

# **EXHIBIT A**

## MEMORANDUM OF UNDERSTANDING (“MOU”)

- Investment Team:** Stephen Norris Capital Partners, LLC, a Delaware limited liability company (“SNCP”).
- Debtor:** The SCO Group, Inc., and its direct or indirect subsidiaries, both prior to and after emerging from bankruptcy (collectively, “SCO,” “Debtor” or the “Company,” and after the effective date of the Proposed Plan of Reorganization sometimes “Reorganized SCO” or “Reorganized Debtor,” and together with SNCP, the “Parties”).
- Overview:** SNCP proposes to finance a plan of reorganization (the “Proposed Plan of Reorganization”) of SCO to be filed in its Chapter 11 bankruptcy case presently pending in the United States Bankruptcy Court for the District of Delaware, *In Re: The SCO Group, Inc.*, Case No. 07-11337 (KG) (the “Bankruptcy Case”), all on the terms provided for in this Memorandum of Understanding (“MOU”) and the definitive agreements and documents contemplated hereby (the “Definitive Documents”).

Under the Proposed Plan of Reorganization, SCO will emerge from the Bankruptcy Case and attempt to implement the business plan described in a private placement memorandum to be prepared by SCO, a copy of which shall be provided to SNCP. To fund the Proposed Plan of Reorganization and finance the business of SCO after it emerges from the Bankruptcy Case, SNCP will provide up to US\$100 million of financing. In consideration of the US\$100 million of financing to be provided as described below, SNCP requires that the Reorganized Debtor issue the following securities:

- US\$5 million for the purchase of a new class of Preferred Stock (the “Series A Preferred”) to be issued by SCO which shall have the liquidation, voting and distribution preferences described hereafter. At its option, the holder of the Series A Preferred will be able to convert the Series A Preferred into between 51% and 85% of the then-outstanding shares of common stock of SCO, as described in the next bullet.
- SCO expects to prevail in the matter of *The SCO Group, Inc. v. Novell, Inc.*, pending in the United States District Court for the District of Utah, Civil No. 2:04 CV-00139, and the related pending litigation, *The SCO Group, Inc. v. International Business Machines*, pending in the United States District Court for the District of Utah, Case No. 2:03CV0294DAK (the “Novell/IBM Litigation”), so that the final award in the Novell/IBM Litigation will be made in favor of SCO. However, if an award were entered against SCO in the Novell/IBM Litigation or other pending litigation matters, including proceedings involving Red Hat (the “Litigation Claims”), SNCP anticipates that the damages awarded against SCO could range from US\$0 to more than US\$30 million, and would be paid by draw under the Debt Financing. Should the amount drawn under the Debt Financing solely to effect payment (a “Novell/IBM Payment”) of a final, non-appealable judgment in the Novell/IBM Litigation (or to settle the Novell/IBM Litigation in a settlement transaction that requires a net payment to Novell/IBM) be \$0, then the Series A Preferred shall convert into 51% of the then-outstanding common stock of SCO, on a fully diluted basis. Should the amount drawn under the Debt Financing to effect a Novell/IBM Payment be \$30 million or more, then the Series A Preferred shall convert into 85% of the then-outstanding common

stock of SCO, on a fully diluted basis. Should the amount drawn under the Debt Financing to effect a Novell/IBM Payment be between \$0 and \$30 million, then the Series A Preferred shall convert into a percentage of the then-outstanding common stock of SCO proportionally. For the avoidance of doubt, the conversion percentage of the Series A Preferred shall *not* adjust by reason of any draws under the Debt Financing other than draws to effect a Novell/IBM Payment, and without limiting the generality of the foregoing, the conversion percentage of the Series A Preferred shall *not* adjust by reason of draws under the Debt Financing to fund litigation costs or working capital requirements of SCO or the provision of letters of credit or other credit support (including cash payments) in connection with appealing (and posting bonds to stay judgments or rulings pending appeal) a District Court or other judgment in the Novell/IBM Litigation that is subject to further appeal. The Preferred Stock financing described in this and the preceding bullet points and in more detail below is sometimes hereinafter referred to as the “Equity Financing.”

- US\$95 million under the terms of a five year non-revolving credit line. The credit line shall be secured by all of the assets of SCO, including all of its present and future litigation claims. The terms will be as set forth hereafter. The credit facility described in this bullet point and in more detail below is sometimes herein referred to as the “Debt Financing.”

Upon the effective date of the Proposed Plan of Reorganization, SNCP will pay \$5,000,000 to the Reorganized Debtor in consideration of the issuance of the Series A Preferred. The Reorganized Debtor will retain all of the pending litigation claims, including the potential liability in respect of the Litigation Claims or recoveries under the Pending Litigation.

