

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Fiscal Quarter Ended April 30, 2000

or

Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the transition period from _____
to _____

Commission File Number: 0-13351

NOVELL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

87-0393339
(I.R.S. Employer
Identification No.)

1800 South Novell Place
Provo, Utah 84606
(Address of principal executive offices and zip code)

(801) 861-7000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES NO

As of May 31, 2000 there were 324,783,746 shares of the Registrant's Common Stock outstanding.

Part I. Financial Information, Item 1. Financial Statements**NOVELL, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS**

<i>Dollars in thousands, except share and per share data</i>	Apr. 30, 2000	Oct. 31, 1999
	(Unaudited)	
ASSETS		
Current assets		
Cash and short-term investments	\$ 646,709	\$ 895,404
Receivables, less allowances (\$53,039 - April; \$36,318 - October)	239,202	284,510
Inventories	3,591	3,753
Prepaid expenses	38,752	47,738
Deferred and refundable income taxes	31,353	60,266
Other current assets	37,182	43,945
Total current assets	996,789	1,335,616
Property, plant and equipment, net	341,912	347,012
Long-term investments	371,319	229,114
Other assets	62,520	30,577
Total assets	<u>\$1,772,540</u>	<u>\$ 1,942,319</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 73,933	\$ 85,037
Accrued compensation	59,097	62,778
Accrued marketing liabilities	11,369	11,449
Other accrued liabilities	48,742	50,133
Income taxes payable	5,039	57,085
Deferred revenue	168,201	173,150
Total current liabilities	366,381	439,632
Minority interests	12,008	10,446
Shareholders' equity		
Common stock, par value \$.10 per share		
Authorized - 600,000,000 shares		
Issued - 324,546,665 shares-April		
326,593,911 shares-October	32,455	32,659
Retained earnings	1,355,986	1,432,624
Accumulated other comprehensive income	15,331	35,189
Other	(9,621)	(8,231)
Total shareholders' equity	<u>1,394,151</u>	<u>1,492,241</u>
Total liabilities and shareholders' equity	<u>\$1,772,540</u>	<u>\$ 1,942,319</u>

See notes to consolidated unaudited condensed financial statements.

NOVELL, INC.
CONSOLIDATED UNAUDITED CONDENSED STATEMENTS OF INCOME

<i>Dollars in thousands, except per share data</i>	<u>Fiscal Quarter Ended</u>		<u>Six Months Ended</u>	
	Apr. 30, 2000	Apr. 30, 1999	Apr. 30, 2000	Apr. 30, 1999
Net sales	\$ 302,349	\$ 315,652	\$ 618,392	\$ 601,458
Cost of sales	84,384	79,367	163,598	147,134
Gross profit	217,965	236,285	454,794	454,324
Operating expenses				
Sales and marketing	125,933	106,455	240,063	211,841
Product development	61,360	59,682	120,037	115,286
General and administrative	22,433	20,656	39,925	41,410
Total operating expenses	209,726	186,793	400,025	368,537
Income from operations	8,239	49,492	54,769	85,787
Other income (expense)				
Investment income	37,020	10,653	54,578	20,416
Other, net	(2,175)	(6,358)	(3,992)	(12,280)
Other income, net	34,845	4,295	50,586	8,136
Income before taxes	43,084	53,787	105,355	93,923
Income taxes	12,064	15,061	29,500	26,299
Net income	\$ 31,020	\$ 38,726	\$ 75,855	\$ 67,624
Weighted average shares outstanding				
Basic	326,788	335,276	326,847	336,359
Diluted	341,546	351,116	341,825	351,319
Net income per share				
Basic	\$ 0.09	\$ 0.12	\$ 0.23	\$ 0.20
Diluted	\$ 0.09	\$ 0.11	\$ 0.22	\$ 0.19

See notes to consolidated unaudited condensed financial statements.

