

Office of the President



SCO

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23 April 1996

Mr. Robert Frankenberg
President and CEO
Novell, Inc.
1555 North Technology Way
Orem, Utah 84057-2399

Re: Proposed IBM Royalty Buyout

Dear Bob:

Thank you for your letter of April 19th and your continued personal involvement in this matter. When we originally contemplated SCO's purchase of the UnixWare business, one of the primary goals was to drive the conversion of the industry to UnixWare. We modeled the business based on a high percentage of the existing SVRX and SVR4 licenses eventually converting to UnixWare, and to a large extent the valuation we agreed for this business was based on these models. The deal was structured per Novell's stated preference to provide SCO with significant incentives to do everything in its power to accelerate this conversion. The agreement provided for Novell to receive the residual royalties from the in-place SVRX license stream, but SCO was to provide all account management and manage the relationships with the customers in order to further this agreed upon conversion. Provisions were included specifically to prevent Novell from marketing or promoting SVRX; in particular Novell was not to compensate its salespeople to sell SVRX. We believe that, in general, paid-up licenses are contrary to achieving the stated intent of the agreement. Paid-up licenses further the fragmentation of the market and create strong disincentives for customers to upgrade to the latest release. Further, when these paid-up licenses include broad sublicensing rights they create an incentive for their licensees to market and promote their own version of UNIX, thus increasing the fragmentation in the industry and reducing the value of the UNIX business which we acquired. I am also troubled by the fact that the proposed IBM buyout gives IBM broader rights to the UNIX intellectual property than their current license provides. It is my understanding that our agreements provide SCO with ownership and exclusive rights to license the UNIX source code. The proposed grant of additional source rights and relaxation of the anti-pyramiding provisions, rights which Novell (and formerly USL and AT&T) historically refused to grant to SCO and others at any price, can only be granted directly by SCO. If IBM requires these rights, I would request that they negotiate these directly with us.

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I would strongly prefer that we not allow IBM or any other OEM to buyout their SVRX royalties and would request that you instruct your sales force to cease promoting such harmful agreements. In the future if such requests are initiated by OEM's, I would hope our companies could cooperatively respond to them. I do understand that discussions with IBM are quite advanced and, on an exception basis, would be willing to try and accommodate them. In order to insure that a royalty buyout does not significantly impact SCO's future UnixWare revenue stream, that buyout must be more limited than the full royalty bearing agreement that IBM currently enjoys. We would want to see the buyout limited to IBM UNIX Operating Systems (AIX and successors) on IBM branded hardware. We believe that if IBM is allowed to pyramid its buyout to other manufacturers (such as Apple, Bull and Motorola) or to freely use the technology in its other operating systems (such as OS/2 and Taligent), they will receive value well in excess of the present value calculation being used to compute the price of the buyout, and SCO will be deprived of significant potential future UnixWare revenue that was contemplated in our agreement. In order to implement this, the buyout agreement with IBM must only grant paid-up licenses for:

1. AIX and successor UNIX operating systems, certified as conforming to UNIX 95 specification or successor Open Group UNIX specifications;
2. IBM computer systems carrying the IBM logo;
3. Systems sold through IBM sales force, IBM resellers, and true VARS, not other manufacturers; and
4. RS-6000, Power PC and successor processors.

Bob, the relationship between our companies is of the utmost importance to me, and I do not wish to interfere with your business transaction. However, I must protect the value of the assets SCO purchased from Novell. I also passionately believe in the vision we share of consolidating the UNIX industry into a cohesive force that can promote innovation. I deeply regret any breakdown of communication that has contributed to the current situation and am prepared to do whatever I can to facilitate a solution that meets the needs of both companies. I suggest we speak or meet soon to try and resolve any open issues.

Sincerely,

Alok Mohan (ag)

Alok Mohan
President, Chief Executive Officer