

**Results of Operations**

The following table sets forth the percentage of net sales represented by certain items on WordPerfect's consolidated statement of income for the periods indicated. All pro forma information gives effect to the pro forma adjustments described in Note 9 of Notes to WordPerfect Consolidated Financial Statements.

	Percentage of Net Sales Year Ended December 31,		
	1993	1992	1991
Net sales .....	100.0%	100.0%	100.0%
Cost of sales .....	<u>25.2</u>	<u>24.6</u>	<u>23.1</u>
Gross margin .....	<u>74.8</u>	<u>75.4</u>	<u>76.9</u>
Expenses:			
Selling and marketing .....	35.5	27.8	17.7
Research and development .....	17.7	18.3	13.4
General and administrative .....	11.7	13.5	13.2
Purchased in-process research and development .....	0.4	3.5	—
Restructuring .....	<u>4.7</u>	—	—
Total expenses .....	<u>70.0</u>	<u>63.1</u>	<u>44.3</u>
Income from operations .....	4.8	12.3	32.6
Other income, net .....	—	<u>2.3</u>	<u>1.7</u>
Income before provision (benefit) for income taxes .....	4.8	14.6	34.3
Provision (benefit) for income taxes .....	<u>(5.9)</u>	<u>2.0</u>	<u>2.0</u>
Net income .....	<u>10.7%</u>	<u>12.6%</u>	<u>32.3%</u>
<b>Unaudited pro forma data:</b>			
Income before provision for income taxes .....	4.8%	14.6%	34.3%
Provision for income taxes .....	<u>1.7</u>	<u>5.6</u>	<u>12.1</u>
Net income .....	<u>3.1%</u>	<u>9.0%</u>	<u>22.2%</u>

*Net Sales*

Net sales include revenues from software product sales less promotional discounts, deferrals and reserves for product returns. Revenue is generally recognized at the time of shipment. Historically, substantially all of WordPerfect's net sales have been derived from sales of word processing software — specifically *WordPerfect* for DOS and, commencing in the fourth quarter of 1991, *WordPerfect* for MS Windows.

WordPerfect's net sales increased from \$579.1 million in 1992 to \$707.5 million in 1993, an increase of 22.2%. The increase in net sales, all of which was in North America, resulted primarily from the release of *WordPerfect* 5.2 for MS Windows in late 1992, the release of *WordPerfect* 6.0 for DOS in June 1993 and the release of *WordPerfect* 6.0 for MS Windows in September 1993. This increase in net sales was partially offset by further declines in sales of *WordPerfect* 5.1 for DOS internationally. The increase in net sales reflected growth in North American net sales from \$352.1 million in 1992 to \$500.2 million in 1993, an increase of 42.1%, which was offset in part by a decrease in international net sales from \$227.0 million in 1992 to \$207.3 million, a decrease of 8.7%.

Net sales decreased from \$622.0 million in 1991 to \$579.1 million in 1992, a decrease of 6.9%. This decrease was substantially the result of a decline in revenues from sales of *WordPerfect* for DOS as a result of the general shift in the PC market from the DOS platform to the MS Windows platform, especially internationally. The decrease in net sales also reflects the effects of the overstocking by distributors which WordPerfect believes may have occurred in the fourth quarter of 1991, when WordPerfect announced an increase in its prices beginning in 1992. In addition, WordPerfect had no new product releases during 1992.

until the fourth quarter, when it released *WordPerfect Presentations* for DOS and *WordPerfect 5.2* for MS Windows. The decrease in net sales was also partially offset by a significant increase in revenues from sales of *WordPerfect 5.1* for MS Windows, reflecting the availability of this product in North America for the full twelve months of 1992, as compared to two months in 1991, and the international release of this product in the first quarter of 1992. Net sales in North America declined from \$416.3 million in 1991 to \$352.1 million in 1992, a decrease of 15.4%. International net sales increased from \$205.7 million to \$227.0 million, an increase of 10.4%, reflecting increased sales of *WordPerfect* for MS Windows.

#### *Gross Margin*

Gross margin is the difference between net sales and cost of sales. *WordPerfect* includes in cost of sales all costs of manuals, diskettes and duplication, packaging materials, assembly costs, paper goods, manufacturing related shipping, appropriate manufacturing labor and overhead and royalty payments. Also included in cost of sales are the costs for customer support, which have been substantial. Gross margins are significantly affected by changes in average selling prices. Generally, average selling prices of existing products decline as a result of competitive pressures and product life cycles, which may cause *WordPerfect* to lower prices or offer other terms to increase or maintain market share. Average selling prices may also decline following *WordPerfect's* release of new versions of existing products, a substantial portion of which are sold as upgrade packages with lower average selling prices and lower margins than full retail packages. In addition, to the extent *WordPerfect* offers its products in bundles, suites or pursuant to preloading arrangements with hardware manufacturers, average selling prices may also be negatively affected.

*WordPerfect's* gross margin percentage decreased from 75.4% in 1992 to 74.8% in 1993. This decrease primarily related to continuing declines in average selling prices, as upgrade packages of *WordPerfect 5.2* and 6.0 for MS Windows and *WordPerfect 6.0* for DOS accounted for an increasing percentage of total sales.

*WordPerfect's* gross margin percentage decreased from 76.9% in 1991 to 75.4% in 1992. This decrease resulted from an increase in customer support expense and a general decline of average selling prices for *WordPerfect's* products, although this decline was partially offset by increased manufacturing efficiencies.

#### *Selling and Marketing Expenses*

Selling and marketing expenses include personnel and equipment costs, advertising, trade show-related expenses and promotional items. Selling and marketing expenses increased from \$160.7 million, or 27.8% of net sales in 1992 to \$251.1 million, or 35.5% of net sales in 1993. This increase was the result of the continuation of *WordPerfect's* increased focus on selling and marketing activities. During 1993, *WordPerfect* increased North American personnel, although the costs of this increase were partially offset by reduced compensation expense for certain employees due to the 1992 change in *WordPerfect's* compensation program. During 1993, *WordPerfect* also incurred expenses from sponsorship of international sports teams, from its television advertising campaign and from marketing efforts related to the release of *WordPerfect 6.0* for DOS and *WordPerfect 6.0* for MS Windows.

Selling and marketing expenses increased from \$110.0 million, or 17.7% of net sales, in 1991 to \$160.7 million, or 27.8% of net sales, in 1992. The management reorganization and restructured compensation program resulted in non-recurring selling and marketing expenses of \$12.5 million in 1992. The increase in selling and marketing expenses is also the result of *WordPerfect's* greatly increased focus on selling and marketing activities. During 1992, *WordPerfect* increased its sales and marketing staff, advertising efforts, trade show activities and customer support expenditures. *WordPerfect* also commenced direct selling and marketing activities in several countries.

#### *Research and Development Expenses*

Research and development expenses consist primarily of personnel and equipment costs required to conduct *WordPerfect's* development efforts. These costs include internal software development costs, software testing costs, documentation costs and third-party software development costs. *WordPerfect* believes that significant investments in research and development for multi-operating environment products is required to

remain competitive. As a result, WordPerfect has increased its expenditures on research and development each year since 1988.

Research and development expenses increased from \$106.0 million, or 18.3% of net sales, in 1992 to \$125.4 million, or 17.7% of net sales, in 1993. The increase in amount was due primarily to an increase in compensation-related expenses resulting from a larger number of employees in 1993 and the implementation of an incentive bonus program based on completion dates for certain products under development. The increase was partially offset by the reduced compensation expenses for certain employees as a result of the restructured compensation program.

Research and development expenses were \$106.0 million, or 18.3% of net sales, in 1992 and \$83.3 million, or 13.4% of net sales, in 1991. The restructured compensation program resulted in non-recurring research and development expenses of \$5.8 million in 1992. The increase from 1991 to 1992 was also the result of increased research and development personnel and third-party development costs in support of WordPerfect's continued expansion of its product offerings, both in terms of application software products and the operating environments in which such applications operate. A substantial portion of such costs in 1992 and 1991 were directly related to products which have been or are expected to be released in 1993 and 1994.

#### *General and Administrative Expenses*

General and administrative expenses are composed primarily of the costs of WordPerfect's finance, legal, facilities, human resources, information systems and other administrative functions. General and administrative expenses were \$83.1 million, or 11.7% of net sales, in 1993, \$78.3 million, or 13.5% of net sales, in 1992, and \$82.2 million, or 13.2% of net sales, in 1991. The increase in general and administrative expenses from 1992 to 1993 resulted primarily from an increase in administrative personnel. The decrease in general and administrative expenses from 1991 to 1992 resulted primarily from a decrease in compensation related expenses. During 1991, WordPerfect paid certain employees large bonuses related to WordPerfect's 1991 performance.

#### *Purchased In-Process Research and Development Expenses*

Purchased in-process research and development expenses during 1993 and 1992 were principally the result of the acquisition of Reference Software International in the fourth quarter of 1992 and purchase of the InfoCentral technology in the third quarter of 1993. A significant portion of the Reference Software International purchase price and all of the InfoCentral purchase price were attributable to purchased in-process research and development for future products. The technological feasibility of these products had not been achieved at the time of acquisition, and, as a result, the portion of the purchase price attributable to purchased in-process research and development was expensed during the quarter in which it was purchased. See Note 3 of Notes to Consolidated Financial Statements.

#### *Other Income*

Other income consists primarily of interest income on cash and short-term investment balances and net gains on foreign currency transactions. Interest income decreased from 1992 to 1993 as a result of reduced cash and short-term investment balances primarily due to a large distribution to the shareholders in December 1992. Interest income increased from 1991 to 1992 principally because of higher cash and investment balances, offset in part by declining interest rates.

WordPerfect had a small loss from foreign currency transactions in 1993 and gains from foreign currency transactions in 1991 and 1992. WordPerfect expects gains or losses from foreign currency transactions to fluctuate significantly from period to period, primarily as a result of fluctuating values of the U.S. dollar and the recent instability in European currency markets. WordPerfect recently initiated a program to evaluate purchases of forward foreign exchange contracts to hedge its outstanding accounts receivable exposure in certain countries, and anticipates purchasing such hedge contracts to cover a substantial portion of the outstanding exposure when appropriate. Nonetheless, a decrease in the value of foreign currencies relative to the U.S. dollar could result in future losses from foreign currency transactions.

#### *Pro Forma Provision for Income Taxes*

From January 1, 1985 through September 30, 1993, WordPerfect had elected to be taxed as an S corporation such that the income tax effects of WordPerfect's activities have accrued directly to its shareholders. Most of WordPerfect's subsidiaries had also made S corporation elections at their inceptions. Such elections were terminated on September 30, 1993 for WordPerfect and December 31, 1993 for WordPerfect's subsidiaries. The Consolidated Financial Statements contained herein include a pro forma amount for the income tax provision that would have been incurred had WordPerfect never been an S corporation, calculated under Financial Accounting Standard No. 109, "Accounting for Income Taxes."

The pro forma provisions for income taxes were approximately \$11.9 million, \$32.3 million and \$75.1 million in 1993, 1992 and 1991, respectively, with effective tax rates of 34.9%, 38.2% and 35.2% for the same periods. The effective rate is determined based upon applicable federal, state and foreign statutory rates, less the pro forma effect of any research and development credits. The increase in the effective tax rate for 1992 reflects the purchased in-process research and development acquired from Reference Software International, which has been expensed for financial accounting purposes but has not been expensed for income tax purposes.

During the period of WordPerfect's S corporation status, its shareholders have been required, under applicable tax laws, to recognize and pay tax on a greater amount of income than has been accrued pursuant to applicable accounting rules. The amount of taxes paid by the shareholders in excess of the tax provisions on WordPerfect's financial statements has been recorded as an asset and an income tax benefit on September 30, 1993 and December 31, 1993. As a result, WordPerfect recognized approximately \$49.9 million as income tax benefit in 1993.

#### **Liquidity and Capital Resources**

Since its inception, WordPerfect has financed its activities almost exclusively from cash generated from operations. At December 31, 1993, WordPerfect had approximately \$55.1 million of cash and cash equivalents, compared to approximately \$86.6 million at December 31, 1992. WordPerfect has a line of credit to finance short-term needs under which it can borrow up to \$40 million of either the bank's prime lending rate or 1.125 percent over LIBOR. See Note 7 of Notes to Consolidated Financial Statements.

Prior to September 30, 1993, WordPerfect's shareholders have been liable for federal and state income taxes on Company earnings as a consequence of WordPerfect's S corporation status. WordPerfect has made periodic distributions to shareholders in amounts sufficient to pay such taxes and as a return of capital. The aggregate amount of such distributions to all shareholders was \$20.3 million in 1993, \$178.2 million in 1992 and \$121.9 million in 1991, excluding the transfer of certain shareholders' interests in a limited liability company which owns the land and buildings used by WordPerfect for its operating activities in North America. For financial statement purposes the transfer of the limited liability company has been treated as a distribution to such shareholders during 1993 and resulted in a concurrent reduction in shareholders' equity of \$79.3 million.

