

Exhibit 2

Novell®

NOVELL INC (NOVL)

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<http://www.novell.com/home/index.html>

10-Q

Filed on 03/12/1996 - Period: 01/27/1996
File Number 000-13351



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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Fiscal Quarter Ended January 27, 1996

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.)

1555 N. Technology Way
Orem, Utah 84057
(Address of principal executive offices and zip code)

(801) 222-6000
(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 February 24, 1996 there were 365,696,078 shares of the registrant's common stock outstanding.

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Part I. Financial Information, Item 1. Financial Statements

NOVELL, INC.

CONSOLIDATED UNAUDITED CONDENSED BALANCE SHEETS

Dollars in thousands, except per share data	Jan. 27, 1996	Oct. 28, 1995

ASSETS		
Current assets		
Cash and short-term investments	\$1,247,924	\$1,321,231
Receivables, less allowances		
(\$64,833 - January;		
\$74,857 - October)	518,027	470,437
Inventories	25,469	23,025
Prepaid expenses	46,641	50,576
Deferred income taxes	66,749	59,913

Total current assets	1,904,810	1,925,182
Property, plant and equipment, net	379,155	390,452
Other assets	71,299	101,196

Total assets	\$2,355,264	\$2,416,830
=====		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$78,471	\$116,305
Accrued compensation	71,099	97,637
Accrued marketing liabilities	76,119	72,339
Other accrued liabilities	108,466	90,623
Income taxes payable	44,867	29,942
Deferred revenue	64,877	54,099

Total current liabilities	443,899	460,945
Minority interests	16,903	17,623
Shareholders' equity		
Common stock, par value \$.10 a share		
Authorized - 600,000,000 shares		
Issued - 365,516,551 shares-January		
371,567,158 shares-October	36,552	37,157
Additional paid-in capital	639,622	737,481
Retained earnings	1,218,288	1,163,624

Total shareholders' equity	1,894,462	1,938,262

Total liabilities and shareholders' equity	\$2,355,264	\$2,416,830
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See notes to consolidated unaudited condensed financial statements.

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NOVELL, INC.
CONSOLIDATED UNAUDITED CONDENSED STATEMENTS OF INCOME

	Fiscal Quarter Ended	
	Jan. 27,	Jan. 28,
Amounts in thousands, except per share data	1996	1995
Net sales	\$437,919	\$493,225
Cost of sales	96,011	116,875
Gross profit	341,908	376,350
Operating expenses		
Sales and marketing	123,465	139,803
Product development	78,633	89,817
General and administrative	38,538	33,970
Restructuring charges	18,442	--
Total operating expenses	259,078	263,590
Income from operations	82,830	112,760
Other income (expense)		
Investment income	14,900	9,567
Other, net	(2,150)	258
Other income, net	12,750	9,825
Income before taxes	95,580	122,585
Income taxes	32,019	41,066
Net income	\$ 63,561	\$ 81,519
Weighted average shares outstanding	371,585	372,027
Net income per share	\$ 0.17	\$ 0.22

See notes to consolidated unaudited condensed financial statements.

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NOVELL, INC.
CONSOLIDATED UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

	Fiscal Quarter Ended	
	Jan. 27, 1996	Jan. 28, 1995
Amounts in thousands		
Cash flows from operating activities		
Net income	\$63,561	\$81,519
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Depreciation and amortization	24,919	23,067
Stock plans income tax benefits	2,343	4,734
(Increase) in receivables	(47,590)	(30,250)
(Increase) decrease in inventories	(2,444)	5,717
Decrease in prepaid expenses	3,935	11,852
(Increase) in deferred income taxes	(1,122)	(1,505)
(Decrease) in current liabilities, net	(17,046)	(15,530)
Net cash provided from operating activities	26,556	79,604
Cash flows from financing activities		
Issuance of common stock, net	5,597	7,667
Repurchase of common stock	(106,117)	--
Net cash (used) provided from financing activities	(100,520)	7,667
Cash flows from investing activities		
Expenditures for property, plant and equipment	(12,784)	(9,372)
(Increase) in short-term investments	(30,324)	(93,021)
Other	22,590	8,564
Net cash used by investing activities	(20,518)	(93,831)
Total (decrease) in cash and cash equivalents	\$ (94,482)	\$ (6,560)
Cash and cash equivalents - beginning of period	312,164	228,426
Cash and cash equivalents - end of period	217,682	221,866
Short-term investments - end of period	1,030,242	739,404
Cash and short-term investments - end of period	\$1,247,924	\$961,270

See notes to consolidated unaudited condensed financial statements.

