

(c) The holding period of the Novell Common Stock received in the Merger will include the period for which the WordPerfect Common Stock surrendered in exchange therefor was held, provided that the WordPerfect Common Stock is held as a capital asset at the time of the Merger.

(d) Neither Novell, Sub or WordPerfect will recognize material amounts of gain solely as a result of the Merger.

(e) A shareholder who exercises dissenters' rights with respect to a share of WordPerfect Common Stock and receives payment for such share in cash will generally recognize gain or loss for federal income tax purposes, measured by the difference between the holder's basis in such share and the amount of cash received, provided that the payment is neither essentially equivalent to a dividend within the meaning of Section 302 of the Code nor has the effect of a distribution of a dividend within the meaning of Section 356(a)(2) of the Code (collectively "a Dividend Equivalent Transaction"). A sale of WordPerfect Common Stock pursuant to an exercise of dissenters' rights will generally not be a Dividend Equivalent Transaction if, as a result of such exercise, the dissenter owns no shares of Novell Common Stock (either actually or constructively within the meaning of Section 318 of the Code such as through the attributing of stock ownership through family members). If, however, a shareholder's sale for cash of WordPerfect Common Stock is a Dividend Equivalent Transaction, then such Shareholder will generally recognize income for federal income tax purposes in an amount equal to the entire amount of the cash so received.

Even if the Merger qualifies as a Reorganization, a recipient of shares of Novell Common Stock could recognize gain to the extent that such shares were considered by the Internal Revenue Service (the "IRS") to be received in exchange for consideration (other than WordPerfect Common Stock). All or a portion of such gain may be taxable as ordinary income. Gain could also have to be recognized to the extent that a WordPerfect shareholder was treated by the IRS as receiving (directly or indirectly) consideration other than Novell Common Stock in exchange for his or her WordPerfect Common Stock.

The parties are not requesting and will not request a ruling from the IRS in connection with the Merger. Novell and WordPerfect, however, have each received an opinion from their respective counsel to the effect that the Merger will constitute a Reorganization (the "Tax Opinions"). WordPerfect shareholders should be aware that the Tax Opinions do not bind the IRS and the IRS is therefore not precluded from successfully asserting a contrary opinion. The Tax Opinions are subject to certain assumptions, including but not limited to the truth and accuracy of certain representations made by Novell, WordPerfect and certain shareholders of WordPerfect. Of particular importance are certain representations relating to the Code's "continuity of interest requirement."

To satisfy the continuity of interest requirement, WordPerfect shareholders must not, pursuant to a plan or intent existing at or prior to the Merger, dispose of or transfer so much of either (i) their WordPerfect Common Stock in anticipation of the Merger or (ii) the Novell Common Stock to be received in the Merger (collectively, "Planned Dispositions"), such that WordPerfect shareholders, as a group, would no longer have a significant equity interest in the WordPerfect business being conducted by Novell after the Merger. WordPerfect shareholders will generally be regarded as having a significant equity interest as long as the number of shares of Novell Common Stock received in the Merger less the number of shares subject to Planned Dispositions (if any) represents, in the aggregate, a substantial portion of the entire consideration received by the WordPerfect shareholders in the Merger.

A successful IRS challenge to the Reorganization status of the Merger (as a result of a failure of the continuity of interest or otherwise) would result in WordPerfect shareholders recognizing taxable gain or loss with respect to each share of WordPerfect Common Stock surrendered equal to the difference between the shareholder's basis in such share and the fair market value, as of the Effective Time, of the Novell Common Stock received in exchange therefor. In such event, a shareholder's aggregate basis in the Novell Common Stock so received would equal its fair market value and the holding period for such stock would begin the day after the Merger.

Affiliates Agreements

The shares of Novell Common Stock to be issued in the Merger have been registered under the Securities Act by a Registration Statement on Form S-4, thereby allowing such securities to be traded without restriction by all former holders of WordPerfect Common Stock not deemed to be "affiliates" (as such term is defined for purposes of Rule 145 under the Securities Act) of WordPerfect at the time the transaction is submitted for a vote to the WordPerfect shareholders. WordPerfect shareholders who may be deemed to be affiliates of WordPerfect will be so advised prior to the Effective Time.

Pursuant to the terms of the Merger Agreement, each affiliate of WordPerfect has executed or will execute an Affiliates Agreement in the form of Exhibit 5.12 to the Merger Agreement. Pursuant to the Affiliates Agreement, each WordPerfect affiliate has agreed not to make any sale of Novell Common Stock received upon consummation of the Merger in violation of the Securities Act or the rules and regulations promulgated thereunder. Generally this will require that such sales be made in accordance with Rule 145(d) under the Securities Act promulgated by the SEC, which in turn requires that, for specified periods, such sales be made in compliance with the volume limitations, manner of sale provisions and current information requirements of Rule 144 under the Securities Act also promulgated by the SEC. The volume limitations should not impose any material limitations on any WordPerfect shareholder who owns less than one percent of Novell's outstanding Common Stock after the Merger unless, pursuant to Rule 144, such shareholder's shares are required to be aggregated with those of another shareholder.

The Affiliates Agreements provide, among other things, that each affiliate of WordPerfect has agreed (i) not to sell, exchange, transfer, pledge, dispose of or otherwise reduce his risk relative to shares of WordPerfect Common Stock owned by such affiliate for 30 days prior to the Effective Time; (ii) not to transfer, sell, exchange, pledge, dispose of or otherwise reduce his risk relative to Novell Common Stock (except limited transfers to members of such affiliate's immediate family, with such transferee to be bound by the terms of the Affiliates Agreement) until such time as financial results covering at least 30 days of combined operations of Novell and WordPerfect after the Effective Time have been filed with the SEC or published by Novell; (iii) that the affiliate has no present plan or intent to engage in a sale, exchange, transfer, pledge, disposition or any other transaction which results in a reduction in the risk of ownership with respect to more than 50% of the shares of Novell Common Stock to be received by him or her in the Merger; and (iv) not to offer, sell, exchange, transfer, pledge or otherwise dispose of any Novell Common Stock except as permitted by Rule 145 promulgated under the Securities Act by the SEC or pursuant to a registration statement under, or an exemption from, the Securities Act.

Shareholder Agreements

Pursuant to the terms of the Merger Agreement, certain shareholders of WordPerfect, holding in the aggregate approximately 89% of the outstanding Common Stock of WordPerfect, executed Shareholder Agreements in the form of Exhibit 5.6 to the Merger Agreement. Under these Shareholder Agreements, each of such WordPerfect shareholders has agreed to vote in favor of the Merger Agreement and has executed a proxy in favor of the Board of Directors of Novell to vote their shares of WordPerfect Common Stock in favor of the Merger.

Tax Matters Agreement

As a condition to the Merger, certain WordPerfect shareholders will enter into a Tax Matters Agreement that will provide that such shareholders will severally and not jointly indemnify WordPerfect and Novell with respect to U.S. federal or Utah state income tax liability (including interest and penalties) arising out of a failure of WordPerfect or its affiliates to have been S corporations (as defined in Section 1361 of the Code) during any taxable year (or that portion of any taxable year) for which such corporations reported for federal and Utah state income tax purposes that they were S corporations. Each such WordPerfect shareholder's liability for purposes of such indemnification will be limited in certain respects pursuant to the terms of the Tax Matters Agreement.

Governmental and Regulatory Approvals

Transactions such as the Merger are reviewed by the Department of Justice and the Federal Trade Commission (the "FTC") to determine whether they comply with applicable antitrust laws. Under the provisions of the HSR Act, the Merger may not be consummated until such time as certain information has been furnished to the Department of Justice and the FTC and the specified waiting period requirements of the HSR Act have been satisfied. Premerger Notification and Report Forms were filed with the Department of Justice and the FTC under the HSR Act by each of Novell, Bruce W. Bastian, and Melanie L. Bastian, the ultimate parent entities of WordPerfect, on April 4, 1994. The notification and waiting period imposed under the HSR Act is set to expire on May 4, 1994.

At any time before or after the Effective Time, the Department of Justice, the FTC, state attorneys general or a private person or entity could challenge the Merger under the antitrust laws and seek among other things, to enjoin the Merger or to cause Novell to divest itself, in whole or in part, of WordPerfect or Novell. Based on information available to them, Novell and WordPerfect believe that the Merger will not violate federal or state antitrust laws. However, there can be no assurance that a challenge to the Merger on antitrust grounds will not be made or that, if such a challenge is made, Novell and WordPerfect will prevail or would not be required to accept certain conditions, possibly including certain divestitures or hold-separate agreements, in order to consummate the Merger.

Novell and WordPerfect each conduct operations in a number of foreign countries where regulatory filings may be required as a result of the Merger. Novell and WordPerfect will make such filings as they determine are necessary or appropriate.

Novell and WordPerfect are aware of no other governmental or regulatory approvals required for consummation of the Merger, other than compliance with applicable securities and "blue sky" laws of the various states.

Accounting Treatment

The Merger is to be treated as a pooling of interests for financial reporting purposes. Novell expects to receive a letter from its independent auditors, Ernst & Young, indicating their opinion that such accounting method is appropriate. The delivery of the letter of Ernst & Young to Novell is a condition to the closing of the Merger. The delivery of a letter to WordPerfect from WordPerfect's independent public accountants, Price Waterhouse, stating that Price Waterhouse is not aware of any condition that would preclude WordPerfect from participating in a merger to be accounted for as a pooling of interests, is also a condition to the closing of the Merger. See "— Conditions to the Merger."

Under the pooling of interests method of accounting, Novell's prior period financial statements will be restated on a combined basis with those of WordPerfect, with all significant intercompany accounts being eliminated and all expenses relating to the combination being deducted from combined income for the period when such expenses were incurred.

Dissenters' Rights

Pursuant to the terms of the Merger Agreement, if holders of capital stock of WordPerfect have exercised dissenters' rights in connection with the Merger in accordance with the provisions of Sections 1301-1331 of Part 13 of the URBCA ("Part 13"), any Dissenting Shares (as defined below) will not be converted into Novell Common Stock but will be converted into the right to receive such consideration as may be determined to be due with respect to such Dissenting Shares pursuant to the laws of the State of Utah.

The following summary of the provisions of Part 13 is not intended to be a complete statement of such provisions and is qualified in its entirety by reference to the full text of Part 13, a copy of which is attached to this Prospectus/Proxy Statement as *Appendix B* and is incorporated herein by reference.

If the Merger is approved by the required vote of WordPerfect's shareholders and is not abandoned or terminated, each holder of shares of WordPerfect Common Stock who does not vote in favor of the Merger

and who follows the procedures set forth in Part 13 will be entitled to have his shares of WordPerfect Common Stock purchased by WordPerfect for cash at their Fair Value (as defined below). The "Fair Value" of shares of WordPerfect Common Stock will be determined as of the day before the first announcement of the terms of the proposed Merger, excluding any appreciation or depreciation in anticipation of the proposed Merger. The shares of WordPerfect Common Stock with respect to which holders have perfected their purchase demand in accordance with Part 13 and have not effectively withdrawn or lost such rights are referred to in this Prospectus/Proxy Statement as the "Dissenting Shares."

Prior to the vote taken to approve the proposed Merger at the Special Meeting, a shareholder who wishes to assert dissenters' rights must (a) deliver written notice to WordPerfect of his intent to demand payment for shares if the proposed Merger is approved and (b) may not vote any of his shares in favor of the proposed Merger. Within ten days after approval of the Merger by WordPerfect shareholders, WordPerfect must mail a notice of such approval (the "Approval Notice") to all shareholders who are entitled to demand payment for their shares under Part 13, together with a statement of the price determined by WordPerfect to represent the Fair Value of the applicable Dissenting Shares (determined in accordance with the immediately preceding paragraph), a brief description of the procedures to be followed in order for the shareholder to pursue his dissenters' rights, a copy of Part 13, and a form for demanding payment. The statement of price by WordPerfect constitutes an offer by WordPerfect to purchase all Dissenting Shares at the stated amount. Only a holder of record of shares of WordPerfect Common Stock as of May , 1994 (or his duly appointed representative) is entitled to assert a purchase demand for the shares registered in that holder's name.

A shareholder of WordPerfect electing to exercise dissenters' rights must, within 30 days after the date on which the Approval Notice is mailed to such shareholder, demand in writing from WordPerfect the purchase of his shares of WordPerfect capital stock and payment to the shareholder of their fair market value and must submit a certificate representing the Dissenting Shares to WordPerfect in accordance with the terms of the Approval Notice. A shareholder who does not demand payment and deposit share certificates as required, by the date set in the Approval Notice, is not entitled to payment for shares under Part 13. A holder who elects to exercise dissenter's rights should mail or deliver his written demand for payment to WordPerfect at 1555 North Technology Way, Orem, Utah 84057, directed to the attention of R. Duff Thompson, Esq. The demand should specify the holder's name and mailing address, the number of shares of WordPerfect Common Stock owned by such shareholder and state that such holder is demanding purchase of his shares in payment of their Fair Value. Upon the later of the Effective Time and receipt by WordPerfect of each payment demand made pursuant to Part 13, WordPerfect shall pay the amount WordPerfect estimates to be the Fair Value of the Dissenting Shares, plus interest at the legal rate of interest to each dissenter who has complied with the requirements of Part 13 and who has not yet received payment.

Any holder of Dissenting Shares who has not accepted an offer made by WordPerfect may, within 30 days after WordPerfect first offered payment for his shares, notify WordPerfect in writing of his own estimate of the Fair Value of his shares and demand payment of the estimated amount, plus interest, less any payment made under Part 13, if (i) the holder of Dissenting Shares believes that the amount offered or paid by WordPerfect under Part 13 is less than the Fair Value of the shares, (ii) WordPerfect fails to make payment within 60 days after the date set by WordPerfect as the date by which it must receive the payment demand, or (iii) WordPerfect, having failed to consummate the proposed Merger, does not return share certificates deposited by a holder as required by Part 13. If WordPerfect denies that the shares are Dissenting Shares, or if WordPerfect and the shareholder fail to agree upon the fair market value of the shares, then within 60 days after receiving the payment demand WordPerfect must petition the District Court of Utah County (the "Court") to determine whether the shares are Dissenting Shares or to determine the Fair Value of such holder's shares of WordPerfect capital stock, or both. If WordPerfect does not commence the proceeding within the 60-day period, it shall pay each holder of Dissenting Shares whose demand remains unresolved the amount demanded. WordPerfect shall make all holders of Dissenting Shares whose demands remain unresolved parties to the proceeding as an action against their shares. The Court may appoint one or more persons as appraisers to receive evidence and recommend a decision on the question of Fair Value. Each holder of Dissenting Shares made a party to the proceeding is entitled to judgment for the amount, if any, by

which the Court finds that the Fair Value of his shares, plus interest, exceeds the amount paid by WordPerfect.

