
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended October 31, 1999

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)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value \$.10 per share
Preferred Share Purchase Rights

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the registrant's common stock held by nonaffiliates on December 31, 1999 (based on the last reported price of the Common Stock on the NASDAQ National Market System on such date) was \$12,991,771,310.

As of December 31, 1999 there were 326,533,928 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Annual Report to Shareholders for the fiscal year ended October 31, 1999, are incorporated by reference in Parts II and IV of this Form 10-K to the extent stated herein. Portions of Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 11, 2000, are incorporated by reference in Part III of this Form 10-K to the extent stated herein.

PART I

In addition to historical information, this Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. As contained herein, the words "expects," "anticipates," "believes," "intends," "will," and similar types of expressions identify forward-looking statements, which are based on information that is currently available to the Company, speak only as of the date hereof, and are subject to certain risks and uncertainties. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or to reflect any change in events, conditions, or circumstances on which any such forward-looking statement is based, in whole or in part. The Company's actual results may differ materially from the results discussed in such forward-looking statements. Factors that may cause such a difference include but are certainly not limited to, those discussed in the sections below entitled "Competition" and "Additional Factors Affecting Earnings and Stock Price." Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by the Company in 2000. All period references are to the Company's fiscal years ended October 31, 1999, 1998, and 1997, unless otherwise indicated.

Item 1. Business

The Company

Novell is a leading provider of network and Internet directory software and services. Novell Internet solutions make networks more manageable and secure, integrating the complete range of computer platforms, applications, services and devices, and they reduce the total cost of ownership for organizations of every kind and size. Novell's worldwide channel, developer, education, consulting and technical support programs are among the most extensive in the network computing industry.

The Company was incorporated in Delaware on January 25, 1983. Novell's executive offices are located at 122 East 1700 South, Provo, Utah 84606. Its telephone number at that address is (801) 861-7000.

The Company markets its products through 38 U.S. and 64 international sales offices. The Company sells its products to end users through licensing agreements as well as through distributors and national retail chains, who in turn sell the Company's products to retail dealers. The Company also sells its products to OEMs, system integrators, and value added resellers (VARs).

The Company primarily conducts product development activities in San Jose, California; Provo and Orem, Utah, and India. It also contracts out some product development activities to third-party developers.

Changes in the economic and business environment for network software have occurred in the last several years, which have led to strategic and operational changes at Novell. The Company has evolved its business to focus on software applications which leverage network capabilities and capitalize on the growth of the Internet. With products like NetWare 5 and Novell Directory Services (NDS), Novell continues to expand in Internet directory products based on open standards. The Company's education and training, service and support, and consulting areas continued to grow as the Company retained its position of being the leading expert in providing these services.

In fiscal 1999, the Company continued its focus on delivering new products consistent with its strategy and enjoyed the benefits of a lower cost and restructured organization. The results were significant. The Company delivered a number of new applications, utilizing directory technology, which robustly captures the benefits of networking and the Internet. New software delivery technologies have enabled the Company to continue its shift from heavy reliance on physical distribution of product toward lower cost licensing agreements. Indirect distribution channel product shipments, which includes revenue from individually boxed products sold by computer resellers and systems integrators, education materials, and support and consulting services not included in site-license contracts, accounted for only approximately one-third of total revenue in 1999.

Fiscal 1999 also saw a continued growth in earnings, incrementally every quarter. Through operational control, rigorous business practices, and improved internal management systems, expense structures were reduced as a percentage of revenue and moved closer to leading software company benchmarks. These expense controls were complemented by sequential revenue growth each quarter of fiscal 1999.

Business Strategy

Novell provides standards-based network software for intranets and the Internet. The Internet has accelerated the pace at which networks are becoming a strategic asset for business, becoming the primary provider of a vast range of services essential to business including personal communications, publishing of information, supply chain management and electronic transactions. Novell provides network software to make these services available to network users wherever and whenever they are needed, more quickly and at a lower cost than ever before. The Company's network solutions enable businesses to protect and expand their investments in these services in an increasingly networked world.

Novell's network solutions provide essential network management, messaging and groupware capabilities integrated through Novell's industry leading directory services. Networks are inherently a varied mix of infrastructure, computer systems, applications and other devices. Novell software provides the framework and applications for managing, maintaining and accessing the information and services of these networks.

Novell has oriented all of its products to Internet standards, enabling customers to increase the performance of traditional local and wide area networks. Today, businesses are rapidly developing corporate intranets that leverage the broad range of capabilities of the Internet.

