SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Fiscal Quarter Ended July 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	87-0393339
(State or other jurisdiction of incorporation or organization)	(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 X NO ___

As of August 31, 2000 there were 328,207,679 shares of the Registrant's Common Stock outstanding.

Part I. Financial Information, Item 1. Financial Statements

NOVELL, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

Dollars in thousands, except share and per share data	Jul. 31, 2000 (Unaudited)	Oct. 31, 1999
ASSETS		
Current assets		
Cash and short-term investments	$ 676,642	$ 895,404
Receivables, less allowances ($33,700 - July; $36,318 - October)	214,003	284,510
Inventories	3,215	3,753
Prepaid expenses	30,263	47,738
Deferred and refundable income taxes	53,079	60,266
Other current assets	36,724	43,945
Total current assets	1,013,926	1,335,616
Property, plant and equipment, net	309,290	347,012
Long-term investments	413,109	229,114
Other assets	56,389	30,577
Total assets	$1,792,714	$ 1,942,319
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 81,324	$ 85,037
Accrued compensation	62,424	62,778
Accrued marketing liabilities	14,375	11,449
Other accrued liabilities	53,954	50,133
Income taxes payable	-	57,085
Deferred revenue	184,677	173,150
Total current liabilities	396,754	439,632
Minority interests	11,909	10,446
Shareholders' equity		
Common stock, par value $.10 per share		
Authorized - 600,000,000 shares		
Issued - 326,159,290 shares-July		
326,593,911 shares-October	32,616	32,659
Additional paid in capital	34,658	-
Retained earnings	1,364,558	1,432,624
Accumulated other comprehensive income	(17,174)	35,189
Other	(30,607)	(8,231)
Total shareholders' equity	1,384,051	1,492,241
Total liabilities and shareholders' equity	$1,792,714	$ 1,942,319

See notes to consolidated unaudited condensed financial statements.

NOVELL, INC.
CONSOLIDATED UNAUDITED CONDENSED STATEMENTS OF INCOME

Dollars in thousands, except per share data	Fiscal Quarter Ended Jul. 31, 2000	Fiscal Quarter Ended Jul. 31, 1999	Nine Months Ended Jul. 31, 2000	Nine Months Ended Jul. 31, 1999
Net sales	$ 270,019	$ 326,808	$ 888,411	$ 928,266
Cost of sales	85,547	76,089	249,145	223,223
Gross profit	184,472	250,719	639,266	705,043
Operating expenses				
Sales and marketing	123,991	108,806	364,054	320,647
Product development	60,574	58,782	180,611	174,068
General and administrative	18,790	20,692	58,715	62,102
Total operating expenses	203,355	188,280	603,380	556,817
Income (loss) from operations	(18,883)	62,439	35,886	148,226
Other income (expense)				
Investment income	32,892	10,260	87,470	30,676
Other, net	(2,105)	(4,211)	(6,097)	(16,491)
Other income, net	30,787	6,049	81,373	14,185
Income before taxes	11,904	68,488	117,259	162,411
Income taxes	3,332	19,177	32,832	45,476
Net income	$ 8,572	$ 49,311	$ 84,427	$ 116,935
Weighted average shares outstanding				
Basic	325,315	334,488	326,336	335,735
Diluted	327,259	350,951	336,970	351,196
Net income per share				
Basic	$ 0.03	$ 0.15	$ 0.26	$ 0.35
Diluted	$ 0.03	$ 0.14	$ 0.25	$ 0.33

See notes to consolidated unaudited condensed financial statements.

NOVELL, INC.
CONSOLIDATED UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

Dollars in thousands	Nine Months Ended Jul. 31, 2000	Nine Months Ended Jul. 31, 1999
Cash flows from operating activities		
Net income	$ 84,427	$ 116,935
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	61,982	47,517
Stock plans' income tax benefits	61,453	46,972
Decrease in receivables	70,507	11,916
Decrease in inventories	538	617
Decrease in prepaid expenses	17,475	14,960
Decrease in deferred and refundable income taxes	31,144	20,711
Decrease in other current assets	7,221	2,541
(Decrease) in current liabilities, net	(42,878)	(14,159)
Net cash provided from operating activities	291,869	248,010
Cash flows from financing activities		
Issuance of common stock, net	74,545	79,832
Repurchase of common stock	(301,011)	(203,638)
Net cash used by financing activities	(226,466)	(123,806)
Cash flows from investing activities		
Expenditures for property, plant and equipment	(43,359)	(50,988)
Proceed from sale of property, plant and equipment	33,079	-
Purchases of short-term investments	(701,969)	(1,597,672)
Maturities of short-term investments	626,277	1,190,733
Sales of short-term investments	330,666	552,468
Expenditures for other long-term investments	(186,780)	(35,022)
Increase in restricted cash	(36,881)	(77,195)
Other	851	1,608
Net cash provided (used) by investing activities	21,884	(16,068)
Total increase (decrease) in cash and cash equivalents	87,287	108,136
Cash and cash equivalents - beginning of period	274,269	155,493
Cash and cash equivalents - end of period	361,556	263,629
Short-term investments - end of period	315,086	728,572
Cash and short-term investments - end of period	$ 676,642	$ 992,201
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.