If any holder of shares of WordPerfect Common Stock who demands the purchase of his shares under Part 13 fails to perfect, or effectively withdraws or loses his right to, such purchase, the shares of such holder will be converted into the right to receive the number of shares of Novell Common Stock equal to the number of shares of WordPerfect Common Stock held by such person, in accordance with the Merger Agreement. Dissenting Shares lose their status as Dissenting Shares if (a) the Merger is abandoned; (b) the shares are transferred prior to their submission for the required endorsement; (c) the shareholder fails to make a written demand for purchase; (d) the shareholder votes to approve and adopt the Merger Agreement; (e) the shareholder and WordPerfect do not agree on the status of the shares as Dissenting Shares or do not agree on the purchase price, but neither WordPerfect nor the shareholder files a complaint within 60 days after the mailing of the Approval Notice; or (f) with WordPerfect's consent, the shareholder delivers to WordPerfect a written withdrawal of such shareholder's demand for purchase of his shares.

Acquisition of Quattro Pro Product Line

On March 20, 1994, Novell entered into a Purchase and License Agreement with Borland (the "Borland Agreement"), pursuant to which Novell, subject to regulatory approval and other conditions to closing, will acquire Borland's Quattro Pro spreadsheet product line for approximately \$110 million in cash. Under the terms and conditions of the Borland Agreement, Novell will acquire all right, title and interest in or to (i) all versions of the Quattro Pro computer software programs (other than versions as to which a transfer thereof would violate the existing injunction issued by the federal district court in the *Lotus Development Corp. v. Borland International* copyright litigation), (ii) all related user, technical support and marketing documentation, (iii) the "Quattro Pro" and "Quattro" trademarks, (iv) Borland's inventory of Quattro Pro 5.0 and Quattro Pro 5.0 for Windows and (v) various equipment and other fixed assets used by Borland to develop, test and maintain the Quattro Pro product line. In addition, Novell will acquire a nonexclusive, paid-up license to certain Borland software products and source code, development tools and related technology, as well as Borland's software patents. Prior to entering into the Borland Agreement with Novell, Borland had entered into a number of agreements with WordPerfect relating to (i) a bundling arrangement for *WordPerfect*, Quattro Pro and Paradox (dated April 5, 1993) and (ii) the purchase, for \$9 million, of the right to sell up to 1,000,000 licenses of Quattro Pro (dated August 30, 1993, and amended December 31, 1993).

The acquisition of the Quattro Pro product line provides several important advantages for Novell. First, the acquisition enables Novell to further develop, market and sell a leading spreadsheet application package. According to some independent industry product reviews, Quattro Pro is the leading full-featured spreadsheet product in terms of product features and functionality. In particular, the Quattro Pro for Work Groups product has been favorably reviewed as an applications product designed specifically for use by groups of networked users. Novell seeks to increase the sales and market presence of the Quattro Pro products, both as stand alone products and as a part of integrated applications and networked software products.

In particular, Novell may develop and introduce integrated applications products which incorporate spreadsheet functionality with other software applications functions, including word processing functions. Moreover, Novell's access to a leading spreadsheet package is important to its participation in the growing market for software suites, which are becoming a growing segment of the software applications market. In the future, Novell also believes that a demand will emerge for spreadsheet applications products which are tightly coordinated with network functions. Novell believes that the Quattro Pro products will provide an important part of Novell's network applications product offerings.

Pursuant to the Borland Agreement, Novell will also assume certain liabilities of Borland with respect to the contracts related to the purchased assets, including obligations relating to such contracts occurring prior to the closing. Novell will also be obligated to reimburse distributors for costs, not to exceed \$10 million, for inventory of the Quattro Pro products in the distribution channel sold by Borland which is returned to the Combined Company or Borland unsold after the closing.

In connection with its acquisition of the Quattro Pro product line, Novell will offer employment to approximately 100 Borland employees who are responsible for research and development, quality assurance, testing, maintenance or marketing of the Quattro Pro product line. In addition, Novell has agreed that in the event of the termination of the Merger Agreement as a result of (i) the failure of the HSR Act waiting period to expire without the commencement of any governmental action with respect to the HSR filing made in connection with the Merger or (ii) the failure of the Registration Statement on Form S-4 covering the Merger to be declared effective as contemplated by the Merger Agreement, Novell will make a loan to Borland in the amount of \$50 million. Such loan will be a full recourse obligation of Borland, will be secured by a first deed of trust on Borland's Scotts Valley, California corporate campus and will be subject to market terms and conditions in all respects. The maturity date of such loan will be 42 months following the advance of funds.

If the Quattro Pro acquisition does not close due to the termination of the Merger Agreement as a result of a failure of a condition precedent in the Merger Agreement (other than those described in the preceding paragraph), Novell will pay as a breakup fee of \$10 million in cash to Borland within ten days after such termination of the Merger Agreement.

In August 1993, as part of ongoing litigation between Borland and Lotus, a federal district court in Boston, Massachusetts, issued a permanent injunction with respect to Borland's sale of versions of the Quattro Pro spreadsheet incorporating certain functions which were found to infringe copyrights held by Lotus. These functions enabled users of Quattro Pro to use user-designed routines or "macros" developed by users for the Lotus 1-2-3 spreadsheets, and enable a moderate level of compatibility between Quattro Pro and Lotus 1-2-3. The issuance of the injunction, the products implemented by Borland to comply with the injunction, and publicity and marketing efforts undertaken by Lotus following the issuance of the injunction, have disrupted sales of the Quattro Pro products in a variety of different ways, and may continue to do so. Should the decision of the federal district court be upheld on appeal, the continued existence of the injunction could have a significant continuing adverse affect on Novell's ability to sustain or increase sales of the Quattro Pro spreadsheet, either on a stand alone basis or in conjunction with other application products. Moreover, the market for spreadsheet applications products is maturing and becoming increasingly competitive, particularly on the basis of price. There can be no assurance that sales of Quattro Pro will be maintained or increased or that the Combined Company will derive significant operating income from its existing or future Quattro Pro products. Pursuant to the terms of the Borland Agreement, all liabilities associated with the Lotus litigation will be retained by Borland. No claims have been brought or asserted by Lotus with respect to current versions of the Quattro Pro spreadsheet

License to Borland's Paradox Relational Database Products

To enable Novell to offer a leading database product in current and future software suites, Novell will also acquire, for approximately \$35 million, a three-year worldwide, fully paid, nonexclusive license to reproduce and distribute up to one million copies of current and future versions of Borland's Paradox relational database products as part of a suite of products including *WordPerfect* and Quattro Pro.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements assume a business combination between Novell and WordPerfect accounted for as a pooling of interests. The unaudited pro forma condensed combined financial statements are based upon the respective historical financial statements and the notes thereto, certain of which are incorporated by reference or included elsewhere in this Prospectus/Proxy Statement. The unaudited pro forma condensed combined statements of income combine Novell's historical condensed consolidated statements of operations for the three fiscal years ended October 30, 1993, October 31, 1992, and October 26, 1991, and the unaudited condensed consolidated statements of operations for the fiscal quarters ended January 29, 1994 and January 30, 1993 with the corresponding WordPerfect historical condensed consolidated statements of income for the three years ended December 31, 1993, 1992 and 1991, and the unaudited condensed consolidated statements of income for the fiscal quarters ended January 31, 1994 and March 31, 1993, respectively. The unaudited pro forma condensed combined balance sheets combine Novell's historical condensed consolidated balance sheets as of January 29, 1994, October 30, 1993 and October 31, 1992 with WordPerfect's historical condensed consolidated balance sheets as of January 31, 1994, December 31, 1993 and December 31, 1992, respectively.

The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the Merger had been consummated as presented in the accompanying unaudited pro forma condensed combined financial statements, nor is it necessarily indicative of future operating results.

These unaudited pro forma condensed combined financial statements should be read in conjunction with the historical consolidated financial statements and the related notes thereto of Novell and WordPerfect incorporated by reference or included elsewhere herein.

Novell and WordPerfect Unaudited Pro Forma Condensed Combined Statements of Income (In thousands, except per share data)

	Fiscal Quarter Ended		Fiscal Year Ended		
	January 29, 1994	January 30, 1993	October 30, 1993	October 31, 1992	October 26, 1991
Net sales	\$488,278	\$432,324	\$1,830,411	\$1,512,488	\$1,262,073
Cost of sales	103,929	91,329	402,602	326,707	267,242
Gross profit	384,349	340,995	1,427,809	1,185,781	994,831
Operating expenses:					
Sales and marketing	126,068	107,423	509,722	380,079	287,680
Product development	83,543	64,157	290,239	226,809	161,205
General and administrative	44,027	39,398	163,249	130,380	117,273
Nonrecurring charges	14,969	—	356,501	20,367	—
	<u>268,607</u>	<u>210,978</u>	<u>1,319,711</u>	<u>757,635</u>	<u>566,158</u>
Income from operations	115,742	130,017	108,098	428,146	428,673
Other income, net	10,702	7,749	30,059	33,661	32,539
Income before taxes	126,444	137,766	138,157	461,807	461,212
Income taxes	31,984	40,346	97,437	139,829	97,896
Net income	<u>\$ 94,460</u>	<u>\$ 97,420</u>	<u>\$ 40,720</u>	<u>\$ 321,978</u>	<u>\$ 363,316</u>
Net income per share	<u>\$.26</u>	<u>\$.27</u>	<u>\$.11</u>	<u>\$.90</u>	<u>\$ 1.05</u>
Weighted average shares outstanding	<u>368,076</u>	<u>362,894</u>	<u>367,900</u>	<u>359,484</u>	<u>345,968</u>

See notes to unaudited pro forma condensed combined financial statements.

Novell and WordPerfect
Unaudited Pro Forma Condensed Combined Balance Sheets
(In thousands)

	<u>January 29,</u> <u>1994</u>	<u>October 30,</u> <u>1993</u>	<u>October 31,</u> <u>1992</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 485,687	\$ 383,596	\$ 346,502
Short-term investments	335,028	335,601	285,327
Receivables, net	347,423	395,334	304,590
Other	152,976	142,878	84,883
Total current assets	1,321,114	1,257,409	1,021,302
Property, plant, and equipment, net	401,770	403,752	356,922
Other assets	97,906	84,176	52,251
Total assets	<u>\$1,820,790</u>	<u>\$1,745,337</u>	<u>\$1,430,475</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt	\$ 13,617	\$ 9,436	\$ 1,979
Accounts payable	70,209	75,470	70,646
Accrued salaries and wages	55,397	69,061	47,711
Accrued marketing liabilities	45,647	51,553	49,474
Other accrued liabilities	99,820	103,204	57,023
Income taxes payable	63,805	55,589	34,648
Deferred revenue	30,139	33,788	32,753
Total current liabilities	378,634	398,101	294,234
Deferred income taxes	23,992	—	—
Long-term debt	89,419	84,289	12,256
Minority interests	11,629	10,205	8,938
Put warrants	—	106,716	—
Shareholders' equity:			
Common stock	36,040	35,943	35,202
Additional paid-in capital	599,619	485,253	380,609
Retained earnings	690,155	635,551	698,134
Unearned stock compensation	(7,800)	(9,814)	—
Cumulative translation adjustment	(898)	(907)	1,102
Total shareholders' equity	1,317,116	1,146,026	1,115,047
Total liabilities and shareholders' equity	<u>\$1,820,790</u>	<u>\$1,745,337</u>	<u>\$1,430,475</u>

See notes to unaudited pro forma condensed combined financial statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Note A. The unaudited pro forma condensed combined financial statements of Novell and WordPerfect give retroactive effect to the Merger which is being accounted for as a pooling of interests and, as a result, the unaudited pro forma condensed combined balance sheets and statements of income are presented as if the combining companies had been combined for all periods presented. The unaudited pro forma condensed combined financial statements will become the historical financial statements of Novell upon issuance of financial statements for a period that includes the date of the acquisition. The unaudited pro forma condensed combined financial statements, including the notes thereto, should be read in conjunction with the historical consolidated financial statements of Novell and WordPerfect incorporated by reference or included elsewhere in this Prospectus/Proxy Statement.

The pro forma combined net income per share is based on the combined weighted average number of common shares of Novell Common Stock and WordPerfect Common Stock for each period, based on the exchange ratio of one share of Novell Common Stock for each share of WordPerfect Common Stock. The pro forma condensed combined balance sheets reflect the issuance of 51,380,100 shares of Novell Common Stock in exchange for all shares of WordPerfect Common Stock outstanding at each balance sheet date, based on such exchange ratio. The table below sets forth the composition of the unaudited pro forma combined net sales and net income for each of the periods shown, had the Merger taken place at the beginning of the periods shown:

	Fiscal Quarter Ended		Fiscal Year Ended		
	January 29, 1994	January 30, 1993	October 30, 1993	October 31, 1992	October 26, 1991
Net sales:					
Novell	\$311,384	\$260,174	\$1,122,896	\$ 933,370	\$ 640,079
WordPerfect	176,894	172,150	707,515	579,118	621,994
Combined companies	<u>\$488,278</u>	<u>\$432,324</u>	<u>\$1,830,411</u>	<u>\$1,512,488</u>	<u>\$1,262,073</u>
Net income:					
Novell	\$ 72,814	\$ 70,882	\$ (35,160)	\$ 249,030	\$ 162,488
WordPerfect	21,646	26,538	75,880	72,948	200,828
Combined companies	<u>\$ 94,460</u>	<u>\$ 97,420</u>	<u>\$ 40,720</u>	<u>\$ 321,978</u>	<u>\$ 363,316</u>

Note B. WordPerfect has a calendar year end and, accordingly, the WordPerfect statements of income for the years ended December 31, 1993, 1992 and 1991 have been combined with the Novell statements of operations for the fiscal years ended October 30, 1993, October 31, 1992 and October 26, 1991, respectively. In order to conform WordPerfect's year end to Novell's fiscal year end, the unaudited pro forma condensed combined statement of income for the fiscal quarter ended January 29, 1994 includes two months (November and December 1993) for WordPerfect which are also included in the unaudited pro forma condensed combined statement of income for the year ended October 30, 1993. Accordingly, an adjustment has been made in the fiscal quarter ended January 29, 1994 to retained earnings for the duplication of net income of \$39.9 million for such two month period. Other results of operations for such two-month period of WordPerfect include net sales of \$136.6 million, income before taxes of \$34.6 million, and income tax benefits of \$5.2 million. The unaudited pro forma condensed combined financial data for the fiscal quarter ended January 30, 1993 combines Novell's financial statements for the fiscal quarter ended January 30, 1993 with WordPerfect's financial statements for the fiscal quarter ended March 31, 1993.