Technologies

Establishing Novell Directory Services as a de facto industry standard. Novell Directory Services (NDS) is a key part of Novell's strategy for providing unique value in business intranets and the Internet. NDS can maintain a replicated database of users, network equipment, computer systems, applications, files and other network resources. It provides distributed access control that can be centrally administered, security, management and administration of information resources across computer networks. NDS is integrated with the company's NetWare 4 and 5 server operating systems and Novell also provides NDS for NT that integrates with Microsoft's Windows NT, and NDS for Solaris and others that integrate with various other operating systems. NDS provides full support for Internet protocols, including the lightweight directory access protocol (LDAP). With NDS on leading server platforms, Novell and its partners will provide value-added network services software that uses the directory as a foundation. Novell's ZENworks is an example. ZENworks allows customers to manage desktops throughout their network from Novell's directory. ZENworks has become one of Novell's fastest growing products.

Netware 5. In 1998, Novell released Netware 5, a major update to its networking platform. Netware 5 includes a new microkernel, support for record-breaking Java server-side execution, a next generation file system, and Novell Distributed Print Services. Netware 5 joined Netware 4.2 and Netware 3.2 as Year 2000 ready solutions for Novell customers.

Providing Novell Directory Services for the Internet. Novell's BorderManager product leverages NDS to authenticate trusted users and provide them with remote access and Virtual Private Networking (VPN) services across BorderManager's firewall. BorderManager also accelerates web page access across the Internet through its very fast caching technology. By using the cache in reverse mode, in front of a web server, about 10,000 web hits per second can be accommodated.

Providing value-added network services software for business intranets and the Internet. Novell delivers network services that run on a company's NetWare network operating system for business intranets and the Internet. These network services add value to the network by reducing costs of ownership and administration, simplifying management tasks for administrators, and making access to network-based information easier for end users. In the first release of NetWare, network services encompassed only file and print. Over the past decade, network services provided by Novell have expanded to include host communications, network management, collaboration and messaging, Web services, security, and advanced file and print.

Providing network applications for network solutions. GroupWise is Novell's leading network application for end users, providing electronic mail, calendaring, scheduling, and task and document management features. In 1998, the Company expanded the functionality of GroupWise by including extended document management capabilities and web publishing features. ManageWise is the leading management software offering for managing all network resources from the servers that run NetWare and NT server operating systems to the clients, computers, and other devices that access information resources. To provide complete network management solutions, ManageWise integrates with leading enterprise management products.

Programs

Technical Support Alliance. In May 1991, Novell announced the formation of the Technical Support Alliance (TSA), with 40 current members including Apple, Compaq, Hewlett-Packard, Intel, IBM, Lotus, Microsoft, and Oracle. The TSA was organized to provide one-stop multi-vendor support. Member companies provide cooperative efforts to support their customers.

Certified Novell Engineer Program. Through the Certified Novell Engineer (CNE) program, Novell is strengthening the networking industry's Level I support self-sufficiency. CNEs are individuals who receive high-level training, information, and advanced technical telephone support (Level II) from Novell. CNEs may be employed by resellers, independent support organizations, or Novell Support Organizations (NSOs). The NSO program pools the capabilities of the industry's best support providers. NSOs have contractual agreements with Novell that are designed to ensure quality service on a national or global level for NetWare and other Novell products.

Novell Authorized Education Centers. Novell offers education to end users through nearly 1,300 independent Novell Authorized Education Centers (NAECs) worldwide, which use Novell-developed courses to instruct students in the use and maintenance of Novell products. Novell also offers self-paced training products.

Strategic Relationships

Development Partners. When customers request that Novell add a new service or function to its products, Novell investigates the most effective way to deliver that functionality to the user. In certain situations, Novell will determine that the best way to add a new service or function to its products is to form a strategic relationship with a company that has expertise in that area. By forming strategic relationships, the combination of Novell's core expertise in networks and the strategic partner's expertise in the given product area combine to deliver a better solution faster than if Novell attempted to develop it alone.

Systems Partners. Novell forms strategic relationships with companies who have complementary software and hardware. The resulting solution is a powerful combination of products that deliver enterprise-wide connectivity solutions. These strategic partners include system suppliers like IBM, Compaq, DEC and HP, as well as system integration experts like Memorex Telex, Arthur Andersen, and EDS.

Application Partners. Novell works closely with application developers to provide integrated software products and support for end users. As network applications grow in importance, this program will help assure broad availability of well integrated, multi-vendor applications.

Enterprise Consulting Partners. Leading systems integrators and consulting organizations work with Novell to deliver distributed client/server solutions for customers with large enterprise-wide networks.

In November 1999, Novell and Whittman-Hart, Inc., formed a strategic alliance to accelerate the deployment of Novell Directory Services (NDS) in enterprise and e-business solutions. The alliance will enable both companies to satisfy the needs of mid-sized businesses for secure, manageable e-business solutions that span the enterprise and the Internet. In connection with this alliance, Novell invested \$100 million in Whittman-Hart in exchange for shares of Whittman-Hart's common stock. In addition, the companies agreed to jointly develop customized NDS solutions for mid-sized businesses. Further, Whittman-Hart agreed to establish a "Solutions Development Center" to train employees in regard to these solutions and demonstrate them to customers, and Whittman-Hart will train over 600 consultants in NDS and other Novell-related solutions, including qualification of these consultants as Novell Certified Directory EngineersSM.