Also upon the effective date of the Proposed Plan of Reorganization, the existing common stock and common stock equivalents of the Debtor shall be extinguished, and in exchange therefor the then-current equity holders (and holders of common stock equivalents, including stock options) of SCO shall receive a pro-rata interest in a grantor trust (the “Trust”). The Trust shall be the holder of shares of new common stock (and new common stock equivalents) of SCO (“New Common Stock”), representing between 49% and 15% of SCO’s fully diluted equity after conversion of the Series A Preferred, the precise conversion percentage of which shall be determined based upon the conversion rights of the Series A Preferred as described herein. Interests in the Trust shall not be transferable, and the Reorganized Debtor will no longer be a public company and shall not be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended.

Also upon the effective date of the Plan of Reorganization, the Trust will enter into a Shareholders’ Agreement with the Company and the holders of the Series A Preferred which shall provide, among other things, that; (i) the Trust will not sell or transfer its New Common Stock, except to the Company and on the terms provided for in this MOU and the Definitive Agreements, and (ii) the Trust, Company and the holders of Series A Preferred shall have “tag along, drag along” rights and obligations to participate in a sale of all or substantially all of the Company’s outstanding equity securities (or a merger or other corporate reorganization relating to the Company that has the same effect as such a sale of all or substantially all of the Company’s outstanding equity securities). Any such sale transaction shall provide the Trust with immediately available funds at least equal to

the Redemption Price.

Also upon the effective date of the Proposed Plan of Reorganization, the existing CEO of the Company, Darl McBride, will resign immediately. The newly reorganized company will have seven members on its Board of Directors, four of which will be named by the holders of the Series A Preferred.

Also upon the effective date of the Proposed Plan of Reorganization, SCO will continue to pursue aggressively the Company's claims in the Novell/IBM Litigation and other pending litigation, including *The SCO Group, Inc. v. Autozone, Inc.*, pending in the United States District Court for the District of Nevada, Case No. CV-S-04-0237-RCJ-LRL (the "Autozone Litigation").

Stephen Norris Capital Partners, LLC shall have the right to assign and delegate its rights and obligations hereunder to a special purpose entity created for the purpose of engaging in this transaction and in which Stephen L. Norris is a manager or executive officer.

**Availability of Funds:**

SNCP has a financing commitment sufficient to provide the Equity Financing and the Debt Financing. SNCP will provide the Debtor with a copy of a firm financing commitment sufficient to provide the Equity Financing and the Debt Financing at least five (5) business days prior to the commencement of the Bankruptcy Court hearing on the approval of the Disclosure Statement relating to the Proposed Plan of Reorganization.

**Creation of Trust:**

Upon the effective date of the Proposed Plan of Reorganization, the then-current equity (and common stock equivalents) of SCO shall be extinguished and the equity holders of SCO shall receive a pro-rata interest in the Trust based upon their percentage ownership of the Company's then outstanding Common Stock and common stock equivalents. The beneficial interests in the Trust to be issued to the Company's equity holders shall represent a pro rata interest in the outstanding New Common Stock held by the Trust, which will correspond to the percentage interests of the Company's equity holders (and common stock equivalent holders) at the time of the organization of the Trust. Interests in the Trust shall be non-transferable, except pursuant to the laws of descent and distribution. The trustee of the Trust shall be a national bank or trust company selected by SCO. The Trust will receive \$2 million at the effective date of the Plan (from the proceeds of the Series A Preferred), which will be distributed to Trust beneficiaries (in respect of the holdings of New Common Stock and excluding common stock equivalents) after reserving for reasonable Trust expenses. Within one year after the pending litigation claims in the Novell/IBM Litigation are finally resolved (by final judgment or order, not subject to further appeal, or settlement), the Reorganized Debtor will make a final payment to redeem all New Common Stock held by the Trust in an amount (the "Redemption Price") equal to the sum of (a) a percentage of any net recovery the Reorganized Debtor realizes from the final resolution of the Novell/IBM Litigation (net of any recovery on or settlement of counterclaims and cross claims against the Debtor, including a Novell/IBM Payment, if any, and net of all taxes, and Ongoing Legal Fees and Costs incurred by the Debtor or the Reorganized SCO in connection therewith), such percentage to vary between 15% and 49% depending on the conversion percentage of the Series A Preferred, and subject to the anti-dilution rights of the holders of the Series A Preferred, and (b) the product obtained by multiplying (i) the earnings of the Debtor (and the Reorganized SCO) (excluding any earnings arising from a Novell/IBM Litigation recovery) before interest, taxes, depreciation and amortization (over the four full fiscal quarters immediately preceding the resolution of the

Novell/IBM Litigation), by (ii) the product of four times the percentage (between 15% (as may be reduced by the anti-dilution rights of the holders of the Series A Preferred) and 49%) determined under (a), above.

