202,581
Prepaid expenses and other assets	54,133	60,692
	518,125	928,114
Increase in current liabilities:		
Accounts payable	177,340	246,999
Accrued salaries, wages and taxes	97,318	112,677
Current portion long-term debt	34,894	59,423
	309,552	419,099
INCREASE IN WORKING CAPITAL	$ 208,573	$509,015

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

INTERLEAF, INC.

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

Inventories: Inventories are valued at the lower of cost (as determined by the average cost method) or market. Inventories consist principally of computer systems and related components.

Organization Costs: Organization costs are stated at cost less allowance for amortization which is computed on the straight-line method over five years.

Deferred Charges: Deferred charges represent the Company's investment in purchased computer software. These assets are stated at cost less allowance for amortization which is computed on the straight-line method over three years.

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.

NOTE B--DEVELOPMENT STAGE

The Company, a Massachusetts corporation, was incorporated on May 26, 1981 and has devoted substantially all of its efforts to the design and development of a micro-based document production tool for use primarily in the production of illustrated reports. Since significant revenue producing activity has not commenced as of March 31, 1984, the Company is a development stage enterprise.

NOTE C--INCOME TAXES

As of March 31, 1984, the Company has a net operating loss carryforward of $1,820,755 and investment tax credit carryforwards of $64,023 (federal) and $20,451 (state) which are available to reduce future federal and state income taxes payable. For federal purposes the net operating loss and investment tax credit carryforwards expire through 1994. For state purposes the net operating loss carryforward expires in 1986. The state investment tax credits expire in 1987. The Company accounts for investment tax credits by the flow-through method.

NOTE D--RESTRICTED STOCK AGREEMENTS

Certain of the Common Stock issued by the Company through March 31, 1984 is subject to Restricted Stock Agreements ("Agreements"). These Agreements include various repurchase options whereby, in the event of voluntary or involuntary 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 (voluntary or involuntary) and the period of employment.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

INTERLEAF, INC.

NOTE E--LONG-TERM DEBT

Long-term debt at March 31, 1984 is as follows:

Loan payable in 36 monthly principal installments of \$1,147 with interest at prime rate plus 2%	\$ 28,663
Loan payable in 36 monthly principal installments of \$385 with interest at prime rate plus 2.5%	5,920
Loan payable in 36 monthly principal installments of \$514 with interest at prime rate plus 2%	14,388
Loan payable in 36 monthly principal installments of \$1,139 with interest at prime rate plus 2%	34,166
Commercial note payable in 48 monthly principal installments of \$1,767 with interest at prime rate plus 1-1/2%	81,279
	164,416
Less current portion	59,423
	\$104,993

Equipment, with a net book value of \$182,252 is pledged as collateral for the installment loans.

Maturities of long-term debt during each of the next five years are as follows: 1985--\$59,423; 1986--\$56,103; 1987--\$31,220; 1988--\$17,669.

NOTE F--SHAREHOLDERS' EQUITY

On July 19, 1983, the Board of Directors authorized the Company to reclassify and change its authorized Common Stock and Convertible Preferred Stock from 300,000 shares of \$.10 par value Common Stock and 125,000 shares of \$1.00 par value Convertible Preferred Stock to 3,000,000 shares of \$.01 par value Common Stock and 1,250,000 shares of \$.10 par value Convertible Preferred Stock. The effect on the number of shares related to capital stock transactions prior to July 19, 1983 has been shown parenthetically in the accompanying statements of changes in shareholders' equity. In addition, on March 30, 1984, the Board of Directors further authorized the Company to increase the number of authorized shares of Common Stock and Convertible Preferred Stock to 4,000,000 and 2,250,000 shares, respectively.

During fiscal year 1983, the Company had issued shares of Series A and B Convertible Preferred Stock. In connection with the issuance of Series A, the Company also issued a \$50,000 Subordinated Convertible Promissory Note which was convertible at the option of the holder to Series A Convertible Preferred Stock. Both Series A and B provided for conversion to shares of Common Stock on a one-for-one basis at the option of the holder or, upon performance of certain conditions, at the option of the Company.

During fiscal 1984, the $50,000 Subordinated Convertible Promissory Note was converted into Series A shares. On March 2, 1984, the Company then exercised its conversion option and required all shares of Series A and B to be converted to shares of Common Stock. As a result of these transactions, all of the Company's Series A and Series B Convertible Preferred Stock has been retired.