Multiple Channel Distribution Network. The Company markets and delivers its products through a broad range of distributors, dealers, value-added resellers, systems integrators, and OEMs as well as to major end users.

Worldwide Service and Support. The Company is a global corporation, servicing its customers from offices located throughout the world. It is committed to providing service and support on a worldwide basis to its resellers and to their end-user customers. The Company has established agreements with third-party service vendors to expand and complement the service provided directly by the Company's service personnel and the Company's resellers.

Novell Products

The Company's products work together, interoperate with thousands of third-party solutions, and span data networks from workgroup LANs to the Internet.

Directory-Enabled Server Operating Systems, or Net Services Software

Novell is known for delivering proven network reliability, scalability, performance, and security, backed by the largest support infrastructure in the world — delivering up to 23 days a year more server uptime for users. Products include: NetWare 5, NetWare for Small Business, and NetWare 4.

Directory-enabled Applications

Network Infrastructure— The directory enables businesses to manage their entire heterogeneous network as a single, unified entity, all from a centralized location. Tasks that used to take hours can now be done in a few minutes. Products include: Novell Directory Services (NDS), NDS for NT, and NDS for Solaris.

Novell can help expand networks to branch offices, into intranets, and the Internet to get the most out of networks. But more importantly, Novell products can keep these connections fast and secure. Products include: BorderManager, NetScape Servers for NetWare, intraNetWare HostPublisher, Host Connectivity, and High Availability Servers.

Management— Novell's management tools allow businesses to control and administer most aspects of their network from one central site. Network administrators can change users, perform routine administration duties, and even roll out software to users. Products include: ManageWise, ZENworks, and ConsoleOne.

Collaboration — One of the best assets a company has is the collective knowledge of its employees. Novell's products are designed to allow users to share files, send e-mails, manage documents and publish documents to the Internet so as to enable a company to leverage the collective knowledge of its employees. Products include: GroupWise, GroupWise WebPublisher, NetWare NFS Services, Replication Services, and Novell Distributed Print Services.

Product Development

Due to the rapid pace of technological change in its industry, the Company believes that its future success will depend, in part, on its ability to enhance and develop its software products to satisfactorily meet dynamic market needs.

During fiscal 1999, 1998, and 1997, product development expenses were approximately \$228 million, \$236 million and \$301 million, respectively. The Company's product development effort consists primarily of work performed by employees; however, the Company also utilizes third-party technology partners to assist with product development.

Sales and Marketing

Novell markets its networking products through distributors, dealers, vertical market resellers, systems integrators, and OEMs who meet the Company's criteria, as well as to major end users. In addition, the Company conducts sales and marketing activities and provides technical support, training, and field service to its customers from its offices in San Jose, California; Provo and Orem, Utah; and from its 37 U.S. and 64 international sales offices.

Distributors. Novell has established a network of independent distributors, which resell the Company's products to dealers, VARs, and computer retail outlets. As of December 31, 1999, there were approximately 10 U.S. distributors and approximately 120 international distributors.

Dealers. The Company also markets its products to large-volume dealers and regional and national computer retail chains.

VARs and Systems Integrators. Novell also sells directly to VARs and systems integrators who market data processing systems to vertical markets, and whose volume of purchases warrants buying directly from the Company.

OEMs. The Company licenses its systems software to domestic and international OEMs for integration with their products.

End Users. Generally, the Company refers prospective end-user customers to its resellers. However, the Company has the internal resources to work directly with major end users and has developed U.S. and international master license agreements with

approximately 1,100 of them to date. Additionally, some upgrade products are sold directly to end users. Customers can also purchase a few limited products and services through Novell's commercial website, "Shop Novell", or be directed to a Dealer, and or Reseller near their geographic location.

International Sales. In fiscal 1999, 1998, and 1997, approximately 45%, 42%, and 44%, respectively, of the Company's net sales were to customers outside the U.S. To date, substantially all international sales except Japanese sales, Indian sales, and certain European sales to non-multinational distributors that were shipped from its distribution center in Dublin, Ireland have been invoiced by the Company in U.S. dollars. In fiscal 2000, the Company anticipates that a large portion of international revenues will continue to be invoiced in U.S. dollars. The exceptions to the U.S. dollar invoicing will be Japanese sales through the Company's joint venture in Japan, Indian sales through the Company's joint venture in India and certain sales from its distribution center in Dublin, Ireland. No one foreign country accounted for more than 10% of net sales in any period. In fiscal 1999, 1998 and 1997, the Company had one multinational distributor, which accounted for 11%, 15% and 11% of revenue, respectively. Otherwise, no customer accounted for more than 10% of revenue in any period.

