



INTERLEAF, INC.
ANNUAL REPORT 1988

Interleaf, Inc. develops and markets electronic publishing systems and software for business, government and academia.

Interleaf allows people to create, review, revise, illustrate, store, retrieve, distribute and print documents containing text, drawings, charts, CAD images and photographs.

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FINANCIAL HIGHLIGHTS

	Year ended March 31	1988	1987	1986
For the year	Revenues	\$58,388,721	\$37,173,162	\$18,645,883
	Net income (loss)	6,979,897	(410,121)	(2,443,401)
At year end	Working capital	26,549,588	27,190,948	7,958,750
	Total assets	61,762,464	44,734,377	18,676,887
	Total shareholders' equity	42,992,655	35,290,459	11,020,251
	Number of employees	558	355	221

PRESIDENT'S LETTER

This was a year of continued strong growth for Interleaf. For fiscal 1988—our second year as a public company—net income was \$7.0 million, versus a loss of \$410,000 for fiscal 1987. Revenues for the year were up 57% to \$58.4 million, compared with \$37.2 million for last year.

Such growth is possible because electronic publishing is fast replacing traditional techniques for producing printed pages. With it, users can create professional-looking documents with text and graphics, often at half the cost and in one-fourth the time of older methods. Savings of this magnitude are vital to large corporations, which analysts say spend up to 10% of revenues on publishing.

Interleaf software offers sophisticated word processing, graphics and page layout in one powerful, easy-to-use package. As one types or creates graphics, the software automatically composes the document, even if it is thousands of pages long. Users can include and edit computer-aided design (CAD) drawings, line art and photographs, and can generate a variety of business charts automatically from spreadsheet data.

Office professionals use our software to produce high-quality presentations, contracts, proposals, technical documentation, user manuals, and marketing and financial materials—virtually the full range of corporate, government and academic publishing.

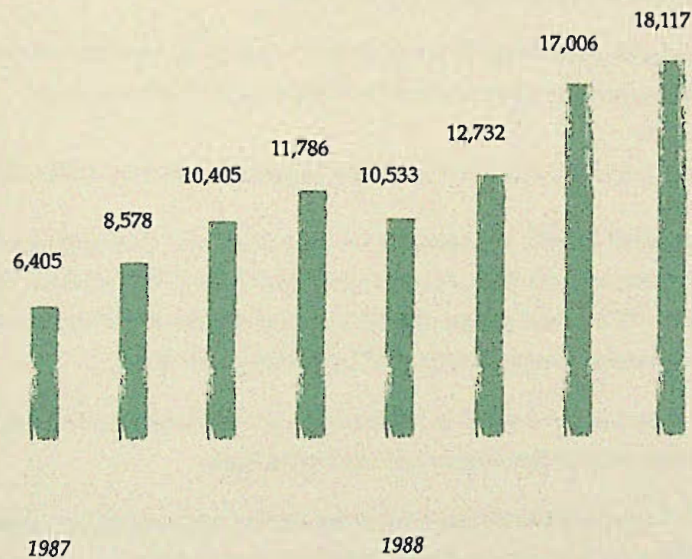
For its superior power, dependability and versatility, Interleaf is recognized as the corporate standard for high-end workstation publishing. But our goal is to be the premier supplier of electronic publishing software and systems at *all* levels of an organization.

Corporate-wide solution

At the heart of our strategy lies the Interleaf *corporate-wide solution*. As the illustrations in the following section show, we are dedicated to providing the most flexible, most comprehensive publishing solutions possible.

Our corporate-wide solution is based on two unique aspects of our technology. First, we run on PC's and workstations now, and when our mainframe version is released later this year, we will be running on all

**QUARTERLY
REVENUES**
(in thousands of
dollars)



three types of corporate computers. Second, we run on computers from the major hardware companies, including Apollo, Apple, Digital Equipment, IBM and Sun Microsystems; the version of our software for the Intel 80386 architecture runs on IBM-compatible machines from virtually every other hardware vendor.

No one else offers such broad-application technology that enables diverse computers running under different operating systems to share information. Further, different systems running Interleaf can exchange not only text and graphics information, but entire documents—with all text, graphics, format and page layout intact.

How does this benefit today's corporations? Every corporation contains many islands of document production—departments that produce written pages. And most major corporations have a variety of different computing environments—say, Digital in manufacturing, Apollo in engineering, Sun in software development, IBM in accounting and Apple in marketing. Only Interleaf runs in all these computing environments.

By supplying tools that smooth the publishing workflow throughout a corporation, Interleaf is fundamentally improving the way people work together.

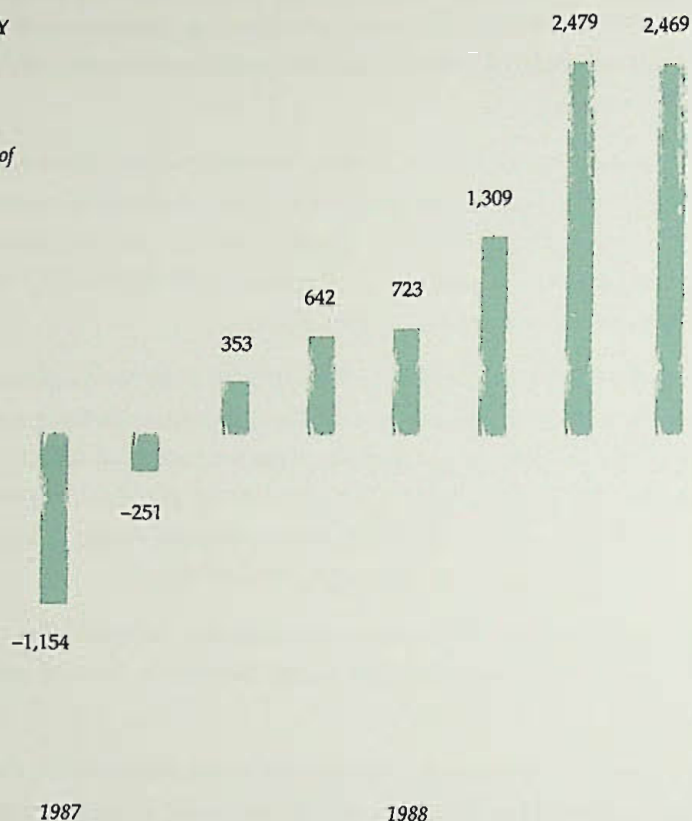
With Interleaf, documents produced by many hands can be shared electronically for revision, review and approval. Executives, engineers, writers, artists, managers, accountants, lawyers and other corporate professionals—all using computers of choice—can revise and re-use their work, instead of re-creating it from scratch.

NEW PRODUCTS

Release 4.0

The new version of Technical Publishing Software™ (TPS™) contains such powerful capabilities as a multi-page tables package, a desktop command language, and specialized document management tools that give users centralized control over the style and content of long documents.

QUARTERLY
NET
INCOME/
LOSS
(in thousands of
dollars)



Release 4.0 will allow Interleaf to address new publishing markets:

Database publishing. TPS 4.0 brings database management facilities to documents. Users can instruct the system to assemble a document consisting only of elements meeting certain user-supplied specifications. Aerospace companies can use this capability to customize aircraft documentation, while colleges can generate course catalogs by semester, course offerings, professor availability, etc.

Milspec publishing. Release 4.0 is expected to increase our already substantial share of the government and aerospace markets by giving our software the capabilities to meet the exacting Milspec requirements of the Department of Defense and other agencies. Among the special features are display of the highest security classification of any material on a page, the ability to freeze pagination while adding additional material and the automatic numbering of blank pages.

High-end publishing. TPS 4.0 contains typographic and composition enhancements important at the highest end of the market.