During fiscal 1984, the Company also issued 200,000 shares of $.10 par value Series C Convertible Preferred Stock for $10 per share. On March 30, 1984, the Company authorized and effected a 4.444-for-one Series C stock dividend. The Series C shares are convertible into Common Stock at the option of the holder at any time on a one-for-one basis. This conversion rate is to be adjusted for dilutive capital stock transactions. In addition, the Company may require the conversion of Series C into Common Stock in the event of a public offering 1) aggregating proceeds in excess of $10,000,000, and 2) if the price per share paid by the public in a public offering is at least 200% of the conversion price (initially $2.25) in effect immediately prior to the closing of the public offering. Series C Convertible Preferred Stock has a liquidation value of $2.25 per share.

The Company has reserved 888,889 shares of Common Stock for issuance for the exercise of the conversion rights of its Series C Convertible Preferred Stock.

NOTE G--UNEARNED REVENUE

The Company has received advance payments under license and royalty agreements for the use of certain of its software. Income is recognized on such payments when the Company successfully performs the obligations specified under the agreements.

NOTE H--OPERATING LEASES

Future minimum rental payments at March 31, 1984, under agreements classified as operating leases with noncancellable terms in excess of one year are as follows:

Fiscal years ending March 31	
1985	$ 417,661
1986	330,422
1987	116,215
1988	112,122
1989	92,493
	$1,068,913

Rent expense amounted to $112,355 for the year ended March 31, 1984 and $129,775 for the period from inception to March 31, 1984.

NOTE I--STOCK OPTION PLAN

During fiscal 1984, the Company established an Incentive Stock Option Plan. Under 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, subject to termination of employment, in general expire after ten years from date of grant. Options are nontransferable other than on death.

During the year, options were granted to purchase 132,000 shares of Common Stock at prices ranging from $1.13 to $1.68 per share. These options are exercisable in installments over three and four year periods commencing with the date of grant. No options were exercisable at March 31, 1984.

At March 31, 1984, the Company has reserved 250,000 shares of Common Stock for issuance under the Plan.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

INTERLEAF, INC.

March 31, 1985

ERNST & WHINNEY

200 Clarendon Street
Boston, Massachusetts 02116

617 266–2000

Board of Directors and Shareholders
Interleaf, Inc.
Cambridge, Massachusetts

We have examined the consolidated balance sheet of **Interleaf, Inc.** as of March 31, 1985, and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position for the year then ended. Our examination was 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.** at March 31, 1985, and the consolidated results of their operations and changes in their financial position for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Whinney

Boston, Massachusetts
May 3, 1985

CONSOLIDATED BALANCE SHEET

INTERLEAF, INC.

March 31, 1985

ASSETS

CURRENT ASSETS		
Cash		$ 91,095
Accounts receivable		2,104,163
Inventory		2,741,052
Prepaid expenses and other current assets		127,674
TOTAL CURRENT ASSETS		5,063,984
EQUIPMENT AND IMPROVEMENTS		
Development equipment	$1,137,005	
Office and demonstration equipment	1,929,578	
Furniture	594,373	
Leasehold improvements	168,291	
	3,829,247	
Less allowances for depreciation and amortization	531,931	3,297,316
OTHER ASSETS		
Purchased computer software, net of amortization	118,780	
Deposits and other assets	162,505	281,285
		$8,642,585

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable and accrued expenses		$ 1,558,062
Accrued salaries, wages and related taxes		234,184
Current portion of long-term debt		427,033
TOTAL CURRENT LIABILITIES		2,219,279
LONG-TERM DEBT, less current portion		1,369,848
UNEARNED REVENUE		577,704
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	
Convertible Preferred Stock---Series D, authorized, issued and outstanding 921,092 shares	92,109	
Common Stock, par value $.01 per share, authorized 20,000,000 shares, issued and outstanding 4,232,451 shares	42,325	
Additional paid-in capital	7,612,806	
Accumulated deficit	(3,449,264)	4,475,754
		$8,642,585

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

INTERLEAF, INC.

Year ended March 31, 1985

Revenues:	
Sales of systems and software	$ 4,844,225
Software license revenues	3,347,980
Service revenues	70,795
Miscellaneous income	71,586
	8,334,586
Costs and expenses:	
Cost of products and services sold	2,775,606
Sales and marketing	4,285,795
Research and development	1,421,724
General and administrative	1,394,040
Interest	85,930
	9,963,095
NET LOSS	$1,628,509

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

INTERLEAF, INC.