Note C. Certain reclassifications, none of which are material, have been made to the WordPerfect financial statements in the unaudited pro forma condensed combined financial statements to conform to Novell classifications. There are no other material adjustments required to the historical financial statements of Novell and WordPerfect to arrive at the unaudited pro forma condensed combined balance sheets and statements of income.

Note D. Total costs to be incurred by Novell and WordPerfect in connection with the Merger are estimated to be approximately . These costs, relating to legal, printing, accounting, financial advisory services and other related expenses will be charged against income in the periods subsequent to the pro forma condensed combined financial statements. Accordingly, the effects of these costs have not been reflected in these pro forma condensed combined financial statements.

INFORMATION CONCERNING NOVELL

The Company

Novell, Inc. ("Novell" or the "Company") is an information system software company, that develops, markets and services specialized and general purpose operating system products and application programming tools. Novell's NetWare[®], UnixWare[™] and AppWare[™] families of products provide matched software components for distributing information resources within local, wide-area and internetworked information systems.

The Company was incorporated in Delaware on January 25, 1983. Novell's executive offices are located at 122 East 1700 South, Provo, Utah 84606. Its telephone number at that address is (801) 429-7000.

The Company sells its products domestically and internationally through 33 U.S. sales offices and 31 foreign offices. The Company sells its products primarily through distributors and national retail chains, which in turn sell the Company's products to retail dealers. The Company also sells its products through OEMs, system integrators, and value added resellers ("VARs").

The Company conducts product development activities in Cupertino, Monterey, San Jose, Sunnyvale, and Walnut Creek, California; Boulder, Colorado; Natick, Massachusetts; Summit, New Jersey; Austin, Texas; Provo, Salt Lake City, and Sandy, Utah; Toronto, Canada; and Hungerford, U.K. It also contracts out some product development activities to third-party developers.

In December 1990, the Company announced that Canon, Fujitsu, NEC, Sony, and Toshiba, five major Japanese computer companies, joined SOFTBANK Corporation and Novell as investment partners in Novell Japan, Ltd., a Tokyo-based joint venture inaugurated in April 1990. Novell has a 54% ownership interest, and accordingly, the financial statements of Novell Japan, Ltd. are consolidated in the financial statements of the Company, with the minority interest in profit or loss offset within other income and expense.

In April 1991, the Company invested \$15.0 million in UNIX System Laboratories, Inc. ("USL"), a subsidiary of AT&T that develops and licenses the UNIX[®] operating system and other standards-based software to customers worldwide. In December 1991, the Company announced the formation of Univel, a joint venture with USL, formed to accelerate the expanded use of the UNIX operating system in the personal computer and network computing marketplace. Novell and USL contributed cash and technology rights to Univel. Then in June 1993, the Company acquired the remaining portion of USL by issuing approximately 11.1 million shares of Novell Common Stock valued at \$321.8 million in exchange for all of the outstanding stock of USL not previously owned by Novell and assumed additional liabilities of \$9.4 million. The transaction was accounted for as a purchase and, on this basis, resulted in a one-time write-off of \$268.7 million for purchased research and development in the third quarter of fiscal 1993.

On October 28, 1991, the Company completed a merger with Digital Research Inc. ("DRI"), a producer of personal computer operating software, whereby DRI became a wholly owned subsidiary of Novell. There were 6.0 million shares of Novell Common Stock exchanged for all of the outstanding stock of DRI. This transaction was accounted for as a pooling of interests; however, prior year financial statements have not been restated due to immateriality.

In April 1992, the Company purchased all of the outstanding stock of International Business Software, Ltd. ("IBS"), a developer of distributed computing technology for Apple Macintosh computers, for \$5.2 million cash, whereby IBS became a wholly owned subsidiary of Novell.

In June 1992, the Company purchased all of the outstanding stock of American International Communications Corporation, doing business as Annatek Systems, Inc. ("Annatek"), a developer of software distribution products, for \$10.0 million cash, whereby Annatek became a wholly owned subsidiary of Novell.

In June 1993, the Company purchased all of the outstanding stock not previously owned by Novell of Serius Corporation ("Serius"), a developer of object-based application tools, for \$17.0 million cash and assumed liabilities of \$5.0 million, whereby Serius became a wholly owned subsidiary of Novell. Novell previously had invested cash of \$1.1 million in Serius. This transaction was accounted for as a purchase and,

on this basis, resulted in a one-time write-off of \$22.1 million for purchased research and development in the third quarter of fiscal 1993.

In June 1993, the Company acquired all of the outstanding stock of Software Transformation, Inc. ("STI"), a developer of software development tools, by issuing approximately 800,000 shares of Novell Common Stock in exchange for all of the outstanding stock of STI. The transaction was accounted for as a pooling of interests; however, prior periods were not restated due to immateriality.

In July 1993, the Company acquired all of the outstanding stock of Fluent, Inc. ("Fluent"), a developer of multimedia software for personal computers, for \$18.5 million cash and assumed liabilities of \$3.0 million, whereby Fluent became a wholly owned subsidiary of Novell. The transaction was accounted for as a purchase and, on this basis, resulted in a one-time write-off of \$20.7 million for purchased research and development in the third quarter of fiscal 1993.

The Company will continue to look for similar acquisitions, investments or strategic alliances that it believes complement its overall business strategy.

Business Strategy

Novell's business strategy is to be a leading supplier of software products for the network computing industry. 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 the growth of the network computing industry, and in many cases to also broaden the Company's business as a system software supplier.

Novell believes that companies implement technologies to meet business needs. People use technology to help them to be more productive in their jobs. As a result of these motivations, customers have made the NetWare operating system the most popular network solution in the industry. This is a direct result of Novell's delivery of a networking environment that contributes to the success of individuals and companies.

To meet the needs of its customers, over the past year Novell has embarked on a strategy to combine the industry's most proven network operating system with the industry's most proven application platform, UNIX. This "matched pair" combines the best network services with the best application services to deliver to customers the best computing platform on which to run their businesses. These strong operating systems combine with Novell's innovative client/server application platform to deliver a total system software solution.

Novell's mission is to accelerate the growth of the network computing industry through responsible leadership. The Company accomplishes this by delivering an overall networking environment that includes industry leading product technology, programs and partnerships. The key elements of the Company's overall business strategy are:

Technological Leadership

Integration Platform. Novell's NetWare network operating system provides a platform for the integration of multiple technologies. This includes the seamless integration of multiple desktop systems and host environments. Novell believes that the 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 and 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, HP, DEC and Olivetti are integrated into the NetWare network so that users can access host-based resources and information from their desktops across the network. Novell continues to extend this hardware and infrastructure integration to other communication devices such as PBXs and imbedded systems such as cash registers and process control devices. The overall objective is to seamlessly connect users by shielding them from the underlying network technology used to share resources and information across heterogenous systems.

Network Services. Novell delivers advanced network services on top of the integration platform. These services enhance the functionality available to users on the network. In the first release of the NetWare operating system, those services were file and print only. While Novell has continued to enhance NetWare file and print services, the services provided by Novell and third parties have expanded significantly to include communications, network and systems management, messaging, directory, software licensing and distribution, imaging and document management and telephony services. Novell continues to add network services through internal development efforts, partnerships and acquisitions.

Application Framework; AppWare. In addition to the programming interfaces that Novell provides for application developers, Novell has begun delivering AppWare, a set of development tools that significantly eases the development of true client/server applications. AppWare allows application developers and internal IS development teams to deliver distributed applications that integrate and take advantage of all of the network services available in NetWare and UnixWare.

Directory Services. With the introduction of NetWare 4™ in March 1993, Novell began to deliver an industry-leading distributed naming service, NetWare Directory Services™ (“NDS™”). NDS allows administrators and users to view the information and resources on the network in a simple and integrated way. It provides for one common view of the network rather than having to track resources by knowing on which server the resource resides. NDS allows the user to log in once to the network and access information and resources independent of physical location. While this simplifies both the administration and use of the network, NDS also improves the security of network information with the use of encryption technology. NDS will continue to become the centerpiece of network services and client/server applications for the next several years.

Programs

Certified NetWare Engineer™ Program. Through the Certified NetWare 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.

National Authorized Education Centers™. Novell offers education to end users through more than 1,200 established Novell Authorized Education Centers (“NAECs™”) worldwide, which use Novell-developed courses to instruct more than 30,000 students per month 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 components designed to interoperate with the NetWare operating system. Novell distributes these tests results to inform NetWare customers about products that have formally demonstrated NetWare compatibility. In effect, IMSP certification 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 strategic third-party hardware manufacturers. Secondary goals include promoting certified hardware to industry resellers, anticipating industry hardware directions through co-marketing efforts and working with vendors to co-develop critical network hardware components.

Technical Support Alliance™. In May 1991 Novell announced the formation of the Technical Support Alliance (“TSA™”), with 37 current members including Apple, Compaq, HP, Intel, IBM, Lotus, Microsoft, Oracle and WordPerfect. The TSA was organized to provide one-stop multivendor support.

Client-Server NetWare Loadable Module™ Testing Program. Novell is committed to ensuring the highest quality customer solutions by raising the level of importance that quality assurance and testing

hold in the software development cycle. The NetWare Loadable Module ("NLM™") testing program is a result of that commitment; it allows developers to submit client-server NLM applications for testing and certification.

Partnerships

Development Partners. When customers request a new network service be added to the NetWare operating system, 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 that has expertise in that specific area. By partnering, the combination of Novell's 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 complementary 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, HP and DEC, as well as system integration experts like Memorex Telex, Andersen Consulting, EDS, etc.

Application Partners. Novell works very closely with application developers to provide integrated software support for end users.

Multiple Channel Distribution Network. The Company markets a broad line of the NetWare operating system and the UnixWare operating system through 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.

Products

The Company's products fall within three operating groups: NetWare Systems Group ("NSG"), UNIX Systems Group ("USG"), and AppWare Systems Group ("ASG").

NetWare Systems Group. NSG develops operating systems products to meet customer demands that include the following features:

Open Architecture. Novell maintains an open architecture in all of its networking products. Application interfaces to all of the NetWare services have been developed to allow developers to take advantage of NetWare functionality. NetWare applications interfaces provide access to all NetWare services, including file and print, database, communications, and messaging services.

NDS is the foundation for network services and client/server applications for the next several years. Besides enhanced NetWare file and print services, the services provided by Novell and third parties will also include communications, network and systems management, messaging, directory, software licensing and distribution, imaging and document management and telephony services.

Ease of Use. NetWare 4 reduces administrative costs by allowing network supervisors to manage and administer their networks easily. A new graphical utility called the NetWare Administrator consolidates all network administration tools into a single console, giving intuitive control of the entire network.

Reliability. NetWare contains a wide variety of features that ensure system reliability and data integrity. These features protect everything from the storage medium to critical application files, allowing Novell to provide the highest levels of network reliability in the industry.

Novell pioneered system fault tolerance in PC-based networks and continues to lead the industry in this area. Novell's introduction of mirrored server technology in 1992 provides the highest level of fault tolerance for PC-based networks.

Manageability. Through NetWare Distributed Management Services ("NDMS™"), Novell delivers industry leading products that provide network and systems management capabilities. NetWare manages all of a customer's critical assets — information, infrastructure, hardware and software — through delivery of storage management, device and software licensing and distribution services.

Security. Throughout its history, the NetWare product line has provided the tightest security features in the industry. Novell introduced the concept of user names, passwords and user profiles to the network market in NetWare as early as 1983. These user profiles list the resources to which a user has access and the rights he or she has while using that resource. With version 2.15 of the NetWare operating system, network managers have been able to specify the date, time and location from which a user can log in to the network. Intruder detection and lockout features notify supervisors of any unauthorized access attempt. NetWare 3™ incorporates additional security features including encrypted passwords over the wire. NetWare 4 adds new security auditing capabilities required in many security conscious network environments.

Workstation Independence. NetWare currently supports DOS, MS Windows, OS/2, Macintosh and UNIX workstations. By providing a network operating system that can integrate all the standard workstation operating systems, Novell gives users the freedom to choose their workstation environment while ensuring them full network participation.

Hardware Independence. NetWare is hardware-independent and the Company has close working relationships with more than 350 strategic third-party hardware manufacturers. This independence and these relationships provide the Company with a broad market for its networking software and the ability to support new hardware as it is developed.

High Performance. When Novell introduced the Advanced NetWare network operating system to the market in 1985, it represented a major improvement in network operating system performance, and NetWare network operating systems still lead the market in performance today. The NetWare 3 network operating system extends Novell's performance leadership by providing end users the potential for up to three times the performance of the NetWare 2 network computing products. The NetWare 4 network operating system allows users and applications to gain access to network-wide information and services transparently through technologies such as NDS, new security capabilities, wide-area networking improvements and enhanced administration and management tools.

NetWare Operating Systems Product Line. The NetWare family of network operating systems provides solutions to a wide variety of needs ranging from small, simple networks to enterprise-wide networks and include the following products.

NetWare 4. In March 1993, Novell introduced the NetWare 4 operating system. An elaborate demonstration showed the ability of how one network server can support 1,000 clients or how one client can access 1,000 servers.

Novell sees itself and NetWare at the center of the converging market forces reshaping business computing on to downsized, or rightsized information systems. Cohesively managed computer networks are taking on computing responsibilities held by mainframe computers over the last three decades.

NetWare has increasingly defined a system services environment that supports this worldwide shift away from mainframe and mid-range computing solutions to computer networks.

Novell's NetWare 4 operating system is designed to deliver the power and technology to meet downsizing requirements.

All Encompassing Environment. Delivering a manageable, global directory framework that provides connectivity to other computing platforms enables users to access applications and system services regardless of their physical location on the network.