IBM Interleaf Publisher™ and IBM Interleaf Publishing Series RT PC Edition™

On April 5 1988, we announced a strategic development and marketing agreement with IBM, according to which IBM will address the publishing needs of a broad range of business and technical professionals with new software packages developed by Interleaf for IBM.

In essence, the leader in information technologies and the leader in publishing technologies have joined forces.

We launched the alliance with the announcement of two new products. IBM is marketing the first—IBM Interleaf Publisher—as its publishing solution designed for the majority of corporate and technical professionals producing business documents. The second, IBM Interleaf Publishing Series RT PC Edition, will bring the latest version of our high-end software to the IBM RT PC.

We expect IBM Interleaf Publisher, which runs on the IBM PS/2 Models 70 and 80 personal computer and compatibles using the 80386 microprocessor (commonly called 386's), to be an important corporate product. There is virtual unanimity that 386-based systems will become *the* business standard. IBM expects that by 1990 all of the PC's it sells will be 386's. And industry experts predict that 4.4 million 386's will be sold in 1989 alone.

Interleaf Publisher™ for the Macintosh II

In November we began shipping Interleaf Publisher on another formidable contender in the corporate marketplace, the Apple Macintosh II. Publisher is one of the first programs to take advantage of the Mac II's power.

Macworld wrote that "Interleaf is unquestionably the most powerful long-document preparation package available on the Macintosh." *MacWEEK* said, "It is impossible not to be amazed by the range of capabilities Interleaf offers... [Publisher] is a major-league publishing program that will establish some new trends in the Mac market."

Other PC products

We've also developed two other PC-based products that are essential ingredients in our corporate-wide solution.

PCEditor, which began shipping in January, is text-only software for PC's, XT's, AT's and compatibles that provides a cost-effective means for writers on an Interleaf network to create and edit text.

PCViewstation for the IBM AT allows the electronic distribution of documents throughout an organization. Manufacturers can use PCViewstation on the shop floor to keep up with the latest changes in engineering drawings and documentation, while retail stores can access up-to-date information on prices, part numbers and other product information.

OPERATING
INCOME
AS A
PERCENTAGE
OF
REVENUES



DISTRIBUTION

Interleaf sells its products through direct sales, OEM relationships and retail channels. Our distribution system consists of:

Thirty-one sales and service offices in the United States and Canada, with a field organization approaching 250 people. Direct sales and local support are essential to success in our high-end marketing efforts.

Wholly or partially owned subsidiaries in seven countries: Belgium, Canada, France, Italy, Switzerland, the United Kingdom and West Germany. These companies sell the full line of Interleaf products—including our multilingual software, now supporting 13 languages.

Third-party relationships with Apollo, Digital Equipment, Eastman Kodak, IBM, SDRC, Siemens AG and others to sell our software.

A growing list of select dealers selling Interleaf Publisher for the Macintosh II. (IBM will sell IBM Interleaf products through its own retail channels.)

Retail outlets will become increasingly important in the distribution of our lower-end products.

These distribution channels will allow Interleaf to exploit the opportunities for major account sales, systems integration value-added sales, and specialized peripheral sales—opportunities we believe represent a significant part of our long-term business opportunity.

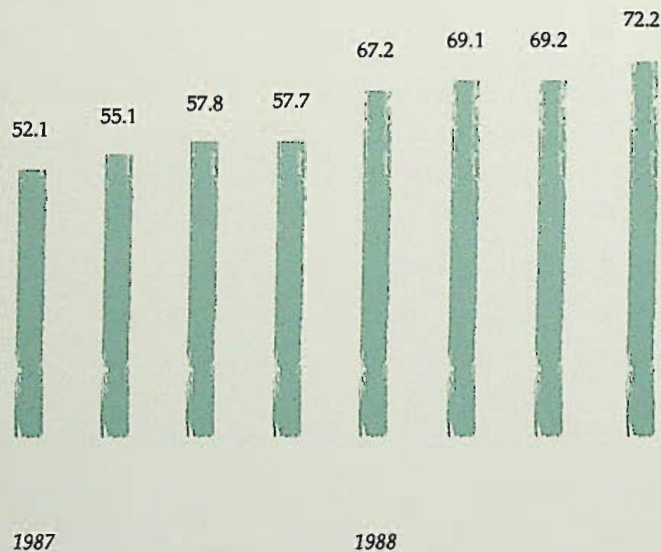
CUSTOMERS

Our direct sales force and other distribution networks continue to add some of the most distinguished Fortune 500 corporations, universities and government agencies to Interleaf's list of customers.

We are especially proud to have been chosen to provide the electronic publishing software for NASA's Space Station Program.

Our customers have realized enormous productivity gains using Interleaf software and systems. Here are some examples:

GROSS
MARGIN
AS A
PERCENTAGE
OF
REVENUES



The North Carolina General Assembly automates the creation of daily session minutes using an Interleaf system that integrates word processors, VAX mainframes and other Digital computers on a network serving nearly 200 other devices. Turnaround time for a camera-ready draft of one session's activity has been cut from about six weeks to just one day.

TWA's Ground Operations Center has cut production time of training manuals averaging over 200 pages by 100% using an Interleaf system that combines scanned CAD drawings with graphics created on Interleaf. One manual that once took seven months to produce took only three weeks with the new system.

The U.S. Census Bureau's Interleaf system generates graphics, charts and covers for as many as 5,000 annual census reports automatically from data in a mainframe database. Updating the monthly Current Reports once took two hours each; now it takes eight minutes.

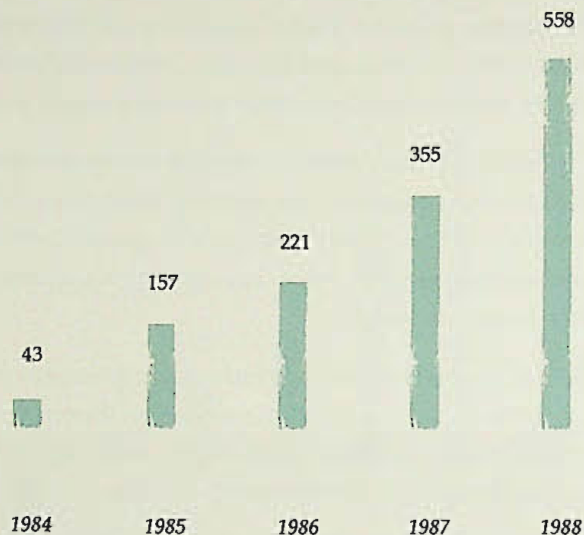
The Biomedical Sciences Division of Lawrence Livermore National Laboratory funnels data from over 70 PC's and workstations into Interleaf, where grant proposals and journal articles containing text and graphics are formatted and printed. Grant proposal output has increased by a factor of three to four, and the \$50-60 per hour charge for editing and proofing has been eliminated.

Softsel, one of the nation's leading software suppliers, hooks Interleaf up to its telemarketing database to publish a 188-page price catalog automatically. Softsel saves \$8,000 per catalog in typesetting charges and has already gone from producing three catalogs a year to four.

The California Department of Water Resources produces speeches, monthly reports, conservation guidebooks and up to 60 technical bulletins a year on an Interleaf system that accepts files from around the Department via a mainframe computer. Turnaround has improved by a third and quality "has improved 1000%," says the system's supervisor.

The Software Productivity Consortium, a group of the nation's 14 leading aerospace companies and defense contractors developing advanced software engineering tools and techniques, uses Interleaf on approximately

**FISCAL YEAR END
HEAD COUNT**



250 workstations from Apollo, Digital Equipment and Sun Microsystems to produce technical documentation.