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NOVELL, INC.

NOTES TO CONSOLIDATED UNAUDITED CONDENSED FINANCIAL STATEMENTS

A. Quarterly Financial Statements

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 1995 Annual Report to Shareholders. These statements do include all normal recurring adjustments which 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.

B. Significant Events

In December 1995, Novell sold its UnixWare product line to the Santa Cruz Operation, Inc. (SCO). The Company realized a small gain and recorded \$19 million of royalty revenue from this transaction in the first quarter of fiscal 1996. Under the agreement, Novell received approximately 6 million shares of SCO common stock, resulting in an ownership position of approximately 17% of the outstanding SCO common stock. The agreement also calls for Novell to receive a revenue stream from SCO based on revenue performance of the purchased UnixWare product line. This revenue stream is not to exceed \$84 million net present value, and will end by the year 2002. In addition, Novell will continue to receive revenue from existing licenses for older versions of UNIX System source code.

In March 1996, the Company completed the sale of its personal productivity applications product line to Corel Corporation (Corel). The Company received approximately 10 million shares of Corel common stock and approximately \$11 million in cash. The Company will also be entitled to nominate a candidate for Corel's Board of Directors. The Company expects to report a slight one-time extraordinary gain in its second quarter of fiscal 1996. Additionally, Corel licensed GroupWise Client software, Envoy electronic publishing software, and other technologies from Novell for a minimum royalty obligation of \$70 million over the next five years.

C. Cash and Short-term Investments

All marketable debt and equity securities are included in cash and short-term investments and are considered available-for-sale and carried at fair market value, with the unrealized gains and losses, net of tax, included in shareholders equity. 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.

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

(Dollars in thousands)	Cost at Jan. 27, 1996	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value at Jan. 27, 1996
Cash and cash equivalents				
Cash	\$128,629	\$ --	\$ --	\$128,629
Repurchase agreements	34,989	--	--	34,989
Tax exempt money market fund	9,764	--	--	9,764
Municipal securities	44,300	--	--	44,300
Cash and cash equivalents	\$217,682	\$ --	\$ --	\$217,682
Short-term investments				
Municipal securities	\$366,221	\$5,236	\$ --	\$371,457
Money market mutual funds	46,383	--	--	46,383
Money market preferreds	425,300	4	--	425,304
Mutual funds	87,414	56	--	87,470
Equity securities	81,677	17,951	--	99,628
Short-term investments	\$1,006,995	\$23,247	\$ --	\$1,030,242
Cash and short-term investments	\$1,224,677	\$23,247	\$ --	\$1,247,924

(Dollars in thousands)	Cost at Oct. 28, 1995	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value at Oct. 28, 1995
Cash and cash equivalents				
Cash	\$152,930	\$ --	\$ --	\$152,930
Repurchase agreements	23,794	--	--	23,794
Tax exempt money market fund	63,065	--	--	63,065
Municipal securities	72,375	--	--	72,375
Cash and cash equivalents	\$312,164	\$ --	\$ --	\$312,164
Short-term investments				
Municipal securities	\$375,491	\$3,220	\$ --	\$378,711
Money market mutual funds	38,475	--	--	38,475
Money market preferreds	442,500	176	--	442,676
Mutual funds	91,423	30	--	91,453
Equity securities	23,055	34,697	--	57,752
Short-term investments	\$970,944	\$38,123	\$ --	\$1,009,067
Cash and short-term investments	\$1,283,108	\$38,123	\$ --	\$1,321,231

During the first quarter of fiscal 1996 the Company had realized gains of \$4 million on the sale of securities compared to no realized gains in the first quarter of fiscal 1995.

