

UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

In re:)	Chapter 11
)	
THE SCO GROUP, INC., <u>et al.</u> , ¹)	Case No. 07-11337 (KG)
)	(Jointly Administered)
)	
Debtors.)	

DISCLOSURE STATEMENT IN CONNECTION WITH
DEBTORS' JOINT PLAN OF REORGANIZATION

Dated: February 29, 2008

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¹ The Debtors and the last four digits of each of the Debtors' federal tax identification numbers are as follows: (a) The SCO Group, Inc., a Delaware corporation, Fed. Tax Id. #2823; and (b) SCO Operations, Inc., a Delaware corporation, Fed. Tax ID. #7393.

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**THE DEBTORS RESERVE THE RIGHT TO AMEND OR SUPPLEMENT
THIS PROPOSED DISCLOSURE STATEMENT AT OR BEFORE THE
CONFIRMATION HEARING**

I. INTRODUCTION

(A) Purpose of Disclosure Statement

The SCO Group, Inc. ("SCO Group") and SCO Operations, Inc. ("Operations"), each a Delaware corporation (collectively, the "Debtors"), provide this *Disclosure Statement in Connection with Debtors' Joint Plan of Reorganization* (the "Disclosure Statement") to all of the shareholders of SCO Group in order to permit such shareholders to make an informed decision in voting to accept or reject the *Debtors' Joint Plan of Reorganization* (the "Plan") filed on February 29, 2008. A copy of the Plan accompanies this Disclosure Statement as Exhibit A.

All capitalized terms contained in this Disclosure Statement shall, unless otherwise defined herein, have the meanings ascribed to such capitalized terms in the "DEFINITIONS" section of the Plan.

(B) The Chapter 11 Cases

The Debtors filed voluntary petitions under Chapter 11 of the Bankruptcy Code on September 14, 2007 (the "Petition Date") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

(C) Disclaimers

This Disclosure Statement is presented to holders of Equity Interests in SCO Group in accordance with the requirements of section 1125 of the United States Bankruptcy Code, 11 U.S.C. §§ 101 - 1532 (the "Bankruptcy Code"). Section 1125 of the Bankruptcy Code requires that a disclosure statement provide information sufficient to enable a hypothetical and reasonable investor, typical of a debtor's creditors and stockholders, to make an informed judgment whether to accept or reject a plan. This Disclosure Statement may not be relied upon for any purpose other than that described above.

THIS DISCLOSURE STATEMENT AND THE PLAN ARE AN INTEGRAL PACKAGE, AND THEY MUST BE CONSIDERED TOGETHER FOR THE READER TO BE ADEQUATELY INFORMED. THIS INTRODUCTION IS QUALIFIED IN ITS ENTIRETY BY THE REMAINING PORTIONS OF THIS DISCLOSURE STATEMENT, AND THIS DISCLOSURE STATEMENT IN TURN IS QUALIFIED, IN ITS ENTIRETY, BY THE PLAN.

NO REPRESENTATIONS CONCERNING EITHER OF THE DEBTORS (PARTICULARLY AS TO THE VALUE OF THEIR PROPERTY) ARE AUTHORIZED OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT AND ITS EXHIBITS. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE OR REJECTION OF THE PLAN OTHER THAN AS

CONTAINED IN THIS DISCLOSURE STATEMENT AND ITS EXHIBITS SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION, AND SUCH ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE PROPONENTS, WHO WILL IN TURN DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE APPROPRIATE.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT, INCLUDING ANY EXHIBITS CONCERNING THE FINANCIAL CONDITION OF THE DEBTORS AND THE OTHER INFORMATION CONTAINED HEREIN, OR IN THE EXHIBITS, HAVE NOT BEEN SUBJECT TO AN AUDIT OR INDEPENDENT REVIEW EXCEPT AS EXPRESSLY SET FORTH HEREIN.

THIS DISCLOSURE STATEMENT CONTAINS ONLY A SUMMARY OF THE PLAN AND CERTAIN MATERIAL AGREEMENTS AFFECTING THE RIGHTS AND OBLIGATIONS OF HOLDERS OF EQUITY INTERESTS. EACH EQUITY INTEREST HOLDER IS STRONGLY URGED TO REVIEW THE PLAN AND SUCH AGREEMENTS BEFORE CASTING A BALLOT.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE OF THIS DISCLOSURE STATEMENT UNLESS ANOTHER TIME IS SPECIFIED. THERE IS NO GUARANTY THAT FACTS WILL NOT CHANGE AFTER THIS DISCLOSURE STATEMENT IS FILED; AND IT MUST BE ASSUMED THAT SOME FACTS WILL INDEED CHANGE FROM THAT TIME UNTIL THE HEARING ON THE APPROVAL OF THE DISCLOSURE STATEMENT OR THE CONFIRMATION OF THE PLAN (DISCUSSED BELOW).

A STATEMENT OF THE ASSETS AND LIABILITIES OF THE DEBTORS AS OF THE DATE OF THE COMMENCEMENT OF THEIR CHAPTER 11 CASES IS ON FILE WITH THE CLERK OF THE BANKRUPTCY COURT AND MAY BE INSPECTED BY INTERESTED PARTIES DURING REGULAR BUSINESS HOURS. IN ADDITION, PARTIES CAN ACCESS SUCH STATEMENT VIA THE INTERNET AT www.epiqbankruptcysolutions.com.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND NOT IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER APPLICABLE NON-BANKRUPTCY LAW. ENTITIES HOLDING OR TRADING IN OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING CLAIMS AGAINST, INTERESTS IN OR SECURITIES OF, SCO GROUP SHOULD EVALUATE THIS DISCLOSURE STATEMENT ONLY IN LIGHT OF THE PURPOSE FOR WHICH IT WAS PREPARED.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS SUCH COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

THIS DISCLOSURE STATEMENT IS NOT INTENDED TO BE AND SHOULD NOT BE CONSTRUED TO BE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE PLAN. EACH CREDITOR AND INTEREST HOLDER SHOULD, THEREFORE, CONSULT WITH ITS OWN LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS AS TO ANY SUCH MATTERS CONCERNING THIS SOLICITATION, THE PLAN OR THE TRANSACTIONS CONTEMPLATED THEREBY.

II. BACKGROUND OF DEBTORS

SCO Group and Operations are Delaware corporations headquartered in Lindon, Utah. SCO Group also has an office in Murray Hill, New Jersey that houses administrative, sales and marketing and product development facilities. Operations is wholly owned by SCO Group and operates the research, development, sales and implementation of technology owned by SCO Group as further described hereinbelow. In addition to Operations, SCO Group has the following subsidiaries located both in and outside the United States as follows:

- a. SCO Global, Inc. (U.S.);
- b. Me, Inc. (U.S.);
- c. Me Software Limited (U.S.);
- d. Cattleback Holdings, Inc. (U.S.);
- e. SCO Canada, Inc. (Canada);
- f. SCO Software (UK) Ltd. (United Kingdom);
- g. SCO Japan, Ltd. (Japan);
- h. The SCO Group (Deutschland) GmbH (Germany);
- i. The SCO Group (France) Sarl (France); and
- j. SCO Software (India) Private Ltd. (India).

As of February 28, 2008, the Debtors and their foreign subsidiaries and affiliates had a total of 71 full and part-time equivalent employees employed in various capacities including, but not limited to, finance, human resources, executive management and information systems. The Debtors also regularly engage independent contractors to support the Companies' professional services, product development, sales and marketing operations. The Debtors' employees are not represented by any labor union and are not subject to a collective bargaining agreement, and the Debtors have never experienced a work stoppage.

SCO Group's common stock began trading on The Nasdaq National Market beginning in March 2000. In September 2002, SCO Group changed its trading symbol from "CALD" to "SCOX." Shares of SCO Group have traded on The Nasdaq Capital Market (formerly known as

the Nasdaq SmallCap Market) from February 2003 to December 2007. In December 2007, SCO Group's common stock was delisted from the Nasdaq Capital Market and began trading on the "pink sheets." In December 2007, SCO Group's trading symbol changed to "SCOXQ.PK." The table below sets forth the range of high and low closing prices of SCO Group's common stock as reported on Nasdaq, as applicable, for the last two years.

Year Ended October 31, 2007	High	Low
Quarter ended January 31, 2007	2.98	0.85
Quarter ended April 30, 2007	1.19	0.82
Quarter ended July 31, 2007	2.21	0.77
Quarter ended October 31, 2007	1.66	0.15
Year Ended October 31, 2006	High	Low
Quarter ended January 31, 2006	4.16	3.69
Quarter ended April 30, 2006	5.07	4.03
Quarter ended July 31, 2006	4.74	2.25
Quarter ended October 31, 2006	2.89	1.66

On February 11, 2008, the closing sales price for SCO Group's common stock as reported on the pink sheets was \$0.07. As of January 29, 2008, there were 392 holders of common stock of SCO Group of record.

Debtors' Business

UNIX Business

SCO Group's core business focus is based on its UNIX software technology for distributed, embedded and network-based systems of small-to-medium sized businesses and branch offices and franchisees of Fortune 1000 companies.

SCO Group's largest source of revenue for its core UNIX business is derived from its worldwide, indirect, leveraged channel of distributors and independent solution providers ("resellers"). The Debtors have employees or contractors in a number of countries that provide support and services to customers and resellers. The other principal channel for selling and marketing SCO Group's products is through large corporations that have a large number of branch offices or franchisees. SCO Group accesses these corporations through their information technology or purchasing departments. In addition, SCO Group sells its UNIX products to original equipment manufacturers ("OEMs").