Year ended March 31, 1985

	Convertible Preferred Stock Series C	Convertible Preferred Stock Series D	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
Balance at March 31, 1984	$ 88,889		$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, 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)
Balance at March 31, 1985	$177,778	$92,109	$42,325	$7,612,806	($3,449,264)	$4,475,754

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

INTERLEAF, INC.

Year ended March 31, 1985

USE OF FUNDS	
Net loss	$ 1,628,509
Charges not affecting working capital:	
Depreciation and amortization	(460,224)
TOTAL TO OPERATIONS	1,168,285
Additions to equipment and improvements	3,054,688
Additions to purchased computer software	95,074
Additions to other non-current assets	133,859
Repayment of long-term debt	119,019
	4,570,925
SOURCE OF FUNDS	
Net proceeds from sale of Convertible Preferred Stock--Series D	5,092,850
Proceeds from sale of Common Stock to employees	119,791
Increase in long-term debt	1,383,874
Net unearned revenue received	337,704
	6,934,219
INCREASE IN WORKING CAPITAL	$ 2,363,294
CHANGES IN COMPONENTS OF WORKING CAPITAL	
Increase (decrease) in current assets:	
Cash	($ 573,746)
Accounts receivable	2,104,163
Inventory	2,538,471
Prepaid expenses and other current assets	94,586
	4,163,474
Increase in current liabilities:	
Accounts payable and accrued expenses	1,311,063
Accrued salaries, wages and related taxes	121,507
Current portion long-term debt	367,610
	1,800,180
INCREASE IN WORKING CAPITAL	$ 2,363,294

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 26, 1981, to design and develop microcomputer-based document production systems for use primarily in the production of illustrated reports. 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, Interleaf World Trade, Inc., Interleaf U.K. Limited, and Interleaf Foreign Sales Corporation. All intercompany accounts and transactions have been eliminated.

Revenue Recognition: Revenues from equipment and software sales are recognized at the time of shipment. Service revenues are recognized ratably over the contract period or as the services are performed.

Inventories: Inventories are valued at the lower of cost (as determined by the average cost method) or market. Inventories consist principally of computer systems and related components.

Purchased Computer Software: The Company's investment in purchased computer software is stated at cost less allowance for amortization ($27,296 at March 31, 1985) which is computed on the straight-line method over three years.

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: Investment tax credits are accounted for under the "flow-through" method and are recognized in the year in which the related property is placed in service.

NOTE C—*CREDIT ARRANGEMENTS*

The Company has available a credit facility with a bank totalling $7,000,000 with $5,000,000 in the form of a demand secured line of credit and $2,000,000 in equipment financing. The line of credit is secured by accounts receivable and inventory and bears interest at prime rate plus 3/4%. Under the terms of the credit agreement, the Company may borrow up to 80% of qualified accounts receivable and 40% of inventory (up to a maximum amount of $700,000). There were no borrowings outstanding under the line of credit at March 31, 1985.

NOTE D--*INCOME TAXES*

As of March 31, 1985, the Company has a net operating loss carryforward for Federal income tax purposes of approximately $4,000,000; for financial statement purposes, the loss carryforward is approximately $3,450,000. The difference between the net operating loss carryforward for Federal income tax and for financial statement purposes results primarily from a difference in accounting for depreciation. As of March 31, 1985, the Company has investment tax credit carryforwards of approximately $186,000 (federal) and $57,000 (state) which are available to reduce future federal and state income taxes payable. For federal purposes the net operating loss and investment tax credit carryforwards expire through 1995. For state purposes the net operating loss carryforward expires in 1986. The state investment tax credits expire through 1988. The Company also has available a carryforward tax credit, which expires in 2000, for increasing research activities of approximately $142,000.

NOTE E--*LONG-TERM DEBT*

Long-term debt at March 31, 1985 is as follows:

Loan payable in 60 monthly principal installments of $18,765 plus interest at prime rate plus 3/4%	$1,107,142
Loan payable in 60 monthly principal installments of $8,500 plus interest at prime rate plus 1 1/4%	433,500
Commercial note payable in 48 monthly principal installments of $3,646 with interest at prime rate plus 1 1/2%	149,479
Commercial note payable in 48 monthly principal installments of $1,767 with interest at prime rate plus 1 1/2%	61,843
Various installment loans payable in monthly principal installments plus interest at prime rate plus 1 1/4%	44,917
	1,796,881
Less current portion	427,033
	$1,369,848

Equipment, with a net book value of approximately $2,050,000 is pledged as collateral for the installment loans.