WordPerfect has historically used cash generated from operations to fund its working capital requirements and to acquire capital equipment. WordPerfect's operating activities provided net cash of \$39.9 million in 1993, \$155.2 million in 1992, and \$246.1 million in 1991. WordPerfect's capital expenditures aggregated \$42.7 million in 1993, \$47.3 million in 1992, and \$55.9 million in 1991. These expenditures have historically consisted of purchases of computer equipment, furniture and fixture, and costs of new building construction. In the future, WordPerfect's available cash may decrease as a result of changes in the terms of sale to its distributors, which may extend the period that accounts receivable are outstanding. At December 31, 1993, WordPerfect had no material commitments for capital expenditures.

From time to time, WordPerfect evaluates potential acquisitions of businesses, products or technologies that complement WordPerfect's business. In January 1994, WordPerfect purchased the outstanding common stock of SoftSolutions Technology Corporation ("SoftSolutions"), a developer of network document management software, in exchange for \$5.8 million in cash and \$9.2 million in notes payable to SoftSolutions stockholders. The notes accrue interest at 6% per annum and are payable in two annual installments beginning in January 1995. WordPerfect has no present understandings, commitments or agreements with respect to any material acquisitions of other businesses, products or technologies.

WordPerfect believes that the cash generated from operations and amounts available under its line of credit, will satisfy WordPerfect's projected working capital and capital expenditure requirements for at least the next 12 months.

## MANAGEMENT OF WORDPERFECT

### Executive Officers, Senior Management and Directors

The WordPerfect executive officers and senior management who will serve or are entitled to serve as executives or as members of the Board of Directors of Novell following the Merger are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with Novell</u>
Alan C. Ashton, Ph.D. ....	51	Director
Bruce W. Bastian .....	46	Director
Adriaan Rietveld .....	39	President, Applications Product Group

Dr. Ashton co-founded WordPerfect and has served as Co-Chairman of the WordPerfect Board of Directors since January 1994. He has served as an executive officer and/or a director of WordPerfect and certain of its subsidiaries since its inception. Prior to founding WordPerfect, Dr. Ashton was a professor at Brigham Young University ("BYU"), where he taught computer science for 14 years. Dr. Ashton received a B.S. degree in mathematics and a Ph.D. degree in computer science from the University of Utah.

Mr. Bastian co-founded WordPerfect and has served as Co-Chairman of the WordPerfect Board of Directors since January 1994. He has served as an executive officer and/or a director of WordPerfect and certain of its subsidiaries since its inception. Mr. Bastian received a B.A. degree in music from BYU and an M.S. degree in computer science from BYU.

Mr. Rietveld joined WordPerfect in 1988 and was promoted to President and Chief Executive Officer in January 1994. He previously served as Senior Vice President, Sales and Marketing from November 1992 to December 1993. He has also served in various positions with WordPerfect's subsidiaries and affiliates. Prior to joining WordPerfect, Mr. Rietveld served as General Manager for DELTAware B.V., a software distribution company he co-founded. Mr. Rietveld studied mathematics and communication at Groen van Prinsterer College. See "WordPerfect Certain Transactions."

The Merger Agreement provides that it will be a condition to WordPerfect's obligation to consummate the Merger that Dr. Ashton and Mr. Bastian (or designees of each of them) be elected to the Novell Board of Directors. It is anticipated that this condition will be waived by WordPerfect in return for Novell's agreement that following the Merger the Novell Board of Directors will, promptly following the request of Dr. Ashton and Mr. Bastian, cause the number of directors comprising the full Board of Directors of Novell to be increased by two persons, from seven to nine, and at such time cause Dr. Ashton and Mr. Bastian (or their designees) to be elected to the Novell Board of Directors. Dr. Ashton and Mr. Bastian are expected to make a request to join the Novell Board of Directors in the latter part of 1994. In recognition of the foregoing, the disclosures concerning Dr. Ashton and Mr. Bastian in the "Management of WordPerfect" Section, while not required by the rules and regulations of the SEC, are being presented on a voluntary basis.

### Summary of Cash and Other Compensation

The following table sets forth the compensation earned for services rendered to WordPerfect in all capacities during the fiscal year ended December 31, 1993 by each person who will serve or is entitled to serve as an executive officer or director of Novell (together, the "Named Officers").

## SUMMARY COMPENSATION TABLE

<u>Name and Principal Position</u>	<u>Annual Compensation</u>		<u>All Other Compensation (\$)(2)</u>
	<u>Salary(\$)(1)</u>	<u>Bonus(\$)(1)</u>	
Adriaan Rietveld — President and Chief Executive Officer(3) .....	\$313,882	\$ 87,500	\$ 330
Alan C. Ashton, Ph.D. — Co-Chairman of the Board(4) . . . .	\$492,446	\$200,001	\$10,434
Bruce W. Bastian — Co-Chairman of the Board(5) .....	\$475,000	\$190,000	\$ 9,828

(1) WordPerfect granted bonuses to the Named Officers based on predefined individual performance criteria for 1993.

(2) For each Named Officer, "All Other Compensation" includes (i) contributions by WordPerfect to WordPerfect's 401(k) Plan which match contributions made by such individuals to the Plan and (ii) premiums for life insurance policies on behalf of such Named Officer as follows:

<u>Name</u>	<u>Plan Contribution</u>	<u>Insurance Premium</u>
Adriaan Rietveld .....	—	\$ 330
Alan C. Ashton .....	\$8,994	\$1,140
Bruce W. Bastian .....	\$8,994	\$ 834

(3) Mr. Rietveld served as the Senior Vice President, Sales and Marketing of WordPerfect during fiscal year 1993 and became the President and Chief Executive Officer of WordPerfect on January 1, 1994. Mr. Rietveld will serve as President of the Novell Applications Product Group upon consummation of the Merger.

(4) Dr. Ashton served as the President and Chief Executive Officer of WordPerfect during fiscal year 1993 and is currently Co-Chairman of WordPerfect's Board of Directors effective January 1, 1994 and has a right to become a member of the Board of Directors of Novell after the consummation of the Merger.

(5) Mr. Bastian served as Chairman of WordPerfect's Board of Directors during fiscal year 1993 and is currently Co-Chairman of WordPerfect's Board effective January 1, 1994 and has a right to become a member of the Board of Directors of Novell after the consummation of the Merger.

**Option Grants**

No options or stock appreciation rights were granted to any Named Officers during 1993.

**Option Exercises and Holdings**

The following table sets forth for each of the Named Officers certain information concerning the number of shares subject to both exercisable and unexercisable stock options as of December 31, 1993. Also reported are values for "in-the-money" options that represent the positive spread between the respective exercise prices of outstanding stock options and the fair market value of WordPerfect's Common Stock as of December 31, 1993, as determined by WordPerfect's Board of Directors. No options or stock appreciation rights were exercised during 1993, and no stock appreciation rights were outstanding as of December 31, 1993.

**Aggregated Option Exercises in Last  
Fiscal Year and Fiscal Year-End Option Values**

<u>Name</u>	<u>Number of Unexercised Options at Fiscal Year-End</u>		<u>Value of Unexercised In-the-Money Options at Fiscal Year-End(\$)(1)</u>	
	<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable(2)</u>
Adriaan Rietveld .....	—	225,000	—	\$1,125,000
Alan C. Ashton .....	—	—	—	—
Bruce W. Bastian .....	—	—	—	—

- (1) Based upon the \$13.50 per share value of the Company's Common Stock, as determined by WordPerfect's Board of Directors on December 31, 1993.
- (2) Pursuant to the Merger Agreement, all WordPerfect Options that are outstanding as of the Effective Date will be assumed by Novell, and all such options will accelerate and become immediately exercisable at that time.

**Employment Contracts, Termination of Employment and Change in Control Arrangements**

WordPerfect entered into an employment agreement with Mr. Rietveld on January 22, 1993 pursuant to which WordPerfect has agreed to employ Mr. Rietveld until March 12, 1996. The agreement was amended on January 1, 1994 (the "Addendum") in connection with Mr. Rietveld's promotion to President and Chief Executive Officer of WordPerfect. Pursuant to the Addendum, Mr. Rietveld was granted an option to purchase 25,000 shares of WordPerfect's Common Stock on January 8, 1994 at an exercise price of \$13.50 per share. In the event of Mr. Rietveld's involuntary termination without cause (including any termination as a result of death or permanent disability and any termination in connection with a change in control of WordPerfect), he will be entitled to a severance payment for five years as follows: 100% of base salary for the two years following termination, 75% of base salary for the third year, 50% of base salary for the fourth year and 25% of base salary for the fifth year. In addition, all options to purchase shares of WordPerfect Common Stock held by Mr. Rietveld at the time of such involuntary termination without cause will be accelerated so that all such options will become immediately exercisable for 50% of all unvested shares and the remaining 50% will become exercisable one year after the date of involuntary termination without cause. Further, all outstanding options will remain exercisable for a period of three years following the involuntary termination without cause. In the event that Mr. Rietveld voluntarily terminates his employment with WordPerfect, he will receive a severance payment equal to his base salary for a period of 180 days. As previously described, all WordPerfect stock options held by Mr. Rietveld at the Effective Date will automatically accelerate in full and become immediately exercisable at such time. See "Terms of the Merger — Employee Benefit Plans — WordPerfect Options."

### CERTAIN TRANSACTIONS OF WORDPERFECT

Prior to September 30, 1993, WordPerfect was operated as a series of related entities that were owned or controlled by the shareholders who control WordPerfect (the "Related Entities"). On September 30, 1993 and December 31, 1993, certain Related Entities became wholly owned subsidiaries of WordPerfect (the "Consolidated Entities"). For purposes of the Consolidated Financial Statements included in this Prospectus/Proxy Statement, transactions among these entities have been treated as intracompany transactions of WordPerfect which are eliminated in the consolidation process. See Note 1 of Notes to Consolidated Financial Statements. The Consolidated Entities consist of the following Related Entities: WordPerfect International, WP Leasing, Inc. ABP Development Company, WordPerfect Publishing Corporation, Reference Software International, Nihon WordPerfect, WP Software GmbH, WordPerfect Danmark, WordPerfect Switzerland, WordPerfect Pacific, WordPerfect America Latina Corporation, WordPerfect Asia, SoftCopy Europe, WordPerfect Brasil Tecnologia Ltda., and WP Properties, L.C.

For purposes of this "Certain Transactions of WordPerfect" section, references to Dr. Ashton and Mr. Bastian shall refer to Alan C. Ashton and Bruce W. Bastian respectively, and may also include their respective spouses, children, and trusts. Each of Dr. Ashton and Mr. Bastian are Co-Chairmen of the Board of Directors of WordPerfect.

During 1988, Dr. Ashton and Mr. Bastian extended a line of credit for working capital to ComputerShow, a corporation substantially owned by Dr. Ashton and Mr. Bastian and included as a consolidated entity of WordPerfect through September 30, 1993. The line of credit bore interest at 9% and had a maximum outstanding balance of \$307,000 during 1991. The line of credit was repaid in full during 1992. Total interest paid was \$4,000 during 1992 and \$22,000 during 1991.

ABP Development Company provided construction and building maintenance services to and received payment from Dr. Ashton of approximately \$41,000 and \$69,000 in 1993 and 1992, respectively, from Mr. Bastian of approximately \$35,000 in 1993, and from BAT Investments, L.C., a limited liability company substantially owned by Dr. Ashton and Mr. Bastian of approximately \$108,000 in 1993. In January 1994, the activities of ABP Development Company were discontinued. Assets related to ABP Development Company, with net book value of approximately \$64,000, were distributed to Dr. Ashton and Mr. Bastian.

WordPerfect entered into agreements with Mr. Lewis Bastian, a brother of Mr. Bastian, and Bastian Enterprises, Inc., a company owned and controlled by Mr. Lewis Bastian ("BEI"), in connection with the development and sale of *DataPerfect*, a general purpose database software program, and TOOL, an object-oriented language used for software development. Pursuant to these agreements, WordPerfect paid Mr. Lewis Bastian and BEI aggregate consulting fees and royalty payments of \$718,000, \$474,000 and \$479,000 during 1993, 1992 and 1991, respectively. In February 1994, WordPerfect agreed to pay BEI \$2.75 million over three years in exchange for a termination of these agreements and to pay BEI fees of \$125,000 per year, for up to two years, for consulting services that BEI provides to WordPerfect.

Pursuant to agreements with Dr. Ashton and Mr. Bastian for the development and sale of *WordPerfect Executive* and *WordPerfect Library*, WordPerfect, during 1992 and 1991, made royalty payments to Dr. Ashton of \$125,000 and \$79,000, respectively, and to Mr. Bastian of \$125,000 and \$79,000, respectively. Such agreements were terminated as of August 1993.