System Fault Tolerance. Providing robust business-critical reliability to a network using the concept of server mirroring allows the workflow of the business to be uninterrupted even in the event of a hardware failure.

Large Scale Configurations. NetWare 4 supports single-server configurations of up to 1,000 concurrent users, or clients, on each server.

NetWare 3. NetWare 3 is a proven, sophisticated connectivity tool for businesses, departments and workgroups of various sizes. NetWare 3 is a full-featured, 32-bit network operating system that supports all key desktop operating systems — DOS, MS Windows, OS/2, UNIX, and Macintosh — as well as the IBM SNA environment. NetWare 3 provides a high-performance integration platform for businesses requiring a sophisticated network computing solution in a multivendor environment. NetWare 3 offers centralized network management and is available in 5-, 10-, 20-, 50-, 100- and 250-user versions, allowing organizations to standardize on a high-performance networking solution regardless of their size.

NetWare Clients. As new desktop operating systems have become available, Novell has continued its Open Desktop Strategy. It has offered NetWare clients and redirectors for connection into the NetWare operating system through fulfillment and 1-800 numbers. This allows existing users of NetWare to update client network components while maintaining their investment in NetWare servers. In 1992 Novell released Workstation kits for MS DOS, DR DOS, MS Windows 3.1 and OS/2 2.0. These kits provide users and administrators with the ability to get the latest desktop client support available and allows Novell the flexibility to enhance the desktop support independently of NetWare Operating System releases.

Messaging Services. Messaging technology provides communications capabilities that allow messages to be sent between people, between processes, or between a person and a process without using real-time links. Novell also provides products with these capabilities.

NetWare MHS™ is a “store-and-forward” message handling service for the Novell distributed computing platform. NetWare MHS platform supports a wide range of services including electronic mail (“e-mail”), workflow automation, calendar and scheduling, and fax services.

Applications from more than 900 developers (including more than 150 commercial applications) operate on this foundation and support the NetWare MHS platform.

For example, Indisy provides connectivity between mainframe, minicomputer and PC-based network users. In addition to electronic mail, Indisy also provides software for the exchange of single mail parcels containing spreadsheets, graphics and text, batch report distribution, remote job submission, document translation, and other functions.

NetWare for Macintosh. When used in conjunction with a NetWare environment, NetWare for Macintosh brings the comprehensive networking features of NetWare, such as enhanced security, resource accounting and fault tolerance, to the Apple Macintosh environment. NetWare for Macintosh allows Macintosh, DOS, and OS/2 workstations to share data and resources in a high-performance, secure network environment. This product is of special interest to large- and medium-sized companies that have heterogeneous computing environments.

NetWare for Macintosh comes in two versions: NetWare for Macintosh 4.01 and NetWare for Macintosh 3.12.

NetWare for Macintosh 4.01 is the premier solution for integrating Macintosh computers into the NetWare environment. It provides file services, print services, administrative utilities and AppleTalk routing for Macintosh users on a NetWare 4 network. NetWare for Macintosh 4.01 also allows fast and secure CD-ROM access and DOS-to-Macintosh application mapping.

NetWare for Macintosh 3.12 provides NetWare file, print, routing, and administrative utilities to Macintosh users and integrates them into the NetWare 3 environment.

Personal NetWare. As the networking industry continues to grow, new users are interested in simple and inexpensive entry-level networking solutions to connect small groups of users together in workgroups. In September 1991 Novell introduced a new peer-to-peer desktop networking product aimed at this market called NetWare Lite 1.0. In July 1992 Novell released an updated NetWare Lite 1.1 that improved the performance of NetWare Lite 1.0 by adding a full network caching and also improved the reliability and Windows support.

Novell continued to enhance its desktop networking solutions with the release of Personal NetWare in 1993. Personal NetWare is the ideal solution for small businesses and for workgroups in larger businesses and enterprise-wide NetWare networks. Personal NetWare allows users to connect as many as 50 PCs running DOS or MS Windows so they can share hard disks, printers, CD-ROM drives and other resources. In addition to tighter integration with NetWare, Personal NetWare will include support for mobile users and network management at the desktop.

Other features of Personal NetWare include a single-network view, single login, full compatibility with other versions of the NetWare network operating system, easy management and administration, security, autoreconnect and a flexible configuration to maximize memory use.

Novell DOS™. In September 1991, the Company introduced DR DOS 6.0, a major upgrade of its advanced DR DOS operating system. DR DOS 6.0 represents a significant advance over DR DOS 5.0 and other competing products with respect to features such as memory management, disk caching and task-switching. The latest addition to Novell's desktop operating system products is Novell DOS 7.

Novell DOS 7 is the first DOS that fully integrates advanced DOS technology with networking. Novell DOS 7 advances the DOS standard by providing state-of-the-art network and client management utilities, workstation security, disk compression and NetWare with all inherent peer-to-peer networking capabilities. Fully integrated networking makes Novell DOS 7 the best DOS client operating system for the NetWare network operating system. It is also fully compatible with the installed base of DOS and MS Windows applications.

Communications and Connectivity Products. As the leader in local area network technology, the Company has made a significant commitment to implementing communications and connectivity services within the NetWare environment.

Remote PC Access to Networks. The company provides two types of dial-in services for remote PCs:

NetWare for SAA. NetWare for SAA 1.3B, which runs on both NetWare 3 and NetWare 4 platforms, integrates the NetWare network operating system with traditional IBM SNA mainframe and AS/400 environments. With NetWare for SAA, NetWare clients can access host data and applications while simultaneously accessing files and data on NetWare servers. Built as a set of NLMs, NetWare for SAA capitalizes on the high performance, security, name services and administration features on the NetWare operating system.

NetWare SNA Links™. NetWare SNA Links 2.0 is an NLM that works with NetWare for SAA to provide LAN-to-LAN communications over existing SNA networks. With NetWare SNA Links, users in geographically dispersed branch offices can access remote LAN and host resources over SDLC and Token-Ring backbones without requiring specialized software on the host. Network supervisors can administer branch office servers from a central location using standard NetWare utilities and management products.

When installed on a NetWare 3 server or a NetWare MultiProtocol Router 2.0, NetWare SNA Links can route IPX, IP, AppleTalk, and OSI over leased lines using the Point-to-Point Protocol or using x.25 private or public data networks.

Internetworking Products. Novell's internetworking products connect NetWare services at headquarters with services at branch offices, providing access to information and NetWare resources.

NetWare MultiProtocol Router. The NetWare MultiProtocol Router v2.11 and NetWare MultiProtocol Router Plus v2.11 are software-based bridge/routers that run on 80386, 80486, and Pentium PCs. These bridge/routers enable users to connect to remote offices using familiar NetWare and PC technology. NetWare MultiProtocol Router is ideal for connecting local area networks by routing the IPX, IP, AppleTalk, and OSI protocols over a wide range of LAN types, and source-route bridging over Token-Ring. NetWare MultiProtocol Router Plus provides remote routing and source-bridge routing over leased lines, Frame Relay, and x.25.

UNIX Systems Group. USG provides a full suite of UNIX operating system and UNIX connectivity products. Key products include:

Operating System Products. Novell's UnixWare operating system provides a powerful application server and client for today's distributed computing environments. The current product offerings are the UnixWare Application Server™ 1.1 and the UnixWare Personal Edition 1.1. UnixWare uses the network services available from Novell's NetWare operating system and the cross-platform development tools available from AppWare to make applications available throughout the entire enterprise. UnixWare is easy to use, enabling users to be productive right away. Its fully graphical user interface gives users access to all the enterprise-wide information and services available in the corporate computing environment with simple point-and-click mouse functions. UnixWare also supports a variety of international languages.

Optional products for the Application Server systems include: UnixWare Server Merge for Windows, which provides UnixWare users with multiuser DOS access and limited multiuser MS Windows access; UnixWare Online Data Manager™ 1.1, a UNIX System V™, industry-standard, robust file system designed to maximize system and data availability and improve I/O performance; and OracleWare System-UnixWare Edition, a powerful applications data server platform which integrates the UnixWare Application Server 1.1 operating system with Oracle 7 cooperative database server on a single CD-ROM disk.

Optional add-on products for UnixWare Personal Edition include UnixWare NFS, which enables resource-sharing with other UNIX systems; UnixWare C2 Auditing, which records security-related events to help detect attempts to breach security; and UnixWare Encryption Utilities, which provide support for DES encryption and decryption.

Novell also supplies the UNIX operating system source code to other UNIX system vendors. The latest version, UNIX System V Release 4.2 ("SVR4.2"), unifies several earlier versions and offers greatly enhanced ease of use and ease of administration features.

UNIX Connectivity Products. Novell provides several product families designed to integrate NetWare into the UNIX and TCP/IP environments.

NetWare NFS provides UNIX workstations with transparent access to the NetWare 3 and NetWare 4 file systems. Once NetWare NFS is installed, workstations with NFS client services can share files with other NetWare clients-such as DOS, Macintosh and OS/2 workstations. NetWare NFS enables UNIX and NetWare clients to share all network printing devices. It also provides an X Window System application that enables UNIX network supervisors to remotely manage NetWare servers. NetWare FLeX/IP™ provides all the services delivered in the NetWare NFS product except the transparent access to the NFS distributed file system.

The NetWare NFS Gateway enables DOS and MS Windows users on NetWare to transparently access files on NFS servers. It extends the users' reach into the UNIX world yet preserves the familiar NetWare look and feel. The NetWare NFS Gateway provides easy-to-use, server-based installation, administration and management.

Novell's popular LAN WorkPlace family of products provides users with fast, direct access to enterprise-wide TCP/IP resources, including the Internet, from a variety of desktop workstations. LAN

WorkPlace for DOS offers unsurpassed flexibility by including both DOS and MS Windows TCP/IP applications, as well as new native language versions in French, German, Spanish, Portuguese and Japanese. LAN WorkGroup provides the same versatile connectivity to DOS and MS Windows users of large NetWare networks; its server-based installation, maintenance and management greatly reduce administration time and costs. LAN WorkPlace products are also available for such users of Macintosh and OS/2 systems. Mobile WorkPlace is the newest member of the family, enabling users to access TCP/IP resources when they're on the road just as if they were in the office.

NetWare/IP is another way for customers to tightly integrate NetWare services into their TCP/IP environments. By installing NetWare/IP on existing NetWare 3 and NetWare 4 servers, customers can create an environment that supports both the TCP/IP and IPX transport protocols, or one that uses TCP/IP only.

Novell also offers a solution for integrating Open Systems Interconnection ("OSI") with NetWare. NetWare FTAM from Firefox is a fully FOSIP-compliant FTAM server that enables a variety of FTAM clients to access the NetWare 3 file system. This standard protocol-based product provides a key to enabling multivendor interoperability with NetWare systems.

AppWare Systems Group. ASG provides tools and technologies for the development of network-aware applications. Four key elements are the focus of ASG's product line: (1) object-based tools and systems for use by corporate and consulting developers for rapid network application development; (2) libraries for use by commercial software vendors for writing portable source code, covering dominant desktop and network system services; (3) transaction processing monitor technology for the creation and management of mission-critical corporate transaction applications; and (4) operating systems and network access technologies for office, commercial, and industrial devices to connect into local area networks.

AppWare Bus™ and AppWare Loadable Modules™. The AppWare Bus and AppWare Loadable Modules ("ALM™") provide a model for software components from separate vendors to work together in custom applications. The AppWare Bus is a sophisticated engine for managing the interactions between the ALM components. Novell and many third parties provide high-level, easy-to-use ALMs covering network, DBMS, communications, multimedia, and other application fields. When accessed by a development tool such as Novell's Visual AppBuilder™, the AppWare Bus allows all ALMs to be used rapidly in any combination to create powerful applications. The AppWare Bus and ALMs are usually bundled with other Novell products, and several OEM agreements are in place for building within other vendors' development tools.

Visual AppBuilder. Visual AppBuilder is Novell's rapid development tool for corporate and consulting developers. It provides an intuitive, visual interface to application construction, empowering developers who need not necessarily be fluent with traditional languages such as C and C++. Visual AppBuilder accesses the AppWare Bus and ALMs to provide the component engine and component set for developers to visually assemble into custom applications. Visual AppBuilder, when combined with network ALMs, is one of the most effective tools for building network-aware applications. Visual AppBuilder is targeted for sale through a variety of distribution channels, and will be bundled with several other Novell products.

ALM SDK. The ALM SDK is a tool for C and C++ programmers to use to create new ALMs. The interface to the AppWare Bus is provided, allowing any third party programmer or vendor to create ALMs that interoperate with Novell's ALMs. The ALM SDK is bundled with Visual AppBuilder.

AppWare Foundation™. AppWare Foundation is a set of libraries that provide an application programming interface ("API") for C and C++ developers to write portable source code. The problem of portability that is addressed by the AppWare Foundation is perhaps one of the most important issues facing software vendors today. Using the AppWare Foundation, a programmer may write code once for a new application or software component, and simply recompile the code to run on any of the dominant desktop computing systems, including MS Windows, Macintosh, UnixWare and other versions of UNIX, and soon OS/2 and MS Windows NT. The Foundation offers such portable APIs covering graphical

interfaces, operating systems, network systems, and network services. AppWare Foundation is targeted for sale through a variety of distribution channels, and several OEM relationships have been formed to distribute the Foundation libraries as a part of third-party development tools.

Tuxedo. Derived from Novell's 1993 acquisition of USL, Tuxedo is a sophisticated transaction processing manager for mission-critical transaction-oriented applications. Tuxedo provides both client and server software for connecting client applications and server services together with a highly reliable, high-performance, secure, managed transaction connection. In use today for mission-critical applications, Tuxedo is well recognized as a leading offering in its field. Its integration with NetWare, via NLMs, and AppWare, via ALMs, provides those key Novell products with effective transaction processing facilities. Tuxedo is sold largely through OEM agreements with major system software vendors, and directly to large corporate customers.

Extended Networks Group Products. The Extended Networks Group is developing and providing system software and application technologies for integrating office, commercial and industrial devices into NetWare networks. While its products are not yet announced, they will include technology components such as:

FlexOS. Novell's FlexOS is a 32-bit real-time operating system that is most often embedded in business, commercial, and industrial devices to make such devices "intelligent". Widely used today in point-of-sale and industrial hardware systems, FlexOS will play an important role in the extension of NetWare LANs into emerging device markets.

Device-centric ALMs. ALMs that control devices through NetWare networks will offer complete system control to application developers. Given the other ALMs described above, applications will be able to be created quickly integrating control over desktop computer functions, network functions and device functions.