Marketing. The Company's marketing activities include distribution of sales literature and press releases, advertising, periodic product announcements, support of NetWare user groups, publication of technical and other articles in the trade press, and participation in industry seminars, conferences, and trade shows. The marketing departments of the Company employ many technical laboratories, which test and evaluate networked computer equipment and individual devices. The knowledge derived from these laboratories is the basis for the technical literature published by the Company. These activities are designed to educate the market about networks in general, as well as to promote the Company's products. Through the Professional Developers Program, the Company strongly supports independent software and hardware vendors in developing products that work on Novell networks. Thousands of multiuser application software packages are now compatible with the NetWare operating system. In March 1999, the fourteenth annual BrainShare Conference was held to inform and educate developers about Novell product strategy, Novell open architecture programming interfaces, and Novell third-party product certification programs.

Customer Services

Novell's Customer Services is composed of Technical Services, Education and Consulting Services. The Technical Services Group has an established infrastructure worldwide with support centers in the United States, Europe and Asia. These centers are World Class and have established quality standards with ISO 9001 certification around the world. Novell Technical Services offers a wide variety of flexible support offerings.

Novell Education is the pioneer in the networking certification arena. Novell Education has issued over 580,000 certifications at its customer and partner sites around the world. Novell education continues to pioneer the certification process with new programs focused on Novell's Directory and on the Internet, we now offer a Certified Directory Engineer (CDE) certification program. Education has also established quality standards and recently gained ISO 9001 certification.

Novell consulting is responsible for delivering advanced consultative expertise to Novell's customers and partners throughout the world. Novell Consulting, using proven methodologies, designs and delivers technology-based business solutions focusing on intranet, and e-Business. Consulting also delivers expertise in design, planning, and implementation of the traditional Novell award-winning products.

Manufacturing Suppliers

The Company's products, which consist primarily of software diskettes and manuals, are duplicated by outside vendors. This allows the Company to minimize the need for expensive capital equipment in an industry in which multiple high-volume manufacturers are available.

Backlog

Lead times for the Company's products are typically short. Consequently, the Company does not believe that backlog is a reliable indicator of future sales or earnings. The Company's practice is to ship its products promptly upon the receipt of purchase orders from its customers and, therefore, backlog is not significant.

Competition

Novell competes in the highly competitive market for computer software. Novell believes that the principal competitive factors are technical innovation to meet dynamic market needs, marketing strength, system/performance, customer service and support, reliability, ease of use, and price/performance.

The market for computer software remains competitive due to such factors as Microsoft's presence in all sectors of the software business. The Company does not have the product breadth and market power of Microsoft. Microsoft's ability to ship networking products with features and functionality that are competitive with Novell, together with its ability to offer incentives to customers to purchase certain products in order to obtain favorable sales terms or necessary compatibility or information with respect to other products, may significantly inhibit the Company's ability to grow its business. In addition, as Microsoft creates new operating systems and applications, there can be no assurance that Novell will be able to ensure that its products will be compatible with those of Microsoft.

Additionally, the Company may face competition from other industry companies, which could introduce competitive operating systems. If any of these competing products achieves market acceptance, Novell's business and results of operations could be materially adversely affected.

Copyright, Licenses, Patents and Trademarks

The Company relies on copyright, patent, trade secret and trademark law, as well as provisions in its license, distribution and other agreements in order to protect its intellectual property rights. The Company has been issued what it considers to be valuable patents and has numerous other patents pending. No assurance can be given that the patents pending will be issued or, if issued, will provide protection for the Company's competitive position. The Company has an increasing concern that computer industry companies that have huge financial resources and patent portfolios such as Lucent, AT&T, Microsoft, and IBM, will increasingly assert patent infringement claims against smaller companies such as Novell. While Novell has no reason to think it would not have defensible claims, the cost and time of defending such claims can be significant. Although Novell intends to protect its patent rights vigorously, there can be no assurance that these measures will be successful nor that the claims on any patents held by the Company will be sufficiently broad to protect the Company's technology. In addition, no assurance can be given that any patents issued to the Company will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to the Company. The loss of patent protection on the Company's technology or the circumvention of its patent protection by competitors could have a material adverse effect on the Company's ability to compete successfully in its business.

The software industry is characterized by frequent litigation regarding copyright, patent and other intellectual property rights. The Company has from time to time had infringement claims asserted by third parties against it and its products. While there are no known or pending threatened claims against the Company, the unsatisfactory resolution of which would have a material adverse effect on the Company's results of operations and financial condition, there can be no assurance that such third party claims will not be asserted, or if asserted, will be resolved in a satisfactory manner. In addition, there can be no assurance that third parties will not assert other claims against the Company with respect to any third-party technology. In the event of litigation to determine the validity of any third-party claims, such litigation could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel, whether or not such litigation is determined in favor of the Company.

