

PART I

ITEM 1. BUSINESS

THE COMPANY

Novell, Inc. ("Novell" or the "Company") is a leading provider of network software. Novell software products provide the infrastructure for a networked world, enabling customers to connect with other people and the information they need, anytime and anyplace. Novell partners with other technology and market leaders to make networks an integral part of everyday life.

The Company was incorporated in Delaware on January 25, 1983. Novell's executive offices are located at 1555 North Technology Way, Orem, Utah 84057. Its telephone number at that address is (801) 222-6000.

The Company markets its products through 40 U.S. and 60 international sales offices. The Company sells its products primarily to 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 VARs as well as direct to large corporations.

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

Over the past several years, the Company has issued common stock or paid cash to acquire technology companies, invested cash in other technology companies, and formed strategic alliances with still other technology companies. Novell undertook these transactions to promote a pervasive computing environment, and in many cases to also broaden the Company's business as a system and application software supplier.

In June 1993, the Company acquired UNIX System Laboratories, Inc. (USL) by issuing approximately 11 million shares Novell common stock valued at \$332 million in exchange for all of the outstanding stock of USL not previously owned by Novell and assumed liabilities of \$9 million. The transaction was accounted for as a purchase and, on this basis, resulted in a one-time write-off of \$269 million for purchased research and development in the third quarter of fiscal 1993.

In June 1994, the Company completed a merger with WordPerfect Corporation (WordPerfect), whereby WordPerfect was merged into Novell. Approximately 51 million shares of Novell common stock were exchanged for all of the outstanding common stock of WordPerfect. In addition, the outstanding employee stock options to purchase WordPerfect common stock were converted into options to purchase approximately 8 million shares of Novell common stock. The transaction was accounted for as a pooling of interests and therefore all prior financial statements incorporated by reference herein have been restated as if the merger took place at the beginning of such periods.

Additionally, in June 1994, the Company acquired from Borland International, Inc. (Borland) its Quattro Pro spreadsheet product line for \$110 million of cash and assumed liabilities of \$10 million, and purchased a three-year license to reproduce and distribute up to one million copies of current and future versions of Borland's Paradox relational database product for \$35 million of cash. The transaction was accounted for as a purchase and, on this basis, resulted in a one-time write-off of \$114 million for purchased research and development.

On October 30, 1995, the Company announced its intention to sell its personal productivity applications product line. Novell's personal productivity applications product line was acquired in the WordPerfect and Quattro Pro transactions. Certain other acquired product lines such as GroupWise are not being sold. The Company is actively negotiating with several parties regarding the sale of the personal productivity applications product line and anticipates that it will announce a sale in early 1996.

On December 6, 1995, Novell completed the sale of its UnixWare product line to the Santa Cruz Operation, Inc. (SCO). The Company expects to report a gain on this transaction in the first quarter of fiscal 1996. Under the agreement, Novell received approximately 6.1 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.

BUSINESS STRATEGY

Novell believes that the definition of computer networks is changing as traditional stand-alone computer resources and new categories of computing devices increasingly become integrated across networks. Networks are expanding into every area of life, providing access to valuable information wherever people work, live, or travel. In the process, the boundaries of geography and technology that once separated private and public data networks are falling away to create a single information resource for businesses and consumers.

The Company sees its business opportunity in providing software to enable this convergence of networks into a managed Internet or Smart Global Network providing access to information anytime, anyplace. It has enhanced its NetWare network operating system products to make networks smart -- affordable to own and operate, easy to manage and use, and capable of connecting heterogeneous systems. It has also expanded its product line beyond NetWare to include products for accessing, managing, and interconnecting smart networks, and for extending networks beyond personal computer workgroups to connect office equipment such as printers and fax machines, industrial controls, utility meters, cable TV set-top boxes, and other intelligent devices.

The Company believes that the convergence of information resources in the Smart Global Network is shifting the value of information technology from the power of stand-alone systems to the ability of systems to connect into the network. Together with its partners, the Company intends to be a driving force in expanding the value of networks for customers worldwide.

TECHNOLOGIES

Making Networks Smart. Novell delivers advanced network services in the NetWare network operating system and in compatible products that add functionality for administrators and end users. These services add intelligence to the network to reduce costs of ownership and administration, simplify management tasks for administrators, and make access to network-based information easier for end users. In the first release of NetWare eleven years ago, those services were file and print only. Over the past decade the services provided by Novell and third parties have expanded significantly to include directory, network and systems management, messaging, multiprotocol routing, and security. The Company's NetWare 4 operating system includes NetWare Directory Services (NDS), a distributed database of users, network equipment, computer systems, and other network resources. NDS provides centralized network management, security, and information access capabilities to enable organizations to efficiently maintain and expand complex networks. The capabilities of NDS are also integrated with compatible Novell network software products and over 140 third-party solutions. An additional Novell product, the TUXEDO System, provides tools to help customers develop and deploy transaction-intensive client/server applications for distribution across networks. The Company shipped its first product integrating TUXEDO with NetWare and NDS in 1995.

Interconnecting Smart Networks. Novell is developing network software to support NetWare Connect Services (NCS), a managed class of wide-area networking and Internet services made available to customers through major telecommunications carriers. These services enable organizations to out-source the complexity and some of the cost of maintaining wide-area networks, to make Internet access more manageable, reliable, and secure, and to extend local-area-networks beyond the immediate enterprise to support communication and collaboration with customers, partners, and suppliers. Novell in partnership with AT&T made the service available in the U.S. in 1995. International partners Deutsche Telecom, Telstra, NTT, and UniSource will be among the first to make the service widely available in Europe and the Pacific Rim in 1996. NCS partners worldwide are cooperating to provide interoperability among their networks and maintain a common directory for the service based on NetWare Directory Services.

Extending Networks Beyond Personal Computer Workgroups. The NetWare network operating system and related Novell products provide a platform for extending networks beyond traditional personal computer local-area networks (LANs) and integrating diverse technologies. This includes the seamless integration of multiple desktop systems and host environments. Novell believes that customer environments are inherently heterogeneous and therefore require an information system that integrates dissimilar technologies. The goal of Novell's strategy of integrating various desktop systems is to allow IBM, IBM-compatible, Apple Macintosh, and UNIX-based PCs and workstations to access and share simultaneously a common set of network resources and information. This gives customers the freedom to choose the desktop and application server systems that best fit their application requirements. In addition to the integration of desktops, host environments from vendors such as IBM, DEC, HP and Olivetti and numerous other UNIX system vendors are integrated into the NetWare network so that users can access host-based resources and information from their desktops across the network. Through Novell Embedded Systems Technology (NEST), the Company continues to extend NetWare services to connect office and industrial equipment, TV cable set-top boxes, electric utility energy management equipment, and a broad range of other intelligent devices. In addition, Novell is working with leading software developers and manufacturers to network computers and telephone PBX switches in a new class of integrated solutions.

Providing Network Access. Novell network access products connect desktop PC and Macintosh users with applications and services that run on UNIX host computers and the Internet through TCP/IP communications protocols. The company also provides dial-in client and server products for remote access to network resources. Novell mobile NetWare client technology allows users to maintain a virtual network on their portable computers, even when disconnected, and then synchronize files when they reconnect to the network. NetWare Web Server provides a complete add-on solution for NetWare 4 servers to support both internal communication and external publishing on the Internet's World Wide Web. A three dimensional network browser is also in development to provide point-and-click access to network services, electronic publishing that simplifies creation and access to network-based information, and intelligent browsing capabilities for accessing distributed network resources. Novell products also include the GroupWise family of workgroup collaboration products for electronic mail, calendaring and scheduling, document management and forms processing. The Company is expanding the functionality of GroupWise in 1996 for greater integration with network directories, management and Internet access applications.

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 multivendor 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, UnixWare, 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.

Novell Labs. Through its Independent Manufacturer Support Program (IMSP), Novell works with third-party manufacturers to test and certify hardware and software components designed to interoperate with the NetWare and UnixWare operating systems. Novell distributes these test results to inform customers about products that have formally demonstrated NetWare and UnixWare compatibility. In effect, IMSP certifica-

tion programs help vendors to market their products through Novell's distribution channels. The primary goal of IMSP is to foster working relationships between Novell and third-party hardware and software suppliers. Secondary goals include promoting certified products to industry resellers, anticipating industry products' direction through comarketing efforts, and working with vendors to codevelop critical network components.

DeveloperNet Novell delivers products, software development kits, information, and support services to software developers through the DeveloperNet subscription program, its primary communications channel to the developer community. Over 1,000 independent software vendors and corporate developers now subscribe to the program. Novell launched DeveloperNet in September 1995 as part of its renewed network focus and initiative code-named Net2000 to provide developers with common interfaces to a rich set of network services.

PARTNERSHIPS

Development Partners. When customers request a new service or function be added to Novell products, Novell investigates the most effective way to deliver that functionality to the user. Very often the best way is for Novell to partner with a company who has expertise in that specific area. By partnering, the combination of Novell's core expertise in networks and the partner's expertise in the given product area combine to deliver a better solution faster than if Novell would have attempted to develop it alone.

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

Application Partners. Novell works very 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 multivendor applications.

Enterprise Consulting Partners. This select group of the industry's leading systems integrators and consulting organizations work with Novell to deliver distributed client/server solutions for customers with large enterprise-wide networks.

Multiple Channel Distribution Network. The Company markets 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 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 fall within three categories: systems software, information access and management products, and groupware. Novell products work together, interoperate with thousands of third-party solutions, and span data networks from workgroup LANs to the Internet.

Systems Products provide a foundation of network services that can be extended across heterogeneous computing platforms and intelligent devices in the Smart Global Network. These products include the NetWare 3 network operating system, which provides users with access to data and resources controlled by a single server, and the more advanced NetWare 4, which features NetWare Directory Services and provides the user with access to the resources of the entire enterprise or wide-area network. The Company also offers NetWare Symmetrical Processing for use on cost-effective multiprocessor hardware that can be readily scaled to meet the requirements of large and complex networks. Novell system software also includes development kits to enable manufacturers to embed Novell Embedded Systems Technology in microprocessor-based products. In addition, the Company develops and markets the TUXEDO System for the development and deployment of distributed client/server applications.