Maturities of long-term debt during each of the next five years are as follows: 1986--$427,033; 1987--$402,150; 1988--$390,366; 1989--$345,409; 1990--$231,922.

NOTE F--*UNEARNED REVENUE*

The Company has received advance payments under license and royalty agreements for the use of certain of its software. Software license revenue is recognized when the Company successfully performs the obligations specified under the agreements. Royalty revenue is recognized upon shipment of the Company's software by the licensee to the end user.

NOTE G--*RESTRICTED STOCK AGREEMENTS*

Certain of the Common Stock issued by the Company through March 31, 1985 is subject to Restricted Stock Agreements (*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 the year, the Company issued 921,092 shares of $.10 par value Series D Convertible Preferred Stock for $5.54 per share.

Both 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 and Series D 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 150% of the conversion price in effect immediately prior to the closing of the public offering. Series C and Series D Convertible Preferred Stock have a liquidation value of $5.54 per share.

The Company has reserved 3,207,545 shares of Common Stock for issuance under the Incentive Stock Option Plan (NOTE J) and exercise of the conversion rights of Convertible Preferred Stock.

NOTE I--*OPERATING LEASES*

The Company leases its facilities, including sales offices, and certain equipment under various operating leases which expire through 1990. Future minimum rental payments at March 31, 1985, under agreements classified as operating leases with noncancellable terms in excess of one year, are as follows:

Fiscal years ending March 31	
1986	$1,543,000
1987	2,426,000
1988	2,177,000
1989	1,827,000
1990	792,000
	$8,765,000

Rent expense amounted to $774,800 for the year ended March 31, 1985.

NOTE J--*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.

During fiscal 1985, options were granted to purchase 225,125 shares of Common Stock at prices ranging from $1.13 to $4.00 per share and options for 191,325 shares of Common Stock were exercised at prices ranging from $.57 to $4.00 per share.

At March 31, 1985, options for 357,125 shares were outstanding all of which are exercisable.

NOTE K--*COMMITMENT*

In August, 1984 the Company signed an agreement to lease certain space in Cambridge, Massachusetts. This space, which will serve as the Company's corporate headquarters, will be leased for a minimum period of five years with occupancy expected in early 1986. Monthly rental payments will be approximately $132,000 and have been included in the future minimum rental payments presented in NOTE I to the Consolidated Financial Statements.

INTERLEAF, INC.
BALANCE SHEET

	September 30, 1985 Actual
ASSETS	
CURRENT ASSETS	
Cash	$ 4,968,710
Short-term investments	0
Accounts receivable	4,328,238
Inventory	1,890,543
Tooling	115,750
Other current assets	348,787
TOTAL CURRENT ASSETS	11,652,028
FURNITURE & EQUIPMENT	
Development equipment	1,297,911
Furniture	684,404
Office and demonstration equipment	2,125,834
Leasehold improvements	182,765
	4,290,914
Less allowances for depreciation and amortization	(1,018,711)
	3,272,203
OTHER ASSETS	
Organization expenses, net of amortization	604
Purchased computer software,net of amortization	123,368
Deposits	92,787
Building in progress improvements	79,303
	296,062
	$ 15,220,293
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 1,265,319
Short-term borrowings	0
Accrued salaries, wages and related taxes	305,202
Current portion of long-term debt	529,632
TOTAL CURRENT LIABILITIES	2,100,153
UNEARNED REVENUE	414,577
LONG-TERM DEBT, less current portion	1,588,114
SHAREHOLDERS' EQUITY	
Convertible Preferred Stock, Series C, par value $.10 per share Issued and outstanding 1,777,778 shares	177,778
Convertible Preferred Stock, Series D,par value $.10 per share Issued and outstanding 921,092 shares	92,109
Convertible Preferred Stock, Series E, par value $.10 per share Issued and outstanding 1,501,838 shares	150,184
Common Stock, par value $.01 per share, authorized 20,000,000 shares Issued and outstanding 4,244,968 shares	42,450
Additional paid-in capital	16,438,997
Deficit	(5,782,374)
Less cost of treasury shares	(1,695)
TOTAL SHAREHOLDERS' EQUITY	11,117,449
	$15,220,293