In the event of an adverse result in any such litigation, the Company could be required to expend significant resources to develop non-infringing technology or to obtain licenses to the technology, which is the subject of the litigation. There can be no assurance that the Company would be successful in such development or that any such licenses would be available. In addition, the laws of certain countries in which Novell's products are or may be developed, manufactured or sold may not protect the Company's products and intellectual property rights to the same extent as the laws of the United States.

Employees

As of December 31, 1999, the Company had 5,629 employees. The functional distribution of its employees was: sales and marketing — 1,755; product development — 1,676; general and administrative — 819; service, support, education, and operations — 1,379. Of these, 1,757 employees are in locations outside the U.S. All other Company personnel are based at the Company's facilities in Utah, California, and various U.S. field offices. None of the employees is represented by a labor union, and the Company considers its employee relations to be excellent.

Competition for qualified personnel in the computer industry is intense. To make a long-term relationship with the Company rewarding, Novell endeavors to give its employees and in some cases its consultants, challenging work, educational opportunities, competitive wages, sales commission plans, bonuses, and opportunities to participate financially in the ownership and success of the Company through stock option and stock purchase plans.

Additional Factors Affecting Earnings and Stock Price

In addition to factors described above under "Competition" which may adversely affect the Company's earnings and stock price, other factors may also adversely affect the Company's earnings and stock price. The ability of the Company to maintain its competitive technological position will depend, in large part, on its ability to attract and retain highly qualified development and managerial personnel. Competition for such personnel is intense and there is a risk of departure due to the competitive environment in the software industry. The loss of a significant group of key personnel would adversely affect the Company's product development efforts.

As is common in the computer software industry, Novell has experienced delays in the introduction of new products due to: the complexity of software products, the need for extensive testing of software to ensure compatibility of new releases with a wide variety of application software and hardware devices, and the need to "debug" products prior to extensive distribution. Significant delays in developing, completing or shipping new or enhanced products would adversely affect the Company.

Moreover, the Company may experience delays in market acceptance of new releases of its products as the Company engages in marketing and education of the user base regarding the advantages and system requirements for the new products and as customers evaluate the advantages and disadvantages of upgrading. The Company has encountered these issues on each major new release of its products, and expects that it will encounter such issues in the future. Novell's ability to achieve desired levels of sales growth depends at least in part on the successful completion, introduction and sale of new versions of its products. There can be no assurance that the Company will be able to respond effectively to technological changes or new product announcements by others, or that the Company's research and development efforts will be successful. Should Novell experience material delays or sales shortfalls with respect to new product releases, the Company's sales and net income could be adversely affected.

Another goal of the Company is to achieve widespread acceptance and adoption of Novell's Directory Services (NDS) and the products and applications that take advantage of directory services. The Company's ability to achieve success with NDS is dependent on a number of factors including but not limited to the following: development of key directory products and upgrades, the acceptance of those products by large industry partners, the marketing of those products through appropriate channels of distribution, and the acceptance of those products in major accounts. The Company has only had limited success in introducing new technologies and there can be no assurance of success with NDS.

The Company's future earnings and stock price could be subject to significant volatility, particularly on a quarterly basis. The Company's revenues and earnings may be unpredictable due to its shipment patterns. As is typical in the software industry, a high percentage of the Company's revenues are expected to be earned in the third month of each fiscal quarter and will tend to be concentrated in the latter half of that month. Accordingly, quarterly financial results will be difficult to predict and quarterly financial results may fall short of anticipated levels. Because the Company's backlog early in a quarter will not generally be large enough to assure that it will meet its revenue targets for any particular quarter, quarterly results may be difficult to predict until the end of the quarter. A shortfall in shipments at the end of any particular quarter may cause the results of that quarter to fall significantly short of anticipated levels. Due to analysts' expectations of continued growth, any such shortfall in earnings can be expected to have an immediate and significant adverse effect on the trading price of Novell's Common Stock in any given period. The past pattern of new product introductions has caused revenues to fluctuate, sometimes significantly, on a quarter-by-quarter basis. Such revenue fluctuations may contribute to the volatility of the trading price of Novell Common Stock in any given period.

In addition, the market prices for securities of software companies have been historically volatile. The market price of Novell Common Stock, in particular, has been subject to wide fluctuations in the past. As a result of the foregoing factors and other factors that may arise in the future, the market price of Novell's Common Stock may be subject to significant fluctuations within a short period of time. These fluctuations may be due to factors specific to the Company, to changes in analysts' earnings estimates, or to factors affecting the computer industry or the securities markets in general.

There is also a substantial risk that Novell will be sued for issues or problems associated with the Year 2000. While Novell has not yet been sued and has made substantial efforts in assuring its shipping products and the products it is currently utilizing internally conform to appropriate Year 2000 design parameters, there can be no assurance that third party claims will not be asserted or, if asserted, would be resolved in a manner satisfactory to Novell. For further discussion of the Company's Year 2000 risks, please refer

to the "Future Results" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 15 through 17 of the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1999.