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D. Income Taxes

The Company's estimated effective tax rate for both the first quarter of fiscal 1996 and 1995 was 33.5%. The Company paid cash amounts for income taxes of \$2 million and \$27 million, in the first quarter of fiscal 1996 and 1995, respectively.

E. Commitments and Contingencies

The Company currently has a \$10 million unsecured revolving bank line of credit, with interest at the prime rate. The line can be used for either letter of credit or working capital purposes. The line is subject to the terms of a loan agreement containing financial covenants and restrictions, none of which are expected to significantly affect the Company's operations. At January 27, 1996 there were no borrowings, letter of credit acceptances or commitments under such line.

The Company has an additional \$10 million credit facility with another bank which is not subject to a loan agreement. At January 27, 1996 standby letters of credit of approximately \$300,000 were outstanding under this agreement.

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. International Sales

The Company markets internationally both directly to end users and through distributors who sell to dealers and end users. For the fiscal quarters ended January 27, 1996 and January 28, 1995, sales to international customers were approximately \$218 million and \$222 million, respectively. In the first quarters of fiscal 1996 and fiscal 1995, 63% and 59%, respectively, of international sales were to European countries. No one foreign country accounted for 10% or more of total sales in either period. Except for one multi-national distributor, which accounted for 13% of revenue in the first quarter of 1996 and 18% of revenue in the first quarter of fiscal 1995, no customer accounted for more than 10% of revenue in any period.

G. Net Income Per Share

Net income per share is computed using the weighted average number of common shares outstanding during the periods, including common stock equivalents (unless antidilutive). Common stock equivalents consist of outstanding stock options.

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

Introduction

Novell is the world's leading network software provider. Novell software products provide the infrastructure for a networked world, enabling Novell's customers to connect with other people and the information they need, anytime and anywhere. Novell partners with other technology and market leaders to help customers make networks a part of their everyday lives. Over the past several years, the Company has issued common stock or paid cash to acquire technology companies, and formed strategic alliances with still other technology companies.

In December 1995, Novell sold its UNIX and UnixWare product line to the Santa Cruz Operation, Inc. (SCO). The Company realized a small gain and recorded \$19 million of royalty revenue from this transaction in the first quarter of fiscal 1996. Under the agreement, Novell received approximately 6 million shares of SCO common stock, resulting in an ownership position of approximately 17% of the outstanding SCO common stock. The agreement also calls for Novell to receive a revenue stream from SCO based on revenue performance of the purchased UnixWare product line. This revenue stream is not to exceed \$84 million net present value, and will end by the year 2002. In addition, Novell will continue to receive revenue from existing licenses for older versions of UNIX System source code.

In March 1996, the Company completed the sale of its personal productivity applications product line to Corel Corporation (Corel). The Company received approximately 10 million shares of Corel common stock and approximately \$11 million in cash. The Company will also be entitled to nominate a candidate for Corel's Board of Directors. The Company expects to report a slight one-time extraordinary gain in its second quarter of fiscal 1996. Additionally, Corel licensed GroupWise Client software, Envoy electronic publishing software, and other technologies from Novell for a minimum royalty obligation of \$70 million over the next five years.

Results of Operations

Net Sales	Q1	Change	Q1
	1996		1995
Net sales (millions)	\$438	-11%	\$493

Novell has four product groups, all within the software industry. They are the NetWare Systems Group, the Novell Applications Group, the UNIX Systems Group, and the Information Access and Management Group. While revenue decreased from the first quarter of 1995 to the first quarter of 1996, analysis of the individual product groups characterizes the changes that have occurred.

NetWare Systems Group (NSG) revenues declined by 12% or \$30 million in the first quarter of 1996 compared to the first quarter of 1995. Growth in the NetWare 4 product family of \$58 million or 80% growth from the first quarter of 1995 was more than offset by a decrease in the NetWare 3 product family of \$78 million or a 45% decline from the first quarter of 1995.