Information Access and Management Products extend and leverage NetWare services to enable customers to access and manage data, applications and resources distributed across enterprise networks and the Internet. These products include the LAN Workplace TCP/IP solution for connecting personal computer users to UNIX systems and the Internet; the ManageWise strategic management solution for end-to-end management of the Novell environment; the LANalyzer monitoring and analysis tool for troubleshooting NetWare networks; the NetWare Connect server product and NetWare Mobile client product for remote access to network resources; the NetWare Navigator for centralized, automated software and data distribution for Novell networks; the NetWare for SAA solution for connecting NetWare and IBM mainframe environments, and other host connectivity products. In addition, the Company's NetWare Telephony Services platform and Telephony Services API (TSAPI) enable customers to connect computer and telephone PBX systems in integrated network solutions.

Novell information access and management products are also integral to the NetWare Connect Service, the secure business Internet made available in the U.S. by AT&T. The Company also offers PerfectWorks products that combine network access technology with PC applications and thus bring networking to small-office and home-office users.

Groupware Products utilize NetWare network services to provide rich access to network-based information. The Company's GroupWise family of groupware products now serves over 5 million users with integrated E-Mail, group calendaring, scheduling, online conferencing, forms and document management. GroupWise integrates these capabilities along with Internet E-mail, fax and voice messages in a "Universal In-Box" for network-based communication and collaboration.

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 1995, 1994, and 1993, product development expenses were approximately \$368 million, \$347 million, and \$290 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 NetWare family of network products, the UnixWare operating system and its personal productivity applications 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; Summit, New Jersey; Provo and Orem, Utah; and from its 40 U.S. and 60 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, 1995, there were approximately 15 U.S. distributors and approximately 80 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 value added resellers 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. With the acquisition of USL, the number of OEM agreements has increased significantly, both domestically and internationally.

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 450 of them to date. Additionally, some upgrade products are sold directly to end users.

International Sales. In fiscal 1995, 1994, and 1993, approximately 47%, 43%, and 43%, respectively, of the Company's net sales were to customers outside the U.S. -- primarily distributors. To date, substantially all international sales except Japanese sales, Indian sales, and certain European sales to non-multinational distributors that were shipped from a new distribution center in Dublin, Ireland have been invoiced by the Company in U.S. dollars. In fiscal 1996 the Company anticipates that a substantial 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 its distribution center in Dublin, Ireland. No one foreign country accounted for more than 10% of net sales in any period. In fiscal 1995 and 1994, the Company had one multinational distributor, which accounted for 15% and 12% of revenue, respectively. The Company had two multinational distributors, which accounted for 15% and 11% of revenue in fiscal 1993. 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 publications published by the Company. These activities are designed to educate the market about local area 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 1995, the eleventh annual BrainShare Conference (formerly Developers' Conference) was held to inform and educate developers about Novell product strategy, Novell open architecture programming interfaces, and Novell third-party product certification programs.

SERVICE, SUPPORT, AND EDUCATION

The purpose of any service program is to help users get the most out of the products they buy. Novell offers a variety of support alternatives and encourages users to select the services that best meet their needs. These include the worldwide service and support organization, the Technical Support Alliance, the Certified Novell Engineer program, Novell Authorized Education Centers, the Independent Manufacturer Support Program, and the Client-Server Testing Program.

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 absence of significant backlog may contribute to unpredictability in the Company's net income and to fluctuations in the Company's stock price. See "Factors Affecting Earnings and Stock Price." The Company's backlog of orders at January 20, 1996, was approximately \$112 million, compared with \$51 million at January 20, 1995.

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, hardware independence and compatibility, marketing strength, system/performance, customer service and support, reliability, ease of use, price/performance, and connectivity with minicomputer and mainframe hosts.

The market for computer software, has become increasingly competitive due to Microsoft's growing presence in all sectors of the software business. The Company does not have the product breadth and market power of Microsoft. Microsoft's dominant position provides it with competitive advantages, including the ability to unilaterally determine the direction of future operating systems and to leverage its strength in one or more product areas to achieve a dominant position in new markets. This position may enable Microsoft to increase its market position even if the Company succeeds in introducing products with performance and features superior to those offered by Microsoft.

Microsoft's ability to offer networking functionality in future versions of MS Windows and MS Windows NT and in any other Microsoft operating systems and application software, or to provide 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 maintain its business. Moreover, Microsoft's ability to offer products on a bundled basis can be expected to impair the Company's competitive position with respect to particular products. 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.

As the Company sharpened its focus, it decided to sell two lines of business -- UnixWare and the WordPerfect personal productivity applications, which did not contribute to Novell's network focus. Even with a sharpened focus, the Company is aware of several new competitive operating systems currently under development and scheduled for introduction within the next year and beyond. If any of these competing products achieves market acceptance, Novell's business and results of operations could be materially adversely affected.

LICENSES, PATENTS AND TRADEMARKS

The Company relies on copyright, trade secret and trademark law, as well as provisions in its license, distribution and other agreements in order to protect its intellectual property rights. Additionally, the Company has numerous patents pending. No assurance can be given that such patents pending will be issued or, if issued, will provide protection for the Company's competitive position. Although Novell intends to protect its patent rights vigorously, there can be no assurance that these measures will be successful. Additionally, no assurance can be given 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 products 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, 1995, the Company had 7,272 employees. The functional distribution of its employees was: sales and marketing -- 2,004; product development -- 2,556; general and administrative -- 972; service, support, education, and operations -- 1,740. Of these, 404 employees are located in U.S. field offices, and 1,733 employees are in offices outside the U.S. All other Company personnel are based at the Company's facilities in Utah, California, and New Jersey. 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 consultants challenging work, educational opportunities, competitive wages, sales commission plans, bonuses, and through stock option and purchase plans, opportunities to participate financially in the ownership and success of the Company.

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.

The Company recently announced the sale of its UnixWare product line and its intention to sell its personal productivity application product line. The Company's ability to successfully transition out of these product lines in fiscal 1996 is important to the success of the Company. The extent that management can quickly devote most of its attention on its core business is important to the ongoing success of the Company.

A reason the Company is seeking to sell its personal productivity applications product line is to reduce non-leveraged sales, marketing, and customer support expenditures. Nevertheless, the Company will retain the Groupware applications line and may incur relatively higher expenditures than are incurred in the sale of network operating systems.

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.

A fundamental goal of the Company will be the delivery of groupware application solutions combining network services and workgroup applications. The future success of this strategy will depend in part on the Company's ability to develop and market new competitive products for workgroup productivity and information processing. Development of these products has already required and will continue to require a substantial investment in research and development, particularly as a result of the decision to offer products across multiple operating environments. Although Novell's existing network of distributors should assist in this transition, marketing and distribution of these products may require developing new marketing and sales strategies and will entail significant expense. The Company has had only limited experience in the market for these products, and there can be no assurance that the Company will be successful in developing and marketing these new products.

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 and the historically high price/earnings ratio at which Novell's Common Stock trades, any such shortfall in earnings can be expected to have an immediate and very significant adverse effect on the trading price of Novell's Common Stock in any given period. The past pattern of new application and operating system 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 volatile in recent years. 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.

ITEM 1A. 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.

NAME	AGE	HAS BEEN OFFICER SINCE	POSITION OR OFFICE
Robert J. Frankenberg.....	48	1994	Chairman of the Board, President, and Chief Executive Officer
Mary M. Burnside.....	48	1989	Executive Vice President and Chief Operating Officer
Richard W. King.....	39	1993	Executive Vice President, NetWare Systems Group
Joseph A. Marengi.....	42	1993	Executive Vice President, Worldwide Sales
Steven Markman.....	50	1994	Executive Vice President, Information Access & Management Group
James R. Tolonen.....	46	1989	Executive Vice President and Chief Financial Officer
Jeffrey H. Waxman.....	49	1995	Executive Vice President, Applications Group
David R. Bradford.....	45	1986	Senior Vice President, General Counsel, and Corporate Secretary
Christine G. Hughes.....	49	1994	Senior Vice President, Corporate Marketing
R. Duff Thompson.....	44	1994	Senior Vice President, Corporate Development
Stephen C. Wise.....	41	1990	Senior Vice President, Finance
Darcy G. Mott.....	43	1989	Vice President and Treasurer

Robert J. Frankenberg joined the Company in April 1994 as President and Chief Executive Officer. In August 1994 he became Chairman of the Board of Directors. Prior to joining Novell, he was with Hewlett Packard, an international computation and measurement company, for 25 years in various engineering, management and marketing positions. Most recently he served as Vice President and General Manager of the Personal Information Products Group.

Mary M. Burnside joined the Company in January 1988 and in January 1989 she became Senior Vice President, Operations and was elected a corporate officer. In November 1991 she became Executive Vice President, Corporate Services Group. In August 1993 she joined the Office of the President as Chief Operating Officer. In April 1994 she became Executive Vice President and Chief Operating Officer.

Richard W. King joined the Company in 1985 and became Vice President, Software Development in April 1986. In September 1987 he became Vice President, NetWare Products Division and in September 1991 he became Vice President, Service and Support. In August 1993 he was promoted to Executive Vice President, NetWare Systems Group and was elected a corporate officer.

Joseph A. Marengi joined the Company in June 1989 through the Excelan merger and held various sales positions with the Company until October 1992 when he became Senior Vice President, Worldwide Sales. In August 1993 he was elected a corporate officer. In April 1994 he became Executive Vice President, Worldwide Sales.