The Trust agreement shall provide for liquidating distributions if the following events occur before the New Common Stock held by the Trust are redeemed under the foregoing provisions, as follows: (i) if the Company makes an initial public offering of its securities, the shares of New Common Stock held by the Trust shall be distributed to the beneficiaries (in compliance with applicable securities laws and regulations); (ii) if all or substantially all of the assets of the Company (or any series of related transactions resulting in the sale or other transfer of all or substantially all of the assets of the Company) are sold or a merger, reorganization or other transaction in which holders of a majority of the outstanding voting control of the Company immediately prior to the transaction do not own a majority of the outstanding voting shares of the surviving corporation occurs, the proceeds of such sale or other transaction which are payable to the Trust shall be distributed to the beneficiaries; and (iii) if the Company voluntarily or involuntarily liquidates, dissolves or winds up, the proceeds payable to the trustee in connection therewith shall be distributed to the beneficiaries.

### **The Equity Financing:**

- Securities: Series A Preferred Stock ("Series A Preferred").
- Closing Date: The closing (and effective date of the Proposed Plan of Reorganization) shall occur within twenty (20) days after the entry of a final order (not stayed pending appeal) confirming the Proposed Plan of Reorganization.
- Purchase Price: The Purchase Price for the Series A Preferred shall be US\$5,000,000 to be paid on the Closing Date. The Purchase Price will be payable by cash or wire transfer.
- Conversion Rights: The Series A Preferred shall convert into New Common Stock of SCO, the amount of which will be determined based on the amount drawn under the Debt Financing to effect a Novell/IBM Payment following the final resolution of the Novell/IBM Litigation. Should the amount drawn under the Debt Financing solely to effect a Novell/IBM Payment be \$0, then the Series A Preferred shall convert into 51% of the then-outstanding common stock of SCO, on a fully diluted basis. Should the amount drawn under the Debt Financing to effect a Novell/IBM Payment be \$30 million or more, then the Series A Preferred shall convert into 85% of the then-outstanding common stock of SCO, on a fully diluted basis. Should the amount drawn under the Debt Financing to effect a Novell/IBM Payment be between \$0 and \$30 million, then the Series A Preferred shall convert into a percentage of the then-outstanding common stock of SCO proportionally. For the avoidance of doubt, the conversion percentage of the Series A Preferred shall *not* adjust by reason of any draws under the Debt Financing other than draws to effect a Novell/IBM Payment, and without limiting the generality of the foregoing, the conversion percentage of the Series A Preferred shall *not* adjust by reason of draws under the Debt Financing to fund litigation costs or working capital requirements of SCO or the provision of letters of credit or other credit support (including cash payments) in connection with appealing (and posting bonds to stay judgments or rulings pending appeal) a District Court or other judgment in the Novell/IBM Litigation that is subject to further appeal. The conversion percentage of the Series A Preferred shall not exceed 85% of the fully converted New Common Stock irrespective of whether (or the extent to which) any additional equity securities may be

issued in payment-in-kind of dividends accruing on the outstanding Series A Preferred (i.e., if holders of Series A Preferred receive New Common Stock as paid-in-kind dividends on the Series A Preferred, then their conversion provisions shall contemplate that after giving effect to the conversion, such holders will not own (including both the New Common Stock issued upon conversion and by paid-in-kind dividends, combined) more than 85% of the fully converted New Common Stock).

Use of Proceeds	The proceeds shall be used to fund the Proposed Plan of Reorganization.
Dividends	The holders of Series A Preferred shall be entitled to receive cumulative dividends at the rate of 10% per annum, which shall be payable as and when declared by the Company's Board of Directors and out of retained earnings. Dividends may be payable in cash or in shares of the Company's New Common Stock (valued by the Company's Board of Directors in good faith) at the option of the Company. In the event of an initial public offering, accrued but unpaid dividends shall be payable in cash or New Common Stock at the option of the Company.
Liquidation Preference	<p>In the event of a voluntary or involuntary liquidation, dissolution or winding up of the Company, the funds available for distribution shall be paid out as follows:</p> <p>(1) the holders of Series A Preferred shall be entitled to receive, prior and in preference to the holders of the Company's New Common Stock, an amount equal to the result obtained by dividing \$5 million by the number of shares of New Common Stock into which the Series A Preferred is convertible based on the conversion formula described in the section entitled "Conversion Rights" above (the "<u>Original Series A Price</u>"), multiplied by 3; and thereafter,</p> <p>(2) any remaining assets shall be paid out on a <i>pro rata</i> basis to the Trust and the other holders of New Common Stock and share equivalents and Series A Preferred (on an as-converted basis).</p> <p>In the event of a sale of all or substantially all of the assets of the Company (or any series of related transactions resulting in the sale or other transfer of all or substantially all of the assets of the Company) or a merger, reorganization or other transaction in which holders of a majority of the outstanding voting control of the Company immediately prior to the transaction do not own a majority of the outstanding voting shares of the surviving corporation, the funds available for distribution shall be paid out as follows:</p> <p>(1) the holders of Series A Preferred shall be entitled to receive, prior and in preference to the holders of the New Common Stock, an amount equal to three times the Original Series A Price (as adjusted for recapitalizations, stock splits, stock dividends, and the like), plus accrued and unpaid dividends; and thereafter,</p> <p>(2) any remaining assets shall be paid out on a <i>pro rata</i> basis to the Trust and the other holders of New Common Stock and share equivalents and Series A Preferred (on an as-converted basis).</p>
Voting Rights	The holder of each share of Series A Preferred shall have the right to a number of votes equal to the number of shares of New Common Stock issuable on conversion of the Series A Preferred. In addition, the holders of the Series A Preferred shall be entitled to vote as a single class to elect four members of the Company's Board of Directors (as set forth below). Except as provided herein or as required by law, the holders of Series A

Preferred and New Common Stock shall all vote together as a single class and voting group on all matters.