During 1992 and 1991, WordPerfect International, formerly WordPerfect Europe, made payments pursuant to management agreements to MeRi, a Dutch company controlled by Adriaan Rietveld, who was then serving as an officer of WordPerfect Europe and SoftCopy Europe, of approximately \$6.8 million and \$2.0 million, respectively. The \$6.8 million payment in 1992 included a negotiated termination of these management agreements for a lump sum payment to MeRi. Mr. Rietveld is currently the President and Chief Executive Officer of WordPerfect. See "Management of WordPerfect — Employment Contracts, Termination of Employment and Change in Control Arrangements."

Prior to the Merger, Novell, Sub, WordPerfect and the shareholders of WordPerfect will enter into a Tax Matters Agreement relating to the respective income tax liabilities for all taxable periods of WordPerfect and the method for allocating WordPerfect's income for calendar year 1993 between the shareholders and WordPerfect. See "Terms of the Merger — Tax Matters Agreement."



Effective September 30, 1993, all the interests of WP Properties, L.C., a limited liability company owned by Dr. Ashton (50%) and Mr. Bastian (50%), were transferred to WordPerfect in exchange for \$5 million in cash and a promissory note in the principal amount of \$74.3 million payable to Dr. Ashton and Mr. Bastian. Such note accrues interest at a rate of 6% per annum. Such note, by its terms, shall become due and payable within 30 days after a merger or change in control of WordPerfect.

In December 1992, ABP Investments, L.C., a limited partnership owned by Dr. Ashton (47.5%), Mr. Bastian (47.5%) and another individual (5%) transferred certain real property directly related to WordPerfect's business to WP Properties, L.C., a Consolidated Entity, initially owned by Dr. Ashton (50%) and Mr. Bastian (50%). The remaining assets, which consisted of certain parcels of real property not directly related to WordPerfect's business, were transferred to BAT Investments, L.C., a limited liability company owned by Dr. Ashton (44.8%), Mr. Bastian (44.8%) and another individual (10.4%). Aggregate lease payments of WordPerfect to BAT Investments, L.C. and its predecessor with respect to such properties were \$216,000, \$169,000, and \$135,000 for 1993, 1992 and 1991, respectively.

In February 1992, WordPerfect acquired by merger the stock of a company engaged in the duplication, assembly and shipping of software products which was owned by Dr. Ashton (40%), Mr. Bastian (40%) and another individual (20%). In connection with this merger, all of the outstanding stock of the old company was cancelled and 483,150, 483,150 and 413,800 shares of WordPerfect Common Stock were issued to Dr. Ashton, Mr. Bastian and another individual, respectively. In 1992, certain assets that were not directly related to the business activities of WordPerfect, having an aggregate book value of \$9.1 million, were distributed to a newly formed corporation ("SoftCopy") owned by Dr. Ashton (49.5%), Mr. Bastian (49.5%) and another individual (1.0%), respectively. For the years ended December 31, 1993 and 1992, the Consolidated Entities made payments to SoftCopy for diskette and duplication services of approximately \$906,000 and \$1.2 million, respectively.

During March 1992, WP Leasing, Inc. loaned SoftCopy \$100,000 for working capital. In May and June 1992, WP Leasing, Inc. loaned \$100,000 to BA Ltd., a limited liability company owned by Mr. Ashton (50%) and Mr. Bastian (50%). Such loans were repaid in 1993.

UPA Associates, a limited liability company substantially owned by Dr. Ashton and Mr. Bastian provides property maintenance services to WordPerfect. Since its inception in January 1994, aggregate payments from WordPerfect to UPA Associates through April 1, 1994 have been approximately \$134,000.

**PRINCIPAL SHAREHOLDERS OF WORDPERFECT**

The following table sets forth, as of March 31, 1994, certain information with respect to the beneficial ownership of WordPerfect's Common Stock for: (i) each person known by WordPerfect to beneficially own more than 5% of the outstanding shares of WordPerfect Common Stock, (ii) each of WordPerfect's directors, (iii) each of WordPerfect's senior executive officers and (iv) all WordPerfect directors and officers as a group.

<u>Directors, Executive Officers and Five Percent Shareholders</u>	<u>Shares of Common Stock Beneficially Owned (1)</u>		
	<u>Number</u>	<u>Percentage Ownership Pre-Merger</u>	<u>Percentage Ownership Post-Merger (2)</u>
Alan C. and Karen J. Ashton (3) ..... c/o WordPerfect Corporation 1555 North Technology Way Orem, Utah 84057	25,345,670	49.33%	7.03%
Bruce W. Bastian (4) ..... c/o WordPerfect Corporation 1555 North Technology Way Orem, Utah 84057	20,178,255	39.27%	5.60%
Melanie L. Bastian (5) ..... c/o WordPerfect Corporation 1555 North Technology Way Orem, Utah 84057	5,906,655	11.50%	1.64%
Adriaan Rietveld (6) .....	250,000	*	*
David C. Moon (6) .....	275,000	*	*
R. Duff Thompson (6) (7) .....	275,000	*	*
John C. Lewis (6) .....	275,000	*	*
Daniel W. Campbell (6) .....	225,000	*	*
Linda Wertheimer Hart (6) .....	20,000	*	*
All officers and directors as a group (8 persons) (8) ....	46,843,925	88.89%	13.00%

\* Less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to options currently exercisable, or exercisable within 60 days of the completion of the Merger, are deemed outstanding for computing the percentage of the person holding such option but are not outstanding for computing the percentage of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned.
- (2) Calculated on the basis that each share of WordPerfect Common Stock will be exchanged for one share of Novell Common Stock upon completion of the Merger. Assumes that a total of 360,401,397 shares of Novell Common Stock will be outstanding upon consummation of the Merger.
- (3) Includes 413,256 shares held by a third party as a custodian for Alan and Karen Ashton's children who are under 18 years of age, as to which shares Alan and Karen Ashton disclaim beneficial ownership. Does not include 344,380 shares held by Alan and Karen Ashton's children who are over 18 years of age.
- (4) Includes 394,860 shares held by a third party as a custodian for Bruce Bastian's children who are under 18 years of age, as to which shares Bruce Bastian disclaims beneficial ownership. Excludes 5,511,795 shares held by Bruce Bastian's wife, Melanie L. Bastian.
- (5) Includes 394,860 shares held by a third party as a custodian for Melanie Bastian's children who are under 18 years of age, as to which shares Melanie Bastian disclaims beneficial ownership. Excludes 19,783,395 shares held by Melanie Bastian's husband, Bruce W. Bastian.
- (6) All such shares are subject to an option exercisable within 60 days after the completion of the Merger.
- (7) Excludes 808,116 shares which Mr. Thompson holds as custodian for the children of the Ashton family and Bastian family who are under 18 years of age.
- (8) Includes 1,320,000 shares subject to options held by directors and officers that are exercisable within 60 days of the completion of the Merger.

## DESCRIPTION OF NOVELL CAPITAL STOCK

A brief general description of Novell's capital stock and Shareholder Rights Plan (the "Plan") is set forth below. A more complete description of Novell's capital stock and the Plan is set forth in the Company's Registration Statements on Form 8-A filed with the Securities and Exchange Commission on April 3, 1985 and December 7, 1988, respectively, which are attached hereto as *Appendix E* and *Appendix F*, respectively.

The authorized capital stock of Novell consists of 400,000,000 shares of Novell Common Stock, \$.10 par value, and 500,000 shares of Preferred Stock, \$.10 par value (the "Novell Preferred Stock"), all of which have been designated Series A Junior Participating Preferred Shares (the "Series A Preferred"). As of March 26, 1994, there were 309,946,279 shares of Novell Common Stock outstanding, 27,978,621 shares of Novell Common Stock issuable upon the exercise of outstanding stock options, and no shares of Novell Preferred Stock outstanding.

### Novell Common Stock

Holders of shares of Novell Common Stock are entitled to one vote per share on all matters to be voted upon by the shareholders and are not entitled to cumulate votes for the election of directors. Holders of shares of Novell Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Novell Board of Directors out of funds legally available therefor. In the event of liquidation, dissolution or winding up of Novell, the holders of shares of Novell Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of Novell Preferred Stock, if any, then outstanding. Shares of Novell Common Stock have no preemptive, conversion or other subscription rights and there are no redemption or sinking fund provisions applicable to the Novell Common Stock.

### Shareholder Rights Plan and Preferred Stock

Novell's Series A Preferred was created in connection with a Shareholder Rights Plan adopted by the Board of Directors in December 1988. The plan provides for a dividend of rights (the "Rights") which can be exercised to purchase fractional shares of Series A Preferred or, in certain circumstances, Common Stock, at half of the then fair market value of such shares. If Novell were to be acquired under certain circumstances, the Rights could instead allow holders of Novell's Common Stock to buy shares of the acquiring corporation at half the then fair market value of such shares. Each shareholder of record receives one Right for each share of Common Stock that he owns. The Plan was adopted to ensure that all shareholders of Novell receive fair value for their Common Stock in the event of any proposed takeover of the Company and to guard against coercive tactics to gain control of the Company without offering fair value to the Company's shareholders. The Plan may have the effect of delaying or preventing a change in control of Novell. Each share of Novell Common Stock to be received by the WordPerfect shareholders in the Merger will automatically be accompanied by one Right, without the requirement of any action on the part of the WordPerfect shareholder.

## COMPARISON OF RIGHTS OF HOLDERS OF NOVELL COMMON STOCK AND HOLDERS OF COMMON STOCK OF WORDPERFECT

Upon consummation of the Merger, the former shareholders of WordPerfect, a Utah corporation, will become stockholders of Novell, a Delaware corporation. The rights of such stockholders will be governed by applicable Delaware law ("Delaware Law"), including the Delaware General Corporation Law (the "DGCL"), and by the Restated Certificate of Incorporation and Bylaws of Novell (the "Novell Certificate" and "Novell Bylaws," respectively). The following is a summary of the material differences between Delaware law and applicable Utah law ("Utah Law"), including the URBCA, and between the Novell Certificate and Novell Bylaws, on the one hand, and the Articles of Incorporation and Bylaws of WordPerfect (the "WordPerfect Articles" and "WordPerfect Bylaws," respectively), on the other, that may affect the rights of WordPerfect shareholders who become stockholders of Novell.

**Preemptive Rights**

Under both Delaware Law and Utah Law, security holders of a corporation have only such preemptive rights as may be provided in the corporation's certificate or articles of incorporation. Neither the Novell Certificate nor the WordPerfect Articles grant any preemptive rights to security holders.

**Dividends and Other Distributions**

Under Utah Law, a corporation may make distributions to shareholders so long as such action would not (a) make the corporation unable to pay its debts as they become due in the usual course of business or (b) cause the corporation's total assets to be less than the sum of its total liabilities plus (unless the articles of incorporation permit otherwise) the amount that would be needed to satisfy preferential rights of shareholders senior to those receiving the distribution. A Utah corporation may acquire its own shares, and such shares are either returned to the status of "authorized but unissued" or removed from the authorized number of shares, whichever is specified in the articles of incorporation. Limitations on payment of dividends also apply to redemptions of stock.

Delaware Law permits a corporation to declare and pay dividends out of surplus (defined as net assets minus capital) or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year as long as the amount of capital of the corporation following the declaration and payment of the dividend is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets. In addition, Delaware Law generally provides that a corporation may redeem or repurchase its shares only if such redemption or repurchase would not impair the capital of the corporation.

Neither the Novell Certificate nor the WordPerfect Articles contain any restrictions on the payment of dividends or the repurchase of shares.

**Amendment of Certificate or Articles of Incorporation; Amendment of Bylaws**

Under Utah Law, a corporation's articles of incorporation may be amended by resolution of the board of directors and approval by the holders of a majority of the outstanding stock entitled to vote thereon. If any particular class of stock has a right to vote on any amendment to the articles of incorporation, a majority of such shares must be voted in favor of the amendment. The holders of outstanding shares of a class of stock are entitled to vote as a class upon a proposed amendment if it would have certain specified effects, such as changing the preferential rights of such shares, altering rights regarding redemption of such shares, altering preemptive rights of such shares, altering voting rights on such shares or reducing such shares to fractional shares that may be redeemed for cash. In addition, approval of all affected shareholders is required for any amendment that would impose personal liability on such shareholders for the debts of a corporation. Supermajority voting requirements may be imposed and maintained by the articles of incorporation.

Under Utah Law, the bylaws of a corporation may be amended at any time by the corporation's board of directors, except to the extent that the articles of incorporation reserve this power exclusively to the shareholders, in whole or in part. However, the board of directors (without shareholder approval) may not change a bylaw regarding quorum or voting requirements applicable to approvals by shareholders once such a bylaw is adopted by shareholders, and may not change a bylaw regarding quorum or voting requirements applicable to approvals by directors if such a bylaw was adopted by shareholders or the prior action of the board of directors imposes a requirement of shareholder approval. Conferring power to amend the bylaws upon the directors does not divest shareholders of the power to amend the bylaws.