The original UNIX operating system was conceived on the premise that an operating system should be easily adapted to a broad range of hardware platforms and should provide a simple way of developing programs. Over the years, the UNIX operating system has been adapted for almost all OEM's hardware, and today UNIX has the ability to share data across heterogeneous environments. SCO Group owns certain intellectual property rights relating to the UNIX operating system. The Debtors' intellectual property rights may be adversely impacted by issues related to the Pending Litigation (as defined and discussed in Article III, Section (B), below).

UNIX has had a long history of implementation, and has a large base of both customers and vendors that provide solutions and applications. On the Intel platform, SCO's OpenServer and UnixWare products comprise a reliable, stable, low-cost UNIX operating system available for businesses. Today, SCO Group continues to focus on and generate revenue from small-to-medium business resellers as well as from large corporations, including Fortune 1000 companies. SCO Group also has continuing relationships with hardware vendors and has received certifications on many of the industry's top hardware platforms.

SCO Group is continuing to pursue additional options for customers such as the ability to run on all modern hardware platforms through utilizing the technology available from the server industry's focus on virtualization. While SCO Group has a long history of providing customers virtualization products, it plans to offer a new service where customers, particularly legacy customers, gain access to the technology they need to run their applications in a virtual environment.

SCO Group plans to continue to focus its UNIX development resources on current UNIX products and plans to support requirements for modern hardware and applications software. In addition, SCO Group intends to focus other engineering, research and development resources on mobility products and services for personal and professional productivity. The Debtors expect that these mobility products and services will enable easy, secure, real-time mobile access to all kinds of information stored in enterprise and web-based systems without the need for direct connection between end-point devices and those systems.

(i) *OpenServer*

OpenServer is a UNIX-based offering targeted at small-to-medium businesses. Businesses use OpenServer to simplify and speed business operations, better understand and respond to their customers' needs and achieve a competitive advantage. OpenServer excels at running multi-user, transaction and business applications, communications gateways, and mail and messaging servers in both host and client/server environments. The Debtors continue to support existing users of OpenServer comprehensively, keeping the operating system current as well as obtaining certain hardware certifications.

(ii) *UnixWare*

UnixWare is a UNIX-based offering targeted at medium-size businesses and enterprise customers. UnixWare is an advanced deployment platform for industry

standard Intel processor systems. It is a foundation for solutions where proven scalability, reliability and affordability are critical. UnixWare includes enhancements and refinements to the UNIX platform, representing added value for existing UnixWare customers.

(iii) Other Products

In addition to OpenServer and UnixWare, SCO Group offers product maintenance and additional UNIX-related products, such as SCOofficeServer, a UNIX-based e-mail and collaboration system and other UNIX system add-ons.

Technical Support Services

The Debtors provide a full range of pre- and post-sale technical support for all of its products, primarily focusing on OpenServer and UnixWare.

The Debtors also provide technical support to their resellers, as well as directly supporting SCO Group's end-user customers. The Debtors' resellers have the option to direct their customers to SCO for technical support or to provide first-level customer support themselves and utilize the Debtors' technical expertise for second-tier support.

Technical support services include a range of options from single incident e-mail and telephone support to dedicated "enterprise" level support agreements. Customers seeking additional technical support directly from the Debtors may enter into service agreements that best suit their needs.

Licensing

SCO Group has traditionally licensed its UNIX binary software and provided free maintenance for the life of the software release. To better align with industry licensing trends and customer expectations, SCO will introduce annual maintenance subscriptions for its SCO UNIX offerings that will include maintenance updates and value-added technology.

Other Services

SCO Group provides other services, including software development and programming, migration tools and services and assistance to customers in modernizing and integrating legacy applications with web services. SCO Group assists its end-user customers and solution providers in planning, creating, implementing and deploying business application solutions.

Mobility Products and Services

SCO's mobile business consists of a mobile development platform, a mobility server, and mobile applications. These are monetized through a combination of one-time application sales, monthly subscription service revenue and advertising. SCO Group has been working in the mobility space for about 3 years. This work was born out of SCO Group's background in the server environment, and many of the mobile applications have a server component as part of the

solution which helps the applications to be more secure and robust, while at the same time allowing for an ongoing subscription model instead of just a one-time application sale.

SCO Mobility Platform – Allows SCO Group as well as its ISV partners to do rapid application development and deployment of mobile applications.

SCO Mobility Server – Mobile applications that are developed on the SCO Platform are deployed in conjunction with a SCO Mobility Server which provides a secure, reliable connection point between handheld devices and corporate infrastructure applications and servers. This server can be deployed at a customer site or hosted by SCO Group. There is a monthly per-user fee associated with use of the mobility server.

SCO Mobile Applications – SCO Group's family of mobile applications includes solutions specific to the server business (Hipcheck) and also solutions that revolve around a user's interaction with their social community (Me Inc Mobile, Shout).

HipCheck – A mobile application which enables pro-active mobile administration for UNIX and Windows servers. Hipcheck is sold as a monthly subscription based on number of users and number of servers being managed.

Me Inc Mobile – A mobile and web application that allows a user to collaborate with business associates, family, and friends. Users can do mobile busy-search, schedule group meetings, set and achieve goals, and stay organized without the need for an Exchange server. Me Inc Mobile is a monthly subscription service.

Shout Marketing – A mobile and web service that allows customers such as sports teams, restaurants, and real estate agents to send personal, real-time multimedia messages to their opt-in base of customers or fans. Shout Marketing is a subscription service priced based on the size of a user's opt-in customer list.

Shout Postcard – A consumer version of the Shout product which allows users to share life's experiences on-the-go with family or friends. Shout Postcard is a mobile/web application designed to be monetized through advertising and propagated through wireless carriers and handset manufacturers. The product is integrated with social networking sites such as Facebook.

Based on the explosive mobile phone adoption in emerging markets such as India, China, Middle East and Africa, SCO Group recognizes that both consumer and enterprise mobile solutions to be a significant opportunity for the company. Research indicates that mobile phones far out sell personal computers and as such, many consumers in these emerging markets are using their mobile device in lieu of a personal computer. SCO will continue to deliver and innovate mobile solutions to best exploit the growth in these markets.

Industry Relationships

SCO Group has business relationships with a number of key global industry enterprises. These relationships encompass product integration, two-way technology transfers, product certification, channel partnerships and revenue generating initiatives in areas of product bundling, OEM agreements and training and education. SCO Group also has alliances with a number of solution providers who write and develop custom applications to run on UNIX operating systems. Most of SCO Group's small business customers that cannot afford high-end solutions or an information technology staff rely on one of SCO Group's channel partners for these services. Maintaining these strategic alliances is critical to the success of SCO Group's UNIX business. The Debtors will seek to continue their relationships with key providers in certain vertical markets such as retail, medical/pharmaceutical, manufacturing and accounting where SCO Group's UNIX operating systems already have a presence. The Debtors' efforts to maintain or expand industry relationships may be adversely impacted by issues related to the Pending Litigation (discussed in Section III (B), below).

Marketing and Field Operations

The Debtors' UNIX sales and marketing and field operations are organized by geographic area - SCO Group has an Americas division and an International division. Each division includes a sales organization, field marketing, pre- and post-sale technical support, and local professional services personnel.

The Americas team has field sales and support personnel located around the United States, Latin America and Canada. This region delivered approximately 49.8% of SCO Group's total revenue for the year ended October 31, 2007.

The International region delivered approximately 50.2% of SCO Group's total revenue for the year ended October 31, 2007, and includes EMEA (Europe, the Middle East and Africa) and Asia Pacific. The Debtors, through their non-debtor affiliates and subsidiaries, have resources, employees and/or contractors in the United Kingdom, Germany, France, Israel, Italy, China, Korea, Netherlands, Eastern Europe, India, Japan, Australia, and Taiwan.

In addition to the revenue provided by its indirect sales channel, SCO Group's resellers are invaluable for the influence they wield on the purchasing decisions of small and medium businesses. SCO Group's resellers often are not only the primary contact for input regarding their business customers' purchasing decisions, but also serve as their customers' outsourced information technology department. The reach of SCO Group's network of resellers into the small and medium business community is broad, as evidenced by its large installed base of servers running various versions of SCO Group's OpenServer and UnixWare operating systems.

SCO Group's marketing efforts support its sales and distribution efforts, promotions and product introductions, and include marketing activities to promote its UNIX and mobile products. Marketing is focused on branding, solutions, advertising, tradeshow, press releases, white papers and marketing literature. In particular, marketing strategy includes:

- branding SCO's UNIX and mobile products through public relations and advertising activities;
- maintaining an effective program to generate brand awareness and promote SCO Group's UNIX and mobile products; and
- increasing public awareness of SCO Group's UNIX and mobile products by participating in strategic tradeshows, conferences and technology forums.

SCO Group recognizes significant customer opportunity in emerging markets such as Russia, India, China, Middle East, Africa and other like markets. As such, SCO will tailor its marketing and field operations to best exploit the growth in these markets with its UNIX and mobile solutions.