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

Marketable debt and equity securities that are included in cash and short-term investments 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.

(Dollars in thousands)	Cost at Jul. 31, 2000	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value at Jul. 31, 2000
Cash and cash equivalents				
Cash	$ 100,831	$ –	$ –	$ 100,831
Money market fund	260,725	–	–	260,725
Cash and cash equivalents	361,556	–	–	361,556
Short-term investments				
Corporate Notes and Bonds	46,216	104	–	46,320
Municipal securities	181,936	–	(1,936)	180,000
Mutual funds	52,713	1	(4,128)	48,586
Equity securities	23,815	22,639	(6,274)	40,180
Short-term investments	304,680	22,744	(12,338)	315,086
Cash and short-term investments	$ 666,236	$ 22,744	$ (12,338)	$ 676,642

(Dollars in thousands)	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 nine months of fiscal 2000 the Company realized gains of $52.7 million and realized losses of $1.6 million on the sale of securities compared to realized gains of $49.4 million and realized losses of $56.3 million in the first nine 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. 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 July 31, 2000, there were $33.8 million in unrealized losses on long-term investments.

D. Income Taxes

The Company's estimated effective tax rate for the first nine months of fiscal 2000 was 28.0%, the same as in the first nine months of fiscal 1999. The Company paid cash amounts for income taxes of $21.3 million in the first nine months of fiscal 2000 and $5.5 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 July 31, 2000 borrowings, letter of credit acceptances or commitments of approximately $1.9 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 July 31, 2000 there were no standby letters of credit 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 funded $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 July 31, 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 July 31, 2000 was approximately $223.0 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

Revenue by product category	Fiscal Quarter Ended		Nine Months Ended	
	Jul. 31,	Jul. 31,	Jul. 31,	Jul. 31,
Dollars in thousands	2000	1999	2000	1999
Directory-enabled server platforms	$ 119,966	$ 169,266	$ 389,648	$ 483,910
Directory-enabled applications	78,144	80,148	237,098	225,501
Service, education and consulting	55,556	49,054	161,936	130,487
Pre-directory product revenue	16,353	28,340	99,729	88,368
Total net sales	$ 270,019	$ 326,808	$ 888,411	$ 928,266

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.

For the first nine months of fiscal 2000 and fiscal 1999, sales to international customers were approximately $385 million and $421 million, respectively. In the first nine months of fiscal 2000 and fiscal 1999, 66% and 71%, 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 nine months of fiscal 2000. One multi-national distributor accounted for 11% of total revenue during the first nine months of fiscal 1999.

G. Net Income Per Share

	Fiscal Quarter Ended		Nine Months Ended	
	Jul. 31,	Jul. 31,	Jul. 31,	Jul. 31,
Amounts in thousands, except per share data	2000	1999	2000	1999
Basic net income per share computation				
Net income	$ 8,572	$ 49,311	$ 84,427	$ 116,935
Weighted average shares outstanding	325,315	334,488	326,336	335,735
Basic net income per share	$ 0.03	$ 0.15	$ 0.26	$ 0.35
Diluted net income per share computation				
Net income	$ 8,572	$ 49,311	$ 84,427	$ 116,935
Weighted average shares outstanding	325,315	334,488	326,336	335,735
Incremental shares attributable to exercise of outstanding options (treasury stock method)	1,944	16,463	10,634	15,461
Total	327,259	350,951	336,970	351,196
Diluted net income per share	$ 0.03	$ 0.14	$ 0.25	$ 0.33

H. Comprehensive Income

The components of comprehensive income (loss), net of tax, for the quarter and first nine months ended July 31, 2000 and 1999 were as follows:

	Fiscal Quarter Ended		Nine Months Ended	
Dollars in thousands	Jul. 31, 2000	Jul. 31, 1999	Jul. 31, 2000	Jul. 31, 1999
Net income	$ 8,572	$ 49,311	$ 84,427	$ 116,935
Change in net unrealized gain on investments	(32,329)	1,554	(52,110)	22,427
Change in cumulative translation adjustment	(176)	(732)	(253)	(821)
Comprehensive income (loss)	$ (23,933)	$ 50,133	$ 32,064	$ 138,541

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

Dollars in thousands	Jul. 31, 2000	Oct. 31, 1999
Net unrealized gain (loss) on investment	$ (14,348)	$ 37,762
Cumulative translation adjustment	(2,826)	(2,573)
Accumulated other comprehensive income	$ (17,174)	$ 35,189

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.