Item 2. *Properties*

The Company owns and occupies a 1,000,000 square-foot office complex on 99 acres in Orem, Utah, which is used as a product development center and administrative offices, of which approximately 400,000 square-feet is leased to various tenants. It also owns and occupies a 500,000 square-foot office complex, with plans to expand the complex by up to 400,000 square-feet in fiscal 2000, on 46 acres in Provo, Utah, which is used as corporate headquarters and a product development center. Additionally, the Company owns approximately 48 acres of land in San Jose, California on which it leases a 545,000 square-foot office complex which is used as a product development center and administrative offices, of which, approximately 219,000 square-feet is subleased to various tenants. It also owns a 380,000 square-foot manufacturing and distribution facility on 23 acres in Lindon, Utah, all of which is leased to a third party manufacturer. The Company also owns a 100,000 square-foot office building in Herndon, Virginia. The Company occupies approximately 20,000 square-feet of the space in this building and leases the remainder to tenants. The Company also has an Irish subsidiary, which owns a 72,000 square-foot office building in the United Kingdom and leases the building to the Company's United Kingdom subsidiary. The Company also has the capacity to expand on its land in San Jose, California, and in Provo and Orem, Utah.

The Company has subsidiaries in Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Colombia, Czech Republic, Denmark, Finland, France, Germany, Hong Kong, Hungary, India, Ireland, Israel, Italy, Japan, Korea, Mexico, Netherlands, New Zealand, Norway, Panama, Peru, Poland, Portugal, Puerto Rico, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, Uruguay, and Venezuela — each of which leases its facilities.

The Company leases sales and support offices in Arizona, California (5), Colorado, Connecticut, Florida (2), Georgia, Illinois, Massachusetts, Michigan, Minnesota, Missouri (2), New York (2), Ohio (3), Oregon, Pennsylvania (2), Tennessee, Texas (4), Utah, Washington, China, Malaysia, Russia, Taiwan, Thailand, and United Arab Emirates. The Company also leases an office in Berkeley Heights, New Jersey.

The terms of such leases vary from month to month to up to ten years. The Company believes that its existing facilities are adequate to meet its current requirements and it anticipates that suitable additional or substitute space will be available, as necessary, pursuant to terms that are favorable to the Company.

Item 3. *Legal Proceedings*

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 defend vigorously against the allegations. While there can be no assurance as to the ultimate disposition of the lawsuit, 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 additional legal claims arising in the ordinary course of its business. The Company believes the ultimate resolution of these claims will not have a material adverse effect on its financial position, results of operations, or cash flows.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

Executive Officers of the Registrant

Set forth below are the names, ages, titles with Novell, and present and past positions of the persons currently serving as executive officers of Novell.

<u>Name</u>	<u>Age</u>	<u>Has Been Officer</u>		<u>Position or Office</u>
		<u>Since</u>		
Eric E. Schmidt	44	1997		Chairman of the Board and Chief Executive Officer
Ronald E. Heinz, Jr	41	1996		Senior Vice President, Worldwide Sales
Stewart G. Nelson	39	1997		Senior Vice President, Products & Marketing
Richard A. Nortz	55	1997		Senior Vice President, Customer Services
Dennis R. Raney	57	1998		Senior Vice President, Chief Financial Officer (Chief Accounting Officer)

Eric E. Schmidt joined the Company in March 1997 and became Chairman of the Board and Chief Executive Officer in April 1997. Prior to joining Novell, he served as Chief Technology Officer and Corporate Executive Officer at Sun Microsystems, Inc. (Sun). In his 14 years at Sun, he held a range of progressively more responsible executive positions.

Ronald E. Heinz, Jr. joined the Company in February 1989 and has served in various sales and marketing positions including Vice President, North America and Latin America Sales and Marketing. In January 1997 he became Senior Vice President, Worldwide Sales and was elected a corporate officer.

Stewart G. Nelson joined the Company in June 1994 through the WordPerfect merger and has served in various product development positions. In October 1997, he was elected a corporate officer, in June 1998 he became Senior Vice President of Product Development, and in November 1999 he was named as Senior Vice President, Marketing and Products. Prior to joining Novell, he held various product development positions at WordPerfect from 1987 to 1994.

Richard A. Nortz joined the Company in October 1995 as Senior Vice President, Technical Services. In February 1997, he became Senior Vice President, Customer Services and was elected a corporate officer. Prior to joining Novell, he was Senior Vice President for Wang Laboratories' worldwide customer service business from 1991 to 1995, and also spent time as acting General Manager of Wang's European Operations.

Dennis R. Raney joined the Company in March 1998 as Chief Financial Officer and was elected a corporate officer. In June 1998, he became Senior Vice President and Chief Financial Officer. Prior to joining Novell, he was the Chief Financial Officer at QAD, Inc., an enterprise planning company. He also held Chief Financial Officer positions at General Magic and California Microwave. In addition, he was also Senior Vice President and Chief Financial Officer at Bristol-Meyers Squibb Pharmaceutical Group. Prior to this he spent 24 years at Hewlett-Packard in various finance, international and real estate positions.