Software Engineering and Development

SCO Group has taken steps to improve its UNIX software products to maintain system reliability, maintain backward compatibility, increase application support, provide broad hardware support, better integrate widely used internet applications, improve usability, and increase system performance. While the Debtors believe that these product enhancements will extend the lives and improve the functionality of SCO Group's UNIX products, they have not resulted in significant revenue increases in the short-term due to the long adoption cycle for new operating system purchases and the length of SCO Group's operating system product sales cycle, as well as the competition in SCO Group's markets.

The Debtors also deploy engineering, research and development resources for SCO Group's mobility products and services for personal and professional productivity, as well as custom services for business, government and consumer users. The Debtors expect these mobility products and services will enable easy, secure, real-time mobile access to all kinds of information stored in enterprise and web-based systems without the need for direct connection between end-point devices and those systems.

The Debtors' product development process is modeled to standard, commercial software engineering practices, designed to ensure consistent product quality. As a result, the Debtors are able to offer SCO Group's platform products to OEM customers in several configurations without significant additional effort. SCO Group incurred \$6,077,000, \$8,045,000, and \$8,337,000 in research and development expense during the fiscal years ended October 31, 2007, 2006, and 2005, respectively.

SCOsource Business

SCO Group acquired certain rights relating to the UNIX (including UnixWare) source code and derivative works and other intellectual property rights when it purchased substantially all of the assets and operations of the server and professional services groups of The Santa Cruz Operation, Inc. in May 2001. The Santa Cruz Operation had previously acquired such UNIX source code and other intellectual property rights from Novell in 1995. Novell had acquired its rights from UNIX System Laboratories, a subsidiary of AT&T. Through this process, SCO Group believes that it acquired all UNIX source code, source code license agreements with thousands of UNIX vendors, certain UNIX intellectual property, all claims for violation of the

above mentioned UNIX licenses and copyrights and other claims, and control over UNIX derivative works. The Debtors' intellectual property rights may be adversely impacted by issues related to the Pending Litigation (as discussed in Article III, Section (B)(ii), below).

The UNIX licenses SCO Group obtained have led to the development of several UNIX-based operating systems, including, but not limited to, UnixWare and OpenServer products, IBM's AIX, Sequent's DYNIX/Ptx, Sun's Solaris, SGI's IRIX and Hewlett-Packard's HP-UX. These operating systems are all derivatives of the original UNIX source code owned by SCO Group.

The success of SCO's SCOSource business was dependent on its ability to protect and enforce SCO Group's rights to proprietary UNIX source code, copyrights and other intellectual property rights. To protect SCO Group's proprietary rights, SCO Group relies primarily on a combination of copyright laws, contractual rights and related claims.

Debtor's Go-Forward Business Strategy

SCO Group will hold its annual partner conference in Las Vegas, Nevada in August 2008, which includes keynote addresses, engineer-to-engineer training, and a hands on lab. SCO uses this annual event to unveil new innovations and its latest technology solutions and roadmaps.

At this year's event, SNCP will be announcing the new private company strategy that will be implemented upon SCO Group's exit from Chapter 11. The go-forward strategy announcements will include new management, new partners and new products aimed at making SCO the leading platform software provider to the emerging global growth markets (Middle East, Africa, Brazil, Russia, India and China); and to the SCO Group installed base of millions of servers. This year's event will be exclusive to SCO partners, customers and employees and will not be open to the public as in years past.

III. EVENTS LEADING TO CHAPTER 11 CASES

(A) Competition

Sales of SCO Group's UNIX-based products and services have been declining over the last several years, resulting in a steady decline in revenue. This decline in revenue has been primarily attributable to significant competition from alternative operating systems, particularly Linux. SCO Group faces direct competition in the operating system market from Linux operating system providers, other non-UNIX operating system providers and other UNIX-based operating system providers. In the operating system market, some of SCO Group's competitors include International Business Machines Corporation ("IBM"), Red Hat, Inc. ("Red Hat"), Novell, Inc. ("Novell"), Microsoft Corporation ("Microsoft"), and Sun Microsystems ("Sun"). Operating systems, including Linux, are aggressively taking market share away from UNIX.

In recent years, the Debtors have seen hardware and software vendors, as well as software developers, turn their certification and application development efforts toward Linux and elect not to continue to support or certify SCO Group's UNIX operating system products. This trend continued for SCO Group's fiscal year ended October 31, 2007 and through the

present. If this trend continues, SCO Group's competitive position will be adversely impacted and future revenue from UNIX business will continue to decline. The decline in SCO Group's UNIX business may be accelerated if industry partners withdraw their support for SCO Group as a result of the Pending Litigation between SCO Group and IBM, Novell and Red Hat.

SCO Group believes that it competes favorably with many of its operating system competitors in a number of respects, including product performance, functionality and networking capability. Notwithstanding these factors, SCO Group's revenue has declined over the last several years. Many of SCO Group's competitors are significantly larger than SCO Group and have much greater access to funding, technical expertise, marketing, and research and development resources. In addition, many of SCO Group's competitors have established brand recognition and market presence that may prevent SCO Group from obtaining or retaining market share. Additionally, there has been negative publicity surrounding the Pending Litigation relating to SCO Group's ownership of UNIX and related copyrights that has, to some degree, hampered SCO Group's ability to compete favorably.

The market for mobility products and services is relatively young, and the Debtors believe they are poised for rapid growth. Competition is strong and takes numerous forms, including database vendors who are providing mobile extensions of their current offerings, as well as start-up companies and large corporations who are focusing on custom solutions based on proprietary middleware. The Debtors believe that the landscape and competition will change rapidly and that no single company has established firm leadership. The success of SCO Group's mobility products and services offerings will depend, in part, on the outcome of the Pending Litigation, the level of commitment and resources the Debtors are able to devote to these offerings, the business relationships SCO Group is able to establish, its ability to attract and retain new customers and providers, and the strength of their mobility offerings.

(B) Pending Litigation

SCO Group is party to significant pending litigation proceedings involving the UNIX system (collectively, the "Pending Litigation"), including the following:

(i) IBM Corporation

On or about March 6, 2003, SCO Group filed a civil complaint against International Business Machines Corporation ("IBM"). The case is pending in the United States District Court for the District of Utah, under the caption *The SCO Group, Inc. v. International Business Machines Corporation*, Case No. 2:03CV0294 (the "IBM Litigation"). In this action, SCO claims that IBM breached its UNIX source code licenses (both the IBM and Sequent Computer Systems, Inc. "Sequent" licenses) by disclosing restricted information concerning the UNIX source code and derivative works and related information in connection with its efforts to promote the Linux operating system. The complaint includes, among other things, claims for breach of contract, unfair competition, tortious interference and copyright infringement. SCO Group is seeking damages in an amount to be proven at trial and injunctive relief.

On or about March 6, 2003, SCO Group notified IBM that IBM was not in compliance with SCO Group's UNIX source code license agreement and on or about June 13, 2003, SCO

Group delivered to IBM a notice of termination of that agreement, which underlies IBM's AIX software. On or about August 11, 2003, SCO Group sent a similar notice terminating the Sequent source code license. IBM disputes SCO Group's right to terminate those licenses. If the validity of SCO Group's termination of those licenses is upheld, the Debtors believe that IBM is exposed to substantial damages and injunctive relief based on its continued use and distribution of the AIX operating system. On June 9, 2003, Novell sent SCO Group a notice asserting that it had the right to waive, and purporting to waive, the claims against IBM regarding its alleged license breaches. The Debtors contend that Novell had no right to take any such action relative to SCO Group's UNIX source code rights.

On February 27, 2004, SCO Group filed a second amended complaint which added a claim for copyright infringement, and removed the claim for misappropriation of trade secrets. IBM filed an answer and 14 counterclaims against SCO Group. IBM's counterclaims include claims for breach of contract, violation of the Lanham Act, unfair competition, intentional interference with prospective economic relations, unfair and deceptive trade practices, promissory estoppel, patent infringement and a declaratory judgment claim for non-infringement of copyrights. On October 6, 2005, IBM voluntarily dismissed with prejudice its claims for patent infringement.

IBM and SCO Group have filed expert reports and substantially completed expert discovery. IBM has filed six motions for summary judgment that, if granted in whole or in substantial part, could substantially reduce SCO Group's claims. SCO Group has filed three motions for summary judgment. The summary judgment motions have not yet been decided.

Several of SCO Group's claims against IBM have been effectively dismissed or narrowed pursuant to a summary judgment entered in the Novell Litigation on August 10, 2007 (see, Novell, Inc., below in subsection (ii) below). The Utah federal district court in the Novell Litigation also ruled that Novell had the right to direct SCO Group to waive certain of its contractual claims against IBM. The summary judgment requires certain further proceedings before it becomes a final order and subject to appeal, and SCO Group intends to appeal from this ruling when it becomes final.

(ii) *Novell, Inc.*

On January 20, 2004, SCO Group filed a lawsuit in Utah state court against Novell, Inc. ("Novell") asserting slander of title and seeking relief for Novell's alleged bad faith effort to interfere with SCO Group's ownership of copyrights related to SCO's UNIX source code and derivative works and UnixWare product. The case was removed by Novell to the United States District Court for the District of Utah and is styled *The SCO Group, Inc. v. Novell, Inc.*, Case No. 2:04CV00139 (the "Novell Litigation"). In the lawsuit, SCO Group seeks preliminary and permanent injunctive relief as well as damages. Specifically, SCO Group requests the court to compel Novell to assign to SCO Group all copyrights wrongfully registered to Novell, to preclude Novell from claiming any ownership interest in such copyrights, and to require Novell to retract or withdraw all representations it has made regarding its purported ownership of such copyrights and UNIX itself.