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 network, communications and system software products to satisfactorily meet specific market needs.

The Company's current product development activities include the enhancement of existing products and the development of products that will support (1) further integration of NetWare and UNIX environments and the establishment of UnixWare as an industry-leading UNIX platform; (2) network management services; (3) global naming services; (4) international networking standards; (5) integrated peer services in NetWare clients; (6) integration of current and future desktop operating systems into the overall networking environment; (7) host-based versions of NetWare, such as NetWare for UNIX and NetWare for OS/2; (8) processor-independent versions of NetWare; (9) additional network services; (10) technologies for distributed applications development and operation; (11) AppWare ALMs for a broad range of Novell and UNIX services; and (12) multiplatform and multivendor APIs for major network services.

During fiscal 1993, 1992 and 1991, product development expenses were approximately \$164.9 million, \$120.8 million, and \$77.9 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 and the UnixWare operating system 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 provides technical support, training, and field service to its customers from its field offices and corporate headquarters. The Company also conducts sales and marketing activities from its offices in Cupertino, Monterey, San Jose, and Sunnyvale, California;

Summit, New Jersey; Austin, Texas; Provo and Sandy, Utah; and from its 33 U.S. domestic and 31 foreign field offices.

Distributors. Novell has established a network of independent distributors, which resell the Company's products to dealers, smaller VARs, and computer retail outlets. As of December 31, 1993, there were approximately 21 domestic distributors and approximately 113 foreign distributors.

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

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

OEMs. The Company licenses its network software to domestic and international OEMs for integration with their products. With the acquisitions of USL and DRI, the number of OEM agreements the Company has increased significantly as USL and DRI have marketed their products quite extensively through OEMs, 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 master license agreements with approximately 150 of them to date. Additionally, some upgrade products are sold directly to end users.

Export Sales. In fiscal 1993, 1992, and 1991, approximately 48%, 47%, and 44%, 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 have been invoiced by the Company in U.S. dollars, and in fiscal 1994 the Company anticipates that substantially all foreign revenues except Japanese sales, will continue to be invoiced in U.S. dollars. Except for Germany, which accounted for 11% of revenue in fiscal 1993, 13% of revenue in fiscal 1992 and 10% of revenue in fiscal 1991, no one foreign country accounted for more than 10% of net sales in any period. Except for one multi-national distributor that accounted for 12% of revenue in fiscal 1993, 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 of networked computer equipment and individual device testing and evaluation. 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 NetWare networks. Thousands of multiuser application software packages are now compatible with the NetWare operating system. In March 1994, the tenth annual BrainShare Conference (formerly Developers' Conference) was held to inform and educate developers about NetWare product strategy, NetWare open architecture programming interfaces and NetWare 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 meet their own needs. These include the worldwide service and support organization, the TSA, the CNE program, NAECs, IMSP and the ClientServer NLM 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 21, 1994, was approximately \$35.3 million, compared with \$35.7 million at January 22, 1993.

Competition

Novell competes in the highly competitive market for computer software, including in particular, network operating systems, desktop operating systems and related systems software. In the market for network operating systems, Novell believes that the principal competitive factors are hardware independence and compatibility, availability of application software, marketing strength in desktop operating systems, system/performance, customer service and support, reliability, ease of use, price/performance, and connectivity with minicomputer and mainframe hosts.

The market for operating systems software, including network operating systems and client operating systems, has become increasingly problematic due to Microsoft's growing dominance 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 enormous 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 dominance even if the Company succeeds in continuing to introduce products with superior performance and features to those offered by Microsoft.

Microsoft's ability to offer networking functionality in future versions of MS Windows, MS Windows NT and other system 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. Novell may be unable to maintain compatibility with Microsoft's key products, although Novell will continue to seek to do so.

The Company has not succeeded in establishing significant sales from Novell DOS. The Company believes that it will continue to be at a substantial competitive disadvantage in selling its client operating systems (including both Novell DOS and UnixWare) due in part to Microsoft's dominance and certain of Microsoft's pricing and licensing practices. Such competitive position and practices may prevent the Company from successfully offering products to a broad variety of customers or from maintaining demand for these products.

The application software development tools market in which Novell now operates is also highly competitive. There can be no assurance that Novell will be successful in competing in this market or any other market in the future.

Licenses, Patents and Trademarks

The Company currently relies on copyright, patent, trade secret and trademark law, as well as provisions in its license, distribution and other agreements in order to protect its intellectual property rights. The Company currently holds a number of United States patents and has numerous United States patents pending. Additionally, the Company has a number of patents pending in foreign jurisdictions. 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 the company 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. There can be no assurance that third parties will not assert claims against the Company with respect to existing or future products or that licenses will be available on reasonable terms, or at all, 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 the Company'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, 1993, the Company had 4,335 employees. The functional distribution of its employees was: sales and marketing — 939; product development and marketing — 1,817; general and administrative — 487; service, support and education — 807; operations — 146; and joint ventures — 139. Of these, 349 employees are located in U.S. field offices, and 755 employees are in offices outside the U.S. All other Company personnel are based at the Company's facilities in Utah, California, Colorado, Massachusetts, New Jersey or Texas. 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, and, through sales commission plans, bonuses and stock option and purchase plans, opportunities to participate financially in 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 successful combination of companies in the high technology industry may be more difficult to accomplish than in other industries. There can be no assurance that Novell will be successful in integrating acquired businesses into its own, that it will retain their key technical and management personnel or that Novell will realize any of the other anticipated benefits of the acquisitions.

The computer software industry has experienced delays in its product development and "debugging" efforts, and the Company could experience such delays in the future. Significant delays in developing, completing or shipping new or enhanced products would adversely affect the Company. Furthermore, it can be expected that as products become more complex, development cycles will become longer and more expensive. There can be no assurance that Novell will be able to respond effectively to technological changes or new product announcements by others, or that Novell's research and development efforts will be successful.

The Company's industry is characterized by rapid technological change, resulting in continuing pressure for price/performance improvements in response to advances in computer software and hardware technology. The Company believes that its future success will depend on its ability to continue to enhance its current products and to develop and introduce new products that maintain its technological leadership and achieve market acceptance.

In particular, the Company introduced the NetWare 4 operating system in 1993. This new version of the NetWare operating system provides increased functionality as compared to prior releases of the NetWare product, including the ability to support a substantial increase in the number of clients connected on a single network. As with the introduction of any major new product or upgrade, the introduction of the product may cause a deferral in orders or reduction in demand for prior versions of the NetWare operating system, as customers and value-added resellers evaluate the functionality of the new product. Moreover, because the new product addresses new market segments and is offered at a higher price than prior NetWare product releases, the Company is unable to predict the level of demand for the NetWare 4 operating system which will actually occur. Should orders and sales for either the NetWare 4 operating system or prior versions of the NetWare product fall short of the Company's objectives, the Company could experience excess inventories and unexpected costs. As a result, the Company's future sales and earnings may be subject to substantial fluctuations, particularly in the near term.

The introduction of new products also involves material marketing risks due to the possibility of errors or shortfalls in product performance. Should any new product experience a high rate of bugs or performance difficulties, the Company could experience product returns, unexpected warranty expenses and lower than expected sales. No assurance can be given as to the Company's financial results during such periods.

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 the Company's shipment patterns. As is typical in the software industry, a high percentage of Novell's revenues are earned in the third month of each fiscal quarter and tend to be concentrated in the latter half of that month. Accordingly, quarterly financial results are difficult to predict and quarterly financial results may fall short of anticipated levels. Because the Company's backlog early in a quarter is not generally 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 high price/earnings ratio at which the Company's common stock trades, any such shortfall in earnings could have an immediate and very significant adverse effect on the trading price of the Company's common stock in any given period.

As a result of the foregoing factors and other factors that may arise in the future, the market price of the Company's common stock may be subject to significant fluctuations over 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.

INFORMATION CONCERNING WORDPERFECT

Introduction

WordPerfect is a leading provider of software applications which enable users to create and process documents. In addition to providing document processing software, WordPerfect also produces a broad range of workgroup automation, general business, electronic publishing and consumer products. WordPerfect's products are easy to use, offer superior functionality and provide individuals, small businesses and large, global organizations with software solutions that operate across complex networked computing environments. WordPerfect's strategy is to be the leading provider of productivity applications for individuals and organizations by focusing on innovations in usability, performance, reliability and functionality.

WordPerfect was one of the original developers of word processing applications for personal computers, and WordPerfect's flagship product, *WordPerfect*, is one of the best-selling personal computer ("PC") software applications ever introduced, having been sold to over 15 million users worldwide. *WordPerfect* is now available in 23 languages and on all of the most widely used computing platforms and operating systems, including MS Windows, DOS, UNIX, Apple/Macintosh, and DEC's VAX/VMS. WordPerfect released *WordPerfect* 6.0 for DOS in June 1993 and *WordPerfect* 6.0 for MS Windows in October 1993. In 1993 and early 1994, WordPerfect also introduced new workgroup automation products which capitalize on WordPerfect's expertise in developing multi-platform, multi-lingual applications. *WordPerfect Office* 4.0, *WordPerfect InForms* 1.0 and *SoftSolutions* 4.0 are designed to meet an organization's needs for effectively sharing information in a complex, networked computing environment. WordPerfect's Main Street line of consumer products was announced in April 1994 and offers low-cost, easy-to-use products designed for personal productivity, entertainment and home education.

After completion of the Merger, WordPerfect and the Quattro Pro business unit from Borland will become the Novell Applications Group. See "The Merger and Related Transactions."

Industry Background

Communication — the processing, sharing and presentation of information — is crucial to the productivity of individuals and organizations. Documents are a primary method of communication, ranging from simple messages, forms, letters and memoranda to complex multimedia presentations that incorporate spreadsheets, database reports, graphics, video and sound. Once a document is created, a significant challenge for the user is to easily share and collaborate on the information with others. Within a home or small business, a document may simply be printed and distributed, while the multinational corporation needs methods to share this information electronically. Regardless of the complexity of the document or method of distribution, there is increasing demand for more efficient means to process, share and present documents and the information contained within them.

Document Processing

Data processing has evolved from centralized mainframe systems, to more distributed minicomputers, and now to workstations and PCs. Document processing has followed a similar evolution. Documents were historically created on typewriters, and the integration of any media other than text required manual cutting and pasting. The automation of document creation began in the late 1970s with the introduction of simple text-editing systems on mainframe computers, minicomputers and dedicated word processing systems. These systems were typically used only by specialized information processing professionals. The proliferation of workstations and personal computers in the 1980s and 1990s has provided users with more affordable and accessible general purpose computing power and has enabled users to create and manipulate documents more easily using word processing software. Well-designed word processing software has significantly improved user productivity and become the standard tool for document processing and the most popular software application category on personal computers.

The most successful word processing software applications offer features which specifically address the particular needs of individuals. In the early 1980s, word processing software programs provided only simple

character manipulation and were difficult to use. In subsequent years, innovative features were developed including easy on-screen editing, the capability to merge data files into a document, macro functions that allowed non-technical users to create simple programs and the ability to support a wide variety of printers and other peripheral devices. In recent years, features such as graphical user interfaces, context-sensitive tools, "fast key" access and "drag and drop" editing have been developed to allow more rapid and efficient composition of complex documents. Thus, current word processing applications provide a comprehensive, enterprise-wide solution to any organization's document needs.

Workgroup Automation

Although the proliferation of workstations and PCs enabled the emergence of desktop document processing, these systems were typically isolated and could not communicate with other computing resources within an organization. This isolation limited the productivity benefits derived from desktop computing to the individual PC or workstation user. Information systems professionals sought to integrate these desktop systems into their enterprise computing environments in order to provide the same productivity benefits to workgroups across the organization and to improve communication throughout the enterprise. As a solution, computer networking technology, including the requisite network operating system software, evolved from allowing small workgroups to share peripherals, such as printers and data storage devices, to enabling the interconnection of computer users and their information throughout a global enterprise. These local and wide area networking technologies allowed the creation of complex computing environments which may consist of mainframe computers, minicomputers, workstations, PCs and emerging portable computing devices. Until recently, however, relatively few applications were available to take advantage of the network operating system to improve workgroup productivity.

Increasingly, workgroups within organizations are demanding applications which enable them to take advantage of the productivity made possible by the network infrastructure. These applications range from word processors and spreadsheets which include features designed specifically for a networked environment, to applications which are specifically developed to automate more complicated workgroup tasks extending across the enterprise, such as calendaring, scheduling and enterprise-wide document management. The workgroup automation needs common to most organizations include "e-mail", the creation and routing of electronic forms, scheduling of meetings, document storage and retrieval systems, and the staging, sequencing, routing and tracking of work throughout a multi-platform, multi-language enterprise. Unfortunately, early workgroup applications failed to provide comprehensive solutions for the processing, sharing and presentation of information and were also difficult for information systems professionals to administer. These products were either designed to accomplish discrete tasks, such as e-mail or scheduling, or were dependent upon proprietary database architectures, messaging technologies, hardware platforms or operating systems.

The WordPerfect Strategy

WordPerfect was founded in 1979 to automate document processing by offering high quality, easy-to-use word processing software and comprehensive customer support. WordPerfect's first product, *WordPerfect*, was introduced in 1980 and became the word processing market share leader by providing superior functionality when compared to earlier word processing products. WordPerfect continues its focus on providing innovative document processing applications that meet the needs of its customers. In December 1993, WordPerfect began offering its newest version of an integrated product suite for MS Windows that includes Borland's award-winning Quattro Pro spreadsheet and Paradox database products. WordPerfect is leveraging its leadership position in providing document processing solutions in multi-platform, multi-lingual computing environments by offering workgroup automation solutions which address the more complex computing environments found in many organizations today. In addition, WordPerfect is beginning to offer products in the emerging product categories of electronic publishing and consumer products. WordPerfect also plans to utilize its traditionally strong customer support capabilities to service this increasingly diverse customer base.

Document Processing Solutions

WordPerfect believes that the document and document processing software will continue to be central to the way people communicate. WordPerfect is a leader in the continuing evolution of word processing from simple text manipulation to complex document processing that offers support for such features as graphics, sound, tables with spreadsheet functionality, equations, spreadsheet and database access, integrated writing tools such as spelling and grammar checkers, contextual help and numerous other desktop publishing features. WordPerfect's objective is to maintain its leadership position in document processing by focusing on advances in usability, performance, reliability and functionality across all strategic platforms. WordPerfect's current products include such advanced features as cross-platform file compatibility, specialized features for vertical markets such as legal and accounting, a powerful document indexing and retrieval system, extensive language support, customizable tool bars and powerful table functionality.