M. Subsequent Events

On September 6, 2000, the Company announced it was reducing its workforce by approximately 16 percent, writing off certain assets, and implementing cost savings in an effort to improve the Company’s business performance and to free up dollars to spend on key sales, marketing and development initiatives. The Company anticipates taking a restructuring charge related to these actions of approximately $40 to $50 million in its fourth fiscal quarter of 2000.

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," 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, Inc., is a leading provider of Net services software that delivers services to secure and power all types of networks—the Internet, intranets, and extranets; wired to wireless; corporate and public—across leading operating systems. Novell's Net services software provides the foundation for one Net—a single global network that supports new applications and forms of business. Worldwide channel, consulting, education and technical support programs, along with strategic alliances, combine Novell Net services software with third-party products and services to form complete Net solutions.

Results of Operations

Net Sales

	Q3 2000	Chg	Q3 1999	YTD 2000	Chg	YTD 1999
Net sales (thousands)	$ 270,019	(17.4)%	$ 326,808	$ 888,411	(4.3)%	$928,266

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 $49.3 million or 29% in the third quarter of 2000 compared to the third quarter of 1999. Year-to-date, directory-enabled server platform revenue decreased $94.3 million or 20%. These decreases are due primarily to the decline in the Company's packaged software business, which saw a decline in sales of 63% from the prior year third quarter and 54% year-to-date compared to the same period of 1999. Lower packaged software sales resulted from:

- the Company's focus on building a direct sales force and organizational changes,
- inadequate attention by the Company to its channel resellers in generating demand, training and support for Novell products, and
- the launch of competitor products, which shifted reseller's training and promoting efforts from Novell's products.

In addition, the Company believes that a portion of the decline was due to lower demand related to post Y2K purchases.

Revenue from the directory-enabled applications products was $78.1 million in the third quarter of 2000 compared to $80.1 million in the third quarter of 1999. The 2.5% decrease was mainly due to decreased sales of the Company's management and collaboration products and NetWare for SAA, offset slightly by increased sales of Border Manager. At the end of the third quarter 2000, year-to-date directory-enabled applications product revenue was $237.1 million compared to $225.5 million for the same period of 1999. The increase in year-to-date revenue was driven by increased sales of management & collaboration products, Border Manager, NDS for NT and Solaris, and Single Sign-on, slightly offset by a decrease in NetWare for SAA.

Service, education and consulting revenues were $55.6 million and $49.1 million in the third quarter of 2000 and 1999, respectively. Year-to-date service, education and consulting revenues were $161.9 million and $130.5 million, in 2000 and 1999, respectively. The increase in the third 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 $16.4 million in the third quarter of 2000 compared to $28.3 million in the third quarter of 1999. Pre-directory products revenue year-to-date 2000 was $99.7 million compared to $88.4 million for the same period of 1999. The decrease in revenue from third quarter 1999 to 2000 was primarily due to the discontinuation of NetWare 3 products. The increase in year-to-date revenue was primarily the result of a $35.5 million royalty payment from Caldera, Inc., the principal portion of which relates to an antitrust settlement between Caldera, Inc. and Microsoft recorded in the second quarter of fiscal 2000, and higher royalty revenue related to the UNIX royalties. Without the Caldera revenue, year-to-date pre-directory products revenue would have decreased $24.2 million or 27% year-to-date compared to the same period of 1999. This decrease was due primarily to the lower sales through channel resellers and the announced discontinuation of the NetWare 3 products.

International sales represented 43% of total sales in the first nine months of 2000 compared to 45% in the first nine months of fiscal 1999. Without the effects of the Caldera revenue recorded in the U.S., international sales represented 45% of total sales in the first nine months of 2000. During the first nine months of fiscal 2000, international revenue decreased 8% and domestic revenue, excluding Caldera, decreased 8% compared to the same period of 1999. Internationally, weak sales in Europe more than offset increased sales in Japan and Canada causing the decline.

The Company is currently addressing the decline in sales, particularly the decrease in channel sales, in an effort to improve results in future periods. The Company has reorganized their sales force and product groups to better service its customers and to focus it resources on taking advantage of new opportunities . The Company anticipates these changes will take a couple of quarters to fully implement before realizing the benefits from these changes.