NOVELL, INC.
CONSOLIDATED UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

	<u>Six Months Ended</u>	
<i>Dollars in thousands</i>	Apr. 30, 2000	Apr. 30, 1999
Cash flows from operating activities		
Net income	\$ 75,855	\$ 67,624
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	39,961	32,585
Stock plans' income tax benefits	56,398	25,356
Decrease in receivables	45,308	36,832
Decrease in inventories	162	454
Decrease in prepaid expenses	8,986	6,768
Decrease in deferred and refundable income taxes	29,457	6,858
Decrease in other current assets	6,763	1,860
(Decrease) in current liabilities, net	(73,251)	(17,019)
Net cash provided from operating activities	189,639	161,318
Cash flows from financing activities		
Issuance of common stock, net	70,608	50,804
Repurchase of common stock	(301,011)	(146,195)
Net cash used by financing activities	(230,403)	(95,391)
Cash flows from investing activities		
Expenditures for property, plant and equipment	(28,140)	(31,677)
Purchases of short-term investments	(484,530)	(1,270,979)
Maturities of short-term investments	413,654	969,270
Sales of short-term investments	287,585	363,271
Expenditures for other long-term investments	(150,349)	(16,098)
Increase in restricted cash	(27,217)	(69,395)
Other	444	(2,357)
Net cash provided (used) by investing activities	11,447	(57,965)
Total increase (decrease) in cash and cash equivalents	(29,317)	7,962
Cash and cash equivalents - beginning of period	274,269	177,083
Cash and cash equivalents - end of period	244,952	185,045
Short-term investments - end of period	401,757	789,395
Cash and short-term investments - end of period	\$ 646,709	\$ 974,440
Supplemental disclosures of non-cash financing and investing activities:		
Issuance of restricted stock for acquisitions	\$ 17,366	\$ --

See notes to consolidated unaudited condensed financial statements.

NOVELL, INC.
NOTES TO CONSOLIDATED UNAUDITED CONDENSED FINANCIAL STATEMENTS

A. Quarterly Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying consolidated unaudited condensed financial statements have been prepared in accordance with the instructions to Form 10-Q but do not include all of the information and footnotes required by generally accepted accounting principles and should, therefore, be read in conjunction with the Company's fiscal 1999 Annual Report to Shareholders. These financial statements do include all normal recurring adjustments that the Company believes necessary for a fair presentation of the statements. The interim operating results are not necessarily indicative of the results for a full year. Certain reclassifications, none of which affected net income, have been made to the prior years' amounts in order to conform to the current years' presentation.

B. Cash and Short-term Investments

All marketable debt and equity securities are included in cash and short-term investments and are considered available-for-sale and carried at fair market value, with the unrealized gains and losses, net of tax, included in comprehensive income. Fair market values are based on quoted market prices at the end of the period, where available; if quoted market prices are not available, then fair market values are based on quoted market prices of comparable instruments. Municipal securities and corporate notes and bonds included in short-term investments have contractual maturities from 1-7 years. Money market preferreds have contractual maturities of less than 180 days. No other short-term investments have contractual maturities. The cost of securities sold is based on the specific identification method. Such securities are anticipated to be used for current operations and are therefore classified as current assets, even though some maturities may extend beyond one year.

The following is a summary of cash and short-term investments, all of which are considered available-for-sale.

<i>(Dollars in thousands)</i>	Cost at Apr.30, 2000	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value at Apr.30, 2000
Cash and cash equivalents				
Cash	\$ 160,921	\$ —	\$ —	\$ 160,921
Money market fund	84,031	—	—	84,031
Cash and cash equivalents	244,952	—	—	244,952
Short-term investments				
Corporate Notes and Bonds	100,452	—	(48)	100,404
Municipal securities	179,671	—	(3,718)	175,953
Mutual funds	51,370	—	(2,569)	48,801
Equity securities	11,450	65,149	—	76,599
Short-term investments	342,943	65,149	(6,335)	401,757
Cash and short-term investments	\$ 587,895	\$ 65,149	\$ (6,335)	\$ 646,709

<i>(Dollars in thousands)</i>	Cost at Oct. 31, 1999	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value at Oct. 31, 1999
Cash and cash equivalents				
Cash	\$ 186,689	\$ —	\$ —	\$ 186,689
Money market fund	87,580	—	—	87,580
Cash and cash equivalents	274,269	—	—	274,269
Short-term investments				
Municipal securities	411,938	3	(2,393)	409,548
Money market mutual funds	93,894	—	—	93,894
Money market preferreds	33,000	—	—	33,000
Mutual funds	15,873	—	(102)	15,771
Equity securities	4,949	64,619	(646)	68,922
Short-term investments	559,654	64,622	(3,141)	621,135
Cash and short-term investments	\$ 833,923	\$ 64,622	\$ (3,141)	\$ 895,404

During the first six months of fiscal 2000 the Company realized gains of \$33.2 million and realized losses of \$1.6 million on the sale of securities compared to realized gains of \$24.7 million and realized losses of \$28.9 million in the first six months of fiscal 1999.