Under Delaware Law, an amendment to a corporation's certificate of incorporation requires the approval of the board of directors and the approval of a majority of the outstanding stock entitled to vote thereon and a majority of the outstanding stock of each class entitled to vote thereon. Under Delaware Law, the holders of the outstanding shares of a class are entitled to vote as a separate class on a proposed amendment that would increase or decrease the aggregate number of authorized shares of such class, increase or decrease the par value of the shares of such class or alter or change the powers, preferences or special rights of the shares of

such class so as to affect them adversely. If any proposed amendment would alter or change the powers, preferences or special rights of one or more series of any class so as to affect them adversely, but would not so affect the entire class, then only the shares of the series so affected by the amendment will be considered a separate class for purposes of voting by classes. Under Delaware Law, a provision in a corporation's certificate of incorporation requiring a super-majority vote of the board of directors or stockholders may be amended only by such super-majority vote.

Under Delaware Law, an amendment to a corporation's bylaws requires the approval of the stockholders, unless the certificate of incorporation confers the power to amend the bylaws upon the board of directors.

The Novell Bylaws grant the board of directors the authority to make, alter or repeal the Novell Bylaws. The WordPerfect Bylaws permit the board of directors to make, amend, alter or repeal bylaws, except that no bylaw adopted or amended by the shareholders may be altered or repealed by the board of directors and no bylaw may be adopted by the board requiring more than a majority of the voting shares for a quorum at a meeting of shareholders, or more than a majority of the votes cast to constitute action by the shareholders, except where higher percentages are required by law or by the WordPerfect Articles.

#### **Action by Written Consent**

Under both Utah Law and Delaware Law, unless otherwise provided in a corporation's articles of incorporation or certificate of incorporation, any action that may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. However, Utah Law prohibits the election of directors by written consent of the shareholders unless the consent is unanimous.

Neither the Novell Certificate nor the WordPerfect Articles restricts the ability of the shareholders of the corporation to take action by written consent. The Novell Bylaws contain a provision concerning stockholder actions by written consent consistent with the provisions of Delaware Law. The WordPerfect Bylaws contain a provision concerning shareholder actions by written consent consistent with the provisions of Utah Law, except that all actions by written consent must be unanimously approved by the WordPerfect shareholders.

#### **Special Meetings of Shareholders**

Utah Law provides that a special meeting of shareholders may be called by the board of directors, the holders of shares entitled to cast at least 10% of the votes at such meeting or such other persons as are authorized by the bylaws. Under Delaware Law, a special meeting of stockholders may be called by the board of directors or by any other person authorized to do so in the certificate of incorporation or the bylaws.

The WordPerfect Bylaws contain provisions concerning special meetings consistent with the provisions of Utah Law described above, authorizing the chairman of the board and the president, in addition to the board of directors, to call a special meeting. The Novell Bylaws contain provisions concerning special meetings consistent with the provisions of Delaware Law described above, and also empower the chairman of the board, the president, or holders of a majority of the outstanding capital stock of Novell to call a special meeting.

#### **Voting in the Election of Directors**

In an election of directors under cumulative voting, each share of stock normally having one vote is entitled to a number of votes equal to the number of directors to be elected. A shareholder may then cast all such votes for a single candidate or may allocate them among as many candidates as the shareholder may choose. Without cumulative voting, the holders of a majority of the shares voting in the election of directors would have the power to elect all the directors to be elected, and no person could be elected without the support of holders of a majority of the shares.

Under Utah Law, unless otherwise provided in the articles of incorporation, every shareholder entitled to vote at the election of directors has the right to cast, in person or by proxy, all of the votes to which the

shareholder's shares are entitled for as many persons as there are directors to be elected and for whose election the shareholder has the right to vote. Directors are elected by a plurality of votes cast by the shares entitled to vote in the election at a meeting of shareholders at which a quorum is present. Shareholders do not have the right to cumulate their votes for the election of directors unless the articles of incorporation so provide.

Under Delaware Law, cumulative voting is not mandatory, and cumulative voting rights must be provided in a corporation's certificate of incorporation if stockholders are to be entitled to cumulative voting rights. Delaware Law requires that elections of directors be by written ballot, unless otherwise provided in a corporation's certificate of incorporation.

Neither the WordPerfect Articles nor the Novell Certificate provides for cumulative voting.

#### **Number and Qualification of Directors**

Utah Law permits the board of directors to change the authorized number of directors by amendment to the bylaws unless the number of directors is fixed (and not allowed to be changed) by the articles of incorporation, in which case a change in the number of directors may be made only by amendment to the articles of incorporation. The minimum number of individuals on a board of directors is three unless there are only one or two shareholders. No decrease in the number of directors is permitted to shorten the term of any incumbent director.

Under Delaware Law, the minimum number of directors is one. Delaware Law permits the board of directors alone to change the authorized number, or the range, of directors by amendment to the bylaws, unless the directors are not authorized in the certificate of incorporation to amend the bylaws or the number of directors is fixed in the certificate of incorporation, in which cases a change in the number of directors may be made only upon approval of such change by the stockholders.

The Novell Bylaws provide for a variable number of directors between three and nine, with the exact number currently fixed at six. The WordPerfect Bylaws provide for a board of three members.

None of Utah Law, Delaware Law, the WordPerfect Articles or the WordPerfect Bylaws or the Novell Certificate or the Novell Bylaws sets forth specific qualification requirements for directors.

#### **Classification of Board**

A classified board is one in which a certain number, but not all, of the directors are elected on a rotating basis each year. This method of electing directors makes changes in the composition of the board of directors, and thus a potential change in control of a corporation, a lengthier and more difficult process.

Both Utah Law and Delaware Law permit, but do not require, a classified board of directors, with staggered terms under which one-half or one-third of the directors are elected for terms of two or three years, respectively.

None of the WordPerfect Articles or the WordPerfect Bylaws or the Novell Certificate or the Novell Bylaws provides for a classified board of directors.

#### **Removal of Directors**

Under Utah Law, directors may generally be removed, with or without cause, by holders of a majority of the shares entitled to vote at an election of directors, unless the articles of incorporation provide otherwise. However, in the case of a corporation having cumulative voting, a director may not be removed if the number of votes sufficient to elect the director under cumulative voting is voted against removal.

Under Delaware Law, a director of a corporation, such as Novell, that does not have a classified board of directors or cumulative voting may be removed, with or without cause, with the approval of a majority of the outstanding shares entitled to vote at an election of directors. In the case of a corporation having cumulative voting, if less than the entire board is to be removed, a director may not be removed without cause unless the number of shares voted against such removal would not be sufficient to elect the director under cumulative

voting. A director of a corporation with a classified board of directors may be removed only for cause, unless the certificate of incorporation otherwise provides. Neither the WordPerfect Articles nor the Novell Certificate alters the statutory means by which directors may be removed by shareholders.

#### **Filling Vacancies on the Board of Directors**

Under Utah Law, vacancies or new positions in the board of directors of a corporation may be filled by vote of the shareholders or an affirmative vote of a majority of the remaining directors (even though less than a quorum of the board of directors). Unless the articles of incorporation provide otherwise, if one or more directors are elected by a particular class of shareholders, only such shareholders or the directors elected by such shareholders may fill the vacancy. The WordPerfect Articles do not provide otherwise.

Under Delaware Law, vacancies and newly created directorships may be filled by a majority of the directors then in office, although less than a quorum, unless otherwise provided in the certificate of incorporation or bylaws. The Novell Certificate and the Novell Bylaws do not provide otherwise. However, if the certificate of incorporation directs that a particular class is to elect such director, such vacancy may be filled only by the other directors elected by such class. If, at the time of filling any vacancy or newly created directorship, the directors then in office constitute less than a majority of the whole board as constituted immediately prior to such increase, the Delaware Court of Chancery may, upon application of stockholders holding at least ten percent of the total number of shares outstanding having the right to vote for such directors, order an election to be held to fill any such vacancies or newly created directorships or to replace the directors chosen by the directors then in office.

#### **Transactions Involving Officers or Directors**

Under Utah Law, a transaction between a corporation and a party related to a director in some way may not be enjoined, set aside or create a cause of action unless the director's relationship to such party would constitute a statutory "conflicting interest transaction." "Conflicting interest transactions" have to do with beneficial financial interests of a director or persons or entities associated with the director so as to influence the director's decisions. A director's conflicting interest transaction may be protected against future challenge if approved by a majority of the disinterested directors, even if not otherwise a quorum, or if approved by disinterested shareholders holding a majority of the shares entitled to vote upon the matter, in each case after full disclosure.

Under Delaware Law, no contract or transaction between a corporation and one or more of its directors or officers, or between a corporation and any other entity in which one or more of its directors or officers are directors or officers, or have a financial interest, is void or voidable if (i) the material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or known to the board of directors or committee which authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors; (ii) the material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved by the stockholders; or (iii) the contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the board of directors, a committee thereof, or the stockholders. A corporation may make loans to, guarantee the obligations of or otherwise assist its officers or other employees and those of its subsidiaries, including directors who are also officers or employees, when such action, in the judgment of the directors, may reasonably be expected to benefit the corporation.

#### **Indemnification and Limitation of Liability**

Utah Law generally permits indemnification of expenses incurred in the defense or settlement of a derivative or third-party action, provided there is a determination by a disinterested quorum of the directors, by a disinterested committee of the board of directors consisting of at least two directors, by special legal counsel or by a majority vote of a quorum of the shareholders that the person seeking indemnification acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation. However, a director may not be indemnified in a derivative suit or in connection with any other proceeding in

which the director is found liable on a charge that he derived an improper personal benefit. Unless otherwise provided in the articles of incorporation, indemnification is mandatory to a director who is successful in defending an action on the merits or otherwise.

Utah Law permits a corporation to adopt a provision in its charter documents eliminating or limiting the personal liability of a director to the corporation or its shareholders for monetary damages for acts or failures to act in the director's capacity as a director, except liability for financial benefits to which the director was not entitled, intentional infliction of harm to the corporation or shareholders, unlawful distributions or intentional violation of criminal laws.

Under Delaware Law, a corporation has the power to indemnify any agent against expenses, judgments, fines and settlements incurred in a proceeding, other than an action by or in the right of the corporation, if the person acted in good faith and in a manner that the person reasonably believed to be in the best interests of the corporation or not opposed to the best interests of the corporation and, in the case of a criminal proceeding, had no reason to believe that their conduct was unlawful. In the case of an action by or in the right of the corporation, the corporation has the power to indemnify any agent against expenses incurred in defending or settling the action if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation; provided, however, that no indemnification may be made when a person is adjudged liable to the corporation, unless a court determines such person is entitled to indemnity for expenses, and then such indemnification may be made only to the extent that such court shall determine. Delaware Law requires that to the extent an officer, director, employee or agent of a corporation is successful on the merits or otherwise in defense of any third-party or derivative proceeding, or in defense of any claim, issue or matter therein, the corporation must indemnify such person against expenses incurred in connection therewith.

Under Delaware Law, a corporation may adopt a provision in its certificate of incorporation eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; provided, however, that such provision may not eliminate or limit director monetary liability for (i) breaches of the director's duty of loyalty to the corporation or its stockholders; (ii) acts or omissions not in good faith or involving intentional misconduct or knowing violations of law; (iii) the payment of unlawful dividends or unlawful stock repurchases or redemptions; or (iv) transactions in which the director received an improper personal benefit.

The Novell Certificate eliminates the liability of directors for monetary damages to the corporation for breach of fiduciary duty to the fullest extent permitted under Delaware Law and the Novell Bylaws contain indemnification provisions consistent with the Novell Certificate and Delaware Law. Novell has also entered into indemnification agreements with certain of its officers and directors that require Novell to indemnify such persons to the fullest extent permitted under Delaware Law.

The WordPerfect Bylaws contain provisions permitting indemnification of expenses incurred in the defense or settlement of derivative or third-party actions to the fullest extent allowed under Utah law. WordPerfect has also entered into indemnification agreements with certain of its officers and directors that require WordPerfect to indemnify such persons to the fullest extent permitted under Utah Law.

#### **Mergers and Sales of Substantially All Corporate Assets**

Utah Law generally requires that a majority of the shareholders of both the acquiring and the target corporation approve statutory mergers. However, Utah Law does not require a shareholder vote of the surviving corporation in a merger if (a) the merger occurs between a parent and its subsidiary, if the parent owns at least 90% of the total outstanding stock of the subsidiary and certain other provisions of Utah Law are met, (b) the articles of incorporation of the surviving corporation are not amended, (c) each shareholder of the surviving corporation holds the same number of identical shares immediately after the merger and (d) the number of shares issued by the surviving corporation in the merger does not represent an increase by more than 20% of (i) the voting shares of the corporation or (ii) the shares that would participate without limitation in distributions. The board of directors may sell, lease, exchange or otherwise dispose of all, or substantially all, of the corporation's assets without consent or approval of the shareholders when done in the regular course of



its business and may mortgage or pledge such property whether or not in the regular course of its business. When not done in the regular course of the corporation's business, the disposition of all or substantially all of the corporation's assets requires the approval of a majority of the outstanding shares of each class.