PART II

Item 5. *Market for Registrant's Common Stock and Related Stockholder Matters*

The information required by Item 5 of Form 10-K is incorporated herein by reference to the information contained in the section captioned "Selected Consolidated Quarterly Financial Data" on page 36 of the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1999.

Item 6. *Selected Financial Data*

The information required by Item 6 of Form 10-K is incorporated herein by reference to the information contained in the section captioned "Selected Consolidated Financial Data" on page 10 of the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1999.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The information required by Item 7 of Form 10-K is incorporated herein by reference to the information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 11 through 18 of the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1999.

Item 8. *Financial Statements and Supplementary Data*

The information required by Item 8 of Form 10-K is incorporated herein by reference to the Company's consolidated financial statements and related notes thereto, together with the report of the independent auditors presented on pages 19 through 35 of the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1999, and to the information contained in the section captioned "Selected Consolidated Quarterly Financial Data" on page 36 of the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1999.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

PART III

Item 10. *Directors and Executive Officers of Registrant*

The information required with respect to identification of directors is incorporated herein by reference to the information contained in the section captioned "Election of Directors" of the Registrant's definitive proxy statement (the "Proxy Statement") for the Annual Meeting of Shareholders to be held April 11, 2000, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended. Information regarding the Registrant's executive officers is set forth above following Item 4 in Part I hereof under the heading entitled "Executive Officers."

Each director and executive officer of the Registrant who is subject to Section 16 of the Securities Exchange Act of 1934 (the "Act") is required by Section 16(a) of the Act to report to the Securities and Exchange Commission by a specified date his or her transactions in the Company's securities. In fiscal 1999, there were compliance exceptions to this requirement, as more fully described in the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" of the Proxy Statement, and such information is hereby incorporated by reference.

Item 11. *Executive Compensation*

The information required by Item 11 of Form 10-K is incorporated by reference to the information contained in the sections captioned "Executive Compensation" of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held April 11, 2000, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

The information required by Item 12 of Form 10-K is incorporated by reference to the information contained in the section captioned "Securities Ownership of Certain Beneficial Owners and Management" of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held April 11, 2000, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Item 13. *Certain Relationships and Related Transactions*

The information required by Item 13 of Form 10-K is incorporated by reference to the information contained in the section captioned "Certain Transactions" of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held April 11, 2000, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Act of 1934, as amended.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements.

The following documents are filed as a part of this Annual Report on Form 10-K for Novell, Inc.:

The Consolidated Financial Statements, the Notes to Consolidated Financial Statements and the Report of Ernst & Young LLP, Independent Auditors, listed below are incorporated herein by reference to pages 19 through 35 of the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1999.

Consolidated Statements of Operations for the fiscal years ended October 31, 1999, October 31, 1998, and October 31, 1997.

Consolidated Balance Sheets at October 31, 1999 and October 31, 1998.

Consolidated Statements of Shareholders' Equity for the fiscal years ended October 31, 1999, October 31, 1998, and October 31, 1997.

Consolidated Statements of Cash Flows for the fiscal years ended October 31, 1999, October 31, 1998, and October 31, 1997.

Notes to Consolidated Financial Statements.

Report of Ernst & Young LLP, Independent Auditors.

2. Financial Statement Schedules:

Page

Schedule II — Valuation and Qualifying Accounts..... 15

Schedules other than that listed above are omitted because they are not required, not applicable or because the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits:

A list of the exhibits required to be filed as part of this report is set forth in the Exhibit Index, which immediately precedes such exhibits, and is incorporated herein by this reference thereto..... 16

(b) **Reports on Form 8-K**

The following reports on Form 8-K were filed by the Registrant during the quarter ended October 31, 1999.

Joint press release between Novell, Inc. and Whittman-Hart, Inc. announcing Novell's investment of \$100 million in Whittman-Hart, and the formation of an alliance between the two companies to jointly develop Novell Directory Services(R) (NDS(R)) solutions for mid-sized businesses, dated as of September 30, 1999 as filed on October 14, 1999.

Preferred Shares Rights Agreement, dated as of December 7, 1988, as amended and restated effective September 20, 1999, by and between Novell, Inc. and ChaseMellon Shareholder Services, L.L.C., as filed on December 12, 1999.