The following diverse list of just some of our new customers this year gives an idea of the breadth of the demand for our technology: Abbott Laboratories, Arthur D. Little Inc., Bell Atlantic, Cornell University, Cray Research, Eli Lilly, First Boston Corporation, Goldman Sachs, Intel Corporation, Metro North Commuter Railroad, Mobil Oil, Northeast Utilities Service Co., Pratt & Whitney Aircraft, Volkswagen of America and the World Bank.

As our installed user base grows, supporting our customers will become an increasingly significant part of our business. In fiscal 1988, our field service organization showed considerable profitability, with service revenues growing 142% over the previous year.

Our customers have put Interleaf technology to work to solve publishing problems in a variety of ingenious new ways. By listening carefully to their suggestions and concerns, and by making early responses to market changes, we have developed the most tightly integrated, completely compatible set of publishing tools on the market.

LOOKING AHEAD

In the coming years we will continue to penetrate new markets—not just as a trend-setter, but as a standard. With our new PC products, our upcoming mainframe software and our integrating capability, we are moving toward the leadership position in a very large market.

Indeed, it is our firm belief—and the basis on which we view the future—that we are laying the foundation of a major corporation.

David A. Boucher
President
June 1988

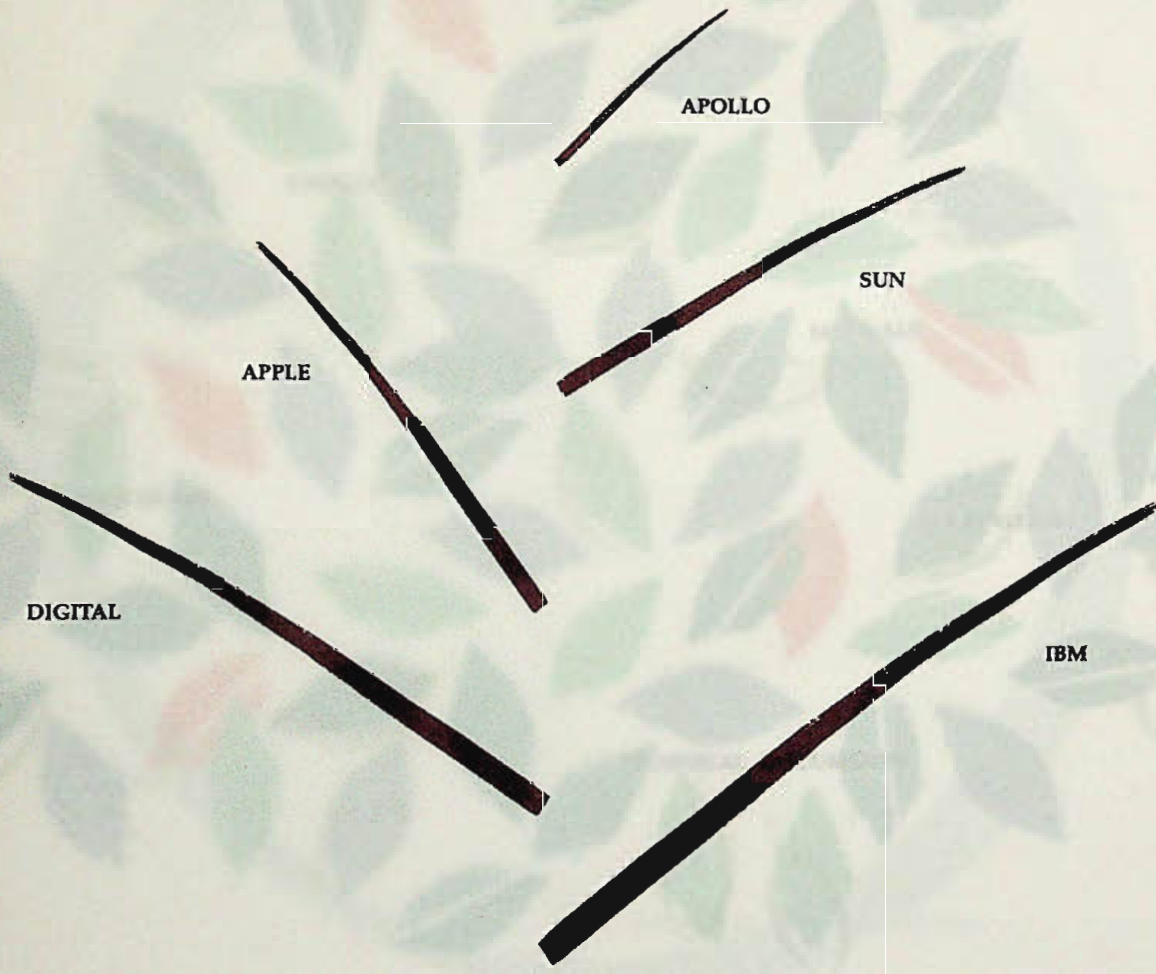
INTERLEAF CORPORATE-WIDE SOLUTION

MAINFRAME

WORKSTATION

PERSONAL COMPUTER

Only Interleaf has an
integrated solution for elec-
tronic publishing that runs
compatible software
on PC's, workstations and
mainframes...



APOLLO

SUN

APPLE

DIGITAL

IBM

on industry-standard

hardware...