Gross Profit

	Q3 2000	Chg	Q3 1999	YTD 2000	Chg	YTD 1999
Gross profit (thousands)	$184,472	(26.4)%	$250,719	$639,266	(9.3)%	$705,043
Percentage of net sales	68.3%		76.7%	72.0%		76.0%

Gross profit as a percentage of sales decreased in the third 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. Year-to-date, these increases were slightly offset by the effects of the Caldera revenue and lower royalty costs. Excluding the Caldera revenue, gross profit as a percentage of sales would have been 70.1% year-to-date 2000.

Operating Expenses

	Q3 2000	Chg	Q3 1999	YTD 2000	Chg	YTD 1999
Sales and marketing (thousands)	$ 123,991	14.0%	$108,806	$364,054	13.5%	$320,647
Percentage of net sales	45.9%		33.3%	41.0%		34.5%
Product development (thousands)	$ 60,574	3.0%	$ 58,782	$180,611	3.8%	$174,068
Percentage of net sales	22.4%		18.0%	20.3%		18.8%
General and administrative (thousands)	$ 18,790	(9.2)%	$ 20,692	$ 58,715	(5.5)%	$ 62,102
Percentage of net sales	7.0%		6.3%	6.6%		6.7%
Total operating expenses (thousands)	$ 203,355	8.0%	$188,280	$603,380	8.4%	$556,817
Percentage of net sales	75.3%		57.6%	67.9%		60.0%

Sales and marketing expenses increased by $15.2 million, in the third quarter of fiscal 2000 and by $43.4 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 increased its sales and marketing expenditures, where appropriate, in an effort to focus on improving future sales growth by reorganizing these groups around new geographies, solution selling, channel support and new product groups. Lower sales during fiscal 2000 caused sales and marketing expenses as a percentage of sales to increase.

Product development expenses increased $1.8 million in the third quarter and $6.5 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 third quarter and year-to-date 2000 due to lower sales levels.

General and administrative expenses decreased in total during the third quarter of fiscal 2000 compared to the third quarter of fiscal 1999, primarily due to lower operating costs, slightly offset by increased bad debt expense. Decreased sales levels in fiscal 2000 caused general and administrative expenses as a percentage of sales to increase in the third quarter of fiscal 2000 compared to the same period of fiscal 1999. 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.

On September 6, 2000, the Company announced it was reducing its workforce by approximately 16 percent, writing off certain assets, and implementing cost savings in an effort to improve the Company's business performance and to free up dollars to spend on key sales, marketing and development initiatives. The Company anticipates taking a restructuring charge related to these actions of approximately $40 to $50 million in its fourth fiscal quarter of 2000.

Workforce reductions are estimated to affect 900 positions and overall quarterly cost of doing business is expected to decrease by approximately $25 million beginning in the first fiscal quarter of 2001. Total quarterly savings from the restructuring are approximately $45 million, but increased spending on Net service related initiatives will offset approximately $20 million of the initial quarterly savings.

	YTD 2000	Change	YTD 1999
Employees	5,479	5.3%	5,204
Annualized revenue per average employee (000's)	$ 222	(12.9)%	$255
Annualized net income per average employee (000's)	$ 21.0	(34.6)%	$32.1

Headcount increased from the third quarter of 1999 to the third quarter of 2000, primarily due to increases in the education, consulting, worldwide sales, and product development areas.

Other Income, Net

	Q3 2000	Chg	Q3 1999	YTD 2000	Chg	YTD 1999
Other income, net (thousands)	$ 30,787	409.0%	$6,049	$ 81,373	473.7%	$14,185
Percentage of net sales	11.4%		1.9%	9.2%		1.5%

The primary component of other income, net is investment income, which was $32.9 million in the third quarter of fiscal

2000 compared to $10.3 million in the third quarter of fiscal 1999. Year-to-date investment income was $87.5 million in 2000 compared to $30.1 million in 1999. Included in investment income during the first nine months of 2000 were realized capital losses of $1.6 million and realized capital gains of $52.7 million. During the first nine months of 1999, realized capital losses were $56.3 million and realized capital gains were $49.4 million.

In addition to investment income, the Company recognized a gain on foreign currency and higher sublease income from an increase in subleases in fiscal 2000. This additional income was slightly offset by higher losses on fixed asset sales during the third quarter of fiscal 2000. During the first nine months of fiscal 1999, the Company incurred a loss on foreign currency and increased miscellaneous expenses related to the write-off of certain long-term investments.