Steven Markman joined the Company in August 1994 as Executive Vice President, Information Access & Management Group. From March 1994 to August 1994 he was with First Pacific Networks, Inc., a cable telephony company as Vice President of Engineering. From April 1991 to February 1994 he was with Network Equipment Technologies, Inc., a network systems company as Senior Vice President and General Manager. From June 1988 to April 1991 he was with Hewlett Packard, an international computation and measurement company, where he served most recently as General Manager for the Information Networks Division.

James R. Tolonen, a Certified Public Accountant, joined the Company in June 1989 through the Excelan merger and became a Senior Vice President and Chief Financial Officer in August 1989 and was elected a corporate officer. In August 1993 he joined the Office of the President as Chief Financial Officer. In April 1994 he became Executive Vice President and Chief Financial Officer.

Jeffrey H. Waxman joined the Company in June 1995 as Executive Vice President, Applications Group. From December 1992 to June 1995 he was President and Chief Executive Officer of ServiceSoft Corporation, a developer of customer service software and hardware. From January 1992 to November 1992 he was an independent consultant in the software industry. From June 1988 to January 1992 he was President and CEO of Uniplex, Inc. a developer and publisher of core office technology for Open Systems.

David R. Bradford joined the Company in October 1985 as Corporate Counsel. He became Corporate Secretary in January 1986, Senior Corporate Counsel in April 1986, and Senior Vice President, General Counsel, and Corporate Secretary in April 1989.

Christine G. Hughes joined the Company in December 1994 as Senior Vice President, Corporate Marketing. From July 1991 to November 1994 she was with Xerox Corporation, a worldwide provider of document services, in various positions, most recently as Vice President, Integrated Marketing -- U.S. Operations. From January 1990 to July 1991 she was President of Myriad Technologies, a market research and consulting company.

R. Duff Thompson joined the Company in June 1994 through the WordPerfect merger and became Senior Vice President, Corporate Development in October 1994 and was elected a corporate officer. He joined WordPerfect in December 1986 and served most recently as Executive Vice President in the Office of the President and General Counsel.

Stephen C. Wise joined the Company in June 1989 through the Excelan merger and became Vice President, Accounting and Planning in January 1990 and was elected a corporate officer. In January 1991 he became Vice President and Corporate Controller and in December 1993 he became Senior Vice President, Finance.

Darcy G. Mott, a Certified Public Accountant, joined the Company in September 1986. He served in various finance positions and became Corporate Controller in February 1989. He was elected a corporate officer in November 1989 and became Treasurer in January 1991. In December 1995 he became Vice President and Treasurer.

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 corporate headquarters and a product development center. It also owns and occupies a 550,000 square-foot office complex on 46 acres in Provo, Utah, which is used as a product development center. 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 1/3 of the space in this building and leases the remainder to tenants. The Company also owns a 52,000 square foot building in San Jose, California, which it had previously leased. It is used primarily for product development. Additionally, the Company owns approximately 48 acres of undeveloped land in San Jose, California and has capacity to expand on its land in Orem and Provo, Utah.

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

The Company leases offices for product development in San Jose and Scotts Valley, California; Summit, New Jersey; and Hungerford, U.K.; and a distribution facility in San Jose, California. The Company also leases sales and support offices in Arizona, California (7), Colorado, Connecticut, District of Columbia, Florida (2), Georgia, Illinois (2), Massachusetts, Michigan, Minnesota, Missouri (2), New Jersey, New York (2), North Carolina, Ohio (3), Oregon, Pennsylvania (2), Tennessee, Texas (2), Utah, Washington, Chile, China, New Zealand, Russia, Taiwan, and United Arab Emirates.

The terms of such leases vary from month to month to up to ten years.

ITEM 3. LEGAL PROCEEDINGS

In December of 1991, Roger Billings and his International Academy of Science, (the Academy) filed suit against Novell alleging that the Company infringes on a patent allegedly owned by the Academy. In June 1994, Novell filed a petition with the U.S. Patent and Trademark Office (Patent Office) requesting it invalidate the patent. In August 1994, the Patent Office granted Novell's request for re-examination of the patent, finding a "substantial new question of patentability." Also, in August 1994, the trial court issued a ruling, which among other things, vacated the trial date which had been previously set in the action. In June 1995, the Patent Office, upon re-examination, overturned the Academy patent, stating that there was no patentable subject matter. In December 1995, the Academy filed a petition with the Patent Office seeking to amend its patent. The Company believes that the ultimate resolution of this legal proceeding will not have a material adverse effect on its financial position, results of operation, 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.

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 39 of the Company's Annual Report to Shareholders for the fiscal year ended October 28, 1995.

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 20 of the Company's Annual Report to Shareholders for the fiscal year ended October 28, 1995.

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 21 through 25 of the Company's Annual Report to Shareholders for the fiscal year ended October 28, 1995.

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 26 through 38 of the Company's Annual Report to Shareholders for the fiscal year ended October 28, 1995, and to the information contained in the section captioned "Selected Consolidated Quarterly Financial Data" on page 39 of the Company's Annual Report to Shareholders for the fiscal year ended October 28, 1995.

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 for the Annual Meeting of Shareholders to be held April 10, 1996, 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 executive officers of Novell is set forth under the caption "Executive Officers" in Item 1a hereof.

Each director and each officer of the Company 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 1995, there were no compliance exceptions to this requirement.

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 10, 1996, 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 10, 1996, 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 on April 10, 1996, 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) The following documents are filed as a part of this annual report on Form 10-K for Novell, Inc.:

1. 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 26 through 38 of the Company's Annual Report to Shareholders for the fiscal year ended October 28, 1995.

Consolidated Statements of Income for the fiscal years ended October 28, 1995, October 29, 1994, and October 30, 1993.

Consolidated Balance Sheets at October 28, 1995 and October 29, 1994.

Consolidated Statements of Shareholders' Equity for the fiscal years ended October 28, 1995, October 29, 1994, and October 30, 1993.

Consolidated Statements of Cash Flows for the fiscal years ended October 28, 1995, October 29, 1994, and October 30, 1993.

Notes to Consolidated Financial Statements.

Report of Ernst & Young LLP, Independent Auditors.

	PAGE

Report of Price Waterhouse LLP, Independent Accountants	17
2. Financial Statement Schedules:	
Schedule II Valuation and Qualifying Accounts	18
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.	19

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Registrant during the quarter ended October 28, 1995.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities 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: January 22, 1996

By /s/ ROBERT J. FRANKENBERG

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

NAME	TITLE	DATE
/s/ ROBERT J. FRANKENBERG ----- (Robert J. Frankenberg)	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	January 22, 1996
/s/ JAMES R. TOLONEN ----- (James R. Tolonen)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	January 22, 1996
/s/ STEPHEN C. WISE ----- (Stephen C. Wise)	Senior Vice President, Finance (Principal Accounting Officer)	January 22, 1996
/s/ ALAN C. ASHTON ----- (Alan C. Ashton, Ph.D.)	Director	January 22, 1996
/s/ ELAINE R. BOND ----- (Elaine R. Bond)	Director	January 22, 1996
/s/ HANS WERNER HECTOR ----- (Hans Werner Hector)	Director	January 22, 1996
/s/ JACK L. MESSMAN ----- (Jack L. Messman)	Director	January 22, 1996
/s/ LARRY W. SONSINI ----- (Larry W. Sonsini)	Director	January 22, 1996
/s/ IAN R. WILSON ----- (Ian R. Wilson)	Director	January 22, 1996
/s/ JOHN A. YOUNG ----- (John A. Young)	Director	January 22, 1996

REPORT OF PRICE WATERHOUSE LLP, INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF WORDPERFECT CORPORATION

In our opinion, the consolidated balance sheet and the related consolidated statements of income, shareholders' equity and of cash flows (not presented separately herein) of WordPerfect Corporation present fairly, in all material respects, the financial position of WordPerfect Corporation and its subsidiaries at December 31, 1993 and the results of their operations and their cash flows for the year ended December 31, 1993 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP

Salt Lake City, Utah
March 22, 1994

NOVELL, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

	BALANCE AT BEGINNING OF PERIOD	ACCOUNTS RECEIVABLE ALLOWANCE		BALANCE AT END OF PERIOD
		ADDITIONS CHARGED TO OPERATIONS	DEDUCTIONS(1)	
		(IN THOUSANDS)		
Fiscal year ended October 30, 1993.....	\$38,499	\$22,047	\$10,344	\$50,202
Fiscal year ended October 29, 1994.....	\$50,202	\$43,037	\$10,305	\$82,934
Fiscal year ended October 28, 1995.....	\$82,934	\$(4,596)	\$ 3,481	\$74,857

 (1) Write-off of uncollectible accounts

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.1	Restated Certificate of Incorporation.(4)(Exhibit 3.1)
3.2	By-Laws.(1)(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	Rights Agreement dated December 7, 1988, between Novell, Inc. and Mellon Bank (East) N.A., as Rights Agent, relating to the Shareholder Rights Plan.(3)(Exhibit 1)
10.1	Novell, Inc., Employee Retirement and Savings Plan dated December 8, 1986.(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 10.1)
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)
11	Statement regarding computation of per share earnings.(13)
13	Company's Annual Report to Shareholders for the fiscal year ended October 28, 1995.(13)
21	Subsidiaries of the Registrant.(13)
23.1	Consent of Ernst & Young LLP, independent auditors.(13)
23.2	Consent of Price Waterhouse LLP, independent accountants.(13)
27	Financial Data Schedule.(13)
(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 December 7, 1988(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 September 28, 1989 (File No. 33-31299).
(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 June 5, 1992 (File No. 33-48395).
(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. 33-54483).
(13)	Filed herewith.

NOVELL, INC.

STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS

The computation of common and common share equivalents is as follows (in thousands):

	FISCAL YEAR ENDED		
	OCTOBER 30, 1993	OCTOBER 29, 1994	OCTOBER 28, 1995
Weighted average number of common shares outstanding*.....	358,490	361,648	367,963
Number of common share equivalents resulting from stock options, computed using the treasury stock method*.....	9,410	6,684	6,621
Number of common and common share equivalents used in computation*.....	367,900	368,332	374,584
	=====	=====	=====

 *All share amounts reflect the June 1994 merger with WordPerfect Corporation.