INTERLEAF, INC.
STATEMENT OF OPERATIONS AND DEFICIT-September 1985

	CURRENT MONTH	FY 1986 YEAR TO DATE	FY 1985 YEAR TO DATE
REVENUE:			
Sales of Systems	$ 1,549,082	$4,213,451	$977,365
Sales of Software	189,710	758,700	349,950
Hardware I/O Sales	156,791	546,000	201,220
Distributor Sales	15,675	107,875	0
Service Revenues	53,993	220,932	1,846
Software Licenses	155,560	654,800	302,000
Other Revenue	20,066	62,323	19,057
	2,140,877	6,564,081	1,851,438
COSTS AND EXPENSES			
Cost of Goods Sold	920,354	2,801,349	650,689
Cost of Service	58,903	382,290	115,536
Research and Development	210,715	1,154,699	530,107
General and Administrative	140,558	811,016	610,085
Marketing	661,882	3,635,731	1,080,568
	1,992,412	8,785,085	2,986,985
Income (Loss) Before Interest	148,465	(2,221,004)	(1,135,547)
Interest (Income)/Expense	(14,110)	112,106	25,554
NET INCOME (LOSS)	$ 162,575	($2,333,110)	($1,161,101)

INTERLEAF, INC.
STATEMENT OF CHANGES IN FINANCIAL POSITION

	September 1 through September 30, 1985	Year to Date
USE OF FUNDS		
Net (Income) Loss	($ 162,575)	$ 2,333,110
Charges not affecting working capital		
Depreciation	(84,372)	(486,780)
Amortization	(3,026)	(17,714)
TOTAL TO (FROM) OPERATIONS	(249,973)	1,828,616
Additions to equipment and improvements	69,886	461,667
Additions to deposits		1,206
Additions to purchased computer software	100	21,864
Additions to building in progress improvements		9,421
Repayment of long-term debt	43,038	224,534
Decrease in unearned revenue	209,245	516,328
Cost of treasury shares purchased		1,695
TOTAL USE OF FUNDS	72,296	3,065,331
SOURCE OF FUNDS		
Long-term portion of proceeds from chattel financing		442,800
Exercise of incentive stock options	2,914	6,612
Proceeds from sale of Convertible Preferred Stock		8,969,888
Increase in unearned revenue	17,262	353,201
TOTAL SOURCE OF FUNDS	20,176	9,772,501
(INCREASE) DECREASE IN WORKING CAPITAL	$ 52,120	($ 6,707,170)
CHANGES IN COMPONENTS OF WORKING CAPITAL		
(Increase)/Decrease in working capital:		
Cash	$ 995,846	($ 4,877,615)
Short-term investments	0	0
Accounts receivable	(1,383,163)	(2,224,075)
Inventory	599,165	850,509
Tooling	(76,500)	(100,500)
Other current assets	(22,403)	(236,363)
Accounts payable and accrued expenses	(114,715)	(292,743)
Accrued salaries, wages and related taxes	55,755	71,018
Short term borrowings	0	0
Current portion of long-term debt	(1,665)	102,599
(INCREASE)DECREASE IN WORKING CAPITAL	$ 52,120	($ 6,707,170)

EXHIBIT A

SUBSCRIPTION AGREEMENT

Interleaf, Inc.
c/o Hale and Dorr
60 State Street
Boston, MA 02109

Attention: Anil Khosla, Esq.

Dear Sirs:

I hereby subscribe for the number of shares of Common Stock, $.01 par value (the "Shares"), of Interleaf, Inc., a Massachusetts corporation (the "Company"), set forth on the signature page below and agree to pay the total amount there indicated. I enclose (i) this and another signed copy of this Agreement and (ii) my check in the amount set forth on the signature page below payable to the order of Interleaf, Inc.

I understand and agree that:

1. The Company reserves the right, in its sole and absolute discretion, to reject my subscription for Shares in whole or in part.

2. This subscription is and shall be irrevocable, except that I shall have no obligation hereunder in the event that this subscription is for any reason rejected or this offering is for any reason cancelled.

3. This offering will terminate, and subscriptions will not be accepted after, December 31, 1985. The Company may at any time in its discretion extend the offering period without prior notice. The Company reserves the right to withdraw this offering at any time for any reason, or for no reason.

4. My right to transfer all or any of the Shares will be restricted for the reasons and in the manner set forth in the Confidential Memorandum of the Company dated December 13, 1985 (the "Memorandum"). Specifically, the Shares are not and will not be registered under the Securities Act of 1933, as amended (the "Act"), or applicable state securities laws, and may not be resold unless they are subsequently registered under such laws or an exemption from registration is available. The Company has made no representations with respect to registration of the Shares under the Act; such registration is not contemplated; it is not anticipated that there will be any market for the Shares; Rule 144 will not be available for any sale of the Shares; and, as a result, I must be prepared to bear the economic risk of my investment for an indefinite period of time.