Income Taxes

	Q3 2000	Chg	Q3 1999	YTD 2000	Chg	YTD 1999
Income taxes (thousands)	$ 3,332	(82.6)%	$19,177	$ 32,832	(27.8)%	$45,476
Percentage of net sales	1.2%		5.9%	3.7%		4.9%
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

	Q3 2000	Chg	Q3 1999	YTD 2000	Chg	YTD 1999
Net income (thousands)	$8,572	(82.6)%	$49,311	$84,427	(27.8)%	$116,935
Percentage of net sales	3.2%		15.1%	9.5%		12.6%
Net income per share - basic	$0.03		$0.15	$0.26		$0.35
Net income per share - diluted	$0.03		$0.14	$0.25		$0.33

Liquidity and Capital Resources

	Q3 2000	Change	Q4 1999
Cash and short-term investments (thousands)	$676,642	(24.4)%	$895,404
Percentage of total assets	37.7%		46.1%

Cash and short-term investments decreased by $218.8 million at July 31, 2000 from $895.4 million at October 31, 1999. During the first nine months of fiscal 2000, cash and short-term investments decreased due to cash outflows of $301.0 million for the repurchase of common stock, $237.0 million for net purchases of long-term investments and other long term investing activities, $36.9 million to increase collateral associated with certain long-term investments, and $43.4 million to purchase property, plant and equipment. These cash outflows were offset by $291.9 million provided from operating activities, $74.5 million from the issuance of common stock, and $33.1 million cash received from the sale of certain facilities in Orem, Utah.

The Company’s investment portfolio includes equity securities with gross unrealized gains of $22.7 million and gross unrealized losses of $46.2 million as of July 31, 2000. Included in the Company’s unrealized losses at July 31, 2000 was the Company’s investment in marchFIRST, Inc., which had unrealized losses of $33.8 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 July 31, 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 nine 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 $65.0 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 outstanding shares of the Company’s common stock through October 31, 2000. During the first half of fiscal 2000, 10.6 million shares were repurchased under this plan at a total cost of $301.0 million completing the repurchases under this plan. In August 2000, the Board of Directors authorized up to an additional $500 million for the repurchase of additional outstanding shares.

As the Company continues to consolidate its Utah operations to its Provo facility, the properties currently owned and occupied in Orem, Utah become unnecessary and are being sold. 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: changes in business conditions and the general economy; competitive factors such as rival operating systems, the Company’s ability to respond and correct problems with declining sales through channel distributors, customer 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. In addition, there is no certainty that the changes the Company is making to address declining sales and efforts to reduce expenses will result in increased sales, lower overall expenses or increased profitability in future periods.

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.

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 July 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 $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 $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 $7 million decrease in the fair value of the Company's available-for-sale securities.

The Company is also exposed to market risk related to certain of its long-term investments. These include investments in start-up software and internet companies, long-term equity securities and venture capital funds. The Company typically does not attempt to reduce or eliminate its market exposure on these investments. If these investments were permanently impaired, a 10% adverse change in the market value of these investments could result in an approximate $19 million decrease in the value of the Company's recorded investments.

All of the potential changes noted above are based on sensitivity analyses performed on the Company's financial position at July 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 E 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

The Company held its Annual Meeting of Shareholders on April 11, 2000 for the following purposes:

1. To elect nine directors.
2. To approve the adoption of the Novell, Inc. 2000 Stock Plan.
3. To ratify the appointment of Ernst & Young, LLP, as independent auditors for Novell, Inc.

The following tables set forth the outcome of the matters voted upon at the meeting and the number of votes cast for, against or withheld.

Proposal #1
Election of Directors

	Votes For	Votes Withheld
Eric. E. Schmidt	293,659,694	2,045,422
John A. Young	293,522,735	2,182,381
Elaine R. Bond	293,493,148	2,211,968
Hans-Warner Hector	293,609,792	2,095,324
Reed E. Hundt	293,572,124	2,132,992
William N. Joy	293,650,262	2,054,854
Jack L. Messman	293,519,313	2,185,803
Richard L. Nolan	293,588,508	2,116,608
Larry W. Sonsini	254,405,846	41,299,270

Proposal #2
To approve the adoption of the Novell, Inc 2000 Stock Plan

Votes For	Votes Against	Votes Abstained
193,301,545	100,392,858	2,011,751

Proposal #3
To ratify the appointment of Ernst & Young, LLP, as independent auditors for Novell, Inc.

Votes For	Votes Against	Votes Abstained
293,638,940	1,123,079	944,285

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

(a) Exhibits

Exhibit Number	Description
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 July 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: September 13, 2000

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

Date: September 13, 2000

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

Date: September 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: September 13, 2000

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

Date: September 13, 2000

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

Date: September 13, 2000

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