Desktop Application Suite

WordPerfect believes that today's customers are interested in purchasing desktop application suites that provide not only a purchase-price advantage, but also a set of best-of-class applications that demonstrate increasing levels of integration between the products themselves and the data generated within them. To date, WordPerfect has cooperated with Borland to produce *Borland Office 2.0* for MS Windows, a product suite which includes the *WordPerfect* word processor and Borland's Quattro Pro spreadsheet and Paradox database programs. The product achieves a high level of product integration by using PerfectFit technology to provide a single installation, common icons, button bars and cross-application macros, as well as shared resources like spell-checking. The customizable Desktop Application Director provides easy access to common applications and common tasks from a single location. *Borland Office 2.0* for MS Windows is workgroup-enabled and allows for the convenient sharing of information among individual users' suite components and between workgroup participants. With Novell's acquisition of Borland's Quattro Pro spreadsheet business unit, WordPerfect will take control of developing, marketing, selling and supporting future versions of the suite.

Workgroup Automation Solutions

WordPerfect believes that one of the most significant needs of any organization is the ability to share and coordinate information effectively within workgroups. With the advent of networks, network software and applications that run on a network, organizations are increasingly utilizing these technologies to automate the communication process and to become more productive in operations and administrative processes. The multi-platform, multi-lingual approach which has been central to WordPerfect's document processing strategy since its inception has provided valuable technological expertise for the development of powerful workgroup automation applications. *WordPerfect Office 4.0* integrates workgroup communication tools such as e-mail, personal calendar, group scheduler and task management into a cohesive, easy-to-use application for networked computing environments. Its growth has been impressive, with over 2 million licenses sold to date. In addition to its rich client functionality, *WordPerfect Office 4.0* offers extensive systems administration capabilities that make it easier to manage users across diverse networking and hardware platforms. *WordPerfect InForms* is a comprehensive package providing tools for users to create electronic forms, access multiple databases and automate their business workflow processes. With the acquisition of SoftSolutions Technology Corporation in January 1994, WordPerfect's workgroup solutions are further enhanced by the immediate, enterprise-wide information access provided by *SoftSolutions* — the market leader in LAN-based document management software. *SoftSolutions* includes advanced network automation capabilities such as automated enterprise document sharing, archiving and deletion, version control, cost recovery, activity tracking and integrated image management. WordPerfect believes that the growing success of *WordPerfect Office* and its innovative distributed messaging architecture, the introduction of *WordPerfect InForms* in the emerging electronic form and workflow categories, and the established presence of *SoftSolution's* powerful document management functionality has already added to WordPerfect's presence as a significant force in this critical application category.

Emerging Product Opportunities

Consistent with its strategy to help the world communicate, WordPerfect believes there are significant market opportunities in the areas of electronic publishing and consumer products. By providing electronic publishing content and tools, WordPerfect promotes a natural extension to workgroup automation by allowing users to mark-up, exchange, distribute and consume information electronically. By pursuing partnerships with publishers worldwide, WordPerfect will bring into electronic form the reference content that people traditionally access while using a computer. WordPerfect's Main Street consumer product line focuses on offering personal productivity, entertainment and home education products that may eventually provide important access points to the information highway from the home or small office. In April 1994, WordPerfect announced 19 Main Street products which include a personal organizer, reference guides and education and entertainment products. The consumer products market is estimated to be a \$1.5 billion market by 1996, up from \$430 million in 1991.

World-class Customer Support

WordPerfect is recognized as a world leader in the computer industry in providing post-sales customer support. WordPerfect plans to continue to invest significant resources in its customer support offerings, believing that the software user's productivity may depend on the availability of high quality technical assistance. As support demands change with changing customer needs and product lines, WordPerfect plans to implement offerings and programs which efficiently meet the customers' needs. In addition to its standard support policies, WordPerfect recently announced the introduction of Silver, Gold and Platinum support offerings, which are fee-based programs designed to meet the ongoing support needs of small to large businesses. WordPerfect believes that its expertise in providing support to individual end users will better enable it to service and support the information systems professionals that are increasingly responsible for purchasing and supporting software applications within an organization.

Products

WordPerfect has always focused on developing products which address the needs of individual users. During the early 1980s, WordPerfect established itself as the leading provider of word processing software on multiple platforms and in multiple languages in a largely stand alone environment. As the needs of users began to center more on network operating systems, WordPerfect's software took on additional functionality to meet those evolving needs. At the same time, WordPerfect began work on specific workgroup automation applications that allowed users to share and coordinate information effectively within workgroups. In a continued drive for electronic sharing of information across broad networks, WordPerfect has begun to offer electronic publishing solutions which provide online content and tools for viewing, manipulating, annotating and printing information. Users are also increasingly demanding low-priced, easy-to-use products appropriate for home and small office use, and WordPerfect intends to meet these needs with its Main Street line of consumer products.

The table below lists WordPerfect's major products that are currently being sold or will be commercially available during 1994.

<u>Product</u>	<u>Operating Environment</u>	<u>Current Version</u>	<u>Current Version Release Date+</u>	<u>Number of Languages</u>
DOCUMENT PROCESSING				
<i>WordPerfect</i>	MS Windows	6.0a	4/94	14
	DOS	6.0b	2/94	13
	DOS	5.1+	4/94	13
	UNIX	6.0	*	11
	Macintosh	3.0	10/93	10
	Macintosh for PowerPC	3.0	3/94	9
	VAX/VMS	5.1	6/91	10
RELATED BUSINESS APPLICATIONS				
<i>Borland Office</i>	MS Windows	2.0	12/93	4
<i>WordPerfect Presentations</i>	DOS	2.0	11/92	11
	MS Windows	2.0	7/93	12
WORKGROUP AUTOMATION				
<i>WordPerfect Office</i>	DOS	4.0a	10/93	13
	MS Windows	4.0a	10/93	13
	Macintosh	4.0a	10/93	6
	UNIX	4.0a	12/93	8
	VAX/VMS	3.1	4/92	4
<i>WordPerfect InForms</i>	MS Windows	1.0b	4/94	12
	(Designer/Filler)			
	DOS (Filler-only)	1.0b	*	3
	Macintosh (Filler-only)	1.0b	*	1
<i>SoftSolutions</i>	DOS	4.0	1/94	7
	MS Windows	4.0	1/94	7
	UNIX	4.0	1/94	7
	Macintosh	4.0	*	7
<i>WordPerfect Gateways</i>	Multiple	4.0	8/93	NA
ELECTRONIC PUBLISHING				
<i>WordPerfect Envoy</i>	MS Windows	1.0	*	1
	Macintosh	1.0	*	1
<i>WordPerfect Intellitag</i>	DOS	1.2	4/94	1
	UNIX	1.2	4/94	1
SELECTED MAIN STREET CONSUMER PRODUCTS				
<i>WordPerfect Works</i>	MS Windows	1.0	*	1
	DOS	1.0	3/92	5
	Macintosh	1.2.1	12/92	1
<i>InfoCentral</i>	MS Windows	1.0	3/94	1
<i>LetterPerfect</i>	DOS	1.0	7/90	10
	Macintosh	2.1	7/92	4
<i>Language Modules</i>	DOS	6.0b	4/94	19
	MS Windows	6.0a	*	19
	Macintosh	3.0	*	15
<i>Grammatik 5</i>	DOS	1.1	1/93	2
	MS Windows	1.1	4/94	2
	Macintosh	1.1	*	1

+ All dates are for the U.S. English version of the product. In certain cases, other language versions are planned for release shortly after the release of the U.S. English version.

* WordPerfect anticipates commercial shipment of these products during 1994.

Document Processing

WordPerfect. WordPerfect is one of the best-selling PC application software products ever introduced. Since its introduction in 1980, this powerful word processing program has been purchased by over 15 million customers worldwide and is now available in 23 languages. Versions of *WordPerfect* are currently available for the following platforms: MS Windows, DOS, Macintosh, UNIX and VAX/VMS. WordPerfect continues to

set the standard for word processing applications and has won numerous awards. *WordPerfect* for MS Windows, introduced in 1991, received the 1992 Reader's Choice Award from BYTE, the Most Valuable Product ("MVP") award from PC/Computing in both 1992 and 1993 and the 1994 Win 100 Award from Windows Magazine. PC World has honored *WordPerfect* for DOS with its World Class Award for eight years in a row. In 1993, sales of *WordPerfect* for DOS accounted for 82% of worldwide sales of all DOS word processing applications. All versions of *WordPerfect* include spell-checking and thesaurus capabilities, multi-column formatting, merge and macro support, tables, outline mode, automatic hyphenation, extensive character sets, footnotes, end notes, styles and on-line help. The DOS and MS Windows versions of *WordPerfect* accounted for 75% of WordPerfect's net sales during 1993. The PC-based versions of *WordPerfect* currently carry a suggested retail list price of \$495.

WordPerfect for MS Windows. *WordPerfect* 6.0 for MS Windows is the world's first document processor integrating text, data and graphics in one easy-to-use program. It provides powerful text editing features, drawing and charting capabilities, advanced spreadsheet functionality, direct import of database and spreadsheet data and the QuickFinder indexing and text retrieval tools. This version is mail-enabled, providing the ability to send mail messages from within *WordPerfect* and includes Coaches that walk the user step by step through common tasks, more than 70 ExpressDocs templates for creating professional-looking documents and the Grammatik 5 grammar checker. Version 6.0a is a significant interim release scheduled for release in April 1994.

WordPerfect for DOS. *WordPerfect* 6.0 for DOS was released in June 1993, with such features as a WYSIWYG ("what you see is what you get") graphical user interface ("GUI"), customizable button bars, "drag and drop" editing, full mouse support, integrated spreadsheet capability, extensive font capability (including Adobe ATM, TrueType and Bitstream Speedo support), context-sensitive help, direct fax transmission, Grammatik 5 grammar checker, rapid text indexing and retrieval, color printing, sound, simultaneous display and editing of up to nine documents, new macro capabilities and an interface to WordPerfect's e-mail products. *WordPerfect* 5.1+ was released in April 1994, permitting those still using *WordPerfect* 5.1 to be able to open and use *WordPerfect* 6.0 level files. It comes bundled with Stairway Software's ScreenExtender and FaceLift from Bitstream Corporation. In addition, *WordPerfect* 5.1 offers direct fax transmission, e-mail enabling and enhanced file management, and is tailored to the user who is limited by lower capacity and performance hardware, such as 286-based PCs.

WordPerfect for UNIX. *WordPerfect* 6.0 for UNIX integrates text, data and graphics in one easy-to-use program that offers a true WYSIWYG environment and provides the only GUI and character-based solution for UNIX. It gives the user the ability to create appealing documents with powerful text-editing features, drawing and charting capabilities, advanced spreadsheet functionality and direct import of spreadsheet data. *WordPerfect* 6.0 for UNIX includes more than 70 ExpressDocs pre-formatted document templates for fax forms, memos, letters, invoices and more. It also includes a user-customizable interface with features such as pull-down menus and mouse support, a ruler bar, a power bar, status bars, button bars, zoom editing and support for X-Windows.

WordPerfect for Macintosh. *WordPerfect* 3.0 for Macintosh and Power Macintosh is a powerful and easy-to-use word processor with an innovative, Mac-savvy interface. Its features include tables, an equation editor, a built-in graphics editor with comprehensive drawing tools, integrated grammar checker, styles, columns, macros, and drag and drop editing. *WordPerfect* 3.0 was also the first word processor to support Apple Computer's System 7 Pro which combines PowerTalk, AppleScript, WorldScript and QuickTime.

Related Business Applications

Borland Office. *Borland Office* 2.0 for MS Windows is an integrated office suite which includes *WordPerfect* 6.0 plus Borland's Quattro Pro spreadsheet and Paradox database programs, each a winner of the 1993 MVP Award from PC/Computing. The product achieves a high level of product integration by using PerfectFit technology to provide a single installation, common icons, button bars and cross-application macros, as well as shared resources like spell-checking. The customizable Desktop Application Director

provides easy access to common applications and common tasks from a single location. *Borland Office 2.0* is workgroup-enabled via The Workgroup Desktop, which allows for the sharing of information from any application among worldwide workgroup participants. The suggested retail list price for *Borland Office 2.0* is \$595.

WordPerfect Presentations. *WordPerfect Presentations 2.0* is a presentation graphics package that is currently available for the MS Windows and DOS platforms. This product offers a powerful GUI and provides users with the ability to create professional-looking presentations in a variety of formats, including handouts, transparencies, 35mm slides and electronic slide shows. Features include a master gallery and ready-made slide templates, an outliner that creates slides from outline format, speaker notes and handouts, drawing, editing, clip art, support for 16 million colors, slide sorter, two- and three-dimensional charts, paint tools, automatic bitmap tracing, customizable button bars and multimedia capability. *WordPerfect Presentations 2.0* for MS Windows was runner-up for the 1993 PC/Computing MVP award for Presentation Graphics. The suggested retail list price for *WordPerfect Presentations 2.0* is \$495.

Workgroup Automation

WordPerfect believes that workgroup computing is best accomplished by providing users with the basic tools and front-end applications for communication. These essential "building blocks" each provide a specific, well-defined function and can be combined to build additional services and functions. For example, WordPerfect recently introduced *WordPerfect InForms*, which is used to create and fill electronic forms and capitalizes on the workflow capabilities within *WordPerfect Office* to route forms among members of an organization. *WordPerfect Office* is built on a powerful distributed messaging architecture, enabling rich functionality in its workgroup-computing applications across multiple languages and multiple computing environments. This messaging system was designed to support multiple message types, including e-mail messages, meeting requests, task assignments and electronic forms. *WordPerfect Office* offers extensive systems-administration capabilities that make it easy to manage users across diverse networks and platforms. The *SoftSolutions* document management system allows workgroups to manage documents created by any widely used application, in all popular operating environments and on all types of network operating systems. Both *WordPerfect Office* and *SoftSolutions* were honored with LAN Times' Readers Choice Award in 1994, one for GroupWare and Scheduling and the other for Document Management.