Novell filed its answer and asserted counterclaims against SCO Group alleging breaches of the Asset Purchase Agreement between Novell and SCO Group's predecessor-in-interest, The Santa Cruz Operation, slander of title, and restitution/unjust enrichment, and requesting an accounting related to Novell's retained binary royalty stream, and declaratory relief regarding Novell's alleged rights under the Asset Purchase Agreement. On or about December 30, 2005, SCO Group filed a motion for leave to amend the complaint against Novell to assert additional claims, including copyright infringement, unfair competition and breach of Novell's limited license to use SCO Group's UNIX code. Novell consented to the filing of the additional claims.

On or about April 10, 2006, Novell filed a motion to stay the case pending a request for arbitration that Novell and SuSE Linux, GmbH ("SuSE") filed (on the same date) in the International Court of Arbitration in France (the "SuSE Arbitration"). The SuSE Arbitration involves claims by Novell that SCO Group granted SuSE the right to use SCO Group's intellectual property through SCO Group's participation in the UnitedLinux initiative in 2002 and that, through Novell's subsequent acquisition of SuSE, Novell acquired SuSE's rights as a member of UnitedLinux. The Utah district court ordered that portions of claims relating to the SuSE Arbitration should be stayed but the other portions of claims in the case should proceed. The three-person arbitration panel has been selected for the SuSE Arbitration in Switzerland, and that process has begun. The arbitration was scheduled for December 2007 but is stayed due to SCO Group's bankruptcy (See Docket No. 204) (the Bankruptcy Court ruled that the automatic stay applies to the SuSE Arbitration).

Meanwhile, in September 2006, Novell filed an Amended Counterclaim seeking, in relevant part, imposition of a constructive trust over certain revenue SCO Group collected from Sun Microsystems and Microsoft Corporation in 2003. Novell moved for a preliminary injunction, which was denied. However, on August 10, 2007, SCO Group's motions for summary judgment were denied and Novell's motion for summary judgment was granted in part. Partial summary judgment was granted to Novell on its claims for breach of fiduciary duty and conversion. While the district court held that imposition of a constructive trust was warranted in theory, the court denied that part of the motion for partial summary judgment seeking the imposition of a constructive trust until it could determine the appropriate amount of SVRX Royalties, and left this determination for trial. Another ruling by the court was that the 1995 Asset Purchase Agreement did not include certain rights under Novell's Unix and Unixware copyrights as in effect as of the 1995 Asset Purchase Agreement, which the court ruled are still owned by Novell. This ruling put a significant part of the Debtors' future business model in jeopardy.

The court's summary judgment in favor of Novell held that Novell was potentially entitled to receive at least some portion of the funds received by SCO Group in 2003 from its agreements with Sun Microsystems and Microsoft Corporation. The trial previously set to commence in September 2007 in the District Court on SCO's claims and Novell's counterclaims is, therefore, now limited to determining the amount of SVRX Royalties to be awarded to Novell and whether a declaratory judgment should be issued that SCO Group was not authorized to enter into the related license agreements. Novell claims that it is entitled to the full amount of the payments made by Sun Microsystems and Microsoft Corporation and derived from all other SCOSource agreements, which, collectively, constitute a principal amount in excess of \$26 million, and, with claimed interest, in excess of \$37 million. Novell also seeks the imposition of

a constructive trust on whatever such funds are currently in the Debtors' possession that can be properly traced back to those transactions. The entry of a substantial final judgment against SCO Group would likely impair the Debtors' ability to conduct their business in the ordinary course, as well as the value of the Debtors' litigation claims relating to infringement of its intellectual property rights in UNIX.

SCO Group acknowledges that the Utah district court has ruled against it on critical issues that impact both the Novell Litigation and the IBM Litigation. SCO Group respectfully disagrees with those rulings, in a summary judgment context, and intends to appeal at its earliest opportunity. In fact, SCO Group moved for a certification to take an immediate appeal from the ruling. However, that request was denied by the Utah district court. SCO Group believes the evidence in its favor is substantial and strong and at a minimum should preclude summary judgment in Novell's favor and for IBM's benefit. For those interested in learning more about the details supporting SCO Group's position in the Novell Litigation, parties can visit SCO Group's website at www.sco.com or documents on file with the federal court in Utah.

The Bankruptcy Court has ruled that it will retain jurisdiction over the constructive trust issue but lifted the automatic stay to allow Novell's claims for amounts due under the SCOSource agreements and whether SCO Group had authority to enter into those licenses to go to trial in Utah. A four-day bench trial has been scheduled to commence on April 29, 2008 before the Utah district court. Novell has filed a motion for summary judgment on the issue of whether SCO Group had the authority to enter into the SCOSource licenses.

(iii) *Red Hat, Inc.*

On August 4, 2003, Red Hat filed a complaint against SCO Group. The action is pending in the United States District Court for the District of Delaware under the case caption, *Red Hat, Inc. v. The SCO Group, Inc.*, Civil No. 03-772 ("Red Hat Litigation"). Red Hat seeks a declaratory judgment for non-infringement of copyrights and no misappropriation of trade secrets, asserting that the Linux operating system does not infringe on SCO Group's UNIX intellectual property rights. In addition, Red Hat claims that SCO Group had engaged in false advertising in violation of the Lanham Act, deceptive trade practices, unfair competition, tortious interference with prospective business opportunities, trade libel and disparagement. The Delaware court has stayed the case pending the outcome of the IBM Litigation and requires reports every 90 days on the status thereof.

(iv) *Autozone Litigation*

On March 3, 2004 SCO Group filed suit against AutoZone, Inc ("Autozone"). The action is pending in the United States District Court for the District of Nevada under the case caption *The SCO Group, Inc. v. AutoZone, Inc.*, CV-S-04-0237-RCJ-LRL (the "Autozone Litigation"). In this action, SCO Group alleges that Autozone ran versions of the Linux operating system that contain code, structure, sequence and/or organization from SCO's proprietary UNIX System V code in violation of SCO Group's copyrights. This litigation has been stayed since August 2004. SCO Group and Autozone are required to file status reports every 90 days on the IBM Litigation, Novell Litigation and Red Hat Litigation. The last status report was filed by SCO Group on May 23, 2007.

(v) *Other Matters*

There is a lawsuit pending in India that was filed in April, 2003 by a former distributor doing business in India, claiming that SCO Group is responsible to repurchase certain software products and to reimburse the distributor for certain other operating costs. The Debtors do not believe that they are responsible to reimburse the distributor for any operating costs and also believe that the return rights related to any remaining inventory has lapsed. The distributor requested that the court grant pre-judgment attachment of SCO Group assets located in India. The request was denied and hearings on the main claims are ongoing. The Debtors are vigorously defending this action.

IV. THE CHAPTER 11 CASES

(A) Commencement of the Chapter 11 Cases

On September 14, 2007, the Debtors filed voluntary petitions under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court in the District of Delaware. The cases were assigned case numbers 07-11337 and 07-11338 and are pending before the Honorable Kevin Gross. The Debtors have continued to operate their businesses and remain in possession of their property pursuant to sections 1107 and 1108 of the Bankruptcy Code.

(B) Retained Professionals

The Bankruptcy Court approved the Debtors' retention of certain professionals to represent and assist them in connection with the Chapter 11 Cases. Specifically, the Bankruptcy Court has approved the retention of the following professionals: (i) Berger Singerman, P.A., to serve as general bankruptcy co-counsel; (ii) Pachulski Stang Ziehl & Jones LLP, to serve as general bankruptcy co-counsel; (iii) Boies Schiller & Flexner, LLP, to serve as special litigation counsel; (iv) Dorsey & Whitney, LLP, to serve as special corporate and securities counsel; (v) Mesirow Financial Consulting, LLC, to serve as financial advisors; and (vi) Tanner, LC, to serve as accountants. In addition, the Bankruptcy Court approved the retention of Epiq Bankruptcy Solutions, LLC ("Epiq") to serve as the Debtors' notice, claims and balloting agent pursuant to 28 U.S.C. § 156(c) and Bankr. Del. LR 2002-1(f).

(C) First Day Relief

At the commencement of the Debtors' Chapter 11 Cases, the Debtors filed several motions seeking what is commonly referred to as "first day" relief. This first day relief was designed to meet the goals of (1) continuing the Debtors' operations in Chapter 11 with as little disruption and loss of productivity as possible, (2) maintaining the confidence and support of customers, employees and certain other key constituencies; and (3) establishing procedures for the smooth and efficient administration of the Chapter 11 Cases.

The Court approved the requested first day relief in various orders ("First Day Orders") entered by the Court on September 18, 2007. These First Day Orders provided for, among other things:

- Joint administration of the Debtors' bankruptcy cases;

- The continued maintenance of the Debtors' bank accounts, continued use of existing business forms, continued use of the Debtors' existing cash management system, and approval of the Debtors' investment guidelines on an interim basis;
- Authority to pay employees accrued pre-petition wages, salaries and benefits;
- Authority to pay pre-Petition Date sales, use and other taxes;
- Prohibiting utility providers (on an interim and then final basis) from altering or discontinuing services and establishing procedures to determine requests for additional assurances of payment of utility bills;
- Authority to hire temporary employees; and
- Authority to retain Epiq as claims, noticing and ballot agent.