SELECTED CONSOLIDATED FINANCIAL DATA
DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA

	Oct. 28 1995	Oct. 29 1994	Oct. 30 1993	Oct. 31 1992	Oct. 26 1991
STATEMENT OF INCOME					
Net sales	\$2,041,174	\$1,998,077	\$1,830,411	\$1,512,488	\$1,262,073
Gross profit	1,551,841	1,531,011	1,427,809	1,185,781	994,831
Income from operations	452,109	269,943	108,098	428,146	428,673
Income before taxes	508,729	297,383	138,157	461,807	461,212
Income taxes	170,424	90,652	97,437	139,829	97,896
Net income	338,305	206,731	40,720	321,978	363,316
Net income per share	.90	.56	.11	.90	1.05
BALANCE SHEET					
Cash and short-term investments	\$1,321,281	\$ 861,809	\$ 719,197	\$ 631,829	\$ 513,113
Working capital	1,464,237	990,411	859,308	727,068	561,653
Total assets	2,415,830	1,963,481	1,745,337	1,430,475	1,133,600
Long-term debt	--	--	84,289	12,250	2,471
Shareholders' equity	1,938,262	1,486,987	1,146,026	1,115,047	884,282
KEY RATIOS					
Current ratio	4.2	3.1	3.2	3.5	3.4
Return on net sales	17%	10%	2%	21%	29%
Return on average total assets	15%	11%	3%	25%	38%
Return on average equity	20%	16%	4%	32%	49%
GROWTH PERCENTAGES					
Net sales	2%	9%	21%	20%	26%
Net income	64%	408%	-87%	-11%	24%
Net income per share	61%	409%	-88%	-14%	17%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

Novell is a leading provider of networking software. The Company's software products provide the distributed infrastructure, network services, advanced network access, and network applications to connect people with other people and the information they need, enabling them to act on it anytime, anyplace.

Over the past several years, the Company has issued common stock or paid cash to acquire technology companies, invested cash in other technology companies, and formed strategic alliances with still other technology companies. Novell undertook all of these transactions to promote a pervasive computing environment, and in many cases to also broaden the Company's business as a system and application software supplier.

In June 1993, the Company acquired UNIX System Laboratories, Inc. (USL) by issuing approximately 11 million shares of Novell common stock valued at \$322 million in exchange for all of the outstanding stock of USL not previously owned by Novell and assumed liabilities of \$9 million. The transaction was accounted for as a purchase and, on this basis, resulted in a one-time write-off of \$269 million for purchased research and development in the third quarter of fiscal 1993.

In June 1994, the Company completed a merger with WordPerfect Corporation (WordPerfect), whereby WordPerfect was merged into Novell. Approximately 51 million shares of Novell common stock were exchanged for all of the outstanding common stock of WordPerfect. In addition, the outstanding employee stock options to purchase WordPerfect common stock were converted into options to purchase approximately 8 million shares of Novell common stock. The transaction was accounted for as a pooling of interests and therefore all prior financial statements presented herein have been restated as if the merger took place at the beginning of such periods.

Additionally, in June 1994, the Company acquired from Borland International, Inc. (Borland) its Quattro Pro spreadsheet product line for \$110 million of cash and assumed liabilities of \$10 million, and purchased a three-year license to reproduce and distribute up to one million copies of current and future versions of Borland's Paradox relational database product for \$35 million of cash. The transaction was accounted for as a purchase and, on this basis, resulted in a one-time write-off of \$114 million for purchased research and development.

On October 30, 1995, the Company announced its intention to sell its personal productivity applications product line. Novell's personal productivity applications product line was acquired in the WordPerfect and Quattro Pro transactions. Certain other acquired product lines such as GroupWise are not being sold. The Company is actively negotiating with several parties regarding the sale of the personal productivity applications product line and anticipates that it will announce a sale in early 1996.

On December 6, 1995, Novell completed the sale of its UnixWare product line to the Santa Cruz Operation, Inc. (SCO). The Company expects to report a gain on this transaction in the first quarter of fiscal 1996. Under the agreement, Novell received approximately 6.1 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.

3
RESULTS OF OPERATIONS

NET SALES	1995	Change	1994	Change	1993
Net sales (millions)	\$2,041	2%	\$1,998	5%	\$1,830

Through fiscal 1995, Novell has had 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 has increased in both fiscal 1995 and fiscal 1994, analysis of the individual product groups characterizes the changes that have occurred.

The NetWare Systems Group (NSG) represented 52% of total revenues in fiscal 1995, 46% in fiscal 1994, and 45% in fiscal 1993. NSG revenues grew by 16% in fiscal 1995 compared to fiscal 1994, and by 11% in fiscal 1994 compared to fiscal 1993. The growth in fiscal 1995 has been in NetWare 4, while NetWare 3 and other NSG products declined. In fiscal 1994, both NetWare 4 and NetWare 3 grew over the fiscal 1993 levels.

The Novell Applications Group (NAG) represented 24% of total revenues in fiscal 1995, 29% in fiscal 1994, and 38% in fiscal 1993. NAG revenues decreased by 17% in fiscal 1995 compared to fiscal 1994, and by 18% in fiscal 1994 compared to fiscal 1993. The decrease in fiscal 1995 compared to fiscal 1994 was primarily the result of a decrease in WordPerfect revenues offset by increases in the PerfectOffice suite and GroupWise. The decrease in fiscal 1994 compared to fiscal 1993 was primarily the result of a decrease in WordPerfect for DOS revenues. The personal productivity applications product line, which the Company intends to sell in early 1996, accounted for \$407 million of revenue in fiscal 1995.

The UNIX Systems Group (USG) represented 5% of total revenues in fiscal 1995, 9% in fiscal 1994, and 3% in fiscal 1993. The decrease in fiscal 1995 compared to fiscal 1994 was due to the fact that fiscal 1994 included a one-time fully paid license for UNIX technology sold to Sun Microsystems for \$81 million, representing 4% of total revenue in fiscal 1994. The increase in fiscal 1994 compared to fiscal 1993 was attributable to the fact that USL was acquired in June 1993, and therefore fiscal 1993 included only 4 1/2 months of USL revenues subsequent to the merger date.

The Information Access and Management Group (IAMG) represented 12% of total revenues in fiscal 1995, 11% in fiscal 1994, and 10% in fiscal 1993. IAMG revenues grew by 9% in fiscal 1995 compared to fiscal 1994, and by 31% in fiscal 1994 compared to fiscal 1993. Most of the growth in fiscal 1995 was attributable to network management products, while the growth in fiscal 1994 was attributable to host connectivity products.

Service, training, and other revenues represented 7% of revenue in fiscal 1995, 5% of revenue in fiscal 1994, and 4% of revenue in fiscal 1993.

International sales represented 47% of total sales in fiscal 1995 and 43% of total sales in both fiscal 1994 and 1993. The Company expects that international sales will continue to grow at least at the same rate as domestic sales in fiscal 1996.

GROSS PROFIT	1995	Change	1994	Change	1993
Gross profit (millions)	\$1,552	1%	\$1,531	7%	\$1,428
Percentage of net sales	76%		77%		78%

The lower gross profit percentage in fiscal 1995 compared to fiscal 1994 is attributable to increased royalty costs and product training and education costs in fiscal 1995. The lower gross profit percentage in fiscal 1994 compared to fiscal 1993 was due to \$35 million of costs associated with the sale of the license to Sun Microsystems which were charged to cost of sales, resulting in a lower gross profit percentage in fiscal 1994. Future fluctuations in gross profit margins will be primarily attributable to price changes, changes in sales mix by product or distribution channel, and special product promotions.

OPERATING EXPENSES	1995	Change	1994	Change	1993
Sales and marketing (millions)	\$ 579	3%	\$ 562	10%	\$ 510
Percentage of net sales	28%		28%		28%
Product development (millions)	\$ 368	6%	\$ 347	19%	\$ 290
Percentage of net sales	18%		17%		16%
General and administrative (millions)	\$ 153	-6%	\$ 162	1%	\$ 163
Percentage of net sales	7%		8%		9%
Restructuring charges (millions)	--	--	\$ 51	--	\$ 42
Percentage of net sales	--		3%		2%
Other nonrecurring charges (millions)	--	--	\$ 139	--	\$ 315
Percentage of net sales	--		7%		17%
Total operating expenses (millions)	\$1,100	-13%	\$1,261	-4%	\$1,320
Percentage of net sales	54%		63%		72%

Sales and marketing expenses have remained flat as a percentage of net sales in fiscal 1995, 1994, and 1993. Sales and marketing expenses can fluctuate as a percentage of net sales in any given quarterly period due to product promotions, advertising, or other discretionary expenses.

Product development expenses have increased as a percentage of net sales in each of the past two fiscal years in an effort to increase the Company's investment in new products.

General and administrative expenses decreased slightly as a percentage of net sales in fiscal 1995 compared to fiscal 1994 and also decreased in fiscal 1994 compared to fiscal 1993. The decrease in fiscal 1995 was attributable to workforce reductions after the merger with WordPerfect. The decrease in fiscal 1994 was primarily attributable to lower bad debt expenses in fiscal 1994 compared to fiscal 1993.

During the fourth quarter of fiscal 1994, the Company incurred a restructuring charge of \$51 million. In September 1994, the Company formulated a plan whereby duplicate facilities, excess personnel, and products to be discontinued were identified. The restructuring charge included \$26 million related to redundant or excess facilities and equipment costs which are being closed or abandoned. Operating expenses related to such facilities and equipment up to the time of closure or abandonment were not included in the restructuring charge. Additionally, \$16 million of the restructuring charge related to employee severance costs for approximately 1,100 employees who have been terminated. The charge did not include salaries and wages paid to such employees up to their termination date, nor did it include any expenses related to an additional 650 employees who were transferred to third parties to perform outsourced functions. The remaining \$9 million of the restructuring charge related to products which have been eliminated from the Company's product lines. Savings from this restructuring plan were approximately \$50 million in fiscal 1995. Of the original reserve, approximately \$10 million remained at the end of fiscal 1995 related to a lease obligation.