...and the resulting range

of computer and

communications

...and the resulting range

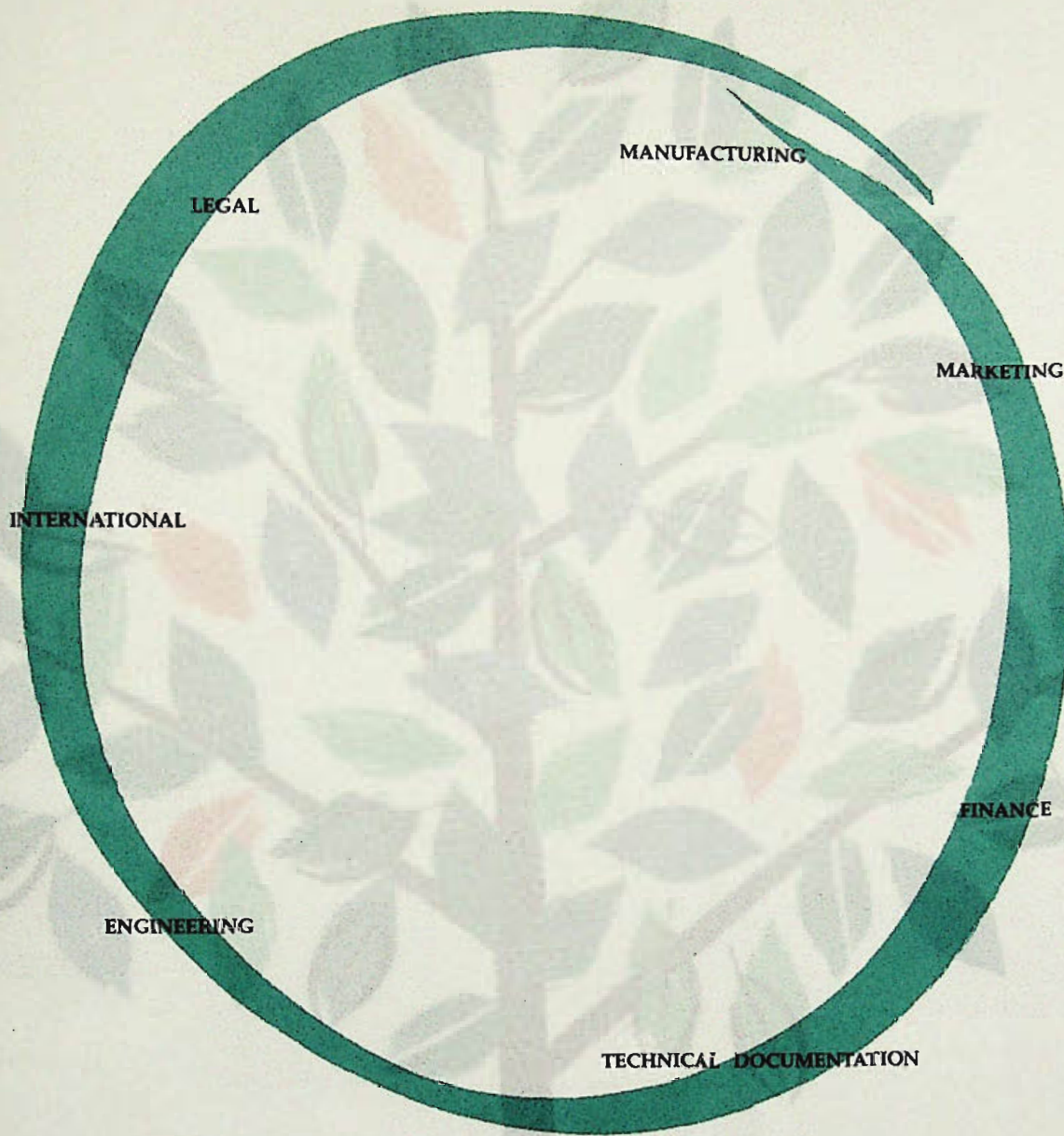
of computer and



to create the broadest range
of corporate and
government documents...

connecting every department
from basic engineering to
design

...and every document
is a part of the whole



connecting every department from engineering to finance.

Only Universal provides
a complete wide area
network solution



Only Interleaf provides
a corporate-wide solution
for electronic publishing.

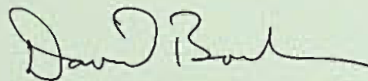
FINANCIAL STATEMENTS

REPORT OF MANAGEMENT

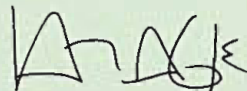
The management of Interleaf, Inc. and its subsidiaries has the responsibility for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis. In instances where exact measurement is not possible, the financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other financial information in this Annual Report and is responsible for its accuracy and consistency with the financial statements.

In meeting its responsibility for the Company's consolidated financial statements, management maintains a system of internal accounting control which is reviewed and evaluated on a regular basis. This system is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. However, there are inherent limitations that should be recognized in considering the assurances provided by any system of internal accounting control. The concept of reasonable assurance recognizes that the costs of a system of internal accounting control should not exceed the benefits to be derived.

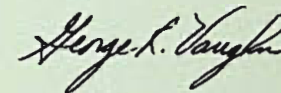
The consolidated financial statements of Interleaf, Inc. and subsidiaries have been audited by Ernst & Whinney, independent auditors, whose report is contained herein. Their audit includes an evaluation of the Company's accounting systems and internal controls, as well as performance of other auditing procedures to reasonably assure that the consolidated financial statements are fairly presented.



David A. Boucher
Chairman, President and
Chief Executive Officer



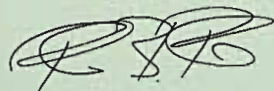
Harry A. George
Vice President of Finance and
Chief Financial Officer



George R. Vaughn
Controller and
Principal Accounting Officer

REPORT OF AUDIT COMMITTEE
CHAIRMAN

The Audit Committee of the Board of Directors is composed of two independent directors. The Committee held five meetings during fiscal 1988. The Committee oversees the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility, the Committee recommended to the Board of Directors the appointment of Ernst & Whinney as the Company's independent auditors. The Committee discussed with Ernst & Whinney the overall scope and specific plans for their audit. The Committee also discussed the consolidated financial statements and the adequacy of the Company's internal controls. During the year the Committee met with Ernst & Whinney, without management present, to discuss the status and results of their audit, their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting. The meetings were also designed to encourage confidential discussions as to any auditing matters.



Frederick B. Bamber
Chairman, Audit Committee

SELECTED FIVE-YEAR FINANCIAL DATA	Year ended March 31	1988	1987	1986	1985	1984
For the year	Total operating revenues	\$58,388,721	\$37,173,162	\$18,645,883	\$ 8,334,586	\$ 319,120
	Net income (loss)	6,979,897	(410,121)	(2,443,401)	(1,628,509)	(1,460,839)
	Net income (loss) per share	.59	(.04)	(.29)	(.26)	(.31)
At year end	Total assets	61,762,464	44,734,377	18,676,887	8,642,585	1,655,714
	Long-term obligations	4,812,939	1,362,892	1,901,608	1,369,848	104,993
	Total shareholders' equity	42,992,655	35,290,459	11,020,251	4,475,754	891,622

See Note C of Notes to Consolidated Financial Statements for discussion pertaining to the 1987 change in accounting for software development costs.

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

Results of Operations. The following table sets forth selected financial data included in the Consolidated Statements of Operations for the three fiscal years ended March 31, 1988 as a percentage of revenues:

	1988	1987	1986
Year ended March 31			
	100%	100%	100%
Revenues			
Costs and expenses:	22	35	35
Cost of products sold	8	9	6
Cost of services sold	45	43	51
Selling, general and administrative Research and development	12	15	19
Total operating costs and expenses	87	102	111
Income (loss) from operations	13	(2)	(11)
Interest income (expense), net	1	(1)	(1)
Income (loss) before income taxes	14	(1)	(12)
Provision for income taxes	4	-	1
Income (loss) before extraordinary credit	10	(1)	(13)
Extraordinary credit	2	-	-
Net income (loss)	12%	(1%)	(13%)

Revenues. Total revenues for the years ended March 31, 1986, 1987 and 1988 were \$18.6 million, \$37.2 million and \$58.4 million, respectively. The annual increases in the Company's revenues have resulted from several factors, including the introduction of new products, enhancements to existing products and the expansion of the Company's sales operations. Sales of systems and software increased \$13.6 million (45%) from 1987 to 1988 and \$16.4 million (117%) from 1986 to 1987. These increases are primarily the result of increased product demand and the Company's ability to meet that demand through personnel additions to the direct sales force and the opening of additional district sales offices.

Software license and royalty revenues increased \$3.7 million (111%) from 1987 to 1988 and remained at generally consistent levels for 1987 and 1986. Software license revenue accounted for a larger portion of such revenues in 1988 as compared with 1987 while royalty revenue fell slightly during that period. Royalties accounted for a larger portion of such revenues in 1987 as compared with 1986 due to increased volume of shipments of products covered by OEM agreements entered into in 1985 and 1986. Through 1986, most OEM's had only recently begun or had not yet begun to ship products under such agreements. Consequently, most of such revenues earned in 1986 were derived from advance license payments.

Service revenues increased \$3,659,000, \$1,873,000, and \$638,000, for 1988, 1987 and 1986, respectively. These increases reflect the growing installed base of customers.

Cost of Products Sold. Cost of products sold increased by \$115,000, \$6,523,000 and \$4,202,000 for 1988, 1987 and 1986, respectively, but decreased as a percentage of systems and software sales from 46% in 1986 to 43% in 1987 and 30% in 1988. During 1988 the Company experienced a revenue mix more heavily weighted towards software sales rather than system sales which carry a higher cost of product content. This trend was partially offset by increased costs attributable to the hiring of additional employees to assemble and test components and systems, increased costs of materials resulting from a higher unit volume and additional facilities costs pertaining to the move into a new production facility.

Cost of Services Sold. Cost of services sold increased by \$1,269,000, \$2,040,000 and \$702,000 for 1988, 1987 and 1986, respectively, but decreased as a percentage of service revenues from 170% in 1986 to 126% in 1987 and 73% in 1988. The growing installed base of customers during this three-year period necessitated the hiring of additional support personnel and the purchase of supporting supplies and materials.