(D) Other Relief

The Debtors also sought, and obtained (or are awaiting) the following relief:

- Authority to retain professionals used in the ordinary course of the Debtors' business;
- Authority to pay accrued benefits and severance to employees terminated post-petition under certain procedures;
- Approval of the employment of CFO Solutions to furnish the Debtors with a chief financial officer;
- Approval of interim compensation procedures for professionals retained by the Debtors' estates;
- Approval of a settlement relating to the sale of a patent to one of SCO's wholly-owned subsidiaries;
- Approval to assume the Debtors' leases of office space located in Lindon, Utah and Murray Hill, New Jersey;
- Approval of the expansion of Tanner, LC's retention as the Debtors' accountants; and
- Extension of the exclusive period during which only the Debtors may file and solicit acceptances to a plan.

(E) Novell & SuSE Motions

On September 28, 2007, the Debtors filed *Debtor The SCO Group, Inc.'s Motion to Enforce the Automatic Stay* (Docket No. 69) seeking to enforce the automatic stay against SuSE with respect to the SuSE Arbitration pending in Zurich, Switzerland. On November 13, 2007,

overruling the objection filed thereto, the Bankruptcy Court granted that motion. (See Docket No. 204).

On October 4, 2007, Novell filed *Novell, Inc.'s Motion for Relief from Automatic Stay to Proceed with District Court Action to (i) Apportion Revenue from SCOSource Licenses and (ii) to Determine SCO's Authority to Enter into SCOSource Licenses, Etc.* (Docket No. 89). The Bankruptcy Court granted the motion, in part, allowing Novell and SCO Group to proceed to trial in the Novell Litigation on the following issues: “(1) the amount of the royalties to which Novell is entitled from certain SCOSource licenses that the District Court determined to be SVRX Licenses and any additional licenses that are determined to be SVRX Licenses; and (2) whether SCO [Group] had the authority to enter into licensing agreements with Microsoft Corporation and Sun Microsystems.” However, and significantly, the Bankruptcy Court ruled that “the automatic stay is not lifted for a determination of the imposition of a constructive trust, an issue which [the Bankruptcy Court] will adjudicate if and when necessary, following the District Court’s decision in the [Novell Litigation].” (See Docket No. 233).

On October 4, 2007, Novell filed *Novell, Inc.'s Motion for Order Directing the Debtors to Remit Undisputed Future SVRX Royalties to Novell Upon Receipt* (Docket No. 90), which motion was denied by the Bankruptcy Court on November 13, 2007 (See Docket No. 203).

(F) Claims

The Debtors have filed a motion seeking to establish April 10, 2008 as the deadline for parties, including governmental units, to file proofs of claim. Based upon the Debtors’ schedules filed with the Bankruptcy Court (See Docket Nos. 130 and 132), the Debtors estimate that aggregate claims against the Debtors will total approximately \$3,134,133.00, exclusive of: (i) intercompany claims; and (ii) claims filed as of February 11, 2008 against the Debtors aggregating \$64,809.67.

(G) York Capital Management

On October 23, 2007, the Debtors filed the *Emergency Motion of the Debtors for an Order (A) Approving Asset Purchase Agreement, (B) Establishing Sale and Bidding Procedures, and (C) Approving the Form and Manner of Notice of Sale* (Docket No. 149), attaching a copy of a term sheet by and between SCO Group and York Capital Management (“York”) providing for, among other things, a proposed purchase of certain assets of the Debtors and a loan to support the Debtors in the Pending Litigation. Unfortunately, the negotiations between SCO Group and York did not reach a mutually satisfactory conclusion, the transaction failed, and the Bankruptcy Court never entered an order approving the transaction or any of the documents that contemplated the transaction.

V. CHAPTER 11 PLAN

(A) Overview

Chapter 11 is the chapter of the Bankruptcy Code primarily used for business reorganization. The fundamental purpose of a Chapter 11 case is to formulate a plan to restructure a debtor’s finances so as to maximize recoveries to its creditors. With this purpose in

mind, businesses sometimes use Chapter 11 as a means to conduct asset sales and other forms of liquidation. Whether the aim is reorganization or liquidation, a Chapter 11 plan sets forth and governs the treatment and rights to be afforded to creditors and stockholders with respect to their claims against and equity interests in a debtor's bankruptcy estate.

In formulating the Plan, the Debtors have conducted legal and factual diligence regarding the terms of a Chapter 11 plan and related issues. In particular, the Debtors responded to the concerns expressed by the Bankruptcy Court on the difficulties in consummating a transaction of a plan before a final determination in the Novell/IBM Litigation. The Debtors therefore focused their efforts on a plan that could be confirmed and consummated regardless of any outcome in the Novell/IBM Litigation. The Debtors have negotiated a transaction and formulated a plan that would:

(a) pay all of their Allowed Claims (including administrative, priority, secured and unsecured Claims) in full (with interest, if applicable) on the Effective Date of the Plan;

(b) provide for payment in full (with interest, if applicable) in respect of all of the claims asserted in the Pending Litigation, should such claims become Allowed Claims after the Effective Date (although the Debtors dispute all such claims, believe that no such claims will be Allowed Claims and that the reorganized Debtors will instead become entitled to substantial affirmative recoveries against the parties to the Novell/IBM Litigation);

(c) provide for a distribution in respect of the stockholders' Equity Interests upon the Effective Date of the Plan approximately equal to the current market value of such Equity Interests, as reported in the pink sheets, as of the date preceding the announcement of the Plan;

(d) provide substantial and effective financial resources to support the reorganized Debtors' aggressive prosecution of the Pending Litigation; and

(e) provide to SCO Group's Equity Interest Holders an opportunity for an additional distribution, after the Effective Date, including a share of the reorganized SCO Group's recovery against IBM and Novell in the Novell/IBM Litigation and of the reorganized SCO Group's enterprise value on the basis of four times its earnings before interest, taxes, depreciation and amortization ("EBITDA").

As proposed, the Plan satisfies all of these objectives, and therefore the Debtors submit that the Plan is in the best interests of all constituents in this case.

(B) Stephen Norris Capital Partners, LLC

Stephen Norris & Co. Capital Partners, L.P. is a private equity investment partnership formed to (i) "co-invest" alongside well established and successful private equity and leveraged buyout firms, (ii) take advantage of the business experience and relationships of its Investment Committee, including Steve Norris' long-standing relationships and substantial private equity experience. Steven Norris Capital Partners, LLC ("SNCP") is the investment vehicle formed by Stephen Norris & Co. Capital Partners, L.P. for the purposes of this transaction.

Mr. Norris co-founded The Carlyle Group, a private equity and LBO firm in Washington, D.C, where he served as a founder and managing director until 1995. During his tenure in the investment business, Mr. Norris made, directed or participated in over 125 leveraged buyouts, venture capital and real estate equity investments totaling more than \$6.0 billion, and yielding an average annual internal rate of return (IRR) of over 38%. Mr. Norris structured and negotiated investments over \$1.0 billion on behalf of a prominent Middle Eastern investor in Citicorp, Euro Disney, and the Four Seasons Hotel Company. These investments have returned well over \$10 billion. In 1990, Mr. Norris was appointed by former President George H.W. Bush and confirmed by the U.S. Senate as one of the five members of the \$68 billion Federal Retirement Thrift Investment Board. During his tenure, Mr. Norris successfully advocated for the right of Federal employees to allocate a greater portion of their savings to public equities.

Mr. Norris' partner, Mark Robbins, has extensive experience in structured finance and private equity as co-founder and managing partner of Peninsula Advisors. Mr. Robbins has managed and originated over \$1.2 billion in private placements. Mr. Robbins has developed and engineered structured investments, business valuation models and diversified financial products in excess of \$10 billion. Mr. Robbins has served as Investment Director and lead negotiator with several leading financial institutions.

(C) Summary of the Terms of the Plan as Pertains to Holders of Equity Interests in SCO Group

As set forth in this Disclosure Statement and in the accompanying materials, the Plan provides for the following with respect to Holders of Equity Interests in SCO Group:

(i) Equity Investment

On the Effective Date, SNCP will pay to the reorganized SCO Group (the "Company") US \$5,000,000 to purchase all of the authorized shares of the Company's new class of Series A Preferred Stock. The Company will use the proceeds of the Purchase Price to fund the Plan, including making a payment in the amount of \$2,000,000 to the Trust for distribution (subject to a reserve for Trust expenses) to the Trust beneficiaries (the proceeds of that payment will be distributed in respect of the New Common Stock held by the Trust and not in respect of common stock equivalents). See "The Trust" in Section (D)(i), below.