C. Long-term Investments

The Company's long-term investments consist of investments in start-up software and internet companies, venture capital funds, other publicly traded securities and restricted cash held as collateral. These investments in start-up software and internet companies and venture capital funds are recorded at cost as the company does not have controlling interest in any of the respective companies. Investments in publicly traded securities are stated at fair value, based on market quotes. As of April 30, 2000, there were \$18.1 million in unrealized gains on long-term investments.

D. Income Taxes

The Company's estimated effective tax rate for the first six months of fiscal 2000 was 28.0%, the same as in the first three months of fiscal 1999. The Company paid cash amounts for income taxes of \$19.6 million in the first six months of fiscal 2000 and \$4.0 million during the same period of fiscal 1999.

E. Commitments and Contingencies

The Company currently has a \$10 million unsecured revolving bank line of credit, with interest payable at the prime rate. The line can be used for either letter of credit or working capital purposes. The line is subject to the terms of a loan agreement containing financial covenants and restrictions, none of which are expected to significantly affect the Company's operations. At April 30, 2000 borrowings, letter of credit acceptances or commitments of approximately \$1.4 million were outstanding under this line.

The Company also has a \$10 million line of credit with another bank, which is not subject to a loan agreement. At April 30, 2000 standby letters of credit of approximately \$0.5 million were outstanding under this line of credit.

In fiscal 1997, the Company entered into agreements to lease buildings being constructed on land owned by the

Company in San Jose, California and in Provo, Utah. The lessor has committed to fund up to \$223 million for construction of the buildings. The leases are for a period of seven years and can be renewed for two additional five year periods, by either the lender or the Company, subject to the approval of the other party. Rent obligations commenced during the second quarter of fiscal 1999 for the San Jose buildings and during the second quarter of fiscal 2000 for the Provo building. Annual rent under each agreement is determined by taking the portion of the committed amount actually utilized and associated capitalized interest accrued during the construction period multiplied by the secured interest rate. If the Company does not purchase the buildings, or arrange for the sale of the buildings, at the end of the lease, the Company will guarantee the lessor no more than 85% of the residual value of the buildings. The guaranteed residual value at April 30, 2000, was approximately \$190 million. In addition, the agreement calls for the Company to maintain a specific level of restricted cash to serve as collateral for the leases and maintain compliance with certain financial covenants. The value of restricted cash held as collateral at April 30, 2000 was approximately \$213.4 million, and is included in long-term investments.

In February 1998, a suit was filed against Novell and certain of its officers and directors, alleging violation of federal securities laws. The lawsuit was brought as a purported class action on behalf of purchasers of Novell common stock from November 1, 1996 through April 22, 1997. The case is in its preliminary stages. Novell believes that the case is without merit, and intends to vigorously defend against the allegations. While there can be no assurance as to the ultimate disposition of the case, Novell does not believe that the resolution of this litigation will have a material adverse effect on its financial position, results of operations, or cash flows.

The Company is a party to a number of legal claims arising in the ordinary course of business. The Company believes the ultimate resolution of the claims will not have a material adverse effect on its financial position, results of operations, or cash flows.

F. Segment Information

The Company operates in one business segment, directory-enabled networking software and services. The Company's products are sold throughout the world. In the United States, products are sold through direct, OEM, reseller, and distributor channels. Internationally, products are marketed through distributors who sell to dealers and end users. Performance of the Company is evaluated by the Company's chief decision makers, the Chief Executive Officer and Executive Council, based on total Company results. Revenue is evaluated based on geographic region and by product category. Separate financial information is not available by product category in regards to asset allocation, expense allocation, or profitability. Novell's products can be categorized into the following four areas, all within the directory-enabled networking software and services segment.

- Directory-enabled server platforms, which includes NetWare 4 and NetWare 5
- Directory-enabled applications products, which include NetWare for SAA host connectivity products, BorderManager, NDS integration and high availability service products, as well as collaboration and management products including GroupWise, ManageWise, and ZENworks
- Service, education and consulting revenue, which is generated from customer service, educational products and courses, and consulting for network solutions
- Pre-directory product revenue consisting of NetWare 3, non-directory-enabled infrastructure products and UNIX royalties

<u>Revenue by product category</u>	<u>Fiscal Quarter Ended</u>		<u>Six Months Ended</u>	
	Apr. 30, 2000	Apr. 30, 1999	Apr. 30, 2000	Apr. 30, 1999
<i>Dollars in thousands</i>				
Directory-enabled server platforms	\$ 115,361	\$ 168,826	\$ 269,681	\$ 314,644
Directory-enabled applications	79,214	72,590	158,954	145,353
Service, education and consulting	55,956	44,574	106,380	81,433
Pre-directory product revenue	<u>51,818</u>	<u>29,662</u>	<u>83,377</u>	<u>60,028</u>
Total net sales	<u>\$ 302,349</u>	<u>\$ 315,652</u>	<u>\$ 618,392</u>	<u>\$ 601,458</u>

Sales outside the U.S. are comprised of sales to international customers in Europe, the Middle East, Canada, South America, and Asia Pacific. Other than sales in Ireland, international sales were not material individually in any other international location. Intercompany sales between geographic areas are accounted for at prices representative of unaffiliated party transactions. "U.S. operations" include shipments to customers in the U.S., licensing to OEMs, and exports of finished goods directly to international customers, primarily in Canada, South America, and Asia.