Under Delaware Law, the principal terms of a merger generally require the approval of the stockholders of each of the merging corporations, but do not require the approval of the stockholders of any parent corporation, even when the parent corporation's securities are to be used as consideration for the merger. Unless otherwise required in a corporation's certificate of incorporation, Delaware Law does not require a stockholder vote of the surviving corporation in a merger if (i) the merger agreement does not amend the existing certificate of incorporation, (ii) each share of the surviving corporation outstanding before the merger is an identical outstanding or treasury share after the merger and (iii) either no shares of the surviving corporation and no securities convertible into such stock are to be issued in the merger or the number of shares to be issued by the surviving corporation in the merger does not exceed 20% of the shares outstanding immediately prior to the merger. A disposition of substantially all of a corporation's assets requires the approval of the outstanding shares of the corporation.

None of the WordPerfect Articles, WordPerfect Bylaws, Novell Certificate or Novell Bylaws contain any additional provisions relating to mergers or sales of substantially all corporate assets.

#### **Creation of Indebtedness**

The WordPerfect Articles provide that no long-term indebtedness may be created by the corporation without the prior consent of a majority of the shareholders. No comparable provision is found in the Novell Certificate.

#### **Appraisal Rights**

For a description of appraisal rights provided by Utah Law, see "Terms of the Merger — Dissenters' Rights" and Part 13 of the URBCA, which is set forth in *Appendix B* hereto.

Under Delaware Law, the right to receive the fair market value of dissenting shares is made available to stockholders of a constituent corporation in a merger or consolidation effected under the Delaware Code. Dissenters' rights of appraisal are not available (i) with respect to the sale, lease or exchange of all or substantially all of the assets of a corporation, (ii) with respect to a merger or consolidation by a corporation the shares of which are either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or are held of record by more than 2,000 holders if such stockholders receive only shares of the surviving corporation or shares of any other corporation which are either listed on a national securities exchange or held of record by more than 2,000 holders, plus cash in lieu of fractional shares or (iii) to stockholders of a parent corporation that is not itself a constituent corporation in a merger transaction.

None of the WordPerfect Articles, WordPerfect Bylaws, Novell Certificate or Novell Bylaws contain any additional provisions relating to dissenters' rights of appraisal.

#### **Shareholder Approval of Certain Business Combinations**

Under the Utah Control Shares Acquisitions Act (the "CSAA"), acquisition (on a cumulative basis) of 20% or more of the voting power of certain publicly held corporations located in Utah in a "control shares acquisition" prohibits such shares, known as "control shares," from being voted on any matter unless and until a resolution allowing such shares to be voted is approved by a majority of the outstanding shares of each class of stock, excluding "interested shares." "Interested shares" are those held by the acquiror subject to the CSAA and all officers and employee-directors of the company. A corporation may "opt out" of the CSAA in its charter documents at any time prior to a control share acquisition.

The CSAA defines "control shares" as shares of a publicly traded company that, when combined with all other shares of that company owned or controlled by one shareholder or group of shareholders acting in concert, represents 20% or more of the voting power of the company in an election of directors. The definition

of "control shares acquisition" contains some important exceptions to the list of transactions that would trigger application of the CSAA, including (a) transactions entered into or agreed upon in writing before the CSAA's 1987 adoption, (b) pursuant to laws of descent and distribution, (c) pursuant to a pledge arrangement made in good faith and not intended to circumvent the CSAA, (d) pursuant to a merger or share exchange approved by shareholders under Utah Law and (e) in certain cases, if the shares are acquired from a shareholder that had received approval under the CSAA or whose shares would have been outside of the definition of control share acquisition under one of the exemptions mentioned.

The CSAA applies only to shares of a corporation formed under the laws of the State of Utah that has (a) 100 or more shareholders, (b) its principal office or place of business, or substantial assets, located in Utah and (c) one or more of (i) more than 10% of its shareholders resident in Utah, (ii) more than 10% of its shares owned by Utah residents or (iii) 10,000 shareholders that are Utah residents. Shares held by banks, depositories (except as trustees), brokers or nominees are disregarded for purposes of calculations. The CSAA does not state that the corporation's shares must be traded on a stock exchange or national trading system in order to be considered an "issuing public corporation."

Upon an acquiror obtaining a majority interest in a corporation subject to the CSAA, other shareholders obtain dissenter's rights to appraisal and cash payment in return for their shares, if desired, and such amount must not be less than the amount paid for the shares acquired in the control shares acquisition. The CSAA also contains provisions allowing the corporation to provide in its charter documents for the ability to redeem the acquiror's shares at fair market value under certain conditions for up to 60 days after the control share acquisition; however, the corporation may not redeem the shares if the acquiror files a notice with the corporation unless the shareholders refuse to grant full voting rights.

The CSAA is relatively new and no information about its application under case law is available. It appears that the CSAA is similar to control share acquisition statutes that have been adopted by other states. In practical effect, the CSAA causes an entity intent on an acquisition of a controlling position in a widely held, Utah-based corporation to obtain shareholder approval for such an acquisition.

Section 203 of the Delaware Code ("Section 203") prohibits a Delaware corporation from engaging in a "business combination" with an "interested stockholder" for three years following the date that such person becomes an interested stockholder. With certain exceptions, an interested stockholder is a person or group who or which owns 15% or more of the corporation's outstanding voting stock (including any rights to acquire stock pursuant to an option, warrant, agreement, arrangement or understanding, or upon the exercise of conversion or exchange rights, and stock with respect to which the person has voting rights only), or is an affiliate or associate of the corporation and was the owner of 15% or more of such voting stock at any time within the previous three years.

For purposes of Section 203, the term "business combination" is defined broadly to include mergers with or caused by the interested stockholder; sales or other dispositions to the interested stockholder (except proportionately with the corporation's other stockholders) of assets of the corporation or a subsidiary equal to ten percent or more of the aggregate market value of the corporation's consolidated assets or its outstanding stock; the issuance or transfer by the corporation or a subsidiary of stock of the corporation or such subsidiary to the interested stockholder (except for transfers in a conversion or exchange or a pro rata distribution or certain other transactions, none of which increase the interested stockholder's proportionate ownership of any class or series of the corporation's or such subsidiary's stock); or receipt by the interested stockholder (except proportionately as a stockholder), directly or indirectly, of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation or a subsidiary.

The three-year moratorium imposed on business combinations by Section 203 does not apply if (i) prior to the date on which such stockholder becomes an interested stockholder the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested stockholder; (ii) the interested stockholder owns 85% of the corporation's voting stock upon consummation of the transaction which made him an interested stockholder (excluding from the 85% calculation shares owned by directors who are also officers of the target corporation and shares held by employee stock plans which do not permit employees to decide confidentially whether to accept a tender or exchange offer); or (iii) on or

after the date such person becomes an interested stockholder, the board approves the business combination and it is also approved at a stockholder meeting by 66.67% of the voting stock not owned by the interested stockholder.

Section 203 only applies to Delaware corporations which have a class of voting stock that is listed on a national securities exchange, are quoted on an interdealer quotation system such as NASDAQ or are held of record by more than 2,000 stockholders. However, a Delaware corporation may elect not to be governed by Section 203 by a provision in its original certificate of incorporation or an amendment thereto or to the bylaws, which amendment must be approved by majority stockholder vote and may not be further amended by the board of directors.

Section 203 is currently under challenge in lawsuits arising out of ongoing takeover disputes, and it is not yet clear whether and to what extent its constitutionality will be upheld by the courts. Although the United States District Court for the District of Delaware has consistently upheld the constitutionality of Section 203, the Delaware Supreme Court has not yet considered the issue. So long as the constitutionality of Section 203 is upheld, Section 203 will encourage any potential acquiror to negotiate with the Company's board of directors. Section 203 also has the effect of limiting the ability of a potential acquiror to make a two-tiered bid for a Delaware corporation in which all stockholders would not be treated equally. Stockholders should note that the application of Section 203 to the Company will confer upon the Board the power to reject a proposed business combination, even though a potential acquiror may be offering a substantial premium for the Company's stock over the then current market price (assuming the stock is then publicly traded). Section 203 should also discourage certain potential acquirors unwilling to comply with its provisions.

None of the WordPerfect Articles, WordPerfect Bylaws, Novell Certificate or Novell Bylaws contain any additional provisions relating to transactions with interested shareholders or other takeover situations.

#### **Inspection of Shareholder List, Books and Records**

Both Utah Law and Delaware Law allow any shareholder to inspect and copy a corporation's shareholder list for a purpose reasonably related to such person's interest as a shareholder.

Utah Law allows any director or shareholder to inspect the corporation's charter documents; minutes of shareholder meetings, actions and written communications; list of officers; annual report; and financial statements for the past three years for any purpose. In addition, any director or shareholder may inspect minutes of board meetings and actions, accounting records and shareholder lists upon demand made in good faith for a purpose reasonably related to the demanding shareholder's or director's interest as a shareholder or director. Such information may not be used for other purposes.

Delaware Law allows any stockholder to inspect the stockholders' list and other books and records of the corporation for a purpose reasonably related to such person's interest as a stockholder. Directors, whether or not stockholders, have a similar right.

The WordPerfect Bylaws and the Novell Bylaws contain provisions consistent with the provisions of Utah Law and Delaware Law, respectively, regarding the inspection of the shareholder list.

#### **Shareholder Derivative Suits**

Under Utah Law, a shareholder may only bring a derivative action on behalf of the corporation if the shareholder was a shareholder when the transaction complained of occurred or he became a shareholder through transfer by operation of law from someone who was a shareholder at that time. The suing shareholder must explain what request, if any, was made to the board of directors and that the request was refused or ignored or why the shareholder did not make such a demand. Dismissal of such a proceeding requires court approval.

Under Delaware Law, a stockholder may only bring a derivative action on behalf of the corporation if the stockholder was a stockholder of the corporation at the time of the matter in question or the stockholder's

stock thereafter devolved upon the stockholder by operation of law. Dismissal of such a proceeding generally requires court approval.

None of the WordPerfect Articles, WordPerfect Bylaws, Novell Certificate or Novell Bylaws contain any additional provisions relating to shareholder derivative suits.

#### **Duration of Proxies**

Under Utah Law, unless otherwise provided in the articles of incorporation, a proxy appointment is ordinarily valid only for 11 months. Proxies may be given by facsimile or other electronic transmission.

Delaware Law allows proxies to have a duration of three years. Proxies may be given by facsimile or other electronic transmission.

The Novell Bylaws and the WordPerfect Bylaws contain provisions consistent with the provisions of Delaware Law and Utah Law, respectively, regarding the duration of proxies.

#### **Dissolution**

Under Utah Law, a majority of all votes entitled to be cast are needed to authorize a corporation's dissolution, with or without the approval of the corporation's board of directors.

Under Delaware Law, unless the board of directors approves a proposal to dissolve a corporation, the dissolution must be approved by stockholders holding 100% of the total voting power of the corporation. If the dissolution is initiated by the board of directors, it need only be approved by a majority of the corporation's stockholders.

### **EXPERTS**

The consolidated financial statements and schedules of Novell appearing or incorporated by reference in Novell's Annual Report on Form 10-K for the fiscal year ended October 30, 1993, have been audited by Ernst & Young, independent auditors, as set forth in their reports thereon appearing or incorporated by reference therein and incorporated by reference herein. Such consolidated financial statements are incorporated by reference herein in reliance upon such reports given upon authority of such firm as experts in accounting and auditing.

The consolidated financial statements of WordPerfect as of December 31, 1993 and 1992 and for each of the three years in the period ended December 31, 1993, included in this Prospectus/Proxy Statement have been so included in reliance on the report of Price Waterhouse, independent accountants, given on the authority of said firm as experts in auditing and accounting.

### **LEGAL MATTERS**

The validity of the Novell Common Stock issuable pursuant to the Merger and certain other legal matters relating to the Merger and the transactions contemplated thereby will be passed upon for Novell by Wilson, Sonsini, Goodrich & Rosati, Professional Corporation, Palo Alto, California. Larry W. Sonsini, a member of Wilson, Sonsini, Goodrich & Rosati, is a director of Novell. In fiscal 1993, 1992 and 1991, legal fees of approximately \$2,000,000, \$716,000 and \$510,000, respectively, were paid to Wilson, Sonsini, Goodrich & Rosati by Novell.