WordPerfect Office. *WordPerfect Office 4.0* was released for MS Windows, Macintosh and DOS operating system clients in June 1993. An additional version for the UNIX operating system client was introduced in October 1993. This powerful workgroup application combines e-mail, calendaring, group scheduling and task management software in a single application. *WordPerfect Office 4.0* includes rules-based message management, workflow automation, ordered distribution, task management, global calendaring, directory synchronization, central and distributed administration, custom mail views, voice messaging, mouse support and windowing capabilities. Administration tools for the product provide a full naming system, diagnostic and management information and software maintenance for single-location installation for the entire enterprise. WordPerfect also offers interfaces and tool kits that allow third parties to develop message-enabled applications and information sharing services that work with *WordPerfect Office 4.0*. *WordPerfect Office 4.0* is sold as two components — a Client/Admin pack which contains the software and documentation for network users and administrators, and a Message Server pack which contains the tools to connect multiple electronic post offices in a *WordPerfect Office* system. For a five-user license, the *WordPerfect Office 4.0* Client/Admin pack has a suggested retail list price of \$495. A *WordPerfect Office 4.0* Message Server pack has a suggested retail list price of \$295.

WordPerfect InForms. *WordPerfect InForms 1.0* is available as two separate packages: a Designer package for those involved in the creation of forms, and a Filler package for those that need to fill in forms created with the Designer. The Designer package provides a tool palette to simplify the creation of professional-looking forms. *WordPerfect InForms* provides electronic distribution capabilities, electronic fill-in, routing, security, tracking and approval. Its features also include an object library for form objects, an easy-to-use query tool and direct access to a number of popular desktop and SQL databases. *WordPerfect InForms* also permits users to customize forms or "views" to help them process, present and share information. The

WordPerfect InForms Designer and *Filler* packages were released for MS Windows in July 1993. *Filler* packages for DOS and Macintosh are scheduled for release later in 1994. *WordPerfect InForms* for MS Windows is available in a *Designer/Filler* package for a suggested retail list price of \$495 and in a five-license, *Filler-only* package for a suggested retail list price of \$475.

SoftSolutions. *SoftSolutions 4.0* is a document management system ("DMS") which allows users to quickly locate files and objects, to assist in network maintenance and to provide tight integration among applications and platforms. It has a fast, powerful searching engine called *SpeedSearch* at its core, making it the most streamlined and efficient DMS design available. It includes advanced features like wide area network searching, intelligent search, portable mode, image management, OLE functionality and client/server architecture for profile access, full-text access and document access. The price is \$295 per workstation for the basic product and \$395 for a "suite" which includes the *Document Desktop* interface and an integrated image management module.

WordPerfect's workgroup products are capable of operating in multiple platform client/server environments. In these environments, powerful file or application servers are networked with workstations or PCs that act as clients. For example, a Macintosh client using *WordPerfect Office* or *WordPerfect InForms* can communicate with an MS Windows client using *WordPerfect Office* through a DOS, MS Windows or Macintosh server. A number of WordPerfect Gateways are available to provide communication bridges among multiple networking environments. With *SoftSolutions*, users of both DOS and MS Windows can simultaneously retrieve and manage documents generated from any application on any network platform.

Electronic Publishing

WordPerfect Envoy. *WordPerfect Envoy* is the code name for a new product scheduled for release in May 1994 that will allow MS Windows and Macintosh users to electronically exchange, distribute and consume portable compound documents across different computers and different operating systems. This solution is a second-generation product that provides new and innovative methods of viewing, manipulating, annotating and printing documents. *WordPerfect Envoy* is fast, provides an impressive set of options for file creation, offers exceptional compression of both text and graphics and contains a rich feature set, including live thumbnails, four types of annotation, zoom, page navigation, searching, text/graphics selection and export, page-level editing, data export and OLE capability. *WordPerfect Envoy* is expected to have a suggested retail list price of \$189.

WordPerfect Intellitag. *WordPerfect Intellitag 1.2* is available for DOS and UNIX platforms. It is a simple, affordable way to convert documents into Standard Generalized Mark-up Language ("SGML") format. *WordPerfect Intellitag* provides a unique two-way direction in converting WordPerfect documents to SGML and back again. *ConvertPerfect* is included with the product so that non-WordPerfect documents may be converted to a format *WordPerfect Intellitag* can accept. It supports any standard or user-defined Document Type Definition, provides special tagging features (including pre-tagging and auto-table tagging), text editing features, special validation features and the ability to save documents in both *WordPerfect 5.1* and SGML format. The suggested retail list price for *WordPerfect Intellitag* is \$495.

Main Street Consumer Products

WordPerfect's Main Street line of consumer products was launched in April 1994 and offers low-cost, easy-to-use products designed for personal productivity, entertainment and home education. The Main Street product line includes the following products:

WordPerfect Works. *WordPerfect Works* is an integrated software package that includes a word processor, a spreadsheet application, a flat-file database, separate draw and paint modules and communication support. In addition, an MS Windows version of *WordPerfect Works* is under development and is expected to be released later in 1994. The suggested retail list price for *WordPerfect Works* for MS Windows, DOS and Macintosh is \$109.

InfoCentral. *InfoCentral* 1.0 for MS Windows is a new personal information manager that takes a different approach to organizing information by putting intelligence into the connections between information. This intelligence comes in the form of iConnect technology, an associative database engine that gives the product a unique way to find, organize, and process information by treating each piece of information in the database as an object. *InfoCentral* comes with four pre-built information bases. The suggested retail list price is \$139.

LetterPerfect. *LetterPerfect* is an entry-level word processor which provides upward file compatibility with WordPerfect and is available on the DOS and Macintosh platforms. Its features include a speller, an on-screen thesaurus, on-line help, pull-down menus, "fast key" access to features, graphics and merge capabilities. The suggested retail list price for *LetterPerfect* for DOS and Macintosh is \$49.95.

WordPerfect Language Modules. WordPerfect Language Modules for MS Windows, DOS and Macintosh allow users of *WordPerfect* to access language-specific speller, thesaurus, hyphenation and keyboard files for foreign languages that appear in text. The suggested retail list price for most language modules is \$99.

Grammatik 5. *Grammatik 5* proofreads documents for errors in grammar, style, usage, punctuation and spelling, explains errors and suggests alternatives. The suggested retail list price for *Grammatik 5* for MS Windows, DOS and Macintosh is \$49.95.

In addition to the offerings described above, WordPerfect Main Street includes a number of other products such as *WordPerfect Clip Art*, *ExpressFax Plus* fax and data communications software, Random House Webster's electronic dictionary and thesaurus, electronic medical and legal dictionaries, *Wallobee Jack* interactive cartoon adventures and *Kap'n Karaoke* sing-along tunes for kids.

Customer Support

WordPerfect is recognized as a world leader in the computer industry in providing post-sales customer support. In each of the last four years, WordPerfect has received the "World Class" award from PC World for its end-user support. WordPerfect believes that its willingness to listen and respond to customer needs distinguishes it from other application software companies. WordPerfect has committed substantial resources to providing personalized customer support in all of its worldwide offices. More than 1,250 of WordPerfect's employees are dedicated to customer support, including more than 900 technicians in Utah and more than 350 technicians in various other locations around the world, responding to users' questions about WordPerfect's software, including all aspects of installing and using its products. WordPerfect believes that this commitment to support has resulted in a high degree of loyalty among its customers. WordPerfect also believes that its expertise in providing support to individual end users will better enable it to service and support the information systems professionals that are increasingly responsible for purchasing and supporting software applications within an organization.

WordPerfect's worldwide direct telephone support representatives handle approximately 16,000 customer calls each business day, plus additional calls at night and on weekends. A typical call includes listening to the customer's problem, duplicating the problem on the representative's computer, and guiding the customer to a solution. If a representative cannot answer the question within a reasonable amount of time, he or she will research the problem and call the customer back with a solution, usually within the same day. WordPerfect was the first to introduce live "hold jockeys" who administer the flow of incoming calls, inform customers of their estimated waiting time, discuss other product offerings and upgrades and play music in the interim.

The direct sale of software products as part of customer support is a new service WordPerfect has recently made available. Many customers are pleased that they can now order software products directly from WordPerfect through its technicians. In addition to greater convenience, the customers are assured that the products they are ordering will fit their needs and their systems.

In May 1993, WordPerfect established an Account Management Team to provide vertically aligned account management and on-site diagnostics for key accounts. Each account is assigned an account

coordinator. These coordinators are experienced technicians and have access to all corporate resources. Their focus is on managing all service and support needs of a few accounts within the same vertical market. WordPerfect believes this program helps to further solidify its leadership position in offering appropriate forms of support to the marketplace.

WordPerfect has also established other methods of providing support, including written response letters, e-mail, electronic bulletin boards, Compuserve, America On-line and Spaceworks forums, automated fax response systems and on-site assistance through Strategic WordPerfect Assistance Teams. WordPerfect also provides its customer support database to customers on CDs, floppy disks and via commercial publishers (e.g., Ziff-Davis Publishing Co.). WordPerfect believes that its investment in customer support generates improved customer satisfaction and that customer satisfaction leads to favorable recommendations of WordPerfect's products to others.

WordPerfect also integrates its customer support operations with its product development efforts. Customer support generates high-quality input from existing customers which is used to identify areas of improvement in existing programs and to assist in developing new and enhanced products. Each customer support operator has access to a number of online databases that are used to assemble the product data collected through customer contacts, including bug files, enhancement requests and software trouble reports. WordPerfect believes that its ability to collect and assimilate customer feedback and suggestions contributes significantly to the quality and usability of its products as well as to the effectiveness of its marketing efforts.

Sales and Distribution

WordPerfect's products are used by a broad base of customers, from individual and small business users to large organizations installing enterprise-wide workgroup solutions. WordPerfect has structured its sales and distribution strategy to meet the varying needs of this diverse customer base.

WordPerfect sells its products primarily to distributors, including Ingram Micro, Inc. and Merisel, Inc., large volume resellers, and directly to certain large accounts. The distributors resell WordPerfect's products to retail software outlets, computer superstores and general mass merchandisers. WordPerfect's large volume resellers, such as Egghead, Inc., often operate their own software specialty stores. Ingram Micro, Inc. and Merisel, Inc. accounted for approximately 18% and 19%, respectively, of net sales of WordPerfect in 1993.

WordPerfect pursues direct arrangements with selected large customers. These customers often require flexible pricing, licensing and maintenance arrangements. Through WordPerfect's Customer Advantage Program, qualified customers receive: tiered pricing discounts, which encourage volume purchases of WordPerfect's products; multiple licensing options, providing for enterprise-wide, multi-platform and multi-lingual licenses; and enhanced maintenance and support services. WordPerfect believes that its direct relationships with these large organizations are key to the successful adoption of WordPerfect's software applications throughout the enterprise.

WordPerfect's sales organization consists of approximately 165 area managers located throughout the United States and Canada, and approximately 165 area managers outside North America. These employees meet with large companies, government agencies, educational institutions and numerous user groups to promote use of WordPerfect's products. Internationally, WordPerfect maintains 24 branch offices and is represented in 33 other locations by distributors and resellers.

Although WordPerfect's software products are sold primarily as individual applications, WordPerfect has participated in creating bundled product offerings with other hardware and software manufacturers. For example, WordPerfect and Borland offer the *Borland Office* suite for MS Windows, which includes *WordPerfect* and Borland's Quattro Pro spreadsheet and Paradox database products. As part of WordPerfect's existing arrangement with Borland, WordPerfect also has the right to include Borland's Paradox and Quattro Pro products in its own suite offering. Typical arrangements with hardware manufacturers permit the inclusion of copies of WordPerfect's software products preinstalled on their personal computers. For example, Compaq Computer Corporation offers copies of *WordPerfect* for Windows preinstalled on several of its personal computer offerings. The prices charged by WordPerfect for products included in bundles are typically significantly lower than the prices charged for the individual products.

Marketing

WordPerfect has embarked upon aggressive new marketing campaigns to substantially raise consumer awareness of its products. In the past year, WordPerfect implemented the following new initiatives: expanded print advertising, which is now appearing in general publications as well as technology periodicals; television commercials, which first appeared on major networks in early 1993; international sports team sponsorships, which WordPerfect believes will increase its brand name recognition in markets outside North America; direct mail programs, which are expected to increase direct sales to WordPerfect's installed user base; and publicized competitive comparisons, which highlight the relative strengths of WordPerfect's products.

WordPerfect's product marketing efforts are organized by specific products and computer platforms and are closely tied to WordPerfect's development efforts. Product marketing managers frequently consult with developers about features and customer preferences and facilitate communications between WordPerfect's programmers and its customers. In addition, WordPerfect's large support staff records and evaluates end user requests for improved or new products which it then communicates to WordPerfect's product marketing and development teams. This focus on customer feedback is a fundamental part of WordPerfect's product development strategy.

In order to directly communicate WordPerfect's strategic vision and product directions to customers, WordPerfect operates an Executive Briefing Center in Orem, Utah. Customers are invited to attend presentations which not only allow WordPerfect to demonstrate its products, but also allow the customer to offer valuable input on WordPerfect's products. In addition, WordPerfect has invited representatives from selected corporate, government and educational accounts to participate on an advisory board, whose purpose is to offer WordPerfect suggestions on product directions.

Product Development

WordPerfect's product development objective is to create software applications that appeal to a broad range of users, run on a wide range of operating systems and hardware platforms and are focused on helping the user communicate more effectively. WordPerfect developers begin each project with discussions about the new product's look, functionality and performance. Customer input and product marketing group feedback are carefully considered, and emerging technologies are reviewed in order to design software that can incorporate new hardware and related software features. WordPerfect's list of frequently requested products and features are reviewed and planned into new projects. Solicitation and tracking of customer feedback, both prior to and during the release of a new product, is an ongoing process. Cross-platform and multi-lingual issues are also considered early in the development process. Efforts to ensure ease of use include specific user interface designers trained in human factors research and development techniques, extensive testing of products in a state-of-the-art usability lab and continued solicitation of customer feedback, both prior to and during the release of a new product. Another set of developers is assigned to focus on increasing performance and optimizing the program code for the intended operating system. When developers have finished the preliminary work on a new project, testers begin using the product and experimenting with its features. This intensive testing process is continuously performed by WordPerfect employees, groups of novice, intermediate and advanced users, and at external beta testing sites.