NOVELL, INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
Accounts Receivable Allowance
(In thousands)

	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Return Reserves</u>	<u>Additions Charged to Bad Debt Reserves</u>	<u>Deductions from Return Reserves</u>	<u>Deductions from Bad Debt Reserves</u>	<u>Balance at End of Period</u>
Fiscal year ended October 31, 1997.....	\$ 60,940	\$ 185,545	\$ 4,437	\$ 210,205	\$ 7,664	\$ 33,053
Fiscal year ended October 31, 1998.....	\$ 33,053	\$ 102,513	\$ 1,701	\$ 87,342	\$ 2,004	\$ 47,921
Fiscal year ended October 31, 1999.....	\$ 47,921	\$ 69,713	\$ 3,581	\$ 80,984	\$ 3,913	\$ 36,318

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation, as amended and restated April 23, 1997.(4)(Exhibit 3.1)
3.2	By-Laws, as amended and restated September 21, 1998.(3)(Exhibit 3.1)
4.1	Reference is made to Exhibit 3.1.
4.2	Form of certificate representing the shares of Novell Common Stock.(1)(Exhibit 4.3)
4.3	Preferred Shares Rights Agreement, dated as of December 7, 1988, as amended and restated effective September 20, 1999, by and between the Registrant and ChaseMellon Shareholder Services, L.L.C, filed on December 12, 1999. (15) (Exhibit 1)
10.1	Novell, Inc., Employee Retirement and Savings Plan dated December 8, 1996.(2) (Exhibit 10.9)
10.2	Agreement and Plan of Reorganization dated March 23, 1989, among Novell, Inc.; Lansub Corporation; and Excelan, Inc.(5)(Appendix A)
10.3	Novell, Inc. 1989 Employee Stock Purchase Plan.(6)(Exhibit 4.1)
10.4	Agreement and Plan of Reorganization dated July 16, 1991, among Novell, Inc.; MDAC Corp.; and Digital Research Inc.(7)(Appendix A)
10.5	Novell, Inc. 1991 Stock Plan.(8)(Exhibit 4.1)
10.6	Agreement and Plan of Reorganization and Merger dated February 12, 1993, among Novell, Inc.; Novell Acquisition Corp.; UNIX System Laboratories, Inc.; and American Telephone and Telegraph Company.(9)(Appendix A)
10.7	UNIX System Laboratories, Inc. Stock Option Plan.(10)(Exhibit 4.3)
10.8	Agreement and Plan of Reorganization dated March 21, 1994 and amended May 31, 1994, among Novell, Inc.; Novell Acquisition Corp.; WordPerfect Corporation, Alan C. Ashton, Bruce W. Bastian, and Melanie L. Bastian.(11)(Appendix A & Exhibit 1.1)
10.9	Novell, Inc. Novell/WordPerfect Stock Plan.(12)(Exhibit 10.1)
10.10	Novell, Inc. Stock Option Plan for Non-Employee Directors.(13) (Exhibit 4.1)
10.11	Novell, Inc. 1997 Non-Statutory Stock Option Plan.(14) (Exhibit 4.1)
13	Company's Annual Report to Shareholders for the fiscal year ended October 31, 1999.(16)
21	Subsidiaries of the Registrant.(16)
23.1	Consent of Ernst & Young LLP, independent auditors.(16)
27	Financial Data Schedule.(16)

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- (1) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Registration Statement on Form S-1, filed November 30, 1984, and amendments thereto (File No. 2-94613).
 - (2) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Annual Report on Form 10-K, filed for the fiscal year ended October 25, 1986 (File No. 0-13351).
 - (3) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Current Report on Form 8-K, dated November 20, 1998 (File No. 0-13351).
 - (4) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Annual Report on Form 10-K, filed for the fiscal year ended October 29, 1988 (File No. 0-13351).
 - (5) Incorporated by reference to the Appendix identified in parentheses, filed as an appendix in the Registrant's Registration Statement on Form S-4, filed May 9, 1989 (File No. 33-28470).
 - (6) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Registration Statement on Form S-8, filed August 24, 1998 (File No. 333-62087).

- (7) Incorporated by reference to the Appendix identified in parentheses, filed as an appendix in the Registrant's Registration Statement on Form S-4, filed September 24, 1991 (File No. 33-42254).
- (8) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Registration Statement on Form S-8, filed May 29, 1996 (File No. 333-04775).
- (9) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Registration Statement of Form S-4, filed May 13, 1993 (File No. 33-60120).
- (10) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Registration Statement on Form S-8, filed July 2, 1993 (File No. 33-65440).
- (11) Incorporated by reference to the Appendix and Exhibit identified in parentheses, filed as an appendix and exhibit in the Registrant's Registration Statement on Form S-4, filed June 13, 1994 (File No. 33-53215).
- (12) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Registration Statement of Form S-8, filed July 8, 1994 (File No. 33-55483).
- (13) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Registration Statement of Form S-8, filed May 30, 1996 (File No. 333-04823).
- (14) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Registration Statement of Form S-8, filed August 24, 1998 (File No. 333-62103).
- (15) Incorporated by reference to the Exhibit identified in parentheses, filed as an exhibit in the Registrant's Current Report on Form 8-A12G, dated December 13, 1999 (File No. 0-13351).
- (16) Filed herewith.