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N O V E L L

April 19, 1996

Mr. Alok Mohan
President, Chief Executive Officer
SCO
400 Encinal Street
Santa Cruz, California 95061

Copy of Scott Dong Stevens

Re: Proposed IBM Royalty Buyout

Dear Alok:

Thank you for your letter today. I understand your deep concern about this matter. We had been expecting your response yesterday and have already continued our discussions with IBM today. I will do my best to make sure that we address your concerns in our ongoing negotiations. In addition, I believe I need to clarify some potential misconceptions in your letter.

First of all I would like to clarify that we are not granting IBM any additional rights beyond what they already have. With the minor exception of allowing IBM's VAR's to make minor modifications to AIX code to support unique hardware devices and allowing IBM's major accounts to make temporary fixes from AIX source code, the proposed transaction does not grant any additional rights beyond those granted other similarly situated UNIX licensees. Specifically no right to sub-license source code is being granted. As with all other UNIX licensees, IBM has always had the rights to ship AIX on systems other than the RS 6000, and while they have no plans to do so currently, they could choose to do so in the future.

The value of this paid-up license is indeed proportional to the other paid-up licenses (SCO, SUN, SGI) that have been previously granted. Without the ability to sub-license source code, such as SCO and SUN have purchased, IBM is unable to "go into the OEM business" as SUN and SCO can. That substantially lowers the opportunities for AIX in the marketplace compared to SCO and SUN's opportunities, by virtually eliminating the chance that IBM could compete with you for OEM business. Furthermore, SUN's (and SGI's) buy out was based on an SVR4 license which greatly increased its royalty stream value. Therefore, when comparing unit volumes and relative per copy fees, SUN considered the value of the buy out to be substantially higher than IBM.

One final clarification on the comparable value of the aforementioned paid-up licenses: The Documenter's Workbench component of the proposed paid up license (\$2.5 Million) was not included in our side letter request to SCO because this product was not transferred to SCO.

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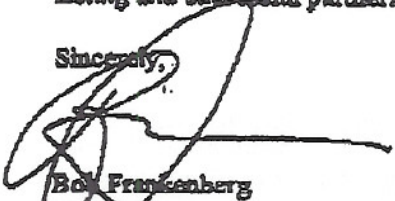
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In summary, the SVR 3.2 paid-up license for IBM at \$12.5 M does indeed compare very favorably with the SGI SVR 4 deal at \$18 M (which also included DWB) and is completely unrelated to the SCO and SUN paid up licenses which included source code redistribution rights.

I hope this clarification of the type of paid-up license being offered IBM (SVR 3.2, very limited source code redistribution) helps you understand that it will not result in IBM collecting royalties from OEMs such as Apple, and that it is indeed comparable to the other paid-up licenses that Novell and USL have previously granted.

Please feel free to contact me if you should need any further clarification. I look forward to a lasting and successful partnership.

Sincerely,



Bob Frankenberg
Chairman, President, and CEO
Novell, Inc.