Over 625 developers and over 280 testers work in WordPerfect's Orem, Utah facilities and at other facilities worldwide. WordPerfect believes that its team of developers is one of the most stable in the industry and that the relatively low turnover rate experienced by WordPerfect assists in creating stable product designs and efficient use of programming expertise. Most of WordPerfect's products have been developed by its internal development teams, although WordPerfect also uses outside consultants for certain projects. In some cases, WordPerfect will acquire or license key technology from third-party developers to complement its product offerings, as was the case with the acquisition of SoftSolutions Technology Corporation in January 1994.

WordPerfect's expenditures on research and development (excluding purchased in-process research and development) during 1993, 1992 and 1991 were \$125.4 million, \$106.0 million and \$83.3 million, respectively. WordPerfect expects that aggregate research and development expenses will increase in the future, and that

such expenses could increase as a percentage of net sales. Software research and development expenses have been expensed as incurred.

Competition

The markets for WordPerfect's products are intensely competitive and are characterized by constant pressures to reduce prices, increase promotional activity, incorporate new features, adapt to new or enhanced operating systems and accelerate the release of new products and new versions of existing products. Several companies currently offer products that compete directly with WordPerfect's products, and certain of these competitors have significantly greater financial, technical and marketing resources and broader product lines than WordPerfect. In particular, Microsoft is increasingly dominant in many sectors of the software industry, and may be able to define or influence the direction of operating systems software. Microsoft may therefore enjoy competitive advantages with respect to the development and sale of application programs under such operating systems as a result of its access to information not documented or shared with independent software vendors or developers in a timely manner, if at all. In view of Microsoft's increasing dominance within the software industry, even if WordPerfect introduces applications with superior performance, features and capabilities, it is possible that Microsoft will be able to maintain or increase the market position of its application products competitive with those of WordPerfect.

For several years, WordPerfect has had the largest market share for DOS word processing programs, and through 1992 *WordPerfect* for DOS represented the largest percentage of WordPerfect's revenues. Although DOS is currently used on more personal computers than any other operating system, the overall market for DOS applications is declining, and WordPerfect believes it will decline further in the future, primarily as a result of the increased market acceptance of Windows. By introducing products such as *WordPerfect 6.0* and *5.1+* for DOS, WordPerfect's objective is to extend the life of the market for its DOS applications.

In the market for MS Windows word processing applications, *WordPerfect* for MS Windows competes with Microsoft's Word and Lotus' Ami Pro, among others. WordPerfect believes that its share of the MS Windows word processing market will be a critical factor in its future success. Although WordPerfect has significantly increased its share of this market during the past year, it remains second to Microsoft. The MS Windows market is currently characterized by severe competitive pressure, and attempts by major participants to maintain or increase market share may lead to rapid reductions in product prices. In addition, some software vendors are combining a number of application programs in a "bundle" or "suite" for sale as one unit or arranging with hardware manufacturers to preload application programs on new computers. The price for a bundle or suite is typically significantly less than the price for separately purchased applications, and many end users are likely to prefer the bundle or suite over a more expensive combination of individually purchased applications, even if the latter applications have superior performance or features. Microsoft and Lotus offer bundles or suites of their respective products at prices significantly discounted from the prices of stand alone products. MS WordPerfect and Borland have participated in an agreement under which the *WordPerfect* for MS Windows product and Borland's Quattro Pro spreadsheet and Paradox database programs may be sold in bundles or suites. As part of the merger, Novell has agreed to purchase Quattro Pro and license Paradox. In addition, while WordPerfect has a number of preloading arrangements with hardware manufacturers, Microsoft may have a significant competitive advantage in preloading products because of its broad range of software programs and its control of the DOS and MS Windows operating environments. Microsoft's extensive relationships with hardware manufacturers result in preloading of its software on many new computers, which may discourage end users from considering buying competitive applications from other vendors. To the extent that bundling, suites and preloading arrangements by competitors are successful, WordPerfect's business and results of operations could be materially adversely affected.

A fundamental goal of the Combined Company will be the delivery of workgroup application solutions combining the networking services of Novell and the workgroup applications of WordPerfect. The future success of this strategy will depend in part on the Combined Company's ability to develop and market new competitive products for the workgroup productivity and information processing areas. Development of these products, which include Novell's AppWare, *WordPerfect Office*, *WordPerfect InForms* and *SoftSolutions*, has already required and will continue to require a substantial investment in research and development,

particularly as a result of WordPerfect's 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 also require developing new marketing and sales strategies and will entail significant expense. WordPerfect has had only limited experience in the market for these products, and there can be no assurance that the Combined Company will be successful in developing and marketing these new products.

Current competitive products in the workgroup computing market include Lotus' Notes program and Microsoft's Mail and Windows for Workgroups programs. Lotus Notes, in particular, has received considerable market interest. Although WordPerfect believes that this market has the potential to expand in the future, the market is currently relatively small, and no product has been successful in significantly expanding the market to date. WordPerfect also believes that the ability to sell effectively in this market will require it to develop new sales channels because the complexity and functionality of the products require greater support and assistance from resellers and WordPerfect. There can be no assurance that this market will expand in accordance with WordPerfect's expectations, that WordPerfect will be successful in developing the necessary sales channels in conjunction with Novell or that WordPerfect's product in this market will be successful.

To date, WordPerfect has competed against Microsoft, Lotus and other competitors on the basis of product quality, product functionality, customer support and price. WordPerfect expects competition from these competitors to increase, and that such increased competition could result in price reductions and loss of market share for WordPerfect. Accordingly, there can be no assurance that WordPerfect will not be required to lower prices in the future, which could materially adversely affect WordPerfect's operating results and financial condition. WordPerfect also competes with a variety of third parties that offer supplies and services compatible with WordPerfect's software products. A variety of potential actions by any of WordPerfect's competitors, including lower prices, increased promotion and accelerated introduction of new or enhanced products, could have a material adverse effect on WordPerfect's competitive position.

Intellectual Property; Proprietary Rights

WordPerfect generally has only "shrink-wrap" license agreements with the end users of its products and does not copy-protect its software. Shrink-wrap licenses are not signed by the end user and may not be enforceable in all cases. WordPerfect relies primarily on copyright laws and contract license provisions to prevent unauthorized use, duplication and distribution of its software. These laws and provisions afford only limited protection, and despite WordPerfect's active efforts, policing unauthorized use of WordPerfect's products is difficult, and software piracy is expected to be a persistent problem. Further, the laws of certain countries in which WordPerfect's products are or may be distributed do not protect WordPerfect's products and intellectual property rights to the same extent as the laws of the United States. In its efforts to combat the unauthorized use of its products and technology, WordPerfect continues to be actively involved as a member of the Business Software Alliance and other software industry associations and coalitions which are working to improve the legal environment for the sale and protection of software products, not only in the United States, but in other regions of the world.

WordPerfect also relies on a combination of trade secret, patent and trademark laws and nondisclosure agreements to protect its proprietary rights. WordPerfect has registered trademarks in the United States and in other countries, as noted on the inside front cover of this Prospectus/Proxy Statement, and has pending trademark applications for additional product names. To date, three of WordPerfect's patent applications have been allowed, and WordPerfect has a number of other patent applications pending with respect to certain innovative elements of its technology. Nevertheless, it may be possible for unauthorized third parties to duplicate WordPerfect's products or to reverse engineer or otherwise obtain and use information that WordPerfect regards as proprietary. While WordPerfect intends to police and protect its intellectual property rights, there can be no assurance that WordPerfect can prevent the unauthorized use of its intellectual property, including preventing competitors from independently developing products that are substantially similar to WordPerfect's products.

While WordPerfect's competitive position may be affected by its ability to protect its proprietary rights, WordPerfect believes that, because of the rapid pace of technological change in the computer software industry, factors such as the technical expertise, innovative skills and experience of WordPerfect's employees, frequent product enhancements, its name recognition and the timeliness and quality of its support services may be more significant in maintaining WordPerfect's competitive position.

As the number of software products in the industry increases and the functionality of these products further overlap, WordPerfect believes that software increasingly will become the subject of claims of infringement upon the rights of others. From time to time, WordPerfect has received communications from third parties asserting that features or content of certain of WordPerfect's products infringe intellectual property rights of such parties. While WordPerfect has been a party to trademark and copyright litigation in order to protect its marks and copyrighted works, the expenses and settlement costs of such litigation have not been material, and WordPerfect currently is not a defendant in any patent or copyright litigation. Nevertheless, there can be no assurance that WordPerfect will be able to resolve any further claims, if at all, without costly litigation or licensing of technology on terms that may be unfavorable to WordPerfect. In addition, there can be no assurance that licenses will be available on reasonable terms, if at all.

Production

After development has been completed and products are ready for commercial distribution, WordPerfect prepares master software diskettes and artwork for the associated printed materials, which are then delivered to the manufacturing division for in-house production or outsourcing of production. If a given product is produced in-house, WordPerfect's manufacturing division duplicates diskettes and arranges for the outside production of all printed portions of the package, then assembles and ships the final products. Extensive quality assurance methods are employed to protect the software from any file corruption or virus infection during the duplication process. WordPerfect purchases raw materials and component parts from a number of qualified vendors. WordPerfect has entered into agreements with a few third parties to provide the fulfillment services and quality control for outsourced products. To date, WordPerfect has not experienced any material difficulties or delays in manufacturing its products, or material returns due to product defects.

Employees

As of March 31, 1994, WordPerfect employed 5,128 employees, of which 3,932 were based in the United States and 1,196 were based internationally. Of this total, 1,366 of such employees were engaged in sales and marketing, 1,250 in customer support, 1,372 in product development, 400 in production and 740 in administration. WordPerfect believes that it currently maintains competitive compensation, benefits, equity incentive and work environment policies to assist in attracting and retaining qualified personnel. The employees of WordPerfect are not parties to any collective bargaining agreement, and WordPerfect believes that its relations with employees are good. WordPerfect also believes that the future success of its business will depend in large part on its ability to attract and retain qualified personnel. Competition for such personnel is intense, and there can be no assurance that WordPerfect will be successful in attracting and retaining such personnel.

Facilities

The Company's corporate headquarters are located in Orem, Utah, where it owns approximately 1,000,000 square feet of office space and 359,000 square feet of manufacturing and fulfillment facilities located on approximately 110 acres. WordPerfect also owns approximately 12,000 square feet of office space and 78,000 square feet of warehouse and manufacturing space in Rotterdam, The Netherlands. WordPerfect has entered into a letter of intent with R.R. Donnelley and Sons Documentation Services to sell the Rotterdam facility for \$3.5 million. This transaction is expected to close on or about June 1, 1994. WordPerfect leases additional office space in Orem and in major metropolitan areas of Australia, Austria, Belgium, Brazil, Chile, Denmark, Finland, France, Germany, Hong Kong, Italy, Japan, Mexico, Norway, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, the United Arab Emirates and the United Kingdom. International offices are leased for terms of from one to three years at commercially reasonable rates. WordPerfect expects that it will be able to renew its leases on satisfactory terms. WordPerfect also believes that its existing facilities are adequate to meet current needs, and that suitable additional space will be available or built by WordPerfect as needed to accommodate any further physical expansion of corporate operations and for additional sales and support offices.

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

Overview

WordPerfect was founded in 1979 to develop, market and support word processing software and sold its first product in 1980. Through most of its history, WordPerfect has focused its efforts on developing word processing software for personal computers and, specifically, applications that operate in the DOS operating environment. Sales of the *WordPerfect* word processing program for all supported operating environments generated a substantial amount of WordPerfect's net sales in 1993 and 1992.

WordPerfect's results of operations in 1993 and 1992 were adversely affected by the general shift in the PC market from the DOS operating environment to the MS Windows operating environment and by the more competitive nature of the MS Windows market. In response, WordPerfect began to implement changes in its strategic direction. These changes included: an increase in the scope and aggressiveness of WordPerfect's selling and marketing activities; an increase in investment in research and development to broaden WordPerfect's product line; an increase in support for additional operating environments; development and implementation of improved financial control systems; reorganization of WordPerfect's management structure; and restructuring of WordPerfect's compensation program to industry-appropriate salaries with performance and profit-based bonuses. As part of the management reorganization and restructured compensation program, WordPerfect made non-recurring payments to certain members of management and other key employees. These payments, which aggregated \$29.0 million, were charged to 1992 operations, primarily in the first and third quarters, and affected all operating expense categories. During 1993, WordPerfect announced plans to restructure and streamline its operations. As a result, WordPerfect recorded a \$33.0 million non-recurring restructuring expense in the third quarter of 1993 in order to provide for costs related to the restructuring plan. The expense includes provisions for employee severance costs, writedown of certain assets to estimated realizable values, outside professional fees and other costs associated with the plan.

Product life cycles in the application software industry are relatively short, with significantly upgraded or new products replacing older products frequently. Once a new product has been released, WordPerfect has generally experienced significant increases in net sales attributable to such products. Nevertheless, the success of a particular product over the long term depends on a wide variety of factors, and WordPerfect is unable to predict whether any particular product will achieve sustained market acceptance. To the extent a new product is a new version of an existing product, revenues from the new version may include substantial sales of upgrade packages to the existing product's installed base. Upgrade package sales generally have lower average selling prices and gross margins than sales of full retail packages to new users. As a product advances in its life cycle, competitive pressures may lead to a decline in its average selling price. In addition, the release or announcement of new products or upgrades by WordPerfect's competitors may have the effect of substantially shortening the life cycle of, and significantly reducing WordPerfect's revenues from, a particular product. Further, the announcement of new products or upgrades by WordPerfect itself can have a negative effect on sales of WordPerfect's existing products and can cause WordPerfect to further reduce average selling prices, establish reserves for estimated future returns or offer upgrades to the new product. WordPerfect expects these factors to continue to affect its business in the future, especially in 1994, during which period WordPerfect expects to release a number of new products and product upgrades.

In general, for a significant period of time prior to the release of a new product or upgrade, WordPerfect will incur substantial research and development expenses, followed by substantial sales and marketing expenses in anticipation of the release. WordPerfect will incur these expenses before any revenues are received from the new product and even before the market acceptance of the product can be determined. In particular, WordPerfect expended substantial research and development and sales and marketing efforts during 1993 and 1992 in anticipation of the release of new or upgraded document processing products for the MS Windows, DOS and Macintosh platforms, workgroup products for the MS Windows, DOS, Macintosh and UNIX platforms, and a presentations graphics product for the MS Windows platform. Despite these investments of significant resources, there can be no assurance as to the market acceptance of, or the revenues which may result from these products in the remainder of 1994 or in future years.