For the first six months of fiscal 2000 and fiscal 1999, sales to international customers were approximately \$276 million and \$277 million, respectively. In the first six months of fiscal 2000 and fiscal 1999, 66% and 72%, respectively, of international sales were to European countries. No one foreign country accounted for 10% or more of total sales in either period.

There were no customers accounting for more than 10% of total revenue during the first six months of fiscal 2000. One multi-national distributor accounted for 12% of total revenue during the first six months of fiscal 1999.

G. Net Income Per Share

	<u>Fiscal Quarter Ended</u>		<u>Six Months Ended</u>	
	Apr. 30, 2000	Apr. 30, 1999	Apr. 30, 2000	Apr. 30, 1999
<i>Amounts in thousands, except per share data</i>				
Basic net income per share computation				
Net income	\$ 31,020	\$ 38,726	\$ 75,855	\$ 67,624
Weighted average shares outstanding	326,788	335,276	326,847	336,359
Basic net income per share	<u>\$ 0.09</u>	<u>\$ 0.12</u>	<u>\$ 0.23</u>	<u>\$ 0.20</u>
Diluted net income per share computation				
Net income	\$ 31,020	\$ 38,726	\$ 75,855	\$ 67,624
Weighted average shares outstanding	326,788	335,276	326,847	336,359
Incremental shares attributable to exercise of outstanding options (treasury stock method)	14,758	15,840	14,978	14,960
Total	341,546	351,116	341,825	351,319
Diluted net income per share	<u>\$ 0.09</u>	<u>\$ 0.11</u>	<u>\$ 0.22</u>	<u>\$ 0.19</u>

H. Comprehensive Income

The components of comprehensive income (loss), net of tax, for the quarter and first six months ended April 30, 2000 and 1999 were as follows:

<i>Dollars in thousands</i>	<u>Fiscal Quarter Ended</u>		<u>Six Months Ended</u>	
	Apr. 30, 2000	Apr. 30, 1999	Apr. 30, 2000	Apr. 30, 1999
Net income	\$ 31,020	\$ 38,726	\$ 75,855	\$ 67,624
Change in net unrealized gain on investments	(94,427)	(6,459)	(19,781)	20,873
Change in cumulative translation adjustment	473	35	(77)	(89)
<u>Comprehensive income (loss)</u>	<u>\$ (62,934)</u>	<u>\$ 32,302</u>	<u>\$ 55,997</u>	<u>\$ 88,408</u>

The components of accumulated other comprehensive income, net of related tax, at April 30, 2000 and 1999, are as follows:

<i>Dollars in thousands</i>	Apr. 30, 2000	Oct. 31, 1999
Unrealized gain on investment	\$ 17,981	\$ 37,762
Cumulative translation adjustment	(2,650)	(2,573)
<u>Accumulated other comprehensive income</u>	<u>\$ 15,331</u>	<u>\$ 35,189</u>

I. Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133). SFAS 133 established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. SFAS 133 requires all companies to recognize derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement is effective for all fiscal quarters of fiscal years beginning after July 1, 2000. The Company is currently assessing the potential impact SFAS 133 will have on the statement of financial position of the Company.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company is required to adopt SAB 101 no later than the first quarter of fiscal 2001. Novell is currently evaluating the impact of SAB 101 on the Company's results of operations and financial position.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other parts of this Quarterly Report contain forward-looking statements that involve risks and uncertainties. All forward-looking statements are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. The Company's actual results may differ materially from the results discussed in such forward-looking statements as a result of a number of factors, which include, but are certainly not limited to, those set forth below in the sections entitled "Future Results," "Year 2000," and "Euro Conversion." Readers should carefully review the risk factors described in other documents that the Company files from time to time with the Commission, including the Annual Report on Form 10-K and the Quarterly Reports on Form 10-Q to be filed by the Company in Fiscal 2000.