Voting  
Protections:

The Company may not, without the affirmative vote or written consent of the holders of not less than 66 2/3% of the issued and outstanding shares of Series A Preferred:

(1) authorize or issue any securities with any rights that are senior to or on parity with Series A Preferred;

(2) declare or pay dividends or make any distributions on any of the Company's equity securities (other than the distribution of \$2 million at the effective date of the Proposed Plan of Reorganization);

(3) sell or otherwise transfer all or substantially all of its assets, tangible or intangible, grant any exclusive rights or license to all or substantially all of the Company's products or intangible assets, or merge or consolidate into or with any other entity in a transaction or series of related transactions;

(4) purchase, redeem, or otherwise acquire any of the Company's outstanding equity securities (including warrants, stock options and other rights to acquire equity securities), other than redemption of the New Common Stock of the Trust as contemplated by this MOU and repurchases pursuant to stock restriction agreements approved by a majority of the Board of Directors that grant to the Company a right of repurchase upon termination of the service or employment of a consultant, director or employee;

(5) make any changes in the rights, preferences, or privileges of the Series A Preferred;

(6) amend or repeal or add any provision to the Company's Certificate of Incorporation or Bylaws, if such action would adversely affect the preferences, rights, privileges, or powers of, or restrictions provided for the benefit of, the Series A Preferred;

(7) take certain other actions materially affecting the Series A Preferred;

(8) change the size or election procedure of the Board of Directors; or

(9) authorize any changes in material accounting methods, policies or practices of the Company or change the Company's auditors.

Optional  
Conversion

The shares of Series A Preferred are convertible at the option of the holder, and at any time and from time to time, into shares of New Common Stock. The conversion rate of the Series A Preferred will initially be at the rate corresponding to the convertibility of all Series A Preferred into 51% of the fully diluted common stock of the Reorganized Debtor, and will be subject to anti-dilution adjustment as described below, as well as adjustments for re-capitalizations, stock splits, stock dividends, and the like. The conversion percentage shall be subject to adjustment based upon the amount(s) drawn on the Debt Financing to effect a Novell/IBM Payment following the final resolution of the Novell/IBM Litigation, as described in the section entitled "Conversion Rights," above.

Automatic  
Conversion

Each share of Series A Preferred shall automatically convert into the number of shares of New Common Stock determined by dividing (i) the sum of the Original Series A Price plus all accrued and unpaid dividends by (ii) the then-applicable conversion rate, on the earlier to occur of (a) the written consent of holders of at least 66 2/3% of the outstanding Series A Preferred, and (b) a firmly committed underwritten initial public

offering of Common Stock with total proceeds to the Company of at least \$40 million (a “Qualified Offering”).

- Anti-dilution Protection      The conversion price of the Series A Preferred shall be subject to adjustment on a proportionate basis, reflecting one-third (1/3) of the dilution effected from an issuance of New Common Stock to fund working capital requirements of the Company. The remaining two-thirds (2/3) dilution from such issuances of New Common Stock shall proportionately effect the holders of New Common Stock held by the Trust and any other holders. The purpose of this adjustment is to provide limited price protection to SNCP in the event that the Company issues additional shares of its capital stock at a price below the Series A Preferred purchase price to fund working capital requirements of the Company. This protection shall be subject to customary exceptions.
- Redemption      If the Series A Preferred has not been converted to New Common Stock prior to the 5<sup>th</sup> anniversary of the closing (the “Initial Redemption Date”), then the holders of the outstanding shares of Series A Preferred shall have the option, exercisable at any time after such anniversary, to require the Company to redeem the Series A Preferred in two equal and yearly installments beginning on the anniversary of the Closing Date after such option is exercised. If a holder elects to require the Company to redeem its Series A Preferred, it must provide the Company with written notice at least 90 days in advance of the Initial Redemption Date. The redemption amount shall be paid from retained earnings and shall be equal to the Original Series A Price, plus any accrued but unpaid dividends plus an additional amount that would result in an additional 12% annual rate of return compounded annually from the Closing Date. In any simultaneous redemption of the Series A Preferred and any other class or series of stock, the Series A Preferred shall have preference.
- Right to Maintain Proportionate Interest      Each holder of the Series A Preferred shall have a right of participation to purchase such holder’s *pro rata* share of any offering of new securities of the Company, subject to customary exceptions.
- Registration Rights
  1. Demand Rights: Holders of at least 30% of the shares of Series A Preferred (or New Common Stock issuable on conversion thereof) may demand registration by the Company of their shares of New Common Stock and the Company will use its best efforts to cause such shares to be registered. The Company will not be obligated to effect nor pay for more than 3 registrations pursuant to such demand registration rights provisions. These rights are exercisable only after the earlier of (i) 180 days after a Qualified Offering (as defined under “Automatic Conversion” above), and (ii) the 5th anniversary of the closing of this financing.
  2. “Shelf” Registrations on Form S-3: Holders of at least 20% of the shares of Series A Preferred (or New Common Stock issued on conversion thereof) shall have the right to require the Company to file an unlimited number of and pay for not more than 2 registration statements on Form S-3 registering their shares of New Common Stock per year, provided that the Company is then eligible to use the S-3 registration statement and the anticipated aggregate offering price to the public for any such registration would exceed \$1 million.
  3. Piggy-Back Registrations: Holders of Series A Preferred shall be entitled to unlimited “piggy-back” registration rights with respect to the New Common Stock issuable upon conversion of the Series A Preferred on all registrations of the Company (other than S-8’s, S-4’s or similar registrations of business combination



