

A Sign of the Times at Novell? Officers Are Buying Shares Again

By TONY COOKE

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Insiders at Novell Inc. have had a lot of success tracking the company's fortunes over the years, and lately they have been buyers.

Four company directors reported buying 32,000 shares for an average price of \$8.26 a share since the beginning of June, according to data provider Washington Service. Shares of Novell were at \$6.54 as of 4 p.m. trading on the Nasdaq Stock Market, compared with a 52-week high of \$14.24 reached in February and 12-month low of \$3.38 set last August.

"This is a very abnormally positive kind of event," said Michael Painchaud, research director for Market Profile Theorems, which tracks insider transactions. "To us, this would be a good buy candidate."

Once a leader in networking products and other software, Novell reached a peak in February 2000 above \$40 a share. In the preceding year, as the stock price rose, insiders reported selling nearly a million shares for an average price of \$24.64 a share.

The bursting of the technology bubble and competition, especially from Microsoft Corp., led to a sharp decline in the Waltham, Mass., company's shares—and eventually, a pronounced change in the behavior of insiders.

"When the stock was on its rear end, these people were very aggressive buyers," Mr. Painchaud said.

In 2002 and 2003, company executives and directors reported the purchase of more than 72,000 shares at

an average price of \$2.37 a share, according to Washington Service data. In those two years, as Novell struggled to find a niche in the software market, the only open-market sale of its stock reported by an insider was for 100 shares.

Gideon Kory, an analyst for Roth Capital Partners, said the company's success in moving into open-source software isn't yet fully reflected in the stock price. Mr. Kory, whose firm makes a market in Novell shares, has a 12-month price target of \$16 on Novell's stock.

The open-source movement involves creating software with contributions from programmers around the world. Open-source software typically can be copied and altered, but improvements must be shared free.

Mr. Kory said Novell's shift to the support of open-source software in 2003 was part of a broader, longer-term move toward providing services and away from creating software products.

"It's quite a challenge to take a company that was an engineering company—always focused on product—and turn it into a solution company," he said.

At the outset, Novell faced considerable skepticism, he said, but acquisitions of Ximian Inc. and SuSE Linux, two prominent open-source companies, have helped provide momentum.

Also, because Novell has contributed its own valuable code, such as the company's iFolder software, to the open-source community, the company has gained credibility among open-source coders, Mr. Kory said.

Companies such as Novell and Red Hat Inc., of Raleigh, N.C., contend they can profit from free software by providing various services. Mr. Kory said that unlike Red Hat, Novell has a broad range of proprietary software that can be sold in conjunction with open-source software. And unlike Microsoft, Novell has embraced, and been embraced by, the open-source community.

"In order for Microsoft to crush Novell, Microsoft would have to crush open source, and it's very difficult to crush a movement like that," Mr. Kory said.



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