In the third quarter of fiscal 1993, a restructuring charge of \$42 million was incurred, most of which related to a reduction in force and facilities at WordPerfect. None of the original liability remained at the end of fiscal 1995.

In fiscal 1994 and 1993, the Company incurred other nonrecurring charges, primarily related to the write-off of purchased research and development in connection with acquisitions. In fiscal 1994, the charges related primarily to the write-off of \$114 million of tax deductible purchased research and development in connection with the acquisition of the Quattro Pro spreadsheet product line from Borland. During the first quarter of fiscal 1994, the Company also wrote off \$15 million of non-tax deductible purchased research and development in connection with the acquisition of SoftSolutions Technology Corporation. The remaining \$10 million of nonrecurring charges in fiscal 1994 related primarily to one-time expenses incurred to align the Novell and WordPerfect employee benefit plans.

In fiscal 1993, the Company wrote off \$315 million of non-tax deductible purchased research and development in connection with the acquisitions of USL, Serius Corporation, and Fluent, Inc.

Operating expenses excluding nonrecurring charges have grown slightly more rapidly than revenues both in fiscal 1995 compared to fiscal 1994 and in fiscal 1994 compared to fiscal 1993 due to higher product development expenses.

	1995	Change	1994	Change	1993
Employees	7,762	-8%	8,457	-19%	10,451
Revenue per employee (thousands)	\$ 252		\$ 211		\$ 192

Early in fiscal 1994, WordPerfect reduced its workforce by approximately 1,000 employees. Subsequent to the merger between Novell and WordPerfect, there was an additional reduction in force of approximately 1,100. During the first half of fiscal 1995, an additional 650 employees' functions were outsourced as part of the fiscal 1994 restructuring.

Subsequent to fiscal 1995, the Company reduced its workforce by approximately 400 employees in anticipation of selling the personal productivity applications product line. In addition, approximately 300 employees have left or will leave the Company in connection with the sale of the UnixWare business, a majority of whom have been hired by SCO or Hewlett-Packard. The Company expects that its workforce will be reduced by approximately 1,500 additional employees in connection with the sale of the personal productivity applications product line in early 1996.

OTHER INCOME (EXPENSE)

	1995	Change	1994	Change	1993
Other income (expense), net (millions)	\$57	111%	\$27	-9%	\$30
Percentage of net sales	3%		1%		2%

The primary component of other income (expense) is investment income, which was \$54 million, \$36 million, and \$28 million in fiscal 1995, 1994, and 1993, respectively. The increases in fiscal 1995 compared to fiscal 1994 and in fiscal 1994 compared to fiscal 1993 were attributable to a larger investment portfolio due to cash being generated from operations in excess of other cash uses. To achieve potentially higher returns, a limited portion of the Company's investment portfolio is invested in mutual funds which incur market risk. The Company believes that the market risk has been limited by diversification and by use of a funds management timing service which switches funds out of mutual funds and into money market funds when preset signals occur.

In fiscal 1995, in addition to the investment income, the Company had a gain on the disposal of its Austin, Texas facility, offset by foreign currency exchange losses. In fiscal 1994, investment income was offset by merger expenses and interest expense related to notes payable to WordPerfect shareholders.

Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," was adopted in the first quarter of fiscal 1995, resulting in unrealized gains of \$23 million, net of deferred taxes, as of the end of fiscal 1995.

INCOME TAXES					
	1995	Change	1994	Change	1993
Income taxes (millions)	\$170	87%	\$91	-7%	\$97
Percentage of net sales	8%		5%		5%
Effective tax rate	34%		31%		71%

The effective tax rate for fiscal 1995 was higher than the effective tax rate for fiscal 1994 as a result of WordPerfect's S corporation status change to C corporation status in the first quarter of fiscal 1994. The effective tax rate for fiscal 1994 was lower than the fiscal 1993 effective tax rate primarily as a result of WordPerfect's prior S corporation status change to C corporation status and the impact of non-tax deductible charges for purchased research and development in fiscal 1993.

NET INCOME AND NET INCOME PER SHARE

	1995	Change	1994	Change	1993
Net income (millions)	\$338	63%	\$207	408%	\$ 41
Percentage of net sales	17%		10%		2%
Net income per share	\$.90	61%	\$.56	409%	\$.11

The nonrecurring UNIX license revenues, acquisition related expense items, and normalization of income taxes for WordPerfect represented a decrease in net income of \$91 million or \$.25 per share in fiscal 1994 and \$288 million or \$.78 per share in fiscal 1993.

LIQUIDITY AND CAPITAL RESOURCES					
	1995	Change	1994	Change	1993
Cash and short-term investments (millions)	\$1,321	53%	\$862	20%	\$719
Percentage of total assets	55%		44%		41%

Cash and short-term investments increased to \$1.321 billion at October 28, 1995 from \$862 million at October 29, 1994. The major reasons for this increase were the \$450 million of cash provided by operating activities and the \$64 million provided from the issuance of common stock from employee stock plans, offset by the \$84 million used for capital expenditures. 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 October 28, 1995, 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, strategic investments, and flexibility in a dynamic and competitive operating environment.

During fiscal 1995, 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 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 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.

CONSOLIDATED STATEMENTS OF INCOME
AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA

FISCAL YEAR ENDED	Oct. 28 1995	Oct. 29 1994	Oct. 30 1993
Net sales	\$2,041,174	\$1,998,077	\$1,830,411
Cost of sales	489,333	467,066	402,602
Gross profit	1,551,841	1,531,011	1,427,809
Operating expenses			
Sales and marketing	579,370	562,034	509,722
Product development	367,562	346,706	290,239
General and administrative	152,800	161,855	163,249
Restructuring charges	--	51,463	42,000
Other nonrecurring charges	--	139,010	314,501
Total operating expenses	1,099,732	1,261,068	1,319,711
Income from operations	452,109	269,943	108,098
Other income (expense)			
Investment income	53,839	36,360	28,131
Merger expenses	--	(5,778)	--
Other, net	2,781	(3,142)	1,928
Other income, net	56,620	27,440	30,059
Income before taxes	508,729	297,383	138,157
Income taxes	170,424	90,652	97,437
Net income	\$ 338,305	\$ 206,731	\$ 40,720
Weighted average shares outstanding	374,584	368,332	367,900
Net income per share	\$.90	\$.56	\$.11

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA

	Oct. 28 1995	Oct. 29 1994
<hr/>		
ASSETS		
Current assets		
Cash and short-term investments	\$1,321,231	\$ 861,809
Receivables, less allowances (\$74,857-1995, \$82,934-1994)	470,437	391,342
Inventories	23,025	32,221
Prepaid expenses	50,576	69,324
Deferred income taxes	59,913	98,435
<hr/>		
Total current assets	1,925,182	1,453,131
Property, plant, and equipment, net	390,452	394,682
Other assets	101,196	115,668
<hr/>		
Total assets	\$2,416,830	\$1,963,481
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LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 116,305	\$ 67,176
Accrued compensation	97,637	81,639
Accrued marketing liabilities	72,339	66,800
Other accrued liabilities	90,623	121,165
Income taxes payable	29,942	78,139
Deferred revenue	54,099	47,801
<hr/>		
Total current liabilities	460,945	462,720
Minority interests	17,623	13,774
<hr/>		
SHAREHOLDERS' EQUITY		
Common stock, par value \$.10 per share		
Authorized--600,000,000 shares		
Issued--371,567,158 shares, 1995		
364,354,887 shares, 1994	37,157	36,436
Additional paid-in capital	737,481	645,419
Retained earnings	1,163,624	805,132
<hr/>		
Total shareholders' equity	1,938,262	1,486,987
<hr/>		
Total liabilities and shareholders' equity	\$2,416,830	\$1,963,481
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See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AMOUNTS IN THOUSANDS

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-in Capital	Earnings	
BALANCE -- OCT. 31, 1992	352,015	\$35,202	\$ 380,609	\$ 699,236	\$1,115,047
USL acquisition	11,132	1,113	320,645	--	321,758
STI acquisition	800	80	2,370	(3,680)	(1,230)
Stock issued from stock plans	6,654	665	63,290	(14,944)	49,011
Stock plans' income tax benefits	--	--	45,660	--	45,660
Shares repurchased and retired	(11,130)	(1,113)	(229,645)	--	(230,758)
Shares cancelled	(40)	(4)	(1,156)	1,160	--
Sale of put warrants	--	--	(96,520)	--	(96,520)
Unearned stock compensation	--	--	--	3,970	3,970
Cumulative translation adjustment	--	--	--	(2,009)	(2,009)
Distributions to shareholders	--	--	--	(99,623)	(99,623)
Net income	--	--	--	40,720	40,720
BALANCE -- OCT. 30, 1993	359,431	\$35,943	\$ 485,253	\$ 624,830	\$1,146,026
Stock issued from stock plans	4,988	499	35,814	(612)	35,701
Stock plans' income tax benefits	--	--	21,747	--	21,747
Shares cancelled	(64)	(6)	(1,833)	1,839	--
Settlement of put warrants	--	--	104,438	--	104,438
Unearned stock compensation	--	--	--	3,821	3,821
Cumulative translation adjustment	--	--	--	8,444	8,444
Distributions to shareholders	--	--	--	(65)	(65)
WordPerfect fiscal year conversion	--	--	--	(39,856)	(39,856)
Net income	--	--	--	206,731	206,731
BALANCE -- OCT. 29, 1994	364,355	\$36,436	\$ 645,419	\$ 805,132	\$1,486,987
Stock issued from stock plans	7,315	732	68,459	(4,909)	64,282
Stock plans' income tax benefits	--	--	25,128	--	25,128
Shares cancelled	(103)	(11)	(1,525)	1,451	(85)
Unrealized gain on investments	--	--	--	23,427	23,427
Unearned stock compensation	--	--	--	5,506	5,506
Cumulative translation adjustment	--	--	--	(5,288)	(5,288)
Net income	--	--	--	338,305	338,305
BALANCE -- OCT. 28, 1995	371,567	\$37,157	\$ 737,481	\$1,163,624	\$1,938,262

