

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 January 31, 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.)

122 East 1700 South
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 February 29, 2000 there were 329,428,357 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>	Jan. 31, 2000	Oct. 31, 1999
	(Unaudited)	
ASSETS		
Current assets		
Cash and short-term investments	\$ 947,515	\$ 895,404
Receivables, less allowances (\$37,830 - January; \$36,318 - October)	236,857	284,510
Inventories	4,028	3,753
Prepaid expenses	43,954	47,738
Deferred and refundable income taxes	--	60,266
Other current assets	33,465	43,945
Total current assets	1,265,819	1,335,616
Property, plant and equipment, net	341,816	347,012
Long-term investments	375,752	229,114
Other assets	35,622	30,577
Total assets	\$ 2,019,009	\$ 1,942,319
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 57,523	\$ 85,037
Accrued compensation	61,747	62,778
Accrued marketing liabilities	11,056	11,449
Other accrued liabilities	47,395	50,133
Income taxes payable	37,490	57,085
Deferred taxes	10,451	--
Deferred revenue	180,706	173,150
Total current liabilities	406,368	439,632
Minority interests	11,629	10,446
Shareholders' equity		
Common stock, par value \$.10 per share		
Authorized - 600,000,000 shares		
Issued - 327,700,063 shares-January		
326,593,911 shares-October	32,771	32,659
Additional paid-in capital	--	--
Retained earnings	1,468,646	1,432,624
Accumulated other comprehensive income	109,285	35,189
Other	(9,690)	(8,231)
Total shareholders' equity	1,601,012	1,492,241
Total liabilities and shareholders' equity	\$ 2,019,009	\$ 1,942,319

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>	Fiscal Quarter Ended	
	Jan. 31, 2000	Jan. 31, 1999
Net sales	\$ 316,043	\$ 285,806
Cost of sales	76,921	64,126
Gross profit	239,122	221,680
Operating expenses		
Sales and marketing	114,130	105,386
Product development	58,677	55,604
General and administrative	19,785	24,395
Total operating expenses	192,592	185,385
Income from operations	46,530	36,295
Other income (expense)		
Investment income	17,558	9,763
Other, net	(1,817)	(5,922)
Other income, net	15,741	3,841
Income before taxes	62,271	40,136
Income taxes	17,436	11,238
Net income	\$ 44,835	\$ 28,898
Weighted average shares outstanding		
Basic	326,906	337,441
Diluted	342,105	351,522
Net income per share		
Basic	\$ 0.14	\$ 0.09
Diluted	\$ 0.13	\$ 0.08

See notes to consolidated unaudited condensed financial statements.

NOVELL, INC.
CONSOLIDATED UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

<i>Dollars in thousands</i>	<u>Three Months Ended</u>	
	<u>Jan. 31,</u> 2000	<u>Jan. 31,</u> 1999
Cash flows from operating activities		
Net income	\$ 44,835	\$ 28,898
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	18,505	16,940
Stock plans' income tax benefits	29,677	13,347
Decrease in receivables	47,653	40,485
(Increase) decrease in inventories	(275)	825
Decrease (increase) in prepaid expenses	3,784	(24)
Decrease in deferred and refundable income taxes	19,442	15,499
Decrease (increase) in other current assets	10,480	(19,763)
(Decrease) in current liabilities, net	(33,264)	(13,059)
Net cash provided from operating activities	140,837	83,148
Cash flows from financing activities		
Issuance of common stock, net	37,164	27,293
Repurchase of common stock	(88,781)	(76,843)
Net cash used by financing activities	(51,617)	(49,550)
Cash flows from investing activities		
Expenditures for property, plant and equipment	(10,674)	(12,215)
Purchases of short-term investments	(294,999)	(643,484)
Maturities of short-term investments	280,750	492,629
Sales of short-term investments	163,507	153,969
Expenditures for other long-term investments	(130,009)	(1,749)
Increase in restricted cash	(16,629)	(40,278)
Other	15,594	1,567
Net cash provided (used) by investing activities	7,540	(49,561)
Total increase (decrease) in cash and cash equivalents	96,760	(15,963)
Cash and cash equivalents - beginning of period	274,269	155,493
Cash and cash equivalents - end of period	371,029	139,530
Short-term investments - end of period	576,486	875,892
Cash and short-term investments - end of period	\$ 947,515	\$ 1,015,422
Supplemental disclosures of non-cash financing and investing activities:		
Issuance of restricted stock for acquisitions	\$ 10,656	\$ --