Introduction

Novell is the world's leading provider of directory-enabled networking software. Novell solutions give businesses total control of their private networks and the Internet, simplifying the management of user access and identity. Novell's worldwide channel, consulting, developer, education, and technical support programs are the most extensive in the network computing industry.

Results of Operations

Net Sales

	Q2 2000	Chg	Q2 1999	YTD 2000	Chg	YTD 1999
Net sales (thousands)	\$ 302,349	(4.2)%	\$ 315,652	\$ 618,392	2.8%	\$601,458

Novell's products can be categorized into the following four areas, all within the directory-enabled networking software services segment.

- Directory-enabled server platforms, which includes NetWare 4 and NetWare 5
- Directory-enabled applications products, or Net Services Software, which include NetWare for SAA host connectivity products, BorderManager, NDS integration and high availability service products, as well as collaboration and management products including GroupWise, ManageWise, and ZENworks
- Service, education and consulting revenue, which is generated from customer service, educational products and courses, and consulting for network solutions
- Pre-directory product revenue consisting of NetWare 3, non-directory-enabled infrastructure products and UNIX royalties

Revenue from the directory-enabled server platforms category decreased \$53.5 million or 32% in the second quarter of 2000 compared to the second quarter of 1999. Year-to-date, directory-enabled server platform revenue decreased \$45.0 million or 14%. These decreases are due primarily to the decline in the Company's packaged software business, which saw a decline in sales of 83% during the quarter and 49% year-to-date. The decline in packaged software sales resulted from the Company's focus on building a direct sales force and inadequate attention to its channel resellers in generating demand, training and support for Novell products. Additionally, the launch of competitor products shifted reseller efforts to training and promotional activities related to these launches. The Company also believes that a portion of the decline was due to lower demand related to post Y2K purchases. The Company is addressing the channel problem in an effort to improve sales results in future periods.

Revenue from the directory-enabled applications products was \$79.2 million in the second quarter of 2000 compared

to \$72.6 million in the second quarter of 1999. At the end of the second quarter 2000, year-to-date directory-enabled applications product revenue was \$159.0 million compared to \$145.4 million for the same period of 1999. The 9% increase in second quarter and year-to-date revenue and was driven by an increase in sales of the Company's Management & Collaboration products, Border Manager, and NDS for NT and Solaris, slightly offset by a decrease in NetWare for SAA.

Service, education and consulting revenues were \$56.0 million and \$44.6 million in the second quarter of 2000 and 1999, respectively. Year-to-date service, education and consulting revenues were \$106.4 million and \$81.4 million, in 2000 and 1999, respectively. The increase in the second quarter and year-to-date revenue was a result of increased directory-related consulting revenue, increased service revenue as a result of increased site licenses, and an overall growth in consulting.

Pre-directory products revenue was \$51.8 million in the second quarter of 2000 compared to \$29.7 million in the second quarter of 1999. Pre-directory products revenue year-to-date 2000 was \$83.4 million compared to \$60.0 million for the same period of 1999. The increase in revenue in the second quarter and year-to-date 2000 was primarily the result of revenue from a \$35.5 million royalty payment from Caldera, Inc., the principal portion of which relates to an antitrust settlement between Caldera, Inc. and Microsoft, and higher royalty revenue related to the UNIX royalties. Without the Caldera revenue, pre-directory products revenue would have decreased \$13.3 million or 44% during the second quarter of 2000 and \$12.1 million or 20% year-to-date 2000 compared to the same periods of 1999, respectively. These decreases were due primarily to the lower sales through channel resellers and the announced discontinuation of the NetWare 3 products.

International sales represented 45% of total sales in the first six months of 2000 compared to 46% in the first six months of 1999 due to the effects of the Caldera settlement recorded in U.S revenue. Without this revenue, international sales represented 47% of total sales in the first six months of 2000. This increase is due to stronger sales growth in the Asia Pacific, Latin America, and Canadian regions. During the first six months of fiscal 2000, international sales remained flat and domestic revenues, excluding Caldera, decreased 5% compared to the same period of 1999

Gross Profit

	Q2 2000	Chg	Q2 1999	YTD 2000	Chg	YTD 1999
Gross profit (thousands)	\$217,965	(7.8)%	\$236,285	\$454,794	0.1%	\$454,324
Percentage of net sales	72.1%		74.9%	73.5%		75.5%

Gross profit as a percentage of sales decreased in the second quarter and year-to-date 2000 compared to the same periods of fiscal 1999 due primarily to the effects of decreased product sales levels, higher costs for services related to the Company's consulting business, and increased training and education costs. These increases were slightly offset by the effects of the Caldera revenue. Year-to-date cost of sales were also offset by lower royalty expenses and material and variance costs. Excluding Caldera revenue, gross profit as a percentage of sales would have been 68.4% during the second quarter and 71.9% year-to-date 2000.