**INDEX TO WORDPERFECT FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and Shareholders  
of WordPerfect Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, shareholders' equity and of cash flows present fairly, in all material respects, the financial position of WordPerfect Corporation and its subsidiaries at December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE  
Salt Lake City, Utah  
March 22, 1994

**WORDPERFECT CORPORATION**  
**CONSOLIDATED BALANCE SHEET**  
(In thousands, except share information)

	<u>December 31,</u>	
	<u>1993</u>	<u>1992</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 55,127	\$ 86,569
Accounts receivable less allowance for doubtful accounts of \$5,936 and \$5,098 .....	63,672	39,670
Inventories .....	23,467	16,412
Deferred income taxes .....	43,587	—
Prepaid expenses and other assets .....	<u>19,350</u>	<u>12,666</u>
Total current assets .....	205,203	155,317
Property, plant and equipment, net .....	186,903	175,157
Deferred income taxes .....	6,310	—
Other assets .....	<u>3,066</u>	<u>3,305</u>
Total assets .....	<u>\$401,482</u>	<u>\$333,779</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 37,472	\$ 37,448
Accrued expenses .....	98,604	77,233
Deferred revenue .....	17,949	23,230
Income taxes payable .....	5,001	6,371
Notes payable .....	<u>8,640</u>	<u>—</u>
Total current liabilities .....	167,666	144,282
Notes payable to shareholders .....	75,369	—
Long-term debt and other liabilities .....	<u>8,920</u>	<u>12,256</u>
Total liabilities .....	<u>251,955</u>	<u>156,538</u>
Shareholders' equity:		
Common stock, no par value, 200,000,000 shares authorized, 51,380,100 shares issued and outstanding .....	79,327	—
Retained earnings .....	73,313	176,383
Cumulative translation adjustment .....	<u>(3,113)</u>	<u>858</u>
Total shareholders' equity .....	<u>149,527</u>	<u>177,241</u>
Total liabilities and shareholders' equity .....	<u>\$401,482</u>	<u>\$333,779</u>

See accompanying notes to consolidated financial statements.

**WORDPERFECT CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**  
(In thousands, except per share data)

	Year Ended December 31,		
	1993	1992	1991
Net sales .....	\$ 707,515	\$ 579,118	\$ 621,994
Cost of sales .....	<u>178,071</u>	<u>142,531</u>	<u>143,948</u>
Gross margin .....	529,444	436,587	478,046
Expenses:			
Selling and marketing .....	251,064	160,680	110,023
Research and development .....	125,379	105,960	83,281
General and administrative .....	83,127	78,296	82,207
Purchased in-process research and development .....	3,001	20,367	—
Restructuring .....	<u>33,000</u>	<u>—</u>	<u>—</u>
Total expenses .....	495,571	365,303	275,511
Income from operations .....	33,873	71,284	202,535
Other income, net .....	<u>236</u>	<u>13,205</u>	<u>10,603</u>
Income before provision for income taxes .....	34,109	84,489	213,138
Provision (benefit) for income taxes (Note 9) .....	<u>(41,771)</u>	<u>11,541</u>	<u>12,310</u>
Net income .....	<u>\$ 75,880</u>	<u>\$ 72,948</u>	<u>\$ 200,828</u>
Unaudited pro forma data (Note 16):			
Income before provision for income taxes .....	\$ 34,109	\$ 84,489	\$ 213,138
Provision for income taxes .....	<u>11,918</u>	<u>32,252</u>	<u>75,080</u>
Net income .....	<u>\$ 22,191</u>	<u>\$ 52,237</u>	<u>\$ 138,058</u>
Net income per share .....	<u>\$ 0.41</u>	<u>\$ 1.02</u>	<u>\$ 2.76</u>
Weighted average number of common shares (Note 2) .....	<u>53,490,673</u>	<u>51,380,100</u>	<u>50,000,000</u>

See accompanying notes to consolidated financial statements.



**WORDPERFECT CORPORATION**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
(In thousands)

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Cumulative Translation Adjustment</u>	<u>Total</u>
Balance at December 31, 1990 .....	\$ —	\$ 202,759	\$ 2,396	\$ 205,155
Distributions to shareholders .....	—	(121,947)	—	(121,947)
Foreign currency translation .....	—	—	1,661	1,661
Net income .....	<u>—</u>	<u>200,828</u>	<u>—</u>	<u>200,828</u>
Balance at December 31, 1991 .....	—	281,640	4,057	285,697
Distributions to shareholders .....	—	(178,205)	—	(178,205)
Foreign currency translation .....	—	—	(3,199)	(3,199)
Net income .....	<u>—</u>	<u>72,948</u>	<u>—</u>	<u>72,948</u>
Balance at December 31, 1992 .....	—	176,383	858	177,241
Distributions to shareholders .....	—	(99,623)	—	(99,623)
Termination of S corporation status (Note 8) .....	79,327	(79,327)	—	—
Foreign currency translation .....	—	—	(3,971)	(3,971)
Net income .....	<u>—</u>	<u>75,880</u>	<u>—</u>	<u>75,880</u>
Balance at December 31, 1993 .....	<u>\$79,327</u>	<u>\$ 73,313</u>	<u>\$(3,113)</u>	<u>\$ 149,527</u>

See accompanying notes to consolidated financial statements.

**WORDPERFECT CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(In thousands)

	Year Ended December 31,		
	<u>1993</u>	<u>1992</u>	<u>1991</u>
<b>Cash flows from operating activities:</b>			
Net income .....	\$ 75,880	\$ 72,948	\$ 200,828
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization .....	33,692	26,849	21,169
Provision for restructuring costs .....	33,000	—	—
Charge for purchased in-process research and development ....	3,001	20,367	—
Changes in assets and liabilities:			
Accounts receivable .....	(29,579)	4,062	(2,947)
Inventories .....	(12,488)	5,601	(3,266)
Deferred income taxes .....	(49,897)	—	—
Prepaid expenses and other assets .....	(8,350)	4,022	(5,251)
Accounts payable .....	735	4,229	9,160
Accrued expenses .....	(1,967)	6,126	20,158
Income taxes payable .....	1,074	(2,567)	4,938
Deferred revenue .....	(5,154)	13,525	1,333
Net cash provided by operating activities .....	<u>39,947</u>	<u>155,162</u>	<u>246,122</u>
<b>Cash flows from investing activities:</b>			
Net purchases of short-term investments .....	—	(8,265)	(44,144)
Purchases of property, plant and equipment .....	(42,748)	(47,322)	(55,868)
Proceeds from sale of equipment .....	2,959	1,003	276
Purchases of other assets .....	(237)	(1,088)	(957)
Payment for acquisitions, net of cash acquired .....	—	(7,760)	—
Change in other liabilities .....	(931)	105	(28)
Net cash used in investment activities .....	<u>(40,957)</u>	<u>(63,327)</u>	<u>(100,721)</u>
<b>Cash flows from financing activities:</b>			
Repayment of long-term debt .....	(76)	(1,746)	(8,876)
Repayment of short term debt .....	(5,820)	—	—
Distributions to shareholders .....	(23,889)	(80,871)	(121,947)
Net cash used in financing activities .....	<u>(29,785)</u>	<u>(82,617)</u>	<u>(130,823)</u>
Effect of exchange rate changes on cash .....	(647)	72	293
Net (decrease)/increase in cash and cash equivalents .....	(31,442)	9,290	14,871
Cash and cash equivalents at beginning of period .....	86,569	77,279	62,408
Cash and cash equivalents at end of period .....	<u>\$ 55,127</u>	<u>\$ 86,569</u>	<u>\$ 77,279</u>

See accompanying notes to consolidated financial statements.

**WORDPERFECT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 — The Company**

WordPerfect Corporation ("WordPerfect" or the "Company") is engaged in the development, marketing, distribution and customer support of software products throughout the world. All references to the Company in these consolidated financial statements refer to the Company and the entities that were merged into or purchased by the Company, as described below.

On February 1, 1992, SoftCopy, Inc. (SoftCopy), a corporation affiliated with the Company through common ownership, was merged into WordPerfect. In connection with the merger, WordPerfect issued 1,380,100 shares of common stock for all of SoftCopy's outstanding common stock. SoftCopy provided duplication, assembly and shipping services for the Company and other third-party software developers. Immediately subsequent to the merger, certain assets of SoftCopy were distributed to a newly-formed corporation ("New SoftCopy") which was organized to provide duplication and assembly service to third-party developers; results of operations of New SoftCopy are not included in the consolidated financial statements for any period presented.

Prior to September 30, 1993, the Company had been organized as numerous legal entities under common control. These entities, including WordPerfect, WP Leasing, Inc. ("Leasing"), ABP Development ("Development"), WordPerfect Publishing Corporation ("Publishing"), ComputerShow, WP Properties ("Properties"), WordPerfect International ("International") and Reference Software International ("RSI"), owned the assets and conducted the operations of the Company. On September 30, 1993, the common stock of RSI owned by the shareholders was contributed to WordPerfect. Also, the owner's interest of Properties was transferred to WordPerfect in exchange for notes of \$74.3 million payable to the existing shareholders of the Company, which represented Properties' net book value at the date of the transfer (see Note 11). On the same date, the ComputerShow was distributed to the shareholders of the Company at ComputerShow's net book value of \$1.4 million. The common stock of the remaining entities were contributed to WordPerfect on December 31, 1993.

Because the above transactions were among entities under common control, the Company has accounted for them in a manner similar to a pooling of interests and, accordingly, the Company's consolidated financial statements include the historical results of SoftCopy (excluding New SoftCopy), Leasing, Development, Publishing, Properties and International for all periods presented (see Note 11). Results of operations of RSI are included from date of acquisition (see Note 3); results of operations of ComputerShow are included to the date of distribution of the common stock to the shareholders.

**Note 2 — Summary of Significant Accounting Policies**

*Basis of Presentation*

The consolidated financial statements comprise those of the Company and its wholly owned domestic and foreign subsidiaries. All significant intercompany accounts and transactions have been eliminated.

*Cash Equivalents*

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less at the date of purchase.

*Inventories*

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average method. Inventories include materials, direct labor and overhead.

**WORDPERFECT CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 2 — Summary of Significant Accounting Policies — (Continued)**

*Property, plant and equipment*

Property, plant and equipment is stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Buildings .....	30 years
Equipment and office furniture .....	7 years
Computer and communications equipment .....	5 years
Vehicles .....	3 years
Leasehold improvements .....	Lease term

Maintenance and repairs are expensed as incurred. The cost of assets and related accumulated depreciation are removed from the accounts upon retirement or other disposition; any resulting gain or loss is reported as other income or expense.

*Revenue Recognition*

Revenue from sales to distributors, other resellers and directly to users is recognized when products are shipped. Revenues are reduced for anticipated sales returns and allowances. Advance payments are recorded as deferred revenue and recognized as revenue when products are shipped. License, subscription and maintenance revenue are recognized ratably over the term of the related sales contract or as services are performed. The Company is in compliance for all periods presented with the requirements set forth in the Statement of Position 91-1, "Software Revenue Recognition," issued by the American Institute of Certified Public Accountants.

*Software Development Costs*

Software development costs are capitalized from the date technological feasibility is obtained, if material. Such deferrable costs have not been material during the periods presented.

*Noncontractual Customer Support Obligations*

Provision is made at the time of sale for estimated costs of customer support for which the Company is not contractually obligated but has historically provided.

*Income Taxes*

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes. Under SFAS 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Prior to September 30, 1993, the Company elected to be taxed as an S corporation whereby the income tax effects of the Company's activities accrue directly to its shareholders; therefore, adoption of SFAS 109 required no establishment of deferred income taxes since no material differences between financial reporting and tax basis of assets and liabilities existed. On September 30, 1993, WordPerfect terminated its S corporation elections. On December 31, 1993, the Company's other entities terminated their S corporation elections. As a result, deferred income taxes under the provisions of SFAS 109 were established on the dates the S corporation elections were terminated.

**WORDPERFECT CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****Note 2 — Summary of Significant Accounting Policies — (Continued)***Pro forma Net Income Per Common Share*

Pro forma net income per common share is computed using the weighted average number of common shares and common equivalent shares outstanding.

*Foreign Currency Translation*

The assets and liabilities denominated in foreign currency are translated into U.S. dollars at exchange rates existing at the balance sheet date. Revenues, costs and expenses are translated at the average exchange rates during the year. Resulting translation adjustments are reported as a separate component of shareholders' equity. Gains and (losses) resulting from foreign currency transactions of (\$598,000), \$2.9 million and \$1.9 million for the years ended December 31, 1993, 1992 and 1991, respectively, are included in other income in the consolidated financial statements.

*Major Customers and Concentration of Credit Risk*

The Company sells its products primarily to distributors and resellers on cash or credit terms. Net sales to a distributor were 18%, 17% and 18% of total net revenue for the years ended December 31, 1993, 1992 and 1991, respectively. Net sales to a second distributor were 19%, 21% and 13% of total net revenue for the years ended December 31, 1993, 1992 and 1991, respectively. The Company's receivables are from distributors and resellers of software products throughout the world; the Company performs ongoing credit evaluations of its customers' financial condition and provides reserves to reflect its receivables at realizable values.