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

DOLLARS IN THOUSANDS

FISCAL YEAR ENDED	Oct. 28 1995	Oct. 29 1994	Oct. 30 1993
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 338,305	\$ 206,731	\$ 40,720
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Write-off of purchased research and development	--	129,389	314,501
Depreciation and amortization	94,190	86,379	75,425
WordPerfect fiscal year conversion	--	(39,856)	--
Stock plans' income tax benefits	25,128	21,747	45,660
(Increase) decrease in receivables	(79,095)	3,992	(76,018)
Decrease (increase) in inventories	9,196	(2,388)	(3,237)
Decrease (increase) in prepaids	18,748	(29,248)	(13,298)
Decrease (increase) in deferred income taxes	45,228	(70,294)	(53,796)
(Decrease) increase in current liabilities, net	(1,775)	73,487	67,519
Net cash provided by operating activities	449,925	379,939	397,476
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock, net	64,197	35,701	40,990
Repurchases of common stock	--	--	(230,758)
Distributions to shareholders	--	(65)	(23,889)
Repayment of debt	--	(118,901)	(5,896)
Other	--	24,531	13,350
Net cash provided (used) by financing activities	64,197	(58,734)	(206,203)
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant, and equipment	(84,454)	(73,488)	(110,256)
(Increase) in short-term investments	(352,257)	(297,782)	(39,915)
Cash received from acquisitions	--	--	37,242
Cash paid for acquisitions	--	(110,000)	(35,500)
Other	6,327	4,895	(5,750)
Net cash used by investing activities	(430,384)	(476,375)	(154,179)
Total increase (decrease) in cash and cash equivalents	\$ 83,738	\$ (155,170)	\$ 37,094
Cash and cash equivalents -- beginning of period	228,426	383,596	346,502
Cash and cash equivalents -- end of period	312,164	228,426	383,596
Short-term investments -- end of period	1,009,067	633,383	335,601
Cash and short-term investments -- end of period	\$1,321,231	\$ 861,809	\$ 719,197

See notes to consolidated financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

The following summarizes the significant accounting policies of the Company:

- The Company considers all highly liquid debt instruments purchased with a term to maturity of three months or less to be cash equivalents. Short-term investments are widely diversified, consisting primarily of short-term investment grade securities, substantially all of which either mature within the next twelve months or have characteristics of 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.
- Accounts receivable include geographically dispersed distributors, resellers, and OEM customers. No collateral is required. Reserves are provided for product exchanges and bad debts.
- Inventories are stated at the lower of cost (first-in, first-out method) or market.
- Plant and equipment are carried at cost less accumulated depreciation and amortization.
- Provision for depreciation and amortization is computed on the straight-line method over the estimated useful lives of the assets, or lease term if shorter, and are as follows:

Asset Classification	Useful Lives
Buildings	30 years
Furniture and equipment	3-5 years
Leasehold improvements and other	3-7 years
Intangible assets	3-15 years

- Assets and liabilities of the Company's wholly owned subsidiaries, denominated in the local currency of the subsidiary, are remeasured into U.S. dollars (the functional currency) at year-end exchange rates except for equipment and leasehold improvements, which are remeasured at average rates of exchange prevailing when acquired. Income and expense items are remeasured at average rates of exchange prevailing during the year, except that depreciation is remeasured at historical rates. These remeasurement gains and losses are included in net income in the period incurred.

- For the Company's Japanese and Indian subsidiaries, the functional currency has been determined to be the local currency, and therefore assets and liabilities are translated at year-end exchange rates and income statement items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded in shareholders' equity.

- Revenue on product sales is recognized upon shipment. Certain sales require continuing service, support, and performance by the Company, and accordingly a portion of the revenue is deferred until the future service, support, and performance are provided. Reserves for sales returns and allowances are recorded in the same period as the related revenues.

- Product development costs are expensed as incurred. Application of Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," has not had any material effect on the consolidated financial statements.

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

- Required adoption of the American Institute of Certified Public Accountants Statement of Position 94-6, "Disclosure of Certain Significant Risks and Uncertainties," in fiscal 1996 is not expected to have a material impact on the consolidated financial statements of the Company.

- Required adoption of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," effective for the Company during the first fiscal quarter of 1997, is not expected to have a material impact on the consolidated financial statements of the Company.

- The Company intends to adopt Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," effective for the Company during the first fiscal quarter of 1997. The Company has chosen to disclose the impact of stock-based compensation in its footnotes and will not include such impact on its recorded earnings.

Certain reclassifications, none of which affected net income, have been made to the prior years' amounts in order to conform to the current year's presentation.

B. MERGERS, ACQUISITIONS, AND STRATEGIC INVESTMENTS

In June 1994, the Company completed a merger with WordPerfect Corporation (WordPerfect) whereby WordPerfect was merged directly into Novell. Approximately 51 million shares of Novell common stock were exchanged for all of the outstanding common stock of WordPerfect. In addition, outstanding employee stock options to purchase WordPerfect common stock were converted into options to purchase approximately 8 million shares of Novell common stock. The transaction was accounted for as a pooling of interests and therefore all prior period financial statements presented have been restated as if the merger took place at the beginning of such periods.

WordPerfect had a calendar year and, accordingly, the WordPerfect statement of income for the year ended December 31, 1993 has been combined with the Novell statement of income for the fiscal year ended October 30, 1993. In order to conform WordPerfect's year end to Novell's fiscal year end, the consolidated statement of income for fiscal 1994 includes two months (November and December 1993) for WordPerfect which are also included in the consolidated statement of income for the fiscal year ended October 30, 1993. Accordingly, an adjustment has been made in fiscal 1994 to retained earnings for the duplication of net income of \$40 million for such two-month period. Other results of operations for such two-month period of WordPerfect include net sales of \$137 million, income before taxes of \$35 million, and income tax benefits of \$5 million.

Additionally, in June 1994, the Company acquired from Borland International, Inc. (Borland) its Quattro Pro spreadsheet product line for \$110 million of cash and assumed liabilities of \$10 million, and purchased a three-year license to reproduce and distribute up to one million copies of current and future versions of Borland's Paradox relational database product for \$35 million of cash. The transaction was accounted for as a purchase and, on this basis, resulted in a one-time write-off of \$114 million for purchased research and development.

In June 1993, the Company acquired UNIX System Laboratories, Inc. (USL) by issuing approximately 11 million shares of Novell common stock valued at \$322 million in exchange for all of the outstanding stock of USL not previously owned by Novell and assumed liabilities of \$9 million. The transaction was accounted for as a purchase and, on this basis, a one-time write-off of \$269 million for purchased research and development was incurred.

C. CASH AND SHORT-TERM INVESTMENTS

(Dollars in thousands)	Cost at Oct. 28 1995	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value at Oct. 28 1995	Cost at Oct. 29 1994
CASH AND CASH EQUIVALENTS					
Cash	\$ 152,930	\$ --	\$--	\$ 152,930	\$101,331
Repurchase agreements	23,794	--	--	23,794	15,309
Tax exempt money market fund	63,065	--	--	63,065	29,394
Taxable money market investments	--	--	--	--	13,357
Municipal securities	72,375	--	--	72,375	65,035
Cash and cash equivalents	\$ 312,164	\$ --	\$--	\$ 312,164	\$228,426
SHORT-TERM INVESTMENTS					
Municipal securities	\$ 375,491	\$ 3,220	\$--	\$ 378,711	\$201,491
Money market mutual funds	38,475	--	--	38,475	104,388
Money market preferreds	442,500	176	--	442,676	306,700
Mutual funds	91,423	30	--	91,453	13,017
Equity securities	23,055	34,697	--	57,752	7,787
Short-term investments	\$ 970,944	\$38,123	\$--	\$1,009,067	\$633,383
Cash and short-term investments	\$1,283,108	\$38,123	\$--	\$1,321,231	\$861,809

C. CASH AND SHORT-TERM INVESTMENTS (CONTINUED)

Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," was adopted in the first quarter of fiscal 1995, resulting in unrealized gains of \$23 million, net of deferred taxes, as of the end of fiscal 1995.

The Company realized gains on the sales of securities of \$7 million, \$7 million, and \$4 million in fiscal 1995, 1994, and 1993, respectively. In fiscal 1994, the Company realized losses on the sales of securities of \$2 million.

During fiscal 1993, the Company distributed cash of \$24 million and issued notes payable of \$75 million to the shareholders of WordPerfect. In fiscal 1994, after the merger with Novell was completed, the notes payable to the shareholders of WordPerfect were paid off.

D. PROPERTY, PLANT, AND EQUIPMENT

	Oct. 28 1995	Oct. 29 1994
(Dollars in thousands)		
Buildings and land	\$ 214,218	\$ 232,225
Furniture and equipment	403,177	425,118
Leasehold improvements and other	66,127	44,159
Property, plant, and equipment at cost	683,522	701,502
Accumulated depreciation	(293,070)	(306,820)
Property, plant, and equipment, net	\$ 390,452	\$ 394,682

E. INCOME TAXES

Novell, Inc. adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," effective October 31, 1993 for fiscal year 1994. WordPerfect adopted the provisions of SFAS No. 109 effective January 1, 1993 for calendar year 1993. Because the two companies adopted the change in accounting methods in different years, the October 30, 1993 year reflects SFAS No. 109 for WordPerfect and APB 11 for Novell, Inc. Adoption of SFAS No. 109 had no material impact on the financial statements of the Company. As permitted under the new rules, prior years' financial statements have not been restated. Prior to the adoption of SFAS No. 109, income tax expense for both companies was determined using the deferred method (APB 11).