Selling, General and Administrative. Selling, general and administrative expenses increased \$9,853,000, \$6,678,000 and \$4,154,000 during 1988, 1987 and 1986, respectively, and represented 45%, 43% and 51% of the respective year's revenues. Selling expenses increased as a result of expanding the Company's sales and marketing staff and the opening of additional district sales offices. General and administrative expenses increased during the period due to the addition of management and administrative personnel to support the Company's growth, facilities expenses associated with the addition of leased space to accommodate the increased headcount, an increase in depreciation expense due to increased capital expenditures and increased professional fees, offset in 1988 by a decrease in the provision for uncollectible accounts receivable.

Research and Development. Research and development expenses increased \$1,486,000, \$2,095,000 and \$1,810,000 during 1988, 1987 and 1986, respectively, but decreased as a percentage of revenues from 19% in 1986 to 15% in 1987 and 12% in 1988. The Company is committed to a high level of research and development expenses and the increase in expense during the three-year period is primarily attributable to increases in personnel as new products and enhancements to existing products were developed and introduced to the marketplace. Increases in facilities and depreciation expenses, both related to the growth in headcount, were also experienced. The decreases as a percentage of revenues were primarily due to the increased level of revenues.

Interest Income and Expense. Interest income and interest expense are summarized in Note O of Notes to Consolidated Financial Statements. The reduction in net interest income from 1987 to 1988 was due to a decrease in average cash balances available for investment during 1988. The net interest income for 1987 resulted primarily from the investment of funds obtained from the Company's initial public offering in June 1986.

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

Liquidity and Capital Resources. In June 1986 the Company sold 2,650,000 shares of common stock at \$10 per share in its initial public offering yielding net proceeds to the Company of \$24,143,511. Prior to this, the Company had met its liquidity and capital requirements primarily through the private sale of equity securities and bank borrowings. At March 31, 1988, the Company had working capital of approximately \$26,550,000 including approximately \$10.3 million in cash and cash equivalents. The Company also has available approximately \$10 million under a bank line of credit. See Note E of Notes to Consolidated Financial Statements. As revenues grow, cash requirements for accounts receivable and inventory will increase. The Company believes that its cash needs for at least fiscal 1989 can be satisfied from the existing cash balances, cash from operations and the bank line of credit.

CONSOLIDATED STATEMENTS
OF OPERATIONS

Year ended March 31	1988	1987	1986
Revenues			
Sales of systems and software	\$44,157,223	\$30,552,772	\$14,106,190
Software license and royalty revenues	6,947,197	3,287,079	3,357,158
Service revenues	6,239,726	2,581,074	708,363
Other income	1,044,575	752,237	474,172
	58,388,721	37,173,162	18,645,883
Costs and expenses			
Cost of products sold	13,170,971	13,056,060	6,533,425
Cost of services sold	4,514,139	3,244,767	1,204,584
Selling, general and administrative	26,047,239	16,194,369	9,516,564
Research and development	7,071,260	5,585,634	3,490,536
	50,803,609	38,080,830	20,745,109
Income (loss) from operations	7,585,112	(907,668)	(2,099,226)
Interest income (expense), net	244,785	497,547	(144,175)
	7,829,897	(410,121)	(2,243,401)
Income (loss) before income taxes	7,829,897	(410,121)	(2,243,401)
Provision for income taxes	2,261,000	-	200,000
	5,568,897	(410,121)	(2,443,401)
Income (loss) before extraordinary credit	5,568,897	(410,121)	(2,443,401)
Extraordinary credit:			
Benefit from utilization of net operating loss carryforward	1,411,000	-	-
Net income (loss)	\$ 6,979,897	\$ (410,121)	\$ (2,443,401)
Earnings (loss) per share			
Income (loss) before extraordinary credit	\$.47	\$(.04)	\$(.29)
Extraordinary credit	.12	-	-
Net income (loss) per share	\$.59	\$(.04)	\$(.29)
Shares used in computing net income (loss) per share	11,833,391	10,507,891	8,445,028

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	March 31	1988	1987
Assets			
Current assets			
Cash and cash equivalents		\$ 10,299,807	\$ 15,288,837
Accounts receivable, net of allowance for doubtful accounts of \$440,000 and \$425,000, respectively		17,135,586	10,379,647
Inventories		11,355,630	8,483,766
Prepaid expenses and other current assets		947,158	814,252
Total current assets		39,738,181	34,966,502
Property and equipment, net		13,723,562	8,515,019
Other assets		3,146,567	1,252,856
Excess of purchase price over net assets of business acquired		5,154,154	-
		\$61,762,464	\$44,734,377
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		\$ 5,494,848	\$ 4,590,102
Accrued expenses		2,535,645	1,049,006
Accrued compensation and related items		2,363,897	937,495
Unearned service revenues		1,435,892	661,012
Current portion of long-term debt		1,316,100	500,856
Current portion of capital lease obligation		42,211	37,083
Total current liabilities		13,188,593	7,775,554
Long-term debt, less current portion		4,327,322	835,064
Capital lease obligation, less current portion		485,617	527,828
Deferred taxes		536,000	-
Unearned revenue		232,277	305,472
Shareholders' equity			
Preferred stock, par value \$.10 per share, authorized 5,000,000 shares, none issued and outstanding			
Common stock, par value \$.01 per share, authorized 20,000,000 shares, issued and outstanding 11,358,837 shares (11,208,534 shares in 1987)		113,588	112,085
Additional paid-in capital		42,143,441	41,481,160
Retained earnings (deficit)		677,111	(6,302,786)
Equity adjustment for foreign currency translation		58,515	-
		42,992,655	35,290,459
		\$61,762,464	\$44,734,377

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS
OF CHANGES IN SHAREHOLDERS'
EQUITY

	Convertible Preferred Stock			Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Equity Adjustment	Total Shareholders' Equity
	Series C	Series D	Series E					
Balances at April 1, 1985	\$ 177,778	\$ 92,109	-	\$ 42,325	\$ 7,612,806	\$(3,449,264)	-	\$ 4,475,754
Net proceeds from sale of 1,501,838 shares of Convertible Preferred Stock - Series E	-	-	\$ 150,184	-	8,816,779	-	-	8,966,963
Common stock issued in connection with incentive stock options exercised by employees	-	-	-	282	20,653	-	-	20,935
Repurchase of 57,500 shares of common stock	-	-	-	(575)	(286,925)	-	-	(287,500)
Net proceeds from sale of 57,500 shares of common stock to employees	-	-	-	575	286,925	-	-	287,500
Net loss	-	-	-	-	-	(2,443,401)	-	(2,443,401)
Balances at March 31, 1986	177,778	92,109	150,184	42,607	16,450,238	(5,892,665)	-	11,020,251
Conversion of Convertible Preferred Stock into common stock	(177,778)	(92,109)	(150,184)	42,007	378,064	-	-	-
Net proceeds from sale of 2,650,000 shares of common stock in initial public offering	-	-	-	26,500	24,117,011	-	-	24,143,511
Common stock issued in connection with incentive stock options exercised by employees	-	-	-	971	157,722	-	-	158,693
Proceeds from sale of warrant	-	-	-	-	378,125	-	-	378,125
Net loss	-	-	-	-	-	(410,121)	-	(410,121)
Balances at March 31, 1987	-	-	-	112,085	41,481,160	(6,302,786)	-	35,290,459
Common stock issued in connection with incentive stock options exercised by employees	-	-	-	1,291	398,718	-	-	400,009
Common stock issued in connection with employee stock purchase plan	-	-	-	212	263,563	-	-	263,775
Equity adjustment for foreign currency translation	-	-	-	-	-	-	\$58,515	58,515
Net income	-	-	-	-	-	6,979,897	-	6,979,897
Balances at March 31, 1988	-	-	-	\$113,588	\$42,143,441	\$ 677,111	\$58,515	\$42,992,655