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 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 Jan. 31, 2000	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value at Jan. 31, 2000
Cash and cash equivalents				
Cash	\$ 319,807	\$ —	\$ —	\$ 319,807
Money market fund	51,222	—	—	51,222
Cash and cash equivalents	371,029	—	—	371,029
Short-term investments				
Municipal securities	289,418	—	(3,345)	286,073
Money market mutual funds	5,173	—	—	5,173
Money market preferreds	31,502	1	(3)	31,500
Mutual funds	76,872	61	(794)	76,139
Equity securities	7,431	170,170	—	177,601
Short-term investments	410,396	170,232	(4,142)	576,486
Cash and short-term investments	\$ 781,425	\$ 170,232	\$ (4,142)	\$ 947,515

<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 three months of fiscal 2000 the Company realized gains of \$7 million and realized losses of \$1 million on the sale of securities compared to realized gains of \$13 million and realized losses of \$15 million in the first three months of fiscal 1999.

C. Income Taxes

The Company's estimated effective tax rate for the first three 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 \$2 million in the first three months of fiscal 2000 and fiscal 1999.

D. Commitments and Contingencies

The Company currently has a \$10 million unsecured revolving bank line of credit, with interest 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 January 31, 2000 borrowings, letter of credit acceptances or commitments of approximately \$1.3 million were outstanding under such line.

The Company also has a \$10 million line of credit with another bank which is not subject to a loan agreement. At January 31, 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 \$218 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 San Jose and will commence upon the Company's occupation of the Provo building in the second quarter of fiscal 2000. 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 January 31, 2000, was approximately \$185 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 January 31, 2000 was approximately \$203 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.

E. 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

Revenue by product category

<i>Dollars in thousands</i>	<u>Fiscal Quarter Ended</u>	
	Jan. 31, 2000	Jan. 31, 1999
Directory-enabled server platforms	\$ 154,321	\$ 145,818
Directory-enabled applications	79,740	72,763
Service, education and consulting	50,424	36,859
Other	<u>31,558</u>	<u>30,366</u>
Total net sales	<u>\$ 316,043</u>	<u>\$ 285,806</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 three months of fiscal 2000 and fiscal 1999, sales to international customers were approximately \$150 million and \$130 million, respectively. In the first three 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.

Except for one multi-national distributor, which accounted for 10% of total revenue in the first three months of fiscal 2000 and 13% of total revenue in the first three months of fiscal 1999, no customer accounted for more than 10% of total revenue in any period.

F. Net Income Per Share

	Fiscal Quarter Ended	
	Jan. 31, 2000	Jan. 31, 1999
<i>Amounts in thousands, except per share data</i>		
Basic net income per share computation		
Net income	\$ 44,835	\$ 28,898
Weighted average shares outstanding	326,906	337,441
Basic net income per share	\$ 0.14	\$ 0.09
Diluted net income per share computation		
Net income	\$ 44,835	\$ 28,898
Weighted average shares outstanding	326,906	337,441
Incremental shares attributable to exercise of outstanding options (treasury stock method)	15,199	14,081
Total	342,105	351,522
Diluted net income per share	\$ 0.13	\$ 0.08

G. Comprehensive Income

The components of comprehensive income, net of tax, for the three months ended January 31, 2000 and 1999 were as follows:

	Fiscal Quarter Ended	
	Jan. 31, 2000	Jan. 31, 1999
<i>Dollars in thousands</i>		
Net income	\$ 44,835	\$ 28,898
Change in net unrealized gain on investments	74,646	27,332
Change in cumulative translation adjustment	(550)	(124)
Comprehensive income	\$ 118,931	\$ 56,106

The components of accumulated other comprehensive income, net of related tax, at January 31, 2000 and 1999, are as follows:

<i>Dollars in thousands</i>	<u>Fiscal Quarter Ended</u>	
	<u>Jan. 31,</u> <u>2000</u>	<u>Oct. 31,</u> <u>1999</u>
Unrealized gain on investment	\$ 112,408	\$ 62,108
Cumulative translation adjustment	(3,123)	(820)
<u>Accumulated other comprehensive income</u>	<u>\$ 109,285</u>	<u>\$ 61,288</u>

H. 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.

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	Q1		Q1
	2000	Change	1999
Net sales (millions)	\$316	11%	\$286

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 increased \$8.5 million or 6% in the first quarter of 2000 compared to the first quarter of 1999. This increase in revenue is due to strong customer acceptance of the Internet Protocol based NetWare 5, which more than offset the decline in sales of the older NetWare 4 products .

Revenue from the directory-enabled applications products was \$79.7 million in the first quarter of 2000 compared to \$72.8 million in the first quarter of 1999. This 10% increase was driven by an increase in sales of ZENworks, BorderManager and NDS for NT and Solaris, somewhat offset by a decrease in NetWare for SAA.

Service, education and consulting revenues were \$50.4 million and \$36.9 million in the first quarter of 2000 and 1999, respectively. The increase in the first quarter of 2000 was a result of increased directory-related consulting revenue and increased service revenue as a result of increased site licenses, and growth in consulting.

Pre-directory products revenue was \$31.6 million in the first quarter of 2000 compared to \$30.4 million in the first quarter of 1999. The increase in the first quarter of 2000 was primarily the result of higher royalty revenue related to

the UNIX royalties. Without this revenue, pre-directory products revenue would have decreased, as expected, due to increased sales of directory-enabled products and introductions of newer versions of non-directory products.

International sales represented 48% of total sales in the first three months of 2000 compared to 45% in the first three months of 1999 due to stronger sales growth in each of the international regions. International sales increased 16% compared to a 6% increase in domestic revenues in the first three months of fiscal 2000 as compared to the same period of 1999

Gross Profit

	Q1	Change	Q1
	2000		1999
Gross profit (millions)	\$239	8%	\$222
<u>Percentage of net sales</u>	<u>76%</u>		<u>78%</u>

Gross profit as a percentage of sales decreased slightly in the first quarter of fiscal 2000 compared to the first quarter of fiscal 1999 due primarily to increased royalty costs, costs for services related to the consulting business, and training and education costs.

Operating Expenses

	Q1	Change	Q1
	2000		1999
Sales and marketing (millions)	\$114	8%	\$105
<u>Percentage of net sales</u>	<u>36%</u>		<u>37%</u>
Product development (millions)	\$ 59	6%	\$ 56
<u>Percentage of net sales</u>	<u>19%</u>		<u>20%</u>
General and administrative (millions)	\$ 20	-19%	\$ 24
<u>Percentage of net sales</u>	<u>6%</u>		<u>9%</u>
Total operating expenses (millions)	\$193	4%	\$185
<u>Percentage of net sales</u>	<u>61%</u>		<u>65%</u>

Sales and marketing expenses increased by \$8.7 million, in the first quarter of fiscal 2000 compared to the first quarter of fiscal 1999. At the same time however, sales and marketing expenses decreased slightly as a percentage of net sales. Sales and marketing expenses fluctuate as a percentage of net sales in any given period due to product promotions, advertising or other discretionary expenses.

Product development expenses increased in the first quarter of fiscal 2000 compared to the first quarter of fiscal 1999. Product development expenses also decreased slightly as a percentage of net sales in the first quarter of 2000 due to increased sales levels and a more efficient product development organization focused on delivering new products consistent with the Company's strategy.

General and administrative expenses decreased in total and as a percentage of net sales in the first quarter of fiscal 2000 compared to the first quarter of fiscal 1999. These decreases were primarily due to a continued focus on controlling costs as well as a higher revenue base.

	YTD 2000	Change	YTD 1999
Employees	5,338	15%	4,642
Annualized revenue per average employee (000's)	\$235	-5%	\$248
<u>Annualized net income per average employee (000's)</u>	<u>\$ 33</u>	<u>33%</u>	<u>\$ 25</u>

Headcount increased from the first quarter of 1999 to the first 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 new product and services revenue.