Prior to September 30, 1993, WordPerfect and related affiliates elected to be taxed as S corporations whereby the income tax effects accrued directly to the shareholders. On September 30, 1993, the WordPerfect and related domestic affiliates terminated their S corporation elections. On December 31, 1993, the WordPerfect related foreign affiliates terminated their S corporation elections. As a result, deferred income taxes under the provisions of SFAS No. 109 were established on the dates the S corporation elections were terminated.

As of October 28, 1995, the Company has net operating loss carryforwards from acquired companies of approximately \$27 million that expire in years 1999 through 2008. Subject to certain annual limitations, these losses can be used to offset the future taxable income of these businesses. A valuation allowance of approximately \$9 million has been recognized to offset the deferred tax assets related to those carryforwards.

E. INCOME TAXES (CONTINUED)

FISCAL YEAR ENDED (Dollars in thousands)	Oct. 28 1993	Oct. 29 1994	Oct. 30 1993
TAXES ON INCOME			
Current			
Federal	\$ 85,344	\$132,543	\$109,954
State	20,829	21,344	19,158
Foreign	36,048	22,362	22,121
Total current	142,221	176,249	151,233
Deferred			
Federal	24,382	(55,788)	5,461
State	4,423	(10,510)	1,631
Foreign	(602)	(3,751)	(2,295)
Change in tax status	--	(15,548)	(58,593)
Total deferred	28,203	(85,597)	(53,796)
Total taxes on income	\$ 170,424	\$ 90,652	\$ 97,437
DIFFERENCES BETWEEN THE U.S. STATUTORY AND EFFECTIVE TAX RATES			
U.S. statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax effect	3.2	3.5	3.5
Research and development tax credits	(1.6)	(2.6)	(2.4)
FSC benefit	(0.7)	(2.1)	(1.5)
Tax exempt income	(2.0)	(2.0)	(1.3)
Other, net	(0.4)	2.2	1.4
Subtotal	33.5	34.0	34.7
Change in tax status	--	(5.2)	(42.4)
Non-deductible charge for purchased research and development	--	1.7	78.2
Effective tax rate	33.5%	30.5%	70.5%
DOMESTIC AND FOREIGN COMPONENTS OF INCOME BEFORE TAXES			
Domestic	\$ 450,094	\$312,563	\$122,664
Foreign	58,635	(15,180)	15,493
Total income before taxes	\$ 508,729	\$297,383	\$138,157
Cash paid for income taxes	\$ 162,020	\$115,016	\$ 86,306
DEFERRED INCOME TAXES			
Deferred tax assets			
Receivable valuation accounts	\$ 20,869	\$ 33,076	
Restructuring provision	8,428	17,031	
Acquired intangibles	29,746	31,435	
Reserves and accruals	25,310	35,877	
Foreign earnings	12,136	3,626	
Other individually immaterial items	25,259	31,236	
	121,748	152,281	
Valuation allowance for deferred tax assets	(9,018)	(9,018)	
	112,730	143,263	
Deferred tax liabilities			
UNREALIZED GAIN ON INVESTMENTS	(14,695)	--	
NET DEFERRED TAX ASSETS	\$ 98,035	\$143,263	

F. COMMITMENTS AND CONTINGENCIES

Rent expense for operating and month-to-month leases was \$32 million, \$34 million, and \$31 million in fiscal 1995, 1994, and 1993, respectively.

As of October 28, 1995, the Company has various operating leases with remaining terms of more than one year. These leases have minimum annual lease commitments of \$35 million in fiscal 1996, \$28 million in fiscal 1997, \$17 million in fiscal 1998, \$14 million in fiscal 1999, \$12 million in fiscal 2000, and \$45 million thereafter.

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 October 28, 1995, 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 October 28, 1995, standby letters of credit of \$100,000 were outstanding under this agreement.

In December 1991, Roger Billings and his International Academy of Science (Academy), filed suit against Novell alleging that the Company infringes on a patent allegedly owned by the Academy. In June 1994, Novell filed a petition with the U.S. Patent and Trademark Office (Patent Office) requesting it invalidate the patent. In August 1994, the Patent Office granted Novell's request for re-examination of the patent, finding a "substantial new question of patentability." Also, in August 1994, the trial court issued a ruling, which among other things, vacated the trial date which had been previously set in the action. In June 1995, the Patent Office, upon re-examination, overturned the Academy patent, stating that there was no patentable subject matter. In December 1995, the Academy filed a petition with the Patent Office seeking to amend its patent. The Company believes that the ultimate resolution of this legal proceeding will not 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 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.

G. SHAREHOLDERS' EQUITY

In December 1988, the Board of Directors adopted a Shareholder Rights Plan and amended it in March 1992. The plan provides for a dividend of rights, which cannot be exercised until certain events occur, to purchase shares of preferred stock of the Company or, after certain events, shares of common stock of the Company. Each shareholder of record receives one right for each share of common stock that he or she owns. This plan was adopted to ensure that all shareholders of the Company receive fair value for their common stock in the event of any proposed takeover of the Company and to guard against coercive tactics to gain control of the Company without offering fair value to the Company's shareholders.

The Company has 500,000 authorized shares of preferred stock with a par value of \$.10 per share, none of which was outstanding at October 28, 1995 or October 29, 1994.

In March 1993, shareholders approved the Novell 1991 Stock Plan as amended with an affirmative vote of 69% of the shares voted. During fiscal 1994, the Company completed the acquisition of WordPerfect Corporation and thereby assumed 8 million stock options related to its respective stock option plan. Under all Company stock option plans, 98 million shares of common stock have been reserved for issuance of stock options, 47 million shares have been exercised, 41 million shares are outstanding, 8 million shares are available for future grants, and 2 million shares have expired.

The shares reserved for issuance are increased each November 1st through November 1, 1998, based on a calculation of 2.9% of total common stock outstanding at previous fiscal year end. Generally, grants to date have been nonqualified stock options granted at fair market value on the date of grant for a term of seven or ten years and are exercisable 25% per year beginning one year from the date of grant. The Company also has a stock option plan for nonemployee directors, under which 800,000 shares have been reserved for issuance of nonqualified stock options. The following table is a summary of activity for the Company's stock option plans and has been restated to include the WordPerfect stock options for all periods presented.

G. SHAREHOLDERS' EQUITY (CONTINUED)

	Oct. 28 1995	Oct. 29 1994	Oct. 30 1993

OPTIONS OUTSTANDING			
Beginning balance	39,109,706	37,282,781	29,443,827
Options granted	12,575,366	20,602,634	14,730,714
Options exercised	(5,834,579)	(4,036,142)	(5,183,180)
Options cancelled	(4,569,581)	(14,739,567)	(1,708,580)

Ending balance	41,280,912	39,109,706	37,282,781
=====			
EXCHANGE PROGRAM (INCLUDED ABOVE)			
Options cancelled	--	11,149,199	--
Options regranted	--	7,430,961	--
Restricted stock grant (included above)			
Options granted	50,000	306,500	--
Option price data			
Grant price range	\$.10 - 21.50	\$.10 - 21.13	\$.61 - 31.25
Weighted average grant price	\$ 19.14	\$ 15.79	\$ 24.50
Exercise price range	\$.10 - 21.25	\$.10 - 25.00	\$.17 - 28.75
Weighted average exercise price	\$ 7.41	\$ 5.18	\$ 4.76
Cancelled price range	\$.61 - 29.00	\$.61 - 29.00	\$ 1.87 - 29.00
Weighted average cancelled price	\$ 18.19	\$ 25.70	\$ 20.69
Weighted average outstanding price	\$ 15.24	\$ 13.25	\$ 15.85
OPTION TERMS			
Percentage vesting per year	25%	25%	25%
Maximum term	7 or 10 years	7 or 10 years	7 or 10 years
Percentage granted at fair market value on date of grant	99%	99%	100%
AS OF YEAR END			
Options exercisable	17,418,497	15,863,911	8,965,246
Options available for future grants	8,009,685	5,476,318	4,014,599
Other information			
Shares of common stock outstanding at year end	371,567,158	364,354,887	359,431,077
Annual option reserve increase based on evergreen provision	10,566,291	8,933,478	--
Options granted as a percentage of outstanding common stock,			
net of cancellations	2.2%	1.6%	3.6%
Option holders as a percentage of total employees	100%	100%	37%

G. SHAREHOLDERS' EQUITY (CONTINUED)

In 1994, the Company implemented a stock option exchange program whereby option holders could exchange higher priced options for new options on a two new shares for three old shares ratio. All option holders except for directors and officers were permitted to participate in the program. The Novell, Inc. 1989 Employee Stock Purchase Plan (Purchase Plan) permits eligible employees to purchase shares of common stock through payroll deductions at lower of 85% of fair market value at the beginning or end of each six-month offering period. On April 12, 1995, shareholders approved an amendment to increase the reserve by 4 million shares. As of October 28, 1995, 5 million shares have been issued under the Purchase Plan.

H. RESTRUCTURING CHARGES

During the fourth quarter of fiscal 1994, the Company incurred a restructuring charge of \$51 million. In September 1994, the Company formulated a plan whereby duplicate facilities, excess personnel, and products to be discontinued were identified. The restructuring charge included \$26 million related to redundant or excess facilities and equipment costs which are being closed or abandoned. Operating expenses related to such facilities and equipment up to the time of closure or abandonment were not included in the restructuring charge. Additionally, \$16 million of the restructuring charge related to employee severance costs for approximately 1,100 employees who have been terminated. The charge did not include salaries and wages paid to such employees up to their termination date, nor does it include any expenses related to an additional 650 employees who were transferred to third parties to perform outsourced functions. The remaining \$9 million of the restructuring charge related to products which have been eliminated from the Company's product lines. Savings from this restructuring plan were approximately \$50 million in fiscal 1995. Of the original reserve, approximately \$10 million remained at the end of fiscal 1995 related to a lease obligation.