**Note 3 — Acquisitions**

In July 1993, the Company acquired technology which will be used for the development of a personal information manager software product. The purchase price representing purchased in-process research and development of \$3.0 million was charged against operations in 1993.

In December 1992, the Company acquired 75 percent of the outstanding shares of RSI. Substantially all of the remaining 25 percent of the outstanding shares were acquired by February 1993. The total acquisition price of \$20.0 million consisted of \$5.0 million cash and deferred payments of \$15.0 million bearing interest at five percent. That portion of the purchase price representing purchased in-process research and development of \$16.0 million was charged against operations in 1992.

In October 1992, the Company acquired the assets of Beagle Bros., Inc., developers of software technology, for \$2.5 million in cash. The portion of the purchase price representing purchased in-process research and development of \$2.0 million was charged against operations in 1992.

In August 1992, the Company acquired the assets of MagicSoft, Inc., developers of communications software technology, for \$1.3 million in cash and \$1.3 million of deferred payments. The portion of the purchase price representing purchased in-process research and development of \$2.3 million was charged against operations in 1992.

Pro forma statements of operations as though the companies had been combined from the beginning of the year would not differ significantly from reported results.

In January 1994, the Company acquired the outstanding common stock of SoftSolutions Technology Corporation ("SoftSolutions"), a developer of network document management software, in exchange for a \$5.8 million down payment and notes payable of \$9.2 million. The notes accrue interest at 6% per annum and

## WORDPERFECT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Note 3 — Acquisitions — (Continued)

are payable in two annual installments beginning in January 1995. Results of operations of SoftSolutions were not material.

## Note 4 — Inventories

Inventories are comprised of the following (in thousands):

	December 31,	
	1993	1992
Finished goods .....	\$ 7,129	\$ 3,969
Raw materials .....	16,338	12,443
	<u>\$23,467</u>	<u>\$16,412</u>

## Note 5 — Property, Plant and Equipment

Property, plant and equipment is comprised of the following (in thousands):

	December 31,	
	1993	1992
Land and improvements .....	\$ 12,592	\$ 12,379
Buildings and improvements .....	100,167	99,488
Computer and communications equipment .....	112,991	86,105
Equipment and office furniture .....	52,272	44,767
Vehicles .....	5,916	5,553
Leasehold improvements .....	3,945	3,427
	<u>287,883</u>	<u>251,719</u>
Less accumulated depreciation and amortization .....	100,980	76,562
	<u>\$186,903</u>	<u>\$175,157</u>

## Note 6 — Accrued Expenses

Accrued expenses is comprised of the following (in thousands):

	December 31,	
	1993	1992
Reserve for returns and exchanges .....	\$12,502	\$18,415
Noncontractual customer support obligations .....	15,147	15,495
Compensation and related liabilities .....	15,382	13,884
Marketing and advertising .....	10,935	5,807
Property, sales and other taxes .....	6,545	5,653
Restructuring costs .....	28,500	—
Other .....	9,593	17,979
	<u>\$98,604</u>	<u>\$77,233</u>

## Note 7 — Bank Line of Credit

During May 1993, the Company entered into a bank line of credit of \$40.0 million which expires May 26, 1994. Interest on borrowings is at the bank's prime rate or at 1.125 percent over the Base LIBOR Rate, at the

## WORDPERFECT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 7 — Bank Line of Credit — (Continued)**

Company's option. The agreement contains covenants that require the Company to maintain certain financial ratios and also prohibit the payment of cash dividends, the purchase or redemption of Company capital stock or the distribution of assets to the shareholders subsequent to termination of the Company's S corporation election.

**Note 8 — Equity Transactions***Common Stock*

On December 29, 1992, the Company amended its articles of incorporation to increase the number of authorized shares from 1,250,000 to 200,000,000. In addition, the Company's Board of Directors and shareholders approved a 50-for-1 split of its common stock effective December 29, 1992.

*Retained Earnings and Common Stock*

As a result of the Company's termination of its S corporation status (see Notes 1 and 9), the undistributed retained earnings of the S corporations at the respective dates of termination were reclassified to common stock.

Retained earnings at December 31, 1993 consists of the tax benefit from the recognition of the deferred tax assets resulting from the change in tax status included in 1993 results of operations and net income for WordPerfect and Properties for the period October 1, 1993 through December 31, 1993.

*Stock Options*

In December 1992, the Company adopted the WordPerfect Corporation 1992 Long-Term Incentive Plan (the Plan), which authorized the granting of incentive and nonstatutory stock options, stock purchase rights, stock appreciation rights and long-term performance awards to certain employees and consultants. The Company has reserved a total of 12,000,000 shares of common stock for issuance under the Plan. Incentive stock options must be granted with exercise prices at least equal to the fair market value of the common stock on the grant date, as determined by the Board of Directors. The options vest and become exercisable in full on the fifth anniversary of the date of the grant. However, in the event of a registration statement covering an initial public offering of the Company's common stock, the options become vested at a rate of 20 percent immediately prior to the closing of the offering and 20 percent for each of the four years following the closing date until fully vested. The options expire ten years from date of grant. In the event of a change in control, all options become fully vested.

During December 1992, the Company granted 6,364,000 options at \$8.50 per share. During 1993, the Company granted 1,162,500 options, 60,000 options and 41,000 options at \$8.50 per share, \$10.50 per share and \$13.50 per share, respectively. At December 31, 1993, no options have been exercised or have expired; however, 134,500 options have been cancelled. At December 31, 1993, options for 4,507,000 shares were available for future grants.

In May 1993, the Company adopted the 1993 Director Option Plan (the Director Plan), which authorized the granting of nonstatutory stock options to nonemployee directors of the Company. The Company has reserved a total of 250,000 shares of common stock for issuance under the Director Plan. During June 1993, the Company granted 40,000 options at an exercise price of \$13.50 per share. No options have been exercised, canceled or have expired.

## WORDPERFECT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Note 8 — Equity Transactions — (Continued)

*Employee Stock Purchase Plan*

During May 1993, the Company adopted the 1993 Employee Stock Purchase Plan (the Purchase Plan). The Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Code. The Company has reserved 3,000,000 shares of common stock for issuance under the Purchase Plan. An eligible employee may purchase shares of common stock from the Company through payroll deductions of up to ten percent of their compensation at a price per share equal to 85 percent of the lesser of fair market value of the common stock at the beginning of each offering period. Offering periods will commence on or after July 1 and January 1. No shares have been sold under the Purchase Plan.

## Note 9 — Income Taxes

Consolidated pretax income for the year ended December 31, 1993 consists of the following (in thousands):

U.S. Operations .....	\$34,032
International Operations .....	<u>77</u>
	<u>\$34,109</u>

The provision/(benefit) for current and deferred income taxes for the year ended December 31, 1993 consists of the following (in thousands):

Current	
Federal .....	\$ 902
State .....	174
Foreign .....	<u>7,050</u>
	<u>8,126</u>
Deferred	
Federal .....	7,139
State .....	1,557
Foreign .....	—
Change in tax status .....	<u>(58,593)</u>
Benefit for income taxes .....	<u>\$(41,771)</u>

As a result of the Company's reorganization as described in Note 1, the Company will no longer be treated as an S corporation. Accordingly, the benefit for income taxes for the year ended December 31, 1993 consists of the cumulative income tax effect from recognition of the deferred tax assets at the respective dates of S corporation termination, the provision for income taxes for the period October 1, 1993 through December 31, 1993 for WordPerfect and Properties and the income taxes paid in foreign countries for all entities during the year.

The provision for income taxes for 1992 and 1991 primarily represents income taxes paid in foreign countries not recognizing an S corporation status.



## WORDPERFECT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Note 9 — Income Taxes — (Continued)

Significant components of the Company's deferred tax assets as of December 31, 1993, were as follows (in thousands):

Deferred tax assets:	
Restructuring reserve .....	\$12,837
Non-contractual customer support reserve .....	5,603
Reserve for sales returns .....	5,134
Capitalized publication and software costs .....	4,841
Unearned revenue .....	5,388
Inventory reserve .....	2,617
Allowance for doubtful accounts receivable .....	2,309
Other .....	<u>11,168</u>
Total deferred tax assets .....	<u>\$49,897</u>

The Company has determined that a valuation allowance for the deferred tax assets is not necessary.

The reconciliation of the 1993 effective income tax rate excluding the effect of the change in tax status is as follows:

Federal statutory tax rate .....	35.0%
State income taxes, net of federal benefit .....	3.3
Research and development credit .....	(2.8)
Foreign taxes .....	20.7
S corporation earnings prior to change in tax status	(7.0)
Other .....	<u>.1</u>
	<u>49.3%</u>

The Company adopted SFAS 109, effective January 1, 1993. SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax liabilities and assets are determined based upon temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Differences between financial reporting and tax basis arise most frequently from differences in timing of income and expense recognition.

Since the Company was treated as a S corporation for income tax purposes at January 1, 1993, adoption required no establishment of deferred income taxes. However, as a result of the Company's change in tax status as described in Note 1, the Company under the provisions of SFAS 109 established deferred tax assets which represent the cumulative difference in recognition of income and expenses for financial and income tax reporting purposes for depreciation, allowance for doubtful accounts, various accrued expenses and other items at the respective dates of change in tax status.

## Note 10 — Supplemental Cash Flow Information

Income taxes paid for the years ended December 31, 1993, 1992 and 1991 amounted to \$10.4 million, \$15.0 million and \$7.8 million, respectively.

During 1992, the Company distributed \$97.3 million of short-term investments to the shareholders of the Company.

## WORDPERFECT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Note 10 — Supplemental Cash Flow Information — (Continued)

During 1992, the Company acquired MagicSoft, Inc. and Reference Software International. The acquisition price included deferred payments of \$16.4 million of which \$10.9 million representing the long-term portion and \$5.5 million representing the current portion are included in other long-term liabilities and accrued expenses, respectively, in the financial statements.

During 1993, the Company included in distributions to shareholders \$79.3 million for the transfer of Properties and \$1.4 million for the distribution of ComputerShow (see Note 1).

## Note 11 — Related Party Transactions

Effective September 30, 1993, the owner's interests of Properties was transferred to the Company by existing shareholders in exchange for \$5.0 million cash and a note payable of \$74.3 million. The note accrues interest at 6% per annum.

The Company provided construction and building maintenance services for the shareholders and a company owned by these shareholders and an executive officer of the Company and received payments for the services rendered of \$184,000, \$162,000 and \$1.2 million in 1993, 1992 and 1991.

WordPerfect entered into agreements with Mr. Lewis Bastian, a brother of Mr. Bastian, in connection with the development and sale of *DataPerfect*, a general purpose database software program, and *TOOL*, an object-oriented language used for software development. Pursuant to these agreements, WordPerfect paid Mr. Lewis Bastian consulting fees and royalty payments of \$718,000, \$474,000 and \$479,000 during 1993, 1992 and 1991, respectively. In February 1994, WordPerfect agreed to pay Mr. Lewis Bastian \$3.0 million over four years in exchange for a termination of these agreements.

Pursuant to agreements with Dr. Ashton and Mr. Bastian for the development and sale of *WordPerfect Executive* and *WordPerfect Library*, WordPerfect, during 1992 and 1991, made royalty payments to Dr. Ashton of \$125,000 and \$79,000, respectively, and to Mr. Bastian of \$125,000 and \$79,000, respectively.

Effective with the merger of Softcopy into the Company as described in Note 1, a 20 percent shareholder in SoftCopy (which interest represented 51 percent of the voting shares of SoftCopy) exchanged such shares for shares of the Company, thereby increasing his ownership of the Company from 0.2 percent to one percent. The one percent interest in the Company was acquired on December 24, 1992 by its controlling shareholders for \$4.5 million.

Effective March 31, 1992, the controlling owners of the Company and ABP Investments ("Investments"), predecessor to Properties, acquired the nine percent interest in Investments held by another member of the ownership group for \$3.9 million. Subsequent thereto, assets held by Investments were split into Properties (owner and lessor of real property utilized by the Company) and another corporation (investments in non-Company related real properties); the latter corporation is not a member of the consolidated group presented herein (see Note 1).

On March 31, 1992, Development, Leasing, International and Publishing purchased and retired the common stock held by a shareholder of each of these companies at an aggregate cost of \$600,000. In addition, on March 31, 1993, Publishing acquired the remaining shares not held by the controlling shareholders of the Company for \$1.3 million.

The Company entered into management agreements with a distribution company controlled by an existing officer of the Company. Payments of approximately \$6.8 million and \$2.0 million were made pursuant to these management agreements for the years 1992 and 1991, respectively. The payments of \$6.8 million in 1992 included a negotiated termination of these management agreements.