(ii) Issuance of Series A Preferred Stock

At the Closing, the Company will issue to SNCP all of the authorized shares of a new class of preferred stock, denominated the "Series A Preferred Stock." The Series A Preferred Stock will initially be convertible, at any time and from time to time, and at the option of the holder, into 51% of the outstanding shares of common stock of the Company. This conversion percentage will be subject to adjustment and increase to reach up to 85% of the outstanding shares of common stock of the Company, based on the amount of the Debt Financing funded by SNCP to pay and satisfy final non-appealable judgments in the Novell Litigation and/or the IBM Litigation (collectively, the "Novell/IBM Litigation") or to settle the Novell/IBM Litigation in a settlement transaction that requires a net payment to Novell and/or IBM (a net payment made to Novell or IBM in connection with the resolution of the Novell/IBM Litigation is called a

“Novell/IBM Payment”). The Series A Preferred Stock will have the exclusive right to elect a majority of the members of the Company’s Board of Directors, and will otherwise vote with the Common Stock on an “as converted” basis. Each share of Series A Preferred Stock carries a dividend at the rate of 10% per annum; the dividends are cumulative and payable in cash, or, at the Company’s option, in shares of common stock. However, the issuance of common stock to pay these dividends cannot result in the dilution of the equity investment held by the Trust below 15% of the fully diluted equity in the Company. Each share of Series A Preferred Stock will have a liquidation preference over the Company’s common stock, payable in the event of a liquidation, dissolution or winding up of the Company, or upon the sale of all or substantially all of the assets of the Company, or a merger, reorganization or other transaction in which the holders of a majority of the outstanding voting control of the Company cease to own a majority thereof. The conversion rate of the Series A Preferred Stock will be subject to certain anti-dilution adjustments, as well as adjustments for recapitalizations, stock splits, stock dividends, and the like. Shares of Series A Preferred Stock not sooner converted will automatically convert on the earlier to occur of the written consent of the holders of at least 66-2/3% of the outstanding shares of Series A Preferred Stock or a firmly committed underwritten initial public offering of common stock with total proceeds to the Company of at least \$40 million. If all of the shares of Series A Preferred Stock have not been converted to common stock prior to the fifth anniversary of the Effective Date, the holders of the Series A Preferred Stock shall have the option to require the Company to redeem the shares of Series A Preferred Stock (payable from retained earnings) in two equal and yearly installments beginning on the anniversary of the Closing Date following the exercise of the option. In addition, the holders of Series A Preferred Stock have certain anti-dilution protections, preemptive rights, registration rights, and inspection and information rights. See *“The Stock Purchase Agreement; Description of Securities and Instruments to be Issued in Connection with the Plan”* in Section (E), below for a more detailed discussion of the rights, powers and preferences of the Series A Preferred Stock.

(iii) *Debt Financing*

From and after the Closing, SNCP will make available to the Company a non-revolving, secured line of credit in the original principal amount of up to \$95,000,000 (the “Loan”). The Loan will mature and all outstanding principal will become due and payable in a lump sum single payment five years from the first day of the month following the Closing Date, and will be secured by all of the Company’s assets. The Loan will bear interest at LIBOR plus 17% per annum. Payments of interest only will be due monthly. The proceeds of the Loan will be used (a) for working capital, (b) to pay interest when due under the Loan, and (c) to support the prosecution and defense of the Company’s Pending Litigation and to effect payment of any final judgments against the Company that become Allowed Claims. See *“Description of the Debt Financing”* in Section (H), below for a more detailed discussion of the terms of the proposed Debt Financing.

(iv) *Cancellation of Common Stock; Grantor Trust*

On the Closing Date, the currently issued and outstanding shares of Common Stock of the Company (and Common Stock equivalents) will be extinguished and cancelled. The Company will simultaneously issue to an irrevocable grantor trust (the “Trust”) established for the benefit of, and at the direction of, the holders of the currently issued and outstanding

Common Stock (and Common Stock equivalents) of the Company on a pro-rata basis, shares of the Company's New Common Stock, representing all of the shares of common stock to be issued and outstanding upon effectiveness of the Plan. In addition, on the Effective Date the Company will issue to the Trust and the Trust will hold for the benefit of and at the direction of the holders of the Company's Common Stock equivalents, New Options and New Warrants to purchase shares of the Company's common stock. The New Options and New Warrants will (a) provide for a 10 year term and exercise period, (b) provide for an exercise price equal to the current market value of the SCO Group's common stock as of the Effective Date of the Plan, and (c) provide for cashless exercise (i.e., for issuance of only the net amount of common stock that would be issued if the underlying common stock were sold to pay the option exercise price). The beneficial interests in the Trust held by the Company's existing holders of shares of Common Stock (and Common Stock equivalents) will represent a pro-rata interest in the Trust's assets (i.e., the outstanding shares of New Common Stock and New Options and New Warrants held by the Trust), which pro-rata interest will correspond to the percentage interest of the holders of the Company's Common Stock (and Common Stock equivalents) at the time the Trust is organized ("Old Common Stock"). Interests in the Trust will not be transferable (except pursuant to the laws of descent and distribution) and the existing holders of the Company's Old Common Stock and Common Stock equivalents will not have any voting rights in respect of the shares of New Common Stock held by the Trust or any rights to exercise the New Options or New Warrants. The trustee of the Trust will have the right to vote the shares of New Common Stock held by the Trust. Upon any event requiring the redemption of the securities held by the Trust (or otherwise triggering a final distribution by the Trust to the holders of Equity Interests), the Trustee will cashlessly exercise the New Options and New Warrants and effect that final distribution pro rata to the holders of beneficial interest in the Trust, after giving effect to that exercise. Within one year after the pending claims in the Novell/IBM Litigation are finally resolved, the Company will redeem all of the shares of New Common Stock held by the Trust, including the New Options and New Warrants, for an aggregate purchase price (the "Redemption Price") equal to a portion of (a) the Company's net recovery in the Novell/IBM Litigation, and (b) the Company's enterprise value, based on four times EBITDA, but without including proceeds of the Novell/IBM Litigation as income. The portion of those amounts to be paid to the Trust will be the same percentage as represented by the Trust's securities (i.e., between 49% and 15%). If, before the Company is obligated to redeem the shares of common stock, the Company completes an initial public offering, or sells all or substantially all of its assets, or merges or reorganizes, or completes a transaction in which the holders of a majority of the outstanding voting control of the Company cease to own a majority thereof, or the Company winds up, liquidates or dissolves, the trustee is required to make certain distributions of its common stock or the proceeds of the sale or other disposition of the Company's assets. See "*The Trust*" in Section (D)(i), below.

(v) *Change in Composition of Board of Directors*

The Plan requires a change in the composition of the Company's Board of Directors. From and after the Effective Date, the Board will consist of seven members, four of whom shall be elected by the holders of the Series A Preferred Stock. The remaining three directors (one of whom will be the Company's Chief Executive Officer and one of whom will be an outside executive with suitable industry experience who is designated by a majority of the Board) will be elected by the holders of the Company's common stock and Series A Preferred Stock, voting together as a single group. The Series A Preferred Stock will hold at least 51% of the

Company's voting power, and so will be able to elect all of the members of the Board of Directors.

(vi) *Change in Management*

The Plan requires a change in the Company's Chief Executive Officer. Darl McBride will no longer serve as the Company's CEO and a new CEO will be named by the Board on the Effective Date.

(vii) *Control of Property of the Estate*

As noted in Section (I) below, Property of the Estate of SCO Group, including the Pending Litigation, will not vest in Reorganized SCO until Reorganized SCO elects to have but in no event later than the date that all Disputed Claims and, in particular, any claims held by Novell, IBM, Red Hat or Autozone, are finally Allowed or Disallowed by Final Orders. Pending this election, Reorganized SCO will have full control and authority over the Property of the Estate of SCO Group (which will continue in existence following the Effective Date for some period of time pursuant to Section 4.6 of the Plan), without the need for Bankruptcy Court approval pursuant to sections 363 or 330 of the Bankruptcy Code, or any other provision of court or United States trustee control or oversight during a chapter 11 case, including but not limited to policy making, day-to-day operations, financing, transactional, corporate governance, and any and all other corporate activity, and all corporate activity. However, upon confirmation of the Plan, pursuant to Section 4.6 of the Plan and sections 1141(b) and (c) of the Bankruptcy Code, Property of the Estate of Operations will vest in the Reorganized Operations free and clear of all Claims and Interests of Creditors, and of Holders of Equity Interests.

(viii) *Changes in the Company's Certificate of Incorporation*

The Company's certificate of incorporation will be amended to the extent necessary to implement the Plan, including to authorize the Series A Preferred Stock, to create the rights, powers, and preferences pertaining to it and to preclude certain actions of the Company without the vote or consent of the holders of at least 66-2/3% of the issued and outstanding shares of Series A Preferred Stock. See "*The Stock Purchase Agreement; Description of Securities and Instruments to be Issued in Connection with the Plan*" in Section (E), below.

(ix) *Voting Rights*

The holders of shares of Series A Preferred Stock will have the right to a number of votes, on all matters submitted to a vote of the Company's stockholders, equal to the number of shares of common stock issuable on conversion of the Series A Preferred Stock. The holders of shares of Series A Preferred Stock will be entitled to vote as a single class to elect four members of the Company's Board of Directors. Except in respect of the election of four members of the Board of Directors or as required by law, the holders of the Company's Series A Preferred Stock and common stock will vote together as a single class and voting group on all matters that come before the stockholders for approval. Initially, the trustee of the Trust, as the sole holder of all of the shares of New Common Stock issued by the Company, will have the right to vote all of the shares of New Common Stock of the Company.