Novell Applications Group (NAG) revenues decreased by 56% or \$78 million in the first quarter of 1996 compared to the first quarter of 1995. The decrease is the result of an \$84 million or 67% decrease, quarter over quarter, in personal productivity applications products, due to the Windows application market slowdown as customers migrate to the Windows 95 platform and Novell's announced intention to exit this line of business. GroupWise, the Company's electronic messaging workgroup application, contribution \$21 million in first quarter 1996 revenue, a 39% increase from the year ago quarter.

UNIX Systems Group (USG) revenues increased 98% in the first quarter of 1996 compared to the first quarter of 1995. The increase was attributable to a one-time \$19 million paid up royalty recognized in the sale of UNIX and the UnixWare product line to SCO in December 1995.

Information Access and Management Group (IAMG) revenues increased by 40% in the first quarter of 1996 compared to the first quarter of 1995. The increase was a result of higher revenues in most product categories, with a particularly strong increase in the network management products as a result of the release of ManageWise in October 1995.

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International sales represented 50% of total sales in the first quarter of 1996 compared to 45% in the first quarter of 1995. This change is a result of a 19% decrease in domestic revenues compared to a 2% decrease in international revenues in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995.

Gross Profit

	Q1 1996	Change	Q1 1995
Gross profit (millions)	\$342	-9%	\$376
Percentage of net sales	78%		76%

The gross margin percentage increased in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995 due to lower material costs and variances somewhat offset by higher royalties, training and education costs and service costs as a percentage of revenues. Future fluctuations in the gross profit margin will be primarily attributable to price changes, changes in sales mix by product or distribution channel, and special product promotions.

Operating Expenses

	Q1 1996	Change	Q1 1995
Sales and marketing (millions)	\$123	-12%	\$140
Percentage of net sales	28%		28%
Product development (millions)	\$79	-12%	\$90
Percentage of net sales	18%		18%
General and administrative (millions)	\$39	-15%	\$34
Percentage of net sales	9%		7%
Restructuring charges (millions)	\$18	--	--
Percentage of net sales	4%		--
Total operating expenses (millions)	\$259	-2%	\$264
Percentage of net sales	59%		53%

Sales and marketing expenses remained flat as a percentage of net sales in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995. The decrease in absolute dollars is attributable to lower domestic sales expenses and corporate marketing expenses. Sales and marketing expenses fluctuate as a percentage of net sales in any given period due to product promotions, advertising or other discretionary expenses.

Product development expenses remained flat as a percentage of net sales in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995 but decreased in absolute dollars as a result of lower headcount and third party development costs.

General and administrative expenses increased as a percentage of net sales in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995. The increase is attributable to higher information services and human resources costs.

During the first quarter of 1996, the Company wrote off \$18 million of tax deductible restructuring charges for severance and redundant facilities as the Company prepared for the sale of its personal productivity applications business.

Overall, operating expenses, excluding nonrecurring charges, have declined more rapidly than revenues in the first quarter of fiscal 1996 compared to the first quarter of fiscal 1995 due to company-wide cost controls as the Company took significant actions to refocus Novell to network software.

	Q1 1996	Change	Q1 1995
Employees	7,137	-6%	7,808
Annualized revenue per employee (000's)	\$235	-3%	\$243

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In the first quarter of 1995, Novell reduced its employment by 625 employees as the Company prepared for the sale of its personal productivity applications business.

Other Income (Expense)

	Q1 1996	Change	Q1 1995
Other income (expense), net (millions)	\$13	30%	\$10
Percentage of net sales	3%		2%

The primary component of other income (expense) is investment income, which was \$15 million in the first quarter of fiscal 1996 compared to \$10 million in the first quarter of fiscal 1995. The increase is the result of higher average cash balances as well as higher average yields. In order to achieve potentially higher returns, a limited portion of the Company's investment portfolio is invested in mutual funds which incur some 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.

Income Taxes

	Q1 1996	Change	Q1 1995
Income taxes (millions)	\$32	-22%	\$41
Percentage of net sales	7%		8%
Effective tax rate	34%		34%

The Company's estimated tax rate for fiscal 1996 is 33.5%, the same as in fiscal 1995.