Operating Expenses

	Q2 2000	Chg	Q2 1999	YTD 2000	Chg	YTD 1999
Sales and marketing (thousands)	\$ 125,933	18.3%	\$ 106,455	\$ 240,063	13.3%	\$ 211,841
Percentage of net sales	41.7%		33.7%	38.8%		35.2%
Product development (thousands)	\$ 61,360	2.8%	\$ 59,682	\$ 120,037	4.1%	\$ 115,286
Percentage of net sales	20.3%		18.9%	19.4%		19.2%
General and administrative (thousands)	\$ 22,433	8.6%	\$ 20,656	\$ 39,925	(3.6)%	\$ 41,410
Percentage of net sales	7.4%		6.5%	6.5%		6.9%
Total operating expenses (thousands)	\$ 209,726	12.3%	\$ 186,793	\$ 400,025	8.5%	\$ 368,537
Percentage of net sales	69.4%		59.2%	64.7%		61.3%

Sales and marketing expenses increased by \$19.5 million, in the second quarter of fiscal 2000 and by \$28.2 million year-to-date in fiscal 2000 compared to the same periods of fiscal 1999. Sales and marketing expenses fluctuate in any given period due to timing of product promotions, advertising or other discretionary expenses. Also during fiscal 2000, the Company has increased its sales and marketing expenditures where appropriate in an effort to focus on improving future sales growth. Lower sales in the second quarter of 2000 caused sales and marketing expenses as a percentage of sales to increase.

Product development expenses increased \$1.7 million in the second quarter and \$4.8 million year-to-date in fiscal 2000 compared to the same periods of fiscal 1999. Product development expenses also increased as a percentage of net sales in the second quarter and year-to-date 2000 due to lower sales levels in the second quarter of fiscal 2000 and increased headcount in the product development organization as the Company continues to invest in developing new products consistent with the Company's strategy.

General and administrative expenses increased in total and as a percentage of net sales in the second quarter of fiscal 2000 compared to the second quarter of fiscal 1999, due primarily to increased bad debt expense offset slightly by lower operating costs. Year-to-date general and administrative expenses decreased in total and as a percentage of sales as the Company continued to focus on controlling these types of costs.

	YTD 2000	Change	YTD 1999
Employees	5,373	8.5%	4,951
Annualized revenue per average employee (000's)	\$ 229	(9.5)%	\$ 253
Annualized net income per average employee (000's)	\$ 28.1	(1.3)%	\$ 28.4

Headcount increased from the second quarter of 1999 to the second quarter of 2000, primarily due to increases in the education, consulting, worldwide sales, and product development areas. Headcount has increased in these areas to support the Company's growth in the new products and services.

Other Income, Net

	Q2 2000	Chg	Q2 1999	YTD 2000	Chg	YTD 1999
Other income, net (thousands)	\$ 34,845	711.3%	\$ 4,295	\$ 50,586	521.8%	\$ 8,136
Percentage of net sales	11.5%		1.4%	8.2%		1.4%

The primary component of other income, net is investment income, which was \$37.0 million in the second quarter of fiscal 2000 compared to \$10.7 million in the second quarter of fiscal 1999. Year-to-date investment income was \$54.6 million in 2000 compared to \$20.4 million in 1999. Included in investment income during the first half of 2000 were realized capital losses of \$1.6 million and realized capital gains of \$33.2 million. During the first half of 1999, realized capital losses were \$28.9 million and realized capital gains were \$24.7 million.

In addition to investment income, the Company recognized a gain on foreign currency and higher sublease income

from an increase in subleases in the second quarter and year-to-date 2000 compared to a loss in the same periods of 1999. This additional income was slightly offset by higher losses on fixed asset sales and lower dividend income.

Income Taxes

	Q2 2000	Chg	Q2 1999	YTD 2000	Chg	YTD 1999
Income taxes (thousands)	\$ 12,064	(19.9)%	\$15,061	\$ 29,500	12.2%	\$26,299
Percentage of net sales	4.0%		4.8%	4.8%		4.4%
Effective tax rate	28.0%		28.0%	28.0%		28.0%

The effective tax rate for fiscal 2000 is estimated to be 28%, the same as fiscal 1999.