transactions or employee benefit plans), subject to the right of the Company and its underwriters to reduce the number of shares of the Investor proposed to be registered in view of market conditions.

4. Registration Expenses: All registration expenses (exclusive of selling expenses), shall be borne by the Company.

Other terms: The registration rights shall include other customary terms and conditions, including a customary “market-standoff” agreement in connection with a Qualified Offering and public offerings conducted by the Company thereafter.

**Governance:**

Resignation of the Current CEO      Upon the effective date of the Proposed Plan of Reorganization, the existing CEO of SCO, Darl McBride, shall resign.

Board of Directors      Upon the effective date of the Proposed Plan of Reorganization, the Company’s Board of Directors will be comprised of seven members. The holders of Series A Preferred shall be entitled to elect four directors. The holders of Series A Preferred and the Trust, in respect of the shares of New Common Stock issued to the Trust on behalf of the holders of New Common Stock prior to the effective date of the Proposed Plan of Reorganization, and any holders of additional New Common Stock issued after such effective date, all voting together as a single voting group, shall be entitled to elect the remaining three directors, one of whom shall be the Chief Executive Officer of the Company and one of whom shall be an outside executive with suitable industry expertise who is designated by a majority of the Board.

The Company and the representatives of Series A Preferred who serve as members of the Board shall enter into indemnification agreements in a form acceptable to SNCP on the Closing Date. In addition, the Company’s Certificate of Incorporation shall provide for indemnification of directors to the maximum extent permitted by law, and the Company will, within 90 days after the Closing Date, obtain Directors and Officers insurance in an amount satisfactory to SNCP. The Reorganized Debtor shall purchase “tail” directors and officers insurance coverage to protect against claims arising prior to the effective date of the Proposed Plan of Reorganization.

Inspection Rights      The Series A Preferred holders shall have the right to inspect the Company’s premises and books at times convenient to both parties.

Information Rights      So long as any of the Series A Preferred is outstanding, the Company will deliver to the holders of Series A Preferred unaudited monthly financial statements within 15 days of the end of each calendar month; unaudited quarterly financial statements within 15 days of the end of each fiscal quarter thereafter; annual audited financial statements within 90 days of the end of each fiscal year; and any other information reasonably requested by the holders of Series A Preferred. At least 30 days prior to the beginning of each fiscal year, the Company will deliver to holders of Series A Preferred the financial budget and business and strategic plan for the next fiscal year that will be submitted for approval to the Company’s Board of Directors no later than 30 days following the beginning of the fiscal year. With respect to monthly, quarterly and annual financial statements, such statements shall be accompanied by a written report of the CEO of the Company identifying operating highlights for the period and a comparison of such financial statements to the Company’s budget for the corresponding period.