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS
OF CASH FLOWS

Year ended March 31	1988	1987	1986
Operating activities			
Net income (loss)	\$ 6,979,897	\$ (410,121)	\$(2,443,401)
Adjustments to reconcile net income (loss) to net cash from (used in) operating activities:			
Depreciation and amortization	4,071,928	1,990,084	1,094,353
Provision for losses on accounts receivable	15,000	365,000	60,000
Provision for deferred taxes	536,000	-	-
Increase in unearned revenue	690,527	347,777	41,003
(Increase) decrease in other assets	(2,591,472)	(1,172,271)	13,743
Changes in operating assets and liabilities:			
Increase in accounts receivable	(6,289,941)	(5,516,849)	(3,183,635)
Increase in inventories and prepaid expenses	(2,289,341)	(4,836,575)	(1,592,717)
Increase in accounts payable and accrued expenses	2,648,306	1,985,695	2,798,662
Foreign currency transaction gain	62,399	-	-
Net cash from (used in) operating activities	3,833,303	(7,247,260)	(3,211,992)
Investing activities			
Additions to property and equipment, net	(8,517,372)	(5,252,143)	(2,863,040)
Excess of purchase price over net assets of business acquired	(5,264,152)	-	-
Net cash used in investing activities	(13,781,524)	(5,252,143)	(2,863,040)
Financing activities			
Net proceeds from sale of common stock in initial public offering	-	24,143,511	-
Net proceeds from sale of Convertible Preferred Stock - Series E	-	-	8,966,963
Net proceeds from sale of common stock	663,784	158,693	308,435
Proceeds from sale of warrant	-	378,125	-
Repurchase of common stock	-	-	(287,500)
Proceeds from long-term debt	5,112,800	-	553,482
Increase (decrease) in long-term debt and capital lease obligation	(842,381)	(546,190)	96,658
Net cash provided from financing activities	4,934,203	24,134,139	9,638,038
Effect of exchange rate changes on cash	24,988	-	-
Net increase (decrease) in cash and cash equivalents	(4,989,030)	11,634,736	3,563,006
Cash and cash equivalents at beginning of year	15,288,837	3,654,101	91,095
Cash and cash equivalents at end of year	\$ 10,299,807	\$ 15,288,837	\$ 3,654,101

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL
STATEMENTS

NOTE A SIGNIFICANT ACCOUNTING
POLICIES

Business. The Company, a Massachusetts corporation, was incorporated on May 27, 1981, to design, develop and market turnkey systems and software for computer-aided publishing applications.

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

Foreign Currency Translation. The translation of assets and liabilities of foreign subsidiaries is made at year-end rates of exchange, and revenue and expense accounts are recorded at average rates of exchange. The resulting translation adjustments are excluded from net income, and are accumulated as a separate component of shareholders' equity. Transaction gains or losses were not material.

Affiliates. The Company's 20% investment in Interleaf France S.A. and 39% investment in Interleaf Italia S.R.L., corporate joint ventures, are accounted for on the equity basis. Results of operations for these entities through March 31, 1988 are not material.

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

Cash Equivalents. Cash equivalents represent short-term investments with maturities of generally three months or less.

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

Property and Equipment. Property and equipment 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.

Intangible Assets. The excess of purchase price over net assets of an acquired business is amortized over a 25-year period.

Income Taxes. The Company provides for income taxes actually payable and for deferred taxes related to timing differences between financial and taxable income. Investment and other tax credits are accounted for under the "flow-through" method.

Earnings (Loss) Per Share. Earnings (loss) per share is based on the weighted average number of common shares and dilutive common stock equivalents outstanding during the year adjusted to reflect the conversion of all outstanding shares of preferred stock into common stock. Common stock equivalents are attributable to stock options and a common stock warrant.

Basis of Presentation. Certain 1987 and 1986 amounts have been reclassified to conform to the 1988 method of presentation.

NOTE B INVENTORIES

Inventories at March 31, 1988 and 1987 consist of the following:

	1988	1987
Finished goods and work-in-process	\$ 3,714,813	\$ 964,836
Raw materials	4,508,347	5,515,023
Field service	3,132,470	2,003,907
	\$11,355,630	\$ 8,483,766

NOTE C CAPITALIZED SOFTWARE
DEVELOPMENT COSTS

During the year beginning April 1, 1986, the Company adopted the provisions of Financial Accounting Standards Board Statement Number 86 and capitalized certain research and development costs. Costs incurred in the research, design and development of software for sale to others are charged to expense until technological feasibility is established, after which remaining software production costs are capitalized and amortized on a straight line basis over periods not to exceed three years beginning when the product is offered for sale. Prior to adopting Statement Number 86, all research and development costs were expensed as incurred.

For the years ended March 31, 1988 and 1987, the Company capitalized \$1,646,743 and \$746,700, respectively, of software production costs, of which \$473,137 (\$89,774 in 1987) was amortized and charged to expense and \$1,830,532 is included in other assets at March 31, 1988 (\$656,926 at March 31, 1987).

NOTE D PROPERTY AND EQUIPMENT

Property and equipment at March 31, 1988 and 1987 consist of the following:

	1988	1987
Development equipment	\$ 5,095,269	\$ 3,294,655
Demonstration equipment	3,511,676	1,965,420
Office equipment	5,639,629	2,940,919
Furniture	2,525,674	1,486,094
Leasehold improvements	2,852,243	2,237,784
Building	843,408	-
	20,467,899	11,924,872
Less allowances for depreciation and amortization	6,744,337	3,409,853
	\$13,723,562	\$ 8,515,019

NOTE E CREDIT ARRANGEMENTS

The Company has a credit facility of \$18,500,000 with a bank composed of a \$10,000,000 demand, unsecured line of credit bearing interest at prime rate plus 1/4%, a \$5,500,000 secured line for equipment financing, bearing interest at prime rate plus 1/2% and a \$3,000,000 line for foreign subsidiary borrowings with parent company guarantees. Under the conditions of the demand line of credit, the Company may borrow up to 80% of qualified accounts receivable plus 40% (up to a maximum amount of \$1,500,000) of inventory, and is required to maintain average cash balances of 5% of the line of credit. There were no borrowings outstanding under this line of credit at March 31, 1988 and 1987.

NOTE F LONG-TERM DEBT

Long-term debt at March 31, 1988 and 1987 is as follows:

	1988	1987
Loan payable in monthly principal installments of \$41,667 plus interest at prime rate plus 1/2%	\$2,375,000	-
Loan payable in monthly principal installments of \$30,000 plus interest at prime rate plus 1/2%	1,620,000	-
Loan payable with principal due November 1990, with interest payable quarterly at 11.0044%	812,800	-
Loan payable in monthly principal installments of \$18,765 plus interest at prime rate plus 3/4%	431,602	\$ 656,782
Loan payable in monthly principal installments of \$9,225 plus interest at prime rate plus 3/4%	258,282	368,982
Loan payable in monthly principal installments of \$8,500 plus interest at prime rate plus 1 1/4%	127,500	229,500
Commercial note payable in monthly principal installments of \$3,646 with interest at prime rate plus 1 1/2%	18,238	61,412
Commercial note payable in monthly principal installments of \$1,767 with interest at prime rate plus 1 1/2 %	-	19,244
	5,643,422	1,335,920
Less current portion	1,316,100	500,856
	\$4,327,322	\$ 835,064

Building and equipment with a net book value at March 31, 1988 of approximately \$3,861,000 is pledged as collateral for long-term debt.

Maturities of long-term debt during each of the next five fiscal years are as follows: 1989 - \$1,316,100; 1990 - \$1,202,622; 1991 - \$1,709,700; 1992 - \$860,000; 1993 - \$555,000.