5. The per share price of the Shares specified in the Memorandum has been determined by the Board of Directors of the Company based solely on its judgment as to the valuation of the Company.

I hereby represent and warrant that:

A. I am acquiring the Shares for investment, and not with a view to the resale or distribution thereof. I am acquiring the Shares for (check one):

[ ] my own account as principal and not for the benefit of any other person, so that I will be the sole record and beneficial owner of the Shares; or

[ ] the account of another person or persons, either alone or with myself, as described in detail below:

____

____

____

____

____

B. The address set forth on the signature page below is my true and correct residence (and/or that of each other person as is described in paragraph A. above, as the case may be). Neither I nor any such other person has any present intention of becoming a resident of any other state or jurisdiction.

C. My overall commitment to investments which are not readily marketable is not disproportionate to my net worth and my investment in the Shares will not cause such overall commitment to become excessive.

D. I have adequate net worth and means of providing for my current needs and personal contingencies to sustain a complete loss of my investment in the Shares, and have no need for liquidity of this investment.

E. I have received a copy of and have carefully read the Memorandum and evaluated the risks of an investment in the Company. The Company has made available to me all documents relating to an investment in the Company that I have requested, and has given me the opportunity to ask, and has provided answers to, all of my questions concerning this offering. In evaluating the suitability of an investment in the Company, I have not relied upon any representation or other information (whether oral or written) other than as set forth in the Memorandum or as contained in any documents or answers to questions so furnished to me by the Company.

F. I recognize that investment in the Company involves certain risks and I have taken full cognizance of and understand all of the risk factors related to the purchase of the Shares, including those set forth under the caption "RISK FACTORS" in the Memorandum.

G. I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of an investment in the Company. All information which I have provided to the Company concerning myself and each other person described in paragraph A. above is correct and complete as of the date hereof, and if there should be any material change in such information prior to my having been sold the Shares in the amount of my investment, I will immediately provide such information to the Company.

H. I am not relying upon the accuracy of any predictions as to the future growth, prospects or development of the Company contained in the Memorandum or any other oral or written representations with respect thereto.

I. I will not offer, sell, pledge or otherwise transfer or dispose of the Shares except pursuant to a registration statement under the Act and qualification under applicable state securities laws, or pursuant to an opinion of counsel acceptable to the Company that such registration and qualification are not required and that the transaction (if it involves a sale in the over-the-counter market or on a securities exchange) does not violate the provisions of Rule 144 under the Act. A stop-transfer order will be placed on the books of the Company (or its transfer agent) respecting the certificates evidencing the Shares and such certificates shall bear, until such time as the shares evidenced by such certificate shall have been registered under the Act or shall have been transferred in accordance with an opinion of counsel acceptable to the Company that such registration and qualification is not required, the following legend or one substantially similar thereto:

> These shares have not been registered under the Securities Act of 1933. They may not be offered or transferred by sale, assignment, pledge or otherwise unless (i) a registration statement for

the shares under the Securities Act of 1933 is in effect or (ii) the corporation has received an opinion of counsel, which opinion is satisfactory to the corporation, to the effect that such registration is not required under the Securities Act of 1933.

In addition, the certificate evidencing the Shares shall bear any legend required by any applicable state securities law until such time as the shares evidenced by such certificates shall have been qualified under such applicable state securities law or shall have been transferred in accordance with an opinion of counsel for the Company that such qualification is not required.

J. I am aware that no federal or state agency has made any finding or determination as to the fairness for public investment, or any recommendation or endorsement, of the Shares being sold in this offering.

K. If this Subscription Agreement is executed and delivered on behalf of a partnership, corporation, trust or other entity, the undersigned has been duly authorized to execute and deliver the same and all other instruments executed and delivered on behalf of such partnership, corporation, trust or other entity in connection with the purchase of my Shares, and the signature of the undersigned is binding upon such partnership, corporation, trust or other entity.

L. The foregoing representations and warranties are true and accurate as of the date hereof and shall be true and accurate as of the date of the acceptance hereof by the Company and of the date of issue of the Shares. If in any respect such representations and warranties shall not be true and accurate prior to such date of issue, I will give written notice of such fact to the Company, specifying which representations and warranties are not true and accurate and the reasons therefor.

Dated: __________, 1985

Number of Shares: ___________

Total Investment: ___________

SUBSCRIBER: ____________________________________
(Please Print)

____
Subscriber's Signature

Residence Address:

____

____

Mailing Address, if Different from Residence Address:

____

____