In the third quarter of fiscal 1993 a restructuring charge of \$42 million was incurred, most of which related to a reduction in force and facilities at WordPerfect. None of the original liability remained at the end of fiscal 1995.

I. OTHER NONRECURRING CHARGES

In fiscal 1994 and 1993, the Company incurred other nonrecurring charges, primarily related to the write-off of purchased research and development in connection with acquisitions. In fiscal 1994 the charges related primarily to the write-off of \$114 million of tax deductible purchased research and development in connection with the acquisition of the Quattro Pro spreadsheet product line from Borland. During the first quarter of fiscal 1994, the Company also wrote off \$15 million of non-tax deductible purchased research and development in connection with the acquisition of SoftSolutions Technology Corporation. The remaining \$10 million of nonrecurring charges in fiscal 1994 related primarily to one-time expenses incurred to align the Novell and WordPerfect employee benefit plans.

In fiscal 1993, the Company wrote off \$315 million of non-tax deductible purchased research and development in connection with the acquisitions of USL, Serius Corporation, and Fluent, Inc.

J. EMPLOYEE SAVINGS AND RETIREMENT PLAN

The Company adopted a 401(k) savings and retirement plan in December 1986. The plan covers all employees who are 21 years of age or older who are scheduled to complete 1,000 hours of service during any consecutive twelve-month period. Prior to January 1, 1995, the Company's retirement and savings plan contribution has been a 50% matching contribution for employee contributions up to 6% of each employee's compensation. On January 1, 1995, the Company's retirement and savings plan contribution was changed to be a 100% matching contribution for employee contributions up to 4% of each employee's compensation. Company matching contributions were \$17 million, \$15 million, and \$12 million in fiscal 1995, 1994, and 1993, respectively.

K. RELATED PARTY TRANSACTIONS

In fiscal 1995, 1994, and 1993, legal fees of approximately \$2 million per year were paid to Wilson, Sonsini, Goodrich & Rosati, a law firm in which a director of the Company is a senior partner.

L. INTERNATIONAL SALES

The Company markets internationally through distributors who sell to dealers and end users. In fiscal 1995, 1994, and 1993, sales to international customers were approximately \$960 million, \$861 million, and \$783 million, respectively. In fiscal 1995, 1994, and 1993, international sales to European countries were 56%, 58%, and 60%, respectively. No one foreign country accounted for more than 10% of total sales in any period. In fiscal 1995 and 1994, the Company had one multinational distributor, which accounted for 15% and 12% of revenue, respectively. The Company had two multinational distributors, which accounted for 15% and 11% of revenue in fiscal 1993. Otherwise, no customer accounted for more than 10% of revenue in any period.

M. PRO FORMA DATA

If WordPerfect had been a C corporation for all periods presented, fiscal 1994 would have had income tax expense of \$106 million, net income of \$191 million, and net income per share of \$.52. Fiscal 1993 would have had income tax expense of \$151 million, a net loss of \$13 million, and a net loss per share of \$.04.

N. SUBSEQUENT EVENTS

On October 30, 1995, the Company announced its intention to sell its personal productivity applications product line. Novell's personal productivity applications product line was acquired in the WordPerfect and Quattro Pro transactions. Certain other acquired product lines such as GroupWise are not being sold. The Company is actively negotiating with several parties regarding the sale of the personal productivity applications product line and anticipates that it will announce a sale in early 1996.

On December 6, 1995, Novell completed the sale of its UnixWare product line to the Santa Cruz Operation, Inc. (SCO). The Company expects to report a gain on this transaction in the first quarter of fiscal 1996. Under the agreement, Novell received approximately 6.1 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.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND SHAREHOLDERS
NOVELL, INC.

We have audited the accompanying consolidated balance sheets of Novell, Inc. as of October 28, 1995 and October 29, 1994, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended October 28, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of WordPerfect Corporation, which statements reflect total revenues constituting 39% in 1993 of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, as it relates to data included for WordPerfect Corporation, is based solely on the report of other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Novell, Inc. at October 28, 1995 and October 29, 1994, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 28, 1995, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

San Jose, California
December 12, 1995

SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)
DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA

	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----	FISCAL YEAR -----
FISCAL 1995					
Net sales	\$493,225	\$529,508	\$537,922	\$480,519	\$2,041,174
Gross profit	376,350	405,053	412,322	358,116	1,551,841
Income before taxes	122,585	144,162	153,332	88,650	508,729
Net income	81,519	95,868	101,966	58,952	338,305
Net income per share	.22	.26	.27	.16	.90
COMMON STOCK PRICE PER SHARE					
High	20 7/8	22 1/4	23 1/4	21 3/4	23 1/4
Low	15 3/4	17 5/8	17 7/8	13 3/4	13 3/4
FISCAL 1994					
Net sales	\$488,278	\$534,930	\$488,924	\$485,945	\$1,998,077
Gross profit	384,501	389,533	383,420	373,557	1,531,011
Income (loss) before taxes	126,444	144,811	(4,740)	30,868	297,383
Net income (loss)	94,460	96,364	(4,465)	20,372	206,731
Net income (loss) per share	.26	.26	(.01)	.06	.56
COMMON STOCK PRICE PER SHARE					
High	25 5/8	26 1/4	19 1/2	17 15/32	26 1/4
Low	19 1/4	15	14	13 3/4	13 3/4
FISCAL 1993					
Net sales	\$432,324	\$454,998	\$433,872	509,217	\$1,830,411
Gross profit	340,995	362,946	332,410	391,458	1,427,809
Income (loss) before taxes	137,766	140,384	(272,532)	132,539	138,157
Net income (loss)	97,420	97,938	(257,421)	102,783	40,720
Net income (loss) per share	.27	.27	(.69)	.28	.11
COMMON STOCK PRICE PER SHARE					
High	33 1/2	35 1/4	33 1/2	23 1/4	35 1/4
Low	23 3/4	25 3/4	17 5/8	17	17

Novell's common stock trades in the over-the counter market under the NASDAQ symbol "NOVL."

The dividends have been declared on the Company's common stock. There were 13,286 shareholders of record at December 31, 1995.

NOVELL, INC.

SUBSIDIARIES OF THE REGISTRANT

As of October 28, 1995, the following companies were subsidiaries of Novell, Inc.:

WHOLLY OWNED	STATE OF INCORPORATION OR COUNTRY IN WHICH ORGANIZED
Fluent, Inc.....	Delaware
Novell de Argentina S.A.....	Argentina
Novell Austria.....	Austria
Novell Belgium B.V.B.A.....	Belgium
Novell do Brasil Software Ltda.....	Brazil
Novell Canada, Ltd.....	Canada
Novell Columbia.....	Columbia
Novell Czech Republic.....	Czech Republic
Novell Denmark A/S.....	Denmark
Novell Europe, Inc.....	Delaware
Novell European Support Center GmbH.....	Germany
Novell Finland OY.....	Finland
Novell GmbH.....	Germany
Novell Hong Kong.....	Hong Kong
Novell Hungary KFT.....	Hungary
Novell International, Ltd.....	Barbados
Novell Ireland Software Limited.....	Ireland
Novell Israel.....	Israel
Novell Italia S.R.L.....	Italy
Novell Korea Co., Ltd.....	Korea
Novell Latino America Norte, CA.....	Venezuela
Novell de Mexico, S.A.DE C.V.....	Mexico
Novell Netherlands B.V.....	Netherlands
Novell Norway.....	Norway
Novell Polska Sp.Zo.c.....	Poland
Novell Portugal Informatica LDA.....	Portugal
Novell Pty, Ltd.....	Australia
Novell S.A.R.L.....	France
Novell Services Asia Pacific Pty Ltd.....	Australia
Novell Singapore.....	Singapore
Novell Software Development Pvt., Ltd.....	India
Novell South Africa Proprietary Ltd.....	South Africa
Novell Spain S.A.....	Spain
Novell Svenska A.B.....	Sweden
Novell Schweiz A.G.....	Switzerland
Novell U.K., Ltd.....	United Kingdom
Serius Corporation.....	Delaware
MAJORITY OWNED	
Novell Japan, Ltd.....	Japan
Onward Novell Software Pvt., Ltd.....	India

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Novell, Inc. of our report dated December 12, 1995, included in the 1995 Annual Report to Shareholders of Novell, Inc.

Our audits also included the financial statement schedule of Novell, Inc., listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-14531, No. 33-29798, No. 33-31299, No. 33-36673, No. 33-41719, No. 33-48395, No. 33-54483, No. 33-64998, No. 33-65440, No. 33-66704, No. 33-67276 and No. 33-68336) pertaining to the Employee Stock Option and Stock Purchase Plans of Novell, Inc. of our report dated December 12, 1995, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Novell, Inc.

/s/ ERNST & YOUNG LLP

San Jose, California
January 22, 1996

CONSENT OF PRICE WATERHOUSE LLP
INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus of the Registration Statements on Form S-8 (No. 33-14531, No. 33-29798, No. 33-31299, No. 33-36673, No. 33-41719, No. 33-48395, No. 33-54483, No. 33-64998, No. 33-65440, No. 33-66704, No. 33-67276 and No. 33-68336) of Novell, Inc. of our report dated March 22, 1994 appearing on page 17 of this Form 10-K.

/S/ PRICE WATERHOUSE LLP

Salt Lake City, Utah
January 23, 1996

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	YEAR
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED OCTOBER 28, 1995

/ / OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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.)

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)

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 X 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, 1995 (based on the last reported price of the Common Stock on the NASDAQ National Market System on such date) was \$5,001,667,863.

As of December 31, 1995 there were 367,868,618 shares of the registrant's common stock outstanding.

Portions of Registrant's Annual Report to Shareholders for the fiscal year ended October 28, 1995, 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 10, 1996, are incorporated by reference in Part III of this Form 10-K to the extent stated herein.