NOTE G CAPITAL LEASE OBLIGATION

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

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

NOTE H SHAREHOLDERS' EQUITY

During 1986, the Company issued 1,501,838 shares of \$.10 par value Series E Convertible Preferred Stock for \$6.00 per share. On June 26, 1986, the Company completed its initial public offering of common stock, selling 2,650,000 shares (including the underwriters' over-allotment of 450,000 shares) at \$10.00 per share. At that time pursuant to the terms of the preferred stock agreements, the Company converted the 1,777,778 shares of Series C Convertible Preferred Stock, 921,092 shares of Series D Convertible Preferred Stock and 1,501,838 shares of Series E Convertible Preferred Stock into 4,200,708 shares of common stock.

As of March 31, 1988, there remained reserved 1,252,568 shares of common stock for issuance under the 1983 Stock Option Plan, 125,000 shares of common stock for the exercise of the stock purchase warrant described in Note P, and 178,779 shares of common stock for issuance under the Employee Stock Purchase Plan described in Note I.

NOTE I STOCK OPTION AND STOCK PURCHASE PLANS

The Company has established the 1983 Stock Option Plan, under the terms of which, 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. At the 1987 annual meeting of shareholders, the Plan was amended to provide for the automatic grant of nonstatutory stock options to all current outside directors and to outside directors who are elected in the future.

During fiscal 1985, the Plan was amended to provide for options to be exercisable in whole or in part at any time prior to expiration. Options remain subject to vesting provisions and buyback provisions by the Company in the event of voluntary or involuntary termination of the employee. At March 31, 1988, all options were exercisable and options for 92,796 shares were available for future grants.

A summary of activity in the Plan is presented below:

	Number of Shares	Price of Shares
Outstanding at April 1, 1986	510,441	\$.57 - \$ 4.50
Granted	401,250	4.50 - 12.00
Exercised	(97,124)	.84 - 4.50
Cancelled	(34,049)	.57 - 10.00
Outstanding at March 31, 1987	780,518	.57 - 12.00
Granted	549,850	13.50 - 20.50
Exercised	(129,082)	.57 - 11.38
Cancelled	(41,514)	1.13 - 20.50
Outstanding at March 31, 1988	1,159,772	\$.57 - \$20.50

During fiscal 1987, the Company adopted, with shareholder approval, an Employee Stock Purchase Plan whereby eligible employees may invest up to 10% of their total compensation in shares of the Company's common stock. The purchase price of the shares is 85% of the fair market value of the stock on the offering commencement date or the offering termination date (typically six months after commencement date), whichever is lower. The total number of shares available under the Plan is limited to 200,000 shares of common stock of which 21,221 were issued in connection with the first offering completed on November 6, 1987.

NOTE J LEASES

The Company leases its facilities, including sales offices, and certain equipment under various operating leases which expire through 1994. Future minimum rental payments at March 31, 1988, under agreements classified as operating and capital leases with noncancellable terms in excess of one year, are as follows:

Fiscal years ending March 31	Operating Leases	Capital Lease
1989		
1990	\$ 6,561,000	\$108,356
1991	6,943,000	108,356
1992	5,807,000	108,356
1993	3,109,000	108,356
Thereafter	2,647,000	108,356
	16,000	297,984
Total minimum lease payments	\$25,083,000	839,764
Less amount representing interest		311,936
Present value of net minimum lease payments		\$527,828

Rent expense amounted to \$4,642,000, \$3,235,900, and \$1,741,900 for the years ended March 31, 1988, 1987 and 1986, respectively.

NOTE K INCOME TAXES

The provision for income taxes is comprised of the following:

Current:	
Federal	\$1,288,000
State	367,000
Foreign	70,000
	1,725,000
Deferred, principally federal	536,000
	\$2,261,000

The components of the Company's deferred income tax provision is as follows:

Research and development costs, net of amortization	\$432,000
Excess of tax over financial statement depreciation	106,000
Other, net	(2,000)
	\$536,000

NOTE K INCOME TAXES (CONTINUED)

Total income taxes reported are different than the amount which would have been computed applying the federal statutory tax rate to income before income taxes. The difference is attributable to the following:

Computed at federal statutory rate of 37%	\$2,897,000
State income taxes, net of federal tax benefit	262,000
Research and development tax credits	(500,000)
Investment tax credits	(201,000)
Foreign tax credits	(200,000)
Other, net	3,000
	\$2,261,000

The extraordinary credit of \$1,411,000 results from the use of net operating loss carryforwards after giving effect to the alternative minimum tax and limitations on the use of tax credits. At March 31, 1988, the Company has approximately \$450,000 of research and development tax credit carryforwards available to reduce future federal income tax liability through 2002.

The 1986 income tax provision represents income taxes paid to a foreign country in connection with revenue generated outside the United States.

The adoption of Financial Accounting Standards Board Statement Number 96 *Accounting for Income Taxes* is not expected to have a material impact on the Company's consolidated financial statements.

No income tax payments were made in the three-year period ended March 31, 1988 due to the Company's net operating loss carryforward position.

NOTE L MAJOR CUSTOMERS

For the year ended March 31, 1986, the Company reported revenue from a major customer (Canon Inc.) in excess of 10% of total Revenues. The revenue reported amounted to 11% of total Revenues. In 1988 and 1987 the Company did not derive revenue from any customer which exceeded 10% of total Revenues.

NOTE M EXPORT SALES

For the years ended March 31, 1988, 1987 and 1986, revenues from foreign customers were approximately 14%, 8% and 17%, of total revenues, respectively.

NOTE N OTHER INCOME

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

NOTE O INTEREST INCOME
AND EXPENSE

Year ended March 31	1988	1987	1986
Interest income	\$ 611,216	\$ 738,320	\$ 178,421
Interest expense	(366,431)	(240,773)	(322,596)
	\$ 244,785	\$ 497,547	\$(144,175)

Interest paid approximated interest expense in each of the three years in the period ended March 31, 1988.

NOTE P RESEARCH AND DEVELOPMENT
AGREEMENT

On March 31, 1987, the Company entered into an arrangement with ML Technology Ventures, L.P. (MLTV) for the funding of ongoing product development in the personal computer and international electronic publishing markets. MLTV, a research and development limited partnership sponsored by Merrill Lynch Capital Markets, is providing the Company with \$3.5 million in funding through September 1988. There can be no assurance that the research will be successful or will result in technology with any technical or commercial value. In the event, however, that the Company fails to complete the research to be performed by it for the \$3.5 million being provided by MLTV, the Company may be required to continue the research with its own funds up to a maximum of \$700,000 over the \$3.5 million.

As provided for in the Agreement, the Company purchased an option for \$378,125 to enter into a joint venture with MLTV for commercialization of these products. The Company exercised this option in September 1987 and made an initial cash investment in the joint venture of \$25,000. The Company is committed to manufacture and market the products for the joint venture and to make additional cash contributions as needed to meet the working capital needs of the joint venture. In return, the Company receives 97% of the revenues from the sale of such products. Upon the later of the first anniversary of the commencement of the joint venture or the quarter in which the joint venture's cumulative profits allocable to MLTV equal or exceed \$1,500,000, the Company will then have a thirty-day option to purchase all of MLTV's rights to the technology for \$5,500,000. In connection with the arrangement, MLTV obtained a warrant at a cost of \$378,125 to purchase 125,000 shares of the Company's common stock through March 1994 at \$13.50 per share. This amount is included in additional paid-in capital.

On March 31, 1987, MLTV advanced \$600,000 to the Company as a deposit to be expended on qualified research activities. Under the terms of the agreement, research funds are advanced quarterly based upon the development plan and actual expenditures incurred. During the year ended March 31, 1988 the Company received \$2,900,000 in additional research funds and incurred \$2,700,000 of expenses attributable to the research being performed under this agreement. The reimbursement for these expenses has been presented in the consolidated financial statements net of the related research and development costs of the same amount. During 1988 the Company recorded revenues from the sale of joint venture products of \$797,000.