Net Income and Net Income Per Share

	Q1 1996	Change	Q1 1995
Net income (millions)	\$64	-22%	\$82
Percentage of net sales	15%		17%
Net income per share	\$.17	-23%	\$.22

Liquidity and Capital Resources

	Q1 1996	Change	Q4 1994
Cash and short-term investments (millions)	\$1,248	-6%	\$1,321
Percentage of total assets	53%		55%

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Cash and short-term investments decreased to \$1,248 million at January 27, 1996 from \$1,321 million at October 28, 1995. The major reason for this decrease was the \$106 million used to repurchase Novell common stock during the quarter, offset by the \$27 million of cash provided by operating activities, the \$5 million provided by other financing activities, and the \$10 million provided by other investing activities. The investment portfolio is diversified among security types, industry groups, and individual issuers. The Company's principal source of liquidity has been from operations. At January 27, 1996, the Company's principal unused sources of liquidity consisted of cash and short-term investments and available borrowing capacity of approximately \$20 million under its credit facilities. The Company's liquidity needs are principally for the Company's financing of accounts receivable, capital assets, acquisitions and strategic investments and to have flexibility in a dynamic and competitive operating environment.

During the first fiscal quarter of 1996, the Company has continued to generate cash from operations. The Company anticipates being able to fund its current operations and capital expenditures planned for the foreseeable future with existing cash and short-term investments together with internally generated funds. Borrowings under the Company's credit facilities, or public offerings of equity or debt securities are available if the need arises. As the Company grows, investments will continue in product development in new and existing areas of technology. Cash may also be used to acquire technology through purchases and strategic acquisitions. Capital expenditures in fiscal 1996 are anticipated to be approximately \$60 million, but could be reduced if the growth of the Company is less than presently anticipated. In addition, the Company has announced a share repurchase program whereby the Company is authorized to repurchase up to 37 million shares of its common stock in the open market during fiscal 1996. During the first quarter of 1996, approximately 7 million shares were repurchased and retired at a cost of approximately \$106 million.

Forward Looking Information

Looking forward to its second fiscal quarter, Novell decided to implement a change to its traditional distribution stocking policy that will significantly reduce revenue and earnings in that quarter. Because the Company is experiencing rapid growth in revenue from expanding multi-product network software licensing programs, the Company has decided to reduce and rebalance channel inventories to change the mix of product in the channel and better match evolving purchase patterns. The Company intends to reduce product inventories by up to \$225 million across its worldwide distribution channels in its second quarter of 1996. This reduction is expected to decrease second quarter revenue by a corresponding amount and will likely result in a moderate loss in the quarter. The resetting of channel inventories is expected to reduce ongoing cost of sales and lessen costs associated with channel promotions and product rotations, thereby leading to improved earnings in the second half of the year.

The above statements relating to Novell's change in distribution stocking policy are forward looking and involve a number of risks and uncertainties. As such, actual results could materially differ from those we are projecting in these forward looking statements. Unanticipated declines in revenue due to competitive, market and general economic factors could limit the Company's ability to gain the benefit of improved earnings resulting from the new channel inventory structure. Novell's projections of increasing licensing revenue are based on historical trends which, should they reverse, would negatively impact growth projections of revenue and earnings. Further uncertainties are associated with any impact to our distribution channel resulting from this change in distribution stocking policy. Novell believes this action is in the best interests of its customers, channel partners and shareholders, but implementing this program may result in some short-term business interruption as the Company, our partners, and customers work through this change.

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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 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

Exhibit Number	Description
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27*	Financial Data Schedule

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Registrant during the quarter ended January 27, 1996.

*Filed herewith

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SIGNATURES

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

Novell, Inc.

(Registrant)

Date: March 12, 1996

/s/ Robert J. Frankenberg

Robert J. Frankenberg
Chairman of the Board,
President, Chief Executive
Officer and Director
(Principal Executive Officer)

Date: March 12, 1996

/s/ James R. Tolonen

James R. Tolonen
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: March 12, 1996

/s/ Stephen C. Wise

Stephen C. Wise
Senior Vice President, Finance
(Principal Accounting Officer)

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NOVELL INC (NOVL)

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EX-27

10-Q Filed on 03/12/1996 - Period: 01/27/1996
File Number 000-13351



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