Net Income and Net Income Per Share

	Q2 2000	Chg	Q2 1999	YTD 2000	Chg	YTD 1999
Net income (thousands)	\$31,020	(19.9)%	\$38,726	\$75,855	12.2%	\$67,624
Percentage of net sales	10.3%		12.3%	12.3%		11.2%
Net income per share - basic	\$0.09		\$0.12	\$0.23		\$0.20
Net income per share - diluted	\$0.09		\$0.11	\$0.22		\$0.19

Liquidity and Capital Resources

	Q2 2000	Change	Q4 1999
Cash and short-term investments (thousands)	\$646,709	(27.8)%	\$895,404
Percentage of total assets	37%		46%

Cash and short-term investments decreased by \$248.7 million at April 30, 2000 from \$895.4 million at October 31, 1999. During the first six months of fiscal 2000, cash and short-term investments decreased due to cash outflows of \$301.0 million for the repurchase of common stock, \$150.3 million for purchases of long-term investments and other long term investing activities, \$27.2 million to increase collateral associated with certain long-term investments, \$28.1 million to purchase property, plant and equipment, and \$2.7 million from the net purchases of short-term investments. These cash outflows were offset by \$189.6 million provided from operating activities and \$70.6 million from the issuance of common stock.

The Company's investment portfolio includes equity securities with gross unrealized losses of \$35.8 million and gross unrealized gains of \$65.1 million as of April 30, 2000. Included in the Company's net unrealized gains at April 30, 2000 was the Company's investment in Marchfirst, Inc., which had unrealized net losses of \$18.1 million. No other individual security had material unrealized losses as of the end of the second quarter 2000.

The investment portfolio is diversified among security types, industry groups, and individual issuers. To achieve potentially higher returns, a limited portion of the Company's investment portfolio is invested in equity securities and mutual funds, which incur market risk. The Company believes that the market risk has been limited by diversification and by use of a funds management timing service which switches funds out of mutual funds and into money market funds when preset signals occur.

The Company's principal source of liquidity has been from operations. At April 30, 2000, the Company's principal unused sources of liquidity consisted of cash and short-term investments and available borrowing capacity of approximately \$18.1 million under its credit facilities. The Company's liquidity needs are principally for the Company's financing of accounts receivable, capital assets, strategic investments, product development and flexibility in a dynamic and competitive operating environment.

During the first six months of fiscal 2000, the Company continued to generate cash from operations. The Company anticipates being able to fund its current operations and capital expenditures planned for the foreseeable future with existing cash and short-term investments together with internally generated funds. The Company believes that borrowings under the Company's credit facilities or public offerings of equity or debt securities are available if the need arises. Investments will continue in product development and in new and existing areas of technology. Cash may also be used to acquire technology through purchases and strategic acquisitions. Capital expenditures in fiscal 2000 are anticipated to be approximately \$75.0 million, but could be reduced if the growth of the Company is less than presently anticipated.

In July 1999, the Board of Directors authorized up to \$500 million for the repurchase of additional outstanding shares of the Company's common stock through October 31, 2000. As of April 30, 2000, 19.9 million shares had been repurchased under this plan at a total cost of \$500 million completing this repurchase.

As the Company continues to consolidate its Utah operations to its Provo facility, the properties currently owned and occupied in Orem, Utah become unnecessary. On May 5, 2000, the Company finalized the sale of a portion of these buildings. The remaining buildings are expected to be sold over the next two years.

Future Results

The Company's future results of operations involve a number of risks and uncertainties. Among the factors that could cause actual results to differ materially from historical results are the following: business conditions and the general economy; competitive factors, such as rival operating systems, acceptance of new products and price pressures; availability of third-party compatible products at below market prices; risk of nonpayment of accounts or notes receivable; risks associated with foreign operations; risk of product line or inventory obsolescence due to shifts in technologies or market demand; timing of software product introductions; market fluctuations of investment securities; and litigation.

Novell believes that it has the product offerings, facilities, personnel, and competitive and financial resources for continued business success, but future revenues, costs, margins, product mix, and profits are all influenced by a number of factors, such as those discussed above, as well as risks described in detail in the Company's fiscal 1999 report on Form 10-K.

Year 2000

In the past, many information technology products were designed with two digit year codes that did not recognize century and millennium fields. As a result, these hardware and software products may not function or may give incorrect results beginning in the Year 2000. The Year 2000 issue is faced by substantially every company in the computer industry, as well as every company that relies on computer systems. To address this issue, such hardware and software products were upgraded or replaced to correctly process dates beginning in the Year 2000.

The Company has a general contingency plan to address extreme events such as earthquake, flood, or serious equipment failures. The Company's Year 2000 contingency planning was an extension of this effort.