NOTE Q ACQUISITION

On October 26, 1987 the Company acquired an option to purchase an additional 30% of Interleaf Canada Inc. bringing the Company's effective ownership interest in Interleaf Canada to 100%. Interleaf Canada is the exclusive distributor of the Company's products in Canada. The acquisition was accounted for under the purchase method of accounting. Accordingly, balance sheet accounts of Interleaf Canada at March 31, 1988 have been consolidated with those of Interleaf, Inc. at that date and the results of operations of Interleaf Canada for the six-month period ended March 31, 1988 have been included in the consolidated statement of operations of Interleaf, Inc. Prior to October 1987 the Company's share of Interleaf Canada's operating results was reflected in the consolidated statement of operations on the equity basis of accounting. The excess of the Company's investment in Interleaf Canada over the net book value of Interleaf Canada (approximately \$250,000) amounted to approximately \$5.2 million (net of amortization of \$110,000) and is being amortized over a period of 25 years.

Had the acquisition occurred at the beginning of either fiscal 1988 or 1987, the pro forma unaudited consolidated results of operations would have been as follows:

Year ended March 31	1988	1987
Revenues	\$59,357,000	\$37,914,000
Net income (loss)	6,617,000	(1,477,000)
Net income (loss) per share	.56	(.14)

Board of Directors
Interleaf, Inc.
Cambridge, Massachusetts

We have audited the consolidated balance sheets of Interleaf, Inc. and subsidiaries as of March 31, 1988 and 1987, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended March 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Interleaf, Inc. and subsidiaries at March 31, 1988 and 1987, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1988 in conformity with generally accepted accounting principles.

As discussed in Note C to the consolidated financial statements, effective April 1, 1986, the Company changed its method of accounting for computer software to be sold to customers.

Ernst & Whinney

Boston, Massachusetts
May 2, 1988

SUPPLEMENTAL FINANCIAL
INFORMATION

The following summarizes unaudited selected quarterly results of operations for the years ended March 31, 1988 and 1987 and the market range for the Company's common stock for those periods:

Quarter ended	June 30	September 30	December 31	March 31	Year
Fiscal 1988					
Revenues	\$10,533,335	\$12,732,470	\$17,006,309	\$18,116,607	\$58,388,721
Income before extraordinary credit	533,512	967,833	1,648,004	2,419,548	5,568,897
Net income	722,512	1,309,333	2,479,004	2,469,048	6,979,897
Income per share before extraordinary credit	.05	.08	.14	.20	.47
Net income per share	.06	.11	.21	.21	.59
Common stock prices					
High	20 3/8	21 1/4	24 1/8	21 3/8	24 1/8
Low	13 7/8	14 5/8	11 1/4	14 7/8	11 1/4
Fiscal 1987					
Revenues	\$6,404,643	\$8,577,523	\$10,404,948	\$11,786,048	\$37,173,162
Net income (loss)	(1,154,449)	(250,682)	352,690	642,320	(410,121)
Net income (loss) per share	(.13)	(.02)	.03	.06	(.04)
Common stock prices					
High	12 5/8	12 3/4	11 3/4	15	15
Low	11	7 1/2	8 3/8	8 1/8	7 1/2

The Company has never paid cash dividends on its common stock. The Company presently intends to retain earnings for use in its business and therefore does not anticipate paying any cash dividends in the foreseeable future.

The Company's common stock has been traded on the NASDAQ National Market System since its initial public offering in June 1986. On April 30, 1988, there were 1,061 holders of record of the Company's common stock.

BOARD OF DIRECTORS

David A. Boucher, *President, Interleaf, Inc.*
Harry A. George, *Vice President of Finance, Interleaf, Inc.*
George D. Potter, Jr., *Vice President of Marketing, Interleaf, Inc.*
Frederick B. Bamber, *General Partner, Applied Technology Partners*
Dr. Michael Hammer, *President, Hammer & Company, Inc.*
Patrick J. Sansonetti, *General Partner and Vice President, Advent International Corporation*

COMPANY OFFICERS

David A. Boucher, *President*
Harry A. George, *Vice President of Finance*
George D. Potter, Jr., *Vice President of Marketing*
J. John Brennan, *General Counsel*
Lawrence S. Bohn, *Vice President of Product Management and Planning*
David L. Cross, *Treasurer*
Frederick J. Egan, *Vice President of Third-Party Operations*
Edmund W. Grossman, *Vice President of Operations*
Stephen E. Klann, *Vice President of U.S. Sales*
Michael Mark, *Vice President of System Integration*
Stephen D. Pelletier, *Vice President of Product Development*
Steven M. Schwartz, *Vice President of Marketing Programs and Communications*
George R. Vaughn, *Controller*

Interleaf Fellows

Elected by the engineering staff in recognition of technical excellence: James L. Crawford, Mark S. Dionne, K. Deborah Landsman, Kimbo B. Peebles-Mundy, Kirk L. Reistroffer, Robert Watkins

SHAREHOLDER INFORMATION

Common Stock

Interleaf's common stock is traded over the counter on the NASDAQ National Market System - symbol LEAF.

Annual Meeting

The Annual Meeting of Shareholders will be held on August 23, 1988 at 9 a.m. at the Bank of Boston, 100 Federal Street, Boston, Massachusetts.

Form 10-K

Copies of Interleaf's Annual Report on Form 10-K are available upon request from: Investor Relations, Interleaf, Inc., Ten Canal Park, Cambridge, MA 02141.

Transfer Agent

The First National Bank of Boston, Boston, Massachusetts

Shareholder Change of Address

You may report a change of address by sending a signed and dated letter or postcard stating you are an Interleaf shareholder, the name in which the stock is registered, and your previous and current address to: The First National Bank of Boston, Shareholder Services Division, PO Box 644, Boston, MA 02102.

Investor Relations

To receive further information about Interleaf, please contact: Investor Relations (617) 577-9800.

Independent Auditors

Ernst & Whinney, Boston, Massachusetts

Legal Counsel

Hale and Dorr, Boston, Massachusetts



CORPORATE DIRECTORY

Corporate Headquarters

Ten Canal Park, Cambridge, MA 02141, (617) 577-9800

25 First Street, Cambridge, MA 02141, (617) 225-2411

Manufacturing Headquarters

46 Jonspin Road, Wilmington, MA 01887, (617) 658-6531

Sales Offices

United States

Irvine, California; Los Angeles, California; San Diego, California; Santa Clara, California; San Francisco, California; Denver, Colorado; Norwalk, Connecticut; Washington, D.C.; Tampa, Florida; Atlanta, Georgia; Chicago, Illinois; Baltimore, Maryland; Boston, Massachusetts; Detroit, Michigan; Minneapolis, Minnesota; St. Louis, Missouri; Iselin, New Jersey; New York, New York; Uniondale, L. I., New York; Cincinnati, Ohio; Cleveland, Ohio; Philadelphia, Pennsylvania; Dallas, Texas; Houston, Texas; Richmond, Virginia; Seattle, Washington

Canada

Vancouver, British Columbia; Ottawa, Ontario; Toronto, Ontario; Montreal, Quebec

International

Brussels, Belgium; London, England; Paris, France; Milan, Italy; Zurich, Switzerland; Frankfurt, West Germany; Munich, West Germany

ABOUT THIS ANNUAL REPORT

This annual report was created by Interleaf's in-house Creative Group with Interleaf TPS Release 4.0 software. Text and financial information were entered by people in various departments throughout the Company and transferred electronically to the Creative Group for final formatting. Illustrations were created from combinations of scanned images and graphics created on-line. Files were then transmitted to a typesetting service bureau for final output of camera-ready pages.

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