## WORDPERFECT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Note 11 — Related Party Transactions — (Continued)

The accompanying consolidated financial statements include the operating results of each of the entities involved in the related party transactions outlined above (exclusive of operations attributable to the corporation holding investments in non- Company related real properties) for all periods presented either as a result of (a) the transactions being between companies under common control or (b) the transactions being at amounts which approximate book value. Further, the results of operations attributable to the ownership interests acquired were not significant in any period in relation to the consolidated operating results of the Company. Shares issued in connection with the SoftCopy transaction are included in the consolidated financial statements for all periods presented.

## Note 12 — Savings Plan

The Company has a defined contribution savings plan which qualifies under Section 401(k) of the Internal Revenue Code for employees meeting certain service requirements. Participants may contribute certain amounts of their gross wages each calendar year. The plan provides for discretionary matching contributions by the Company which amounted to \$4.8 million, \$4.2 million and \$3.7 million for the years ended December 31, 1993, 1992 and 1991, respectively.

## Note 13 — Commitments and Contingencies

Minimum annual rental payments for existing operating leases at December 31, 1993 are as follows (in thousands):

1994 .....	\$ 5,460
1995 .....	4,254
1996 .....	2,561
1997 .....	1,964
1998 .....	<u>1,587</u>
	<u>\$15,826</u>

Rent expense under operating leases was \$4.9 million, \$3.7 million, and \$3.2 million for the years ended December 31, 1993, 1992 and 1991, respectively.

The Company has entered into a commitment to sponsor certain sporting teams. The Company's remaining commitment aggregates to \$5.8 million per year for 1994 and 1995.

At December 31, 1993, the Company had irrevocable standby letters of credit of approximately \$12.7 million outstanding which guarantee the deferred payments due to the former shareholders of RSI relating to the purchase of their stock. The Company pays a commitment fee of 0.5 percent on the outstanding portion of the letters of credit.

Effective January 1, 1994, the Company entered into employment agreements with certain of its key executives in connection with changes in the executive management structure of the Company announced in November 1993. Under such agreements, severance payments and benefits would become payable in the event of specified terminations of employment.

The Company is involved in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

## WORDPERFECT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Note 14 — Segment Information

The Company operates exclusively within the software industry. The following summarizes the Company's operations by geographic segment (in thousands):

	North American Operations	European Operations	Other International Operations	Eliminations	Consolidated
<b>1993</b>					
Net revenues:					
Customers .....	\$500,192	\$158,896	\$48,427	\$ —	\$707,515
Intercompany .....	76,577	28,075	—	(104,652)	—
Total .....	<u>\$576,769</u>	<u>\$186,971</u>	<u>\$48,427</u>	<u>\$(104,652)</u>	<u>\$707,515</u>
Operating income .....	<u>\$ 52,758</u>	<u>\$(12,671)</u>	<u>\$(6,214)</u>	<u>\$ —</u>	<u>\$ 33,873</u>
Identifiable assets .....	<u>\$359,826</u>	<u>\$101,840</u>	<u>\$15,307</u>	<u>\$( 75,491)</u>	<u>\$401,482</u>
<b>1992</b>					
Net revenues:					
Customers .....	\$352,092	\$184,460	\$42,566		\$579,118
Intercompany .....	98,150	22,022	2,931	\$(123,103)	—
Total .....	<u>\$450,242</u>	<u>\$206,482</u>	<u>\$45,497</u>	<u>\$(123,103)</u>	<u>\$579,118</u>
Operating income .....	<u>\$ 35,599</u>	<u>\$ 25,409</u>	<u>\$10,276</u>		<u>\$ 71,284</u>
Identifiable assets .....	<u>\$351,304</u>	<u>\$102,452</u>	<u>\$11,216</u>	<u>\$(131,193)</u>	<u>\$333,779</u>
<b>1991</b>					
Net revenues:					
Customers .....	\$416,262	\$170,149	\$35,583		\$621,994
Intercompany .....	90,937	9,555	738	\$(101,230)	—
Total .....	<u>\$507,199</u>	<u>\$179,704</u>	<u>\$36,321</u>	<u>\$(101,230)</u>	<u>\$621,994</u>
Operating income .....	<u>\$133,181</u>	<u>\$ 57,109</u>	<u>\$12,245</u>		<u>\$202,535</u>
Identifiable assets .....	<u>\$342,251</u>	<u>\$113,581</u>	<u>\$ 8,868</u>	<u>\$( 57,450)</u>	<u>\$407,250</u>

Intercompany sales between geographic areas are accounted for at cost. "Other International Operations" primarily include affiliates in Australia, Japan, Singapore, South Africa, Brazil and Chile. The majority of U.S. export revenues of \$36.1 million, \$32.5 million and \$40.3 million for the years ended December 31, 1993, 1992 and 1991, respectively, result from sales to Canada.

## Note 15 — Restructuring Costs

In the third quarter, the Company recorded a \$33.0 million non-recurring charge to restructure and streamline its operations. The provision includes employee severance costs, the write-down of assets to estimated realizable values, outside professional fees and other expenses associated with the restructuring plan.

## WORDPERFECT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Note 16 — Unaudited pro forma data

*Pro Forma Provision for Income Taxes*

Consolidated pretax income consists of the following (in thousands):

	For the year ended December 31,		
	1993	1992	1991
U.S. Operations .....	\$34,032	\$59,118	\$177,413
International Operations .....	77	25,371	35,725
	<u>\$34,109</u>	<u>\$84,489</u>	<u>\$213,138</u>

The consolidated income statement includes a pro forma presentation for income taxes which would have been recorded if the Company had not been an S corporation based upon the tax laws in effect during those periods utilizing accounting standards required by SFAS 109. The unaudited pro forma income tax provisions are as follows (in thousands):

	For the year ended December 31,		
	1993	1992	1991
Current:			
Federal .....	\$ 6,263	\$21,271	\$57,215
State .....	3,383	6,874	13,178
Foreign .....	7,050	11,593	14,626
Deferred .....	(4,778)	(7,486)	(9,939)
	<u>\$11,918</u>	<u>\$32,252</u>	<u>\$75,080</u>

The differences between pro forma income taxes at the statutory federal income tax rate of 34 and 35 percent and pro forma income taxes reported in the consolidated statement of income are as follows:

	For the year ended December 31,		
	1993	1992	1991
Federal statutory tax rate .....	35.0%	34.0%	34.0%
State income taxes, net of federal benefit .....	4.8	4.0	3.6
Purchased in-process research and development .....	2.7	5.6	—
Research and development credit .....	(9.3)	(2.8)	(2.0)
Other .....	1.7	(2.6)	(0.4)
	<u>34.9%</u>	<u>38.2%</u>	<u>35.2%</u>

## WORDPERFECT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Note 16 — Unaudited pro forma data — (Continued)

*Supplemental Pro Forma Data:*

As discussed in Notes 1 and 11, on September 30, 1993, the common stock of Properties was transferred to the Company in exchange for 6% notes payable aggregating \$74.3 million and cash of \$5.0 million; results of operations of Properties are included in the accompanying financial statements for all periods presented. The following supplemental pro forma data presents the results of operations after adjustment to reflect additional interest expense assuming such notes payable had been issued on January 1, 1993.

Income before income taxes .....	\$34,109
Interest expense .....	<u>3,341</u>
Income before provision for income taxes .....	30,768
Provision for income taxes .....	<u>9,992</u>
Net income .....	<u>\$20,776</u>
Net income per share .....	<u>\$0.39</u>
Weighted-average number of shares .....	<u>53,490,673</u>

## Note 17 — Subsequent Event

On March 21, 1994, the Company signed a definitive agreement to merge with Novell, Inc. ("Novell"). Novell is a leading provider of network server operating system software that integrates desktop computers, servers, and mini-computer and mainframe hosts for business-wide information sharing. Its sales for the fiscal year ended October 30, 1993 were approximately \$1.1 billion. The transaction, which will be accounted for as a pooling of interests, will be effected through the exchange of 51,380,100 shares of Novell's common stock for all of the issued and outstanding shares of the Company's common stock. The Company will become a wholly-owned subsidiary of Novell. The transaction is subject to certain conditions including approval from the United States Justice Department and the effective filing of a registration statement with the Securities and Exchange Commission. Completion of the transaction is expected in June, 1994.

**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 20. *Indemnification of Directors and Officers***

Section 145 of the Delaware General Corporation Law permits indemnification of officers and directors in certain circumstances. As permitted by amendments to the Delaware General Corporation Law effective in July 1986, the Registrant has included a provision in its Restated Certificate of Incorporation that, subject to certain limitations, eliminates the ability of the Registrant and its stockholders to recover monetary damages from a director of the Registrant for breach of fiduciary duty as a director. Article VII, Sections 7.01 and 7.02, of the Registrant's By-Laws, a copy of which is filed as Exhibit 3.2 hereto provides for indemnification of the Registrant's directors and officers in certain circumstances. The Registrant has a directors' and officers' liability insurance policy which affords directors and officers insurance coverage for losses arising from claims based on breaches of duty, negligence, error and other wrongful acts. Additionally, the Registrant has entered into indemnification agreements with its directors and executive officers.

**Item 21. *Exhibits and Financial Statement Schedules***

**(a) *Exhibits***

**Exhibit  
Number**

- 2.1 Agreement and Plan of Reorganization (the "Merger Agreement") among the Registrant, Sub, WordPerfect, Alan C. Ashton, Bruce W. Bastian and Melanie L. Bastian, dated as of March 21, 1994, is included as Appendix A filed with this Registration Statement. Certain Disclosure Schedules of WordPerfect and the Registrant setting forth various exceptions to the representations and warranties made by WordPerfect and the Registrant pursuant to the Merger Agreement have been omitted. The Registrant agrees to furnish supplementally copies of these documents to the SEC upon request.
- 2.2 Form of Articles of Merger among the Registrant, Sub and WordPerfect to be executed upon approval of the Merger by the shareholders of WordPerfect is included as Exhibit 1.1 of Appendix A filed with this Registration Statement.
- 2.3 Form of Shareholder Agreement among the Registrant, Sub, WordPerfect and certain shareholders of WordPerfect and Irrevocable Proxy to Vote WordPerfect Corporation Stock to be executed in connection with the Merger Agreement is included as Exhibit 5.6 of Appendix A filed with this Registration Statement.
- 2.4 Form of WordPerfect Affiliates Agreement to be executed in connection with the Merger Agreement is included as Exhibit 5.2 of Appendix A filed with this Registration Statement.
- \*2.5 Form of Tax Matters Agreement among the Registrant, Sub, WordPerfect and certain shareholders of WordPerfect to be executed in connection with the Merger Agreement.
- 3.1 Registrant's Restated Certificate of Incorporation, as amended.(1)
- 3.2 Registrant's Bylaws, as amended.(2)
- 4.1 Preferred Shares Rights Agreement dated as of December 7, 1988 between the Registrant and Mellon Bank N.A.(3)
- 5.1 Legal opinion of Wilson, Sonsini, Goodrich & Rosati, counsel to the Registrant.
- \*8.1 Tax opinion of Wilson, Sonsini, Goodrich & Rosati, counsel to the Registrant.
- \*8.2 Tax opinion of Brobeck, Phleger & Harrison, counsel to WordPerfect.
- 10.1 Purchase and License Agreement dated as of March 20, 1994 by and between Borland and the Registrant.
- 13.1 Registrant's Quarterly Report on Form 10-Q for the quarter ended January 29, 1993.(4)

**Exhibit  
Number**

- 13.2 Registrant's 1993 Annual Report on Form 10-K for the fiscal year ended October 30, 1993.(5)
- 23.1 Consent of Ernst & Young, independent auditors.
- 23.2 Consent of Price Waterhouse, independent auditors.
- 23.3 Consent of Counsel (included in Exhibit 5.1 hereto).
- 24.1 Power of Attorney (included on page II-4).
- 99.1 Form of proxy card.

\* To be provided by amendment

- (1) Incorporated by reference from the Registrant's Registration Statement on Form S-4 filed August 15, 1991, and all amendments thereto.
- (2) Incorporated by reference from the Registrant's Registration Statement on Form S-1 filed November 30, 1984, and all amendments thereto (File No. 2-94613).
- (3) Incorporated by reference from the exhibit filed with the Registrant's Registration Statement on Form 8-A dated December 12, 1988.
- (4) Previously filed with the Commission on March 14, 1994.
- (5) Previously filed with the Commission on January 27, 1994.

**(b) Financial Statement Schedules**

Not applicable.

**Item 22. Undertakings**

(1) The Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, as amended (the "Securities Act"), each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(2) The Registrant hereby undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this Registration Statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the Registrant undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(3) The Registrant undertakes that every prospectus (i) that is filed pursuant to paragraph (2) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the Registration Statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(4) The Registrant hereby undertakes to respond to requests for information that is incorporated by reference into the Prospectus/Proxy Statement pursuant to Items 4, 10(b), 11 or 13 of Form S-4, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request.



(5) The Registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the Registration Statement when it became effective.

(6) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.