(x) *Stockholders' Agreement*

The rights, powers, and obligations of the Company, the Trust, and the holders of Series A Preferred Stock in respect of the Company's securities will be further governed by a Stockholders' Agreement among them, a copy of which is attached as **Exhibit 1**. Pursuant to the Stockholders' Agreement, the Trust will be precluded from selling or transferring any of its shares of New Common Stock or New Options or New Warrants, except as provided therein or in the Trust Agreement or the Stock Option Agreement governing the New Options or the Warrant Agreement governing the New Warrants. In addition, the holders of the Company's outstanding equity securities will have rights and obligations (commonly referred to as "tag along" and "drag along" rights) to participate in a sale of all or substantially all of the Company's outstanding equity securities (or a merger or other corporate reorganization of the Company that has the same effect as a sale of all or substantially all of its outstanding equity securities); provided that any such sale or merger or other corporate reorganization shall yield cash proceeds to the Trust in an amount at least equal to the Redemption Price.

(xi) *Stock Option Agreement*

The issuance and terms of the New Options will be governed by a Stock Option Agreement between the Company and the Trust, a copy of which is attached as **Exhibit 2**. The Stock Option Agreement will provide, among other things, for (a) an exercise price per share equal to \$.02 in excess of the current market value of the shares of the Company's Common Stock as of the Effective Date, as determined by the Company's Board of Directors in good faith, (b) an exercise term of ten years from the Effective Date, and (c) cashless exercise of the options. The number of shares of New Common Stock into which the New Options issued to the Trust on the Effective Date will be convertible will correspond to the number of shares of Old Common Stock issuable upon exercise of the outstanding options issued prior to the Effective Date. Immediately prior to the Company's payment of the Redemption Price (or other event requiring a final distribution to the Trust in respect of the beneficial interests therein), the Trustee will cashlessly exercise all of the New Options and New Warrants, so that such final distribution will be made after giving effect thereto. See "*The Stock Option Agreement*" in Section (D)(iii) below for a more detailed description of the Stock Option Agreement.

(xii) *Warrant Agreement*

The issuance and terms of the New Warrants will be governed by a Warrant Agreement between the Company and the Trust, a copy of which is attached as **Exhibit 3**. The New Warrants will be governed by essentially the same terms and conditions as SCO Group's existing warrants with Sun, and cover the same number of shares of New Common Stock as the number of shares of Old Common Stock which Sun could receive upon the exercise of its warrants on the Effective Date. See "*The Warrant Agreement*" in Section (D)(iv) below for a more detailed description of the Warrant Agreement.

(xiii) *SEC Reporting Requirements*

Following the effectiveness of the Plan, the Company will no longer be a public company and will not be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended.

(xiv) *Pending Litigation*

As discussed further in Section (I) below, to protect Property of the Estate of SCO Group, including all of its rights and liabilities in respect of the Pending Litigation against the possibility that a Creditor holding a Disputed Claim, such as Novell, may obtain a judgment against SCO Group and then aggressively seize property to collect the judgment before SCO Group could complete the appellate process to obtain a Final Order either Allowing or Disallowing the Disputed Claim, the Plan provides that the Property of the Estate of SCO Group will not vest in the Reorganized SCO until it elects to have this occur by filing a notice of vesting, but in no event later than the date that all Disputed Claims and, in particular, any claims held by Novell, IBM, Red Hat or Autozone, are finally Allowed or Disallowed by Final Orders. Thereafter, the Property of the Estate of SCO Group shall vest in Reorganized SCO free and clear of all Claims and Interests of Creditors, and of Holders of Equity Interests. The Company commits to pursue aggressively its claims in these litigation matters following the effectiveness of the Plan. See “*Pending Litigation*,” Article III, Section (B), above, for a more detailed discussion of the Pending Litigation.

(D) The Trust, the Stockholders’ Agreement, the Stock Option Agreement, and the Warrant Agreement

(i) *The Trust*

On the Effective Date, the Trust will be created pursuant to the Trust Agreement at the direction and for the benefit of all holders of issued and outstanding shares of stock of the Company and all holders of common stock equivalents of the Company (including outstanding options, warrants and other rights to purchase shares of the Company’s stock). On the Effective Date, the Company will issue to the Trust shares of New Common Stock, options to acquire shares of the Company’s common stock (“New Options”), and warrants to purchase shares of the Company’s common stock (“New Warrants”), all to be held by the Trust in accordance with the provisions of the Trust Agreement and the Stockholders’ Agreement. The Trust will be administered by an independent trustee (the “Trustee”) that shall be a national bank or trust company selected by the Company and approved by the Bankruptcy Court. On the Effective Date, the then-current equity of the Company (“Old Common Stock”) will be cancelled and extinguished, and each holder of outstanding shares of the Company’s Old Common Stock will receive a pro-rata beneficial ownership interest in the Trust corresponding to his, her or its percentage ownership of the Company’s then outstanding shares of Old Common Stock. On the Effective Date, the existing options and warrants to purchase shares of the Company’s Old Common Stock will be cancelled and extinguished, and each holder of outstanding options and warrants to purchase the Company’s Old Common Stock (including employees of the Company whose employment is terminated as of the Effective Date) will receive a pro-rata beneficial ownership interest in the Trust based on his, her or its percentage ownership of the Old Common

Stock underlying their stock options, warrants or other Old Common Stock equivalents. The beneficial interests in the Trust of the former Holders of Equity Interests will not transferable, except pursuant to the laws of descent and distribution. The holders of the beneficial interests will not have any right to vote the shares of New Common Stock held by the Trust or to exercise the New Options or New Warrants, all of which rights shall be held by the Trustee of the Trust.

On the Effective Date, the Trust will receive \$2 million from the proceeds of SNCP's purchase of the Series A Preferred Stock, which, subject to a reserve for Trust expenses, will be distributed to Trust beneficiaries holding beneficial interest by virtue of their previous ownership of Old Common Stock (excluding Old Common Stock equivalents). Within one year after the pending litigation claims in the Novell/IBM Litigation are finally resolved (by final order or judgment, not subject to further appeal, or by settlement), the Company will make a final payment to the Trust to redeem all shares of New Common Stock held by the Trust (including shares of New Common Stock issued or issuable in respect of New Options and New Warrants that the Trust will cashlessly exercise at such time), which payment shall be in an amount (the "Redemption Price") equal to the sum of: (a) a percentage of any net recovery that the Company realizes from the final resolution of the Novell/IBM Litigation (net of any recovery on or settlement of counterclaims and cross claims against the Company, including a Novell/IBM Payment, if any, and net of all taxes, and Ongoing Legal Fees and Costs (as defined in the Trust Agreement) incurred by the Company in connection therewith), such percentage to vary between 15% and 49% depending on the Conversion Rate of the Series A Preferred Stock and subject to the anti-dilution protections benefitting the Series A Preferred Stock, and (b) the product obtained by multiplying (i) the Company's earnings (excluding any earnings arising from the Company's recovery in the Novell/IBM Litigation) 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 it may be reduced by the anti-dilution adjustment rights of the Series A Preferred Stock) and 49%) determined under clause (a) above. The Trust will distribute the proceeds of the Redemption Price to the beneficial holders thereof, pro rata based on their former interests in the Old Common Stock and common stock equivalents.

The Trust Agreement provides that, if certain events occur before the Company's redemption of the New Common Stock held by the Trust in accordance with the provisions described in the preceding paragraph, the Company will make certain payments to the Trust which the Trustee will use to make liquidating distributions. If the Company makes an initial public offering for its securities, the shares of New Common Stock held by the Trust will be distributed to the beneficiaries of the Trust in compliance with applicable securities laws and regulations. If all or substantially all of the assets of the Company are sold (or any series of related transactions results in the sale or other transfer of all or substantially all of the Company's assets), 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 entity occurs, the proceeds of such sale or other transaction which are payable to the Trust will be distributed to the beneficiaries of the Trust. If the Company voluntarily or involuntarily liquidates, dissolves or winds up, the proceeds payable to the Trustee in connection therewith will be distributed to the beneficiaries of the Trust. In the event of such a sale, merger or equivalent transaction, the minimum amount that will be distributed to the Trust will be equal to the Redemption Price. The final distribution the

Trust makes to holders of Equity Interests will be allocated between holders of Old Common Stock and Old Common Stock equivalents following the cashless exercise of such New Common Stock equivalents. Accordingly, if the Trust receives an amount for such distributions that corresponds to a value for New Common Stock that is equal to or less than the exercise price of the New Options and New Warrants, the Trust will distribute such proceeds 100% to the beneficiaries of the Trust who were former holders of Old Common Stock and 0% to those that were former holders of Old Common Stock equivalents of SCO Group. The beneficiaries of the Trust who were former holders of Old Common Stock equivalents of SCO Group will receive a proportionately larger amount of the proceeds of such final distribution, based on the extent to which the proceeds available for such distribution (expressed as a price per share of New Common Stock) exceed the exercise price of the New Options and New Warrants.

The terms of the Trust will provide that, for federal income tax purposes, the Trust will be treated as a grantor trust with respect to the holders of the Company's Common Stock and Common Stock equivalents as provided by Sections 671 through 678 of the Tax Code. See "*Certain United States Federal Income Tax Consequences of the Plan*," Article IX, below for a more detailed discussion of the tax consequences of the Plan.