Other Income, Net

	Q1 2000	Change	Q1 1999
Other income, net (millions)	\$ 16	310%	\$ 4
<u>Percentage of net sales</u>	<u>5%</u>		<u>1%</u>

The primary component of other income, net is investment income, which was \$17.6 million in the first quarter of fiscal 2000 compared to \$9.8 million in the first quarter of fiscal 1999. In the first quarter of 2000, the Company realized capital losses of \$0.9 million and realized capital gains of \$6.7 million, compared to realized capital losses of \$15.3 million and realized capital gains of \$13.0 million in the first quarter of 1999. In addition to investment income, the Company recognized a gain on foreign currency in the first quarter of 2000 compared to a loss in the same period of 1999, and received more sublease income during the first quarter of 2000

Income Taxes

	Q1 2000	Change	Q1 1999
Income taxes (millions)	\$ 17	55%	\$ 11
Percentage of net sales	6%		4%
<u>Effective tax rate</u>	<u>28%</u>		<u>28%</u>

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

Net Income and Net Income Per Share

	Q1 2000	Change	Q1 1999
Net income (millions)	\$ 45	55%	\$ 29
Percentage of net sales	14%		10%
Net income per share – basic	\$.14		\$.09
<u>Net income per share – diluted</u>	<u>\$.13</u>		<u>\$.08</u>

Liquidity and Capital Resources

	Q1 2000	Change	Q4 1999
Cash and short-term investments (millions)	\$948	6%	\$895
<u>Percentage of total assets</u>	<u>47%</u>		<u>46%</u>

Cash and short-term investments increased by \$52 million at Jan. 31, 2000 from \$895 million at October 31, 1999. During the quarter, cash and short-term investments increased due to \$141 million provided from operating activities, \$105 million from the sale of short-term investments, and \$37 million from the issuance of common stock. These increases were offset by cash outflows of \$114 million for purchases of long-term investments and other long term investing activities, \$89 million for the repurchase of common stock, \$17 million to increase collateral associated with certain long-term investments, and \$11 million to purchase property, plant and equipment.

The Company's investment portfolio includes equity securities with gross unrealized losses of \$4 million and gross unrealized gains of \$187 as of January 31, 2000. There are no individual securities with material unrealized losses at the end of the first quarter of 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 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 January 31, 2000, the Company's principal unused sources of liquidity consisted of cash and short-term investments and available borrowing capacity of approximately \$18 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 three months of fiscal 2000, the Company has 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 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 January 31, 2000, 12.7 million shares had been repurchased under this plan at a total cost of \$288 million.

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 reasonable 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 is an extension of this effort. Based on the Company's planning efforts, the worst-case Y2K-related scenarios that were identified include:

- temporary loss of power—to address this risk Novell has its own power generation capability in critical locations;
- temporary loss of voice and/or data communications or other utility services—to help minimize this risk Novell uses multiple telecommunications providers;
- temporary inability to access key information systems due to a Y2K related failure—to address this risk Novell has identified manual procedures to at least partly facilitate needed processes until systems are restored;
- temporary inability to ship products due to a Y2K issue with the systems of a key business partner—to minimize this risk Novell uses multiple partners.

The Company's Year 2000 effort included Year 2000 testing for Novell products currently on, and some that were previously on, the Company's price list. Generally, for products that were identified as needing updates to address Year 2000 issues, the Company has prepared updates or has removed the product from its price list. Some of the Company's customers are using product versions that the Company will not support for Year 2000 issues; the Company is encouraging these customers to migrate to current product versions that are Year 2000 ready.

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's Year 2000 Web site at www.novell.com/year2000/ provides information on its products that are Year 2000 ready and general information on the Company's Year 2000 efforts. For third party products which the Company distributes with its products, the Company has sought Year 2000 readiness status from the product manufacturers. Customers who use these third-party products are directed to the product manufacturers for detailed Year 2000 status information.

The Company believes that its current products, with any applicable updates, are prepared for Year 2000 date issues, and the Company plans 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 January 31, 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 \$4 million decrease (approximately 0.6%) 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 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 \$10 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 \$18 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 January 31, 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 January 31, 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: March 15, 2000

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

Date: March 15, 2000

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

Date: March 15, 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: March 15, 2000

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

Date: March 15, 2000

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

Date: March 15, 2000

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