## Debt

### Financing:

Loan Amount and Type:	The loan is for the principal amount up to US \$95,000,000. The loan is a non-revolving line of credit pursuant to which draws or disbursements may be made from time to time in accordance with the terms and conditions contained in the loan documents to be negotiated and filed with the Bankruptcy Court prior to the hearing on approval of the Disclosure Statement relating to the Proposed Plan of Reorganization and executed by SCO on the Closing Date (the " <u>Loan Documents</u> ").
Purpose of Loan:	The purpose of the loan is to provide funds for (i) working capital for SCO following its emergence from bankruptcy, (ii) to pay interest when due under the Debt Financing, and (iii) to support the prosecution of the Reorganized Debtor's Litigation Claims, including providing letters of credit or other financial arrangements adequate to support any required appellate bonds (in which event the Reorganized SCO shall pay the reasonable letter of credit fees and expenses), and to effect payment of any final award against the Reorganized Debtor). Advances to SCO under (i) above shall be subject to the achievement of milestones and maintenance of loan covenants to be established by SNCP and SCO in the Loan Documents.
Loan Term:	The term of the loan will be for a period of five (5) years (the " <u>Loan Term</u> ") commencing on the first day of the month following the Closing Date.
Interest Rate:	Interest will accrue on the outstanding principal balance at a variable or floating rate, expressed as an annual percentage rate, equal to LIBOR plus 1,700 basis points (the " <u>Effective Rate</u> "). Adjustments to the Effective Rate will be made effective on the first day of each month. Interest will be calculated on the basis of a 360-day year and charged for the actual number of days elapsed.
Payments:	The Reorganized Debtor shall pay accrued interest on the outstanding principal balance in arrears monthly on the first day of each month commencing on the first day of the month following the Closing Date. The entire unpaid principal balance, together with any accrued interest and other unpaid charges, shall be due on the first day of the month following the expiration of the Loan Term (which date is sometimes referred to as the " <u>Maturity Date</u> ").
Late Charges Default Interest Rate:	Any payment not paid within ten (10) days of its scheduled payment date shall be subject to a late charge equal to the greater of \$50.00 or five per cent (5%) of the amount of the delinquent payment. Upon the occurrence of an event of default, the margin used to compute the Effective Rate will automatically increase by an additional four percent per annum from the date thereof until the delinquent payment has been fully paid, both before and after judgment.
Prepayment Privilege:	Reorganized SCO may prepay principal at any time without penalty or premium; <i>provided, however</i> , Reorganized SCO shall not be entitled to re-borrow funds it has prepaid.
Collateral:	To secure the Loan, SCO shall grant a valid, perfected and enforceable first prior security interest in favor of SNCP in (or shall cause a security interest to be granted in), all present and future assets of SCO, including litigation recoveries.
<b>Preclosing Protections to</b>	Should the Company receive a written or oral offer or counteroffer to settle the Novell Litigation, the Novell/IBM Litigation, the Autozone Litigation or any other Litigation

**SNCP:**

Claims (collectively, the “Pending Litigation”) prior to the effective date of the Proposed Plan of Reorganization (or if the Company shall receive a written or oral offer or counteroffer to acquire the shares or assets of the Company, including by or for the account of a defendant in the Pending Litigation), the Company shall promptly notify SNCP of the offer and all material terms thereof. Similarly, the Company shall promptly advise SNCP of all offers (including counteroffers) it makes to settle or resolve the Pending Litigation or relating to any proposed sale of the shares or assets of the Company. At its option, one or more representatives of SNCP may attend merger and acquisition negotiations, settlement conferences or conference calls between the parties to the Pending Litigation, whether the same are directed at settling the Pending Litigation or acquiring the shares or assets of the Company. At the request of the Company, each representative of SNCP who shall attend merger and acquisition negotiations, settlement conferences or conference calls between the parties to the Pending Litigation shall execute a confidentiality agreement reasonably acceptable to the Company and SNCP.

The Debtor and SNCP acknowledge and agree that a purpose and intended effect of the Proposed Plan of Reorganization is to maximize the Debtor’s litigation recovery under the Pending Litigation. Except as expressly set forth herein, the Debtor and SNCP agree that developments in (including a resolution of) the Pending Litigation shall not constitute a basis to prevent or delay the confirmation or effective date of the Proposed Plan of Reorganization. If the Pending Litigation shall resolve by a sale of the Company to or an exclusive licensing transaction relating to all or substantially all of SCO’s intellectual property with or for the account of a defendant in the Pending Litigation), by or in connection with a sale of the Company or an exclusive licensing transaction relating to all or substantially all of SCO’s intellectual property to a person which is not a party (including an affiliate of such party) to the Pending Litigation, or net settlement in Debtor’s favor prior to the consummation of the Proposed Plan of Reorganization, then, except as provided below, the Equity Financing and the Debt Financing will not be consummated and SNCP shall be entitled to an administrative claim, payable promptly after the Debtor’s receipt of such net settlement, sales or licensing proceeds, in an amount equal to fifty percent (50%) of either (a) the Debtor’s net recovery in such settlement or any agreement or transaction in connection with, or in lieu of, settlement of claims in the Pending Litigation (including the fair value of any non-monetary consideration) (net of any recovery on or settlement of counterclaims and cross claims against Debtor, any taxes directly attributable to the net recovery or settlement, and the “Ongoing Legal Fees and Costs,” as defined below (the “Settlement Compensation”), or (b) the net proceeds and purchase price (including the fair value of any non-monetary consideration) paid to acquire the Company, all or substantially all of the Company’s assets, control of the Company or a material license relating to SCO’s intellectual property (not in the ordinary course of business), net of any taxes directly attributable to the net proceeds and purchase price, and all Ongoing Legal Fees and Costs (the “Sale Compensation”). In addition to the Settlement Compensation, SNCP shall be entitled in the circumstances in which the Settlement Compensation becomes payable, to complete its acquisition of the Series A Preferred upon payment of the \$5 million purchase price therefor, before, at the time of, or immediately after the Reorganized Debtor emerges from the Bankruptcy Case. In connection with the payment of the Settlement Compensation or the Sale Compensation or if this MOU is terminated by SNCP for any of the reasons (other than failure to execute the Definitive Agreements or SNCP’s dissatisfaction with the results of its due diligence investigation) set forth under the “Termination of the Transaction” section below that are not directly attributable to the act or omission of the SNCP, then SNCP shall also be entitled to an administrative claim for reimbursement from the Debtor of its out of pocket fees, costs and expenses (up to