The Company's total cost relating to these activities was not material to the Company's financial position, results of operations, or cash flows. The modifications were made on a timely basis. The Company did not experience a delay in, or increased costs associated with, the implementation of such modifications, nor did the Company experience problems due to suppliers inadequately preparing for the Year 2000 issue. The Company also did not experience an inability to deliver products or services to its customers.

The Company believes that its current products, with any applicable updates, are prepared for Year 2000 date issues. The Company also plans to continue to provide support for these products' Year 2000 date-related issues, as described in the Company's support policy statements. However, there can be no guarantee that one or more current

Company products do not contain Year 2000 date issues that may result in material costs to the Company. Because it is in the business of selling software products, the Company's risk of being subjected to lawsuits relating to Year 2000 issues with its software products is likely to be greater than that of companies in other industries. Because computer systems may involve hardware, firmware and software components from different manufacturers, it may be difficult to determine which component in a computer system may cause a Year 2000 issue. As a result, the Company may be subjected to Year 2000 related lawsuits independent of whether its products and services are Year 2000 ready. The outcomes of any such lawsuits and the impact on the Company cannot be determined at this time.

Euro Conversion

On January 1, 1999, 11 of the 15 members of the European Union established fixed conversion rates among their existing sovereign currencies and adopted the euro as their common legal currency. At the end of a three-year transition period during which companies may choose to operate either in the euro or national currencies the legacy currencies will be eliminated. In June 1998, the Company formed a cross-functional team to assess the impact of the conversion on the Company's operations and to address associated issues.

The Company is currently conducting transactions in the euro and expects to have all affected information systems fully converted by April 2001. Novell does not expect the euro conversion to have a material effect on its competitive position or financial results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to financial market risks, including changes in interest rates, foreign currency exchange rates and marketable equity security prices. To mitigate these risks, the Company utilizes currency forward contracts and currency options. The Company does not use derivative financial instruments for speculative or trading purposes, and no derivative financial instruments were outstanding at April 30, 2000.

The primary objective of the Company's investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing in widely diversified short-term investments, consisting primarily of investment grade securities, substantially all of which either mature within the next twelve months or have characteristics of short-term investments. A hypothetical 50 basis point increase in interest rates would result in an approximate \$5 million decrease (approximately 1%) in the fair value of the Company's available-for-sale securities.

The Company hedges currency risks of investments denominated in foreign currencies with currency forward contracts. Gains and losses on these foreign currency investments would generally be offset by corresponding losses and gains on the related hedging instruments, resulting in negligible net exposure to the Company. A substantial majority of the Company's revenue, expense and capital purchasing activities are transacted in U.S. dollars. However, the Company does enter into transactions in other currencies, primarily Japanese yen, Canadian Dollar, and certain other Asian and European currencies. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Company has established balance sheet hedging programs. Currency forward contracts and currency options are utilized in these hedging programs. The Company's hedging programs reduce, but do not always entirely eliminate, the impact of foreign currency exchange rate movements. If the Company did not hedge against foreign currency exchange rate movement, an adverse change of 10% in exchange rates would result in a decline in income before taxes of approximately \$9 million.

The Company is exposed to equity price risks on equity securities included in its portfolio of investments entered into for the promotion of business and strategic objectives. These investments are generally in small capitalization stocks in the high-technology industry sector. The Company typically does not attempt to reduce or eliminate its market exposure on these securities. A 10% adverse change in equity prices would result in an approximate \$8 million decrease in the fair value of the Company's available-for-sale securities.

All of the potential changes noted above are based on sensitivity analyses performed on the Company's financial position at April 30, 2000. Actual results may differ materially.

Part II. Other Information

Except as listed below, all information required by items in Part II is omitted because the items are inapplicable or the answer is negative.

Item 1. Legal Proceedings.

The information required by this item is incorporated herein by reference to Footnote D of the Company's financial statements contained in Part I, Item 1 of this Form 10-Q.

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
27*	Financial Data Schedule

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Registrant during the quarter ended April 30, 2000.

*Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Novell, Inc.
(Registrant)

Date: June 13, 2000

/s/ Dr. Eric Schmidt
Dr. Eric Schmidt
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: June 13, 2000

/s/ Dennis R. Raney
Dennis R. Raney
Chief Financial Officer
(Principal Financial Officer)

Date: June 13, 2000

/s/ Ron Foster
Ron Foster
Vice President and Corporate Controller
(Principal Accounting Officer)

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Novell, Inc.
(Registrant)

Date: June 13, 2000

Dr. Eric Schmidt
Chairman of the Board and
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