Exhibit 4 attached to this Disclosure Statement shows amounts that could be available for distribution to Trust beneficiaries in each of the following hypothetical scenarios (the "Trust Recovery Scenarios"):

- The Novell/IBM Litigation is settled in favor of SCO Group for an amount varying in the range between \$25 million and \$1 billion, and no amounts have been drawn under the Debt Financing to make a Novell/IBM Payment;
- There is a sale of all or substantially all of the assets of the Debtors for an amount varying in the range between \$25 million and \$1 billion, and no amounts have been drawn under the Debt Financing to make a Novell/IBM Payment;
- There is a sale of all or substantially all of the assets of the Debtors an amount varying in the range between \$25 million and \$1 billion, and \$30 million has been drawn under the Debt Financing to make a Novell/IBM Payment;
- There is a sale of all of the SCO Group's stock for an amount varying in the range between \$25 million and \$1 billion, and no amounts have been drawn under the Debt Financing to make a Novell/IBM Payment;
- There is a sale of all of the SCO Group's stock for an amount varying in the range between \$25 million and \$1 billion, and \$30 million has been drawn under the Debt Financing to make a Novell/IBM Payment.

The Trust Recovery Scenarios are subject to the assumptions described in them. They have not been audited or reviewed by an independent public accountant and there is no assurance

that the actual amounts available to the Trust would not vary from the amounts set forth. Moreover, the Trust Recovery Scenarios are for purposes of illustration only, and the Debtors make no representations regarding the likelihood or probability that any of these scenarios will occur, or that, if the Plan is consummated, there will ever be any amounts available for distribution to the Trust beneficiaries other than the initial distribution following the Effective Date of the proceeds of approximately \$1.5 million from the SCO Group's sale of the Series A Preferred Stock. In particular, the scenarios contemplating a distribution of substantial sale proceeds following a Novell/IBM Payment of at least \$30 million are purely hypothetical, because such an adverse final resolution of the Novell/IBM Litigation would have a substantial adverse effect on the value and prospects of the Company.

(ii) *The Stockholders' Agreement*

On the Effective Date, the Trust will enter into a Stockholders' Agreement with the Company and the holders of the Series A Preferred Stock, pursuant to which, among other things, (a) the Trust will agree not to sell or transfer any of its shares of New Common Stock or New Options or New Warrants, except as provided therein or in the Trust Agreement or the Stock Option Agreement governing the New Options or the Warrant Agreement governing the New Warrants, and (b) the holders of the Company's outstanding equity securities will have rights and obligations (commonly referred to as "tag along" and "drag along" rights) to participate in a sale of all or substantially all of the Company's outstanding equity securities (or a merger or other corporate reorganization of the Company that has the same effect as a sale of all or substantially all of its outstanding equity securities); provided that any such sale or merger or other corporate reorganization will yield cash proceeds to the Trust in an amount at least equal to the Redemption Price.

(iii) *The Stock Option Agreement*

On the Effective Date, the Trust and the Company will enter into a Stock Option Agreement, the terms of which shall govern the issuance and terms of the New Options. The Stock Option Agreement shall provide, among other things, for (a) an exercise price per share equal to \$.02 above the current market value of the common stock of SCO Group on the Effective Date, as determined by the Company's Board of Directors in good faith, (b) an exercise term of ten years from the Effective Date, and (c) cashless exercise of the options (i.e., for issuance of only the net amount of common stock that would be issued if the underlying common stock were sold to pay the option exercise price). The number of shares of common stock into which the New Options issued to the Trust on the Effective Date will be convertible will correspond to the number of shares of Common Stock issuable upon exercise of the outstanding options to purchase Old Common Stock as of the Effective Date, notwithstanding that any holder of such options prior to the Effective Date ceases to be employed by the Company on the Effective Date, and such holder shall have a beneficial interest in the Trust in respect of such prior holdings of options.

(iv) *The Warrant Agreement*

On the Effective Date, the Trust and the Company will enter into a Warrant Agreement, the terms of which shall govern the issuance and terms of the New Warrants. The Warrant

Agreement shall provide, among other things, for (a) an exercise price per share equal to \$.02 above the current market value of the common stock of SCO Group on the Effective Date, as determined by the Company's Board of Directors in good faith, (b) an exercise term of ten years from the Effective Date, and (c) cashless exercise of the warrants (i.e., for issuance of only the net amount of common stock that would be issued if the underlying common stock were sold to pay the warrant exercise price). The number of shares of common stock which will be issued upon exercise of the New Warrants issued to the Trust on the Effective Date will correspond to the number of shares of Common Stock issuable upon exercise of the outstanding warrants to purchase Old Common Stock as of the Effective Date, and such holder shall have a beneficial interest in the Trust in respect of such prior holdings of warrants.

The above descriptions of certain material provisions of the Trust Agreement, the Stockholders' Agreement, the Stock Option Agreement, and the Warrant Agreement are intended to be summary in nature and are qualified in their entirety by reference to the complete provisions of the Trust Agreement, the Stockholders' Agreement, the Stock Option Agreement, and the Warrant Agreement.

(E) The Stock Purchase Agreement; Description of Securities and Instruments to be Issued in Connection with the Plan

(i) The Stock Purchase Agreement.

Pursuant to the Stock Purchase Agreement, a copy of which is attached as **Exhibit 5**, SNCP has agreed, on the terms and conditions set forth therein, to purchase shares of convertible Series A Preferred Stock for a purchase price of US\$5 million. The Stock Purchase Agreement contains several conditions to SNCP's obligation to close the purchase of the Series A Preferred Stock (and therefore to consummate the Plan), including (a) the continued accuracy in all material respects of all representations and certifications of the Debtors set forth in the Stock Purchase Agreement, (b) the absence of any material default by Debtors under the Stock Purchase Agreement, (c) the entry of an order of the Bankruptcy Court confirming the Plan and all motions and pleadings required to implement the Plan (and the absence of any effective stay of such confirmation order) on or before 5:00 p.m., New York City time on August 15, 2008, (d) the satisfactory conclusion of SNCP's due diligence investigation of the Debtors (which shall end at the commencement of the Bankruptcy Court hearing on the approval of this Disclosure Statement), (e) the absence of any change or effect that is or could be reasonably expected to result in a material adverse change in Debtors' business, considered as a whole, or the consolidated financial condition or results of operations of Debtors (other than changes associated with the Chapter 11 Cases or general economic conditions) following the filing of the Plan, (f) the absence of any relevant and material threatened or pending litigation by a governmental authority relating to the consummation of the Plan, and (g) the absence of any injunction, court order or judgment or other ruling, edict or pronouncement with the force of law prohibiting the consummation of any of the transactions contemplated by the Stock Purchase Agreement, the Loan Documents (as defined in the MOU), or the Plan. A copy of the Loan Agreement is attached as **Exhibit 6**.

The Debtors and SNCP have agreed that the Stock Purchase Agreement and Debt Financing will be terminable prior to the consummation of the Plan (so that the Plan will not be

consummated and the Effective Date shall not occur) under the following circumstances: (1) by mutual consent of Debtors and SNCP; (2) by SNCP if its due diligence investigation of Debtors is not reasonably satisfactory to it (as determined by it prior to the commencement of the Bankruptcy Court hearing on the approval of this Disclosure Statement); (3) by SNCP upon written notice of a material breach of any covenant or agreement to be performed or complied with by Debtors which, if capable of being cured, is not cured within 15 business days after notice; (4) by Debtors 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; (5) by either SNCP or Debtors 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 transactions contemplated by the Stock Purchase Agreement and the Loan Documents; (6) by SNCP upon a determination by Debtors or their board of directors to pursue a potential financing of a plan of reorganization proposed by a third party; (7) if the Bankruptcy Court shall not have entered an order confirming the Plan by August 15, 2008.

(ii) *Series A Preferred Stock.*

Under the Plan, and pursuant to the terms and conditions of the Stock Purchase Agreement (including the Designation of Rights and Preferences of the Series A Preferred Stock, a copy of which is attached as Exhibit 7), the Company will issue to SNCP shares of its newly created Series A Preferred Stock. SNCP will initially hold 100% of the issued and outstanding shares of Series A Preferred Stock. The Series A Preferred Stock will have the following rights, powers, protections, and preferences:

(1) *Conversion Rights.* The Series A Preferred Stock will be convertible into shares of common stock of the Company, the conversion rate of which will be determined based on the amount drawn by the Company under the Debt Financing to effect a Novell/IBM Payment following the final resolution of the Novell/IBM Litigation. If no amounts are drawn under the Debt Financing to effect a Novell/IBM Payment, the Series A Preferred Stock will convert into 51% of the then outstanding shares of New Common Stock. If the amount drawn by the Company under the Debt Financing to effect a Novell/IBM Payment is \$30 million or more, the Series A Preferred Stock will convert into 85% of the then outstanding shares of New Common Stock. If the amount drawn by the Company under the Debt Financing to effect a Novell/IBM Payment is more than \$0 but less than \$30 million, the Series A Preferred Stock will convert proportionately (e.g., if the Company drew \$15 million under the Debt Financing to effect a Novell/IBM Payment, the Series A Preferred Stock would convert into 68% of the then outstanding shares of common stock). The conversion rights in respect of the Series A Preferred Stock may be exercised by the holder at any time and from time to time. The number of shares of common stock into which the Series A Preferred Stock is convertible based on the conversion formula described in this section is referred to as the "Conversion Rate." The Conversion Rate will not exceed 85% of the outstanding shares of the Company's common stock, even if additional securities have been issued to the holders of Series A Preferred Stock in payment-in-kind of accrued dividends. The Conversion Rate will not adjust in respect of draws made under the Debt Financing other than to effect a Novell/IBM Payment; without limiting the foregoing, no adjustment in the Conversion Rate shall be made for draws to fund litigation costs