\$500,000) incurred in connection herewith.

As used herein, "Ongoing Legal Fees and Costs" means positive difference between:

I. The sum of (a) all legal fees and chargeable expenses paid to Boies, Schiller & Flexner LLP and any other law firms (collectively, "BSF") pursuant to paragraphs (d) or (e) of the engagement agreement between SCO and BSF dated October 31, 2004, as amended to the date hereof (the "BSF Engagement Agreement"), plus (b) other professional fees and expenses incurred by the Debtor since September 14, 2007 directly related to the Litigation Proceedings or the transactions by reason of which the Settlement Compensation or Sale Compensation is paid; *minus*

II All hourly legal fees and chargeable paid at any time to BSF or any of the Three Original Firms (as that term is defined in the BSF Engagement Agreement) in connection with any of the Pending Litigation, which amount is credited in reduction of the contingency fees payable under paragraphs (d) or (e) of the BSF Engagement Agreement.

SCO will obtain court approval of the Settlement Compensation and the Sale Compensation by a motion for Plan Sponsor Protection Arrangements to be filed with the Bankruptcy Court with the Debtor's Motion to Approve the Disclosure Statement relating to the Proposed Plan of Reorganization, and in all events, prior to the submission of the Proposed Plan of Reorganization to creditors and interest holders for voting purposes. If SCO fails to obtain court approval for the Settlement Compensation and the Sale Compensation, SNCP shall have no further obligations under this MOU.

**Plan  
Treatment of  
Creditors**

The Proposed Plan of Reorganization shall provide for the following treatment of claims:

(1) Secured Creditors – (estimated at \$0)

Paid in Full at the effective date

(2) Priority Creditors – Taxing Authorities

Paid in full at the effective date OR paid over period of time not to exceed 5 years

(3) General Unsecured Creditors

o Trade – to be assumed or paid in full at the effective date, from the proceeds of the Preferred Stock

o Novell/IBM Litigation (if any) depending on outcome of litigation, paid in full when claim is liquidated after the effective date, by draw under the Debt Facility.

(4) All to be paid in full at the effective date:

- Administrative – Legal, Accounting, Financial Advisors, etc.
- US Trustee Fees
- Court/Clerk Fees

**SNCP's  
Conditions to  
Closing:**

The obligation to provide the Equity Financing and Debt Financing is subject to (i) the compliance by the Debtor with its obligations under this MOU, (ii) the accuracy in all material respects of all representations and certifications set forth in this MOU and its attachments, (iii) the execution and delivery of the Definitive Documents, (iv) the accuracy in all material respects of all representations and certifications set forth in the Definitive Documents and its attachments, (v) the absence of any default or event of default under this MOU or the Definitive Documents by the Debtor, (vi) the entry of an order of the bankruptcy court in the Bankruptcy Case confirming the Proposed Plan of Reorganization and all other motions and pleadings required to implement the Proposed Plan of Reorganization (and the absence of any effective stay of such confirmation order) on or before 5:00 pm New York City time on August 15, 2008 (such date, as the same may be extended by SNCP in its sole discretion in writing, the "Commitment Expiration Date"); (vi) the inclusion in the order confirming the Proposed Plan of Reorganization of a finding that the Debt Financing is extended by SNCP in good faith, (vii) the due diligence investigation of SCO (which shall end at the commencement of the Bankruptcy Court hearing on the approval of the Disclosure Statement relating to the Proposed Plan of Reorganization) is not reasonably satisfactory to SNCP; (vii) no Material Adverse Change following the filing of the Proposed Plan of Reorganization, (ix) no relevant threatened or pending litigation by a governmental authority, and (x) there being no injunction, court order/judgment or other ruling, edict or pronouncement with the force of law prohibiting the consummation of any of the material transactions contemplated in this MOU, the Definitive Documents and the Proposed Plan of Reorganization.

A "Material Adverse Change" shall mean any change or effect that is or could be reasonably expected to result in a material adverse change in: SCO's business, considered as a whole; or the consolidated financial condition or results of operations of SCO, other than changes associated with the bankruptcy of SCO or general economic conditions.

**Termination of  
the  
Transaction:**

The Debt Financing and the Equity Financing will be terminable in the following circumstances:

- by mutual written consent of SCO and SNCP;
- if SCO fails to obtain court approval for the Settlement Compensation and the Sale Compensation upon the approval of the Disclosure Statement relating to the Proposed Plan of Reorganization and prior to the submission of the Proposed Plan of Reorganization to creditors and interest holders for the purpose of voting thereon;
- the due diligence investigation of SCO (which shall end at the commencement of the Bankruptcy Court hearing on the approval of the Disclosure Statement relating to the Proposed Plan of Reorganization) is not reasonably satisfactory to SNCP;
- by SNCP upon written notice of a material breach of any covenant or agreement to be performed or complied with by SCO which, if capable of being cured, is not cured within 15 business days after notice;
- by SCO upon written notice of a material breach of any covenant or agreement to be performed or complied with by SNCP which, if capable of being cured, is not

cured within 15 business days after notice;

- by either SNCP or SCO if any foreign, federal, state, local or other governmental, administrative or regulatory authority, body, agency, court, tribunal or similar entity (other than the Bankruptcy Court) having competent jurisdiction issues a final and non-appealable order, decree or ruling prohibiting the transaction;
- by SNCP upon a determination by SCO or SCO's board of directors to pursue a Competitive Transaction;
- by SNCP, if the Bankruptcy Court shall not have entered an order approving the Settlement Compensation and Sale Compensation in form and substance reasonably acceptable to SNCP on or before April 28, 2008; and
- this MOU shall be terminated if an Order of the Bankruptcy Court approving the Debtor's execution hereof and performance hereunder is not entered by April 28, 2008, or if the Bankruptcy Court does not enter an Order confirming the Proposed Plan of Reorganization as contemplated hereby by August 15, 2008.

**Restriction on Affirmative Seeking Competitive Transactions**

SCO acknowledges that it is not actively seeking financing for a plan of reorganization, except as set forth in this MOU. SCO agrees that, until August 15, 2008, neither SCO nor its agents or representatives shall solicit or encourage submission of inquiries, proposals or offers from any third parties regarding any potential financing of a plan of reorganization for SCO (each, a "Competitive Transaction"). SCO shall immediately notify SNCP in writing if it receives an offer or proposal relating to a Competitive Transaction.

**Good Faith Negotiations:**

The Parties agree to negotiate in good faith the Definitive Documents contemplated by this MOU, so that forms of all such Definitive Documents, in substantially final form, shall be filed with the Bankruptcy Court prior to the hearing on approval of the Disclosure Statement relating to the Proposed Plan of Reorganization.

**Due Diligence:**

The Debtor will afford to SNCP all access, cooperation, documents and information reasonably requested by SNCP in connection with its due diligence examination of the Debtor and its business. SNCP may terminate this MOU if it is not satisfied with the results of such due diligence examination. Such due diligence period and termination rights shall end at the commencement of the Bankruptcy Court hearing on the approval of the Disclosure Statement relating to the Proposed Plan of Reorganization.

**Governing Law:**

This Memorandum of Understanding shall be governed by Delaware law and all Parties consent to the exclusive jurisdiction of the Bankruptcy Court hearing the Bankruptcy Cases to determine any controversy arising hereunder. The Definitive Documents executed on the Closing Date (including the Loan Agreement) shall be governed by New York law.

The terms set forth above summarize the major points we have discussed, but are not intended to be the entirety of the terms of the Proposed Plan of Reorganization, the Equity Financing or the Debt Financing and are subject to the drafting and execution of Definitive Documents. The Debtor's execution of this MOU is subject in all respects to the entry of an Order of the Bankruptcy Court approving this MOU and the Definitive

Documents contemplated hereby, which Order will be sought in connection with the motion for approval of the Disclosure Statement relating to the Proposed Plan of Reorganization. This MOU shall not be enforceable against the Debtor until such Bankruptcy Court order is entered and shall be subject to the terms of such Order, when entered. If such Bankruptcy Court approval is not obtained by April 28, 2008, then this MOU shall terminate.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.  
SIGNATURE PAGE FOLLOWS.]**

IN WITNESS WHEREOF, the parties have entered into this MOU as of February 13, 2008.

THE SCO GROUP, INC.

By: 

Name: Ralph Yarro III  
Title: SCO Chairman

STEVE NORRIS CAPITAL PARTNERS, LLC

By: \_\_\_\_\_

Name: Stephen L. Norris  
Title: SNCP Chairman




IN WITNESS WHEREOF, the parties have entered into this MOU as of February \_\_, 2008.

THE SCO GROUP, INC.

By: \_\_\_\_\_  
Name: Ralph Yarro III  
Title: SCO Chairman

STEVE NORRIS CAPITAL PARTNERS, LLC

By:  \_\_\_\_\_  
Name: Stephen L. Norris  
Title: SNCP Chairman