

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

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

**DECLARATION OF DARL C. MCBRIDE,
CHIEF EXECUTIVE OFFICER
IN SUPPORT OF FIRST DAY PLEADINGS**

My name is Darl C. McBride. I am over the age of 18 years and, unless otherwise indicated, make the following representations based upon my personal knowledge and in support of the relief sought in the various pleadings filed with the Court herewith (the “First Day Pleadings”):

A. General Background

1. I am the chief executive officer of The SCO Group, Inc. (“SCO Group” or the “Company”), as well as of SCO Operations, Inc. (“Operations”). Collectively SCO Group and Operations are referred to as “SCO” or “Debtors.”

2. SCO Group and Operations are each a Delaware corporation headquartered in Lindon, Utah.

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. The address for both Debtors is 355 South 520 West, Lindon, UT 84042.

3. 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.

4. 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).

5. SCO Group's common stock is publicly traded on the NASDAQ stock market under the ticker symbol "SCOX." As of September 10, 2007, there were 21,782,164 shares of common stock outstanding and the closing price for the Company's common stock, as reported by The Nasdaq Capital Market, was \$0.71. As of September 10, 2007, there were 402 holders of common stock of record.

6. As of September 10, 2007, SCO and their foreign subsidiaries and affiliates had a total of 123 full and part-time equivalent employees employed in various

capacities including, but not limited to, finance, human resources, executive management and information systems. SCO also regularly engages independent contractors to support the Companies' professional services, product development, sales and marketing organizations. SCO's employees are not represented by any labor union and are not subject to a collective bargaining agreement, and SCO has never experienced a work stoppage. In general, SCO believes that relations with its employees are good.

7. SCO leases administrative, sales and marketing and product development facilities in Lindon, Utah; Scotts Valley, California and Murray Hill, New Jersey.

i. UNIX Business

8. SCO's core business focus is to serve the needs of small-to-medium sized businesses and branch offices and franchisees of Fortune 1000 companies, by providing reliable, cost-effective UNIX software technology for distributed, embedded and network-based systems. SCO also provides a full range of pre- and post-sales technical support for all of its products, primarily focusing on OpenServer and UnixWare. Additionally, SCO provides UNIX-based technical support services and consulting services.

9. SCO's largest source of revenue for its core UNIX business is derived from its worldwide, indirect, leveraged channel of partners, which includes distributors and independent solution providers (collectively, "resellers"). SCO has 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's products is through large corporations, which have a large number of branch offices or franchisees. SCO accesses these corporations

through its information technology or purchasing departments. In addition, SCO also sells its UNIX products to original equipment manufacturers (“OEMs”).

10. 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 every OEM’s hardware architecture, and today UNIX has achieved the goal of seamlessly sharing data across heterogeneous environments. SCO owns certain intellectual property rights relating to the UNIX operating system, which is enforced and protected through the Company’s SCOSource business.

11. UNIX has had a long history of business implementation, and has a large and loyal base of both customers and vendors that provide solutions and applications. On the Intel platform, the Company’s OpenServer and UnixWare products represent a low-cost UNIX operating system available for businesses. The Company’s UNIX product offerings allow its customers to take advantage of the reliability of UNIX at a relatively low cost. Today, SCO continues to focus and generate revenue from small-to-medium business resellers as well as from large corporations, including numerous Fortune 1000 companies. SCO also has continuing relationships with hardware vendors and have received certifications on many of the industry’s top hardware platforms.

12. The Company anticipates that the OpenServer and UnixWare products will continue to provide a future revenue stream for SCO’s UNIX business. Both of these UNIX products have a strong and loyal existing customer base of small-to-medium businesses

and enterprise customers and constitute a well-known brand with a reputation for quality and reliability.

13. SCO also has a seasoned, mature sales channel of resellers focused on the small-to-medium sized business market. This channel is a unique asset that should allow SCO to continue to provide reliable UNIX operating systems for small-to-medium sized business customers.

14. SCO plans to continue to focus its UNIX development resources on current UNIX products. In addition, SCO will focus other engineering resources on mobility products and services for personal and professional productivity. The Company expects 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.

Products and Services

ii. *OpenServer*

15. 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 Company continues to fully support existing users of OpenServer, keeping the operating system current as well as obtaining certain hardware certifications.

iii. *UnixWare*

16. 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. UnixWare 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.

iv. *Other Products*

17. In addition to OpenServer and UnixWare, SCO 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.

v. *Technical Support Services*

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

19. SCO also provides technical support to its partners, including resellers, hardware and software vendors and solution providers, as well as directly supporting SCO's end-user customers. SCO's partners have the option to direct their customers to SCO for technical support or to provide first-level customer support themselves and utilize our technical expertise for second-tier support.

20. 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 SCO may enter into service agreements that best suit their needs.

vi. *Other Services*

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

vii. *Mobility Products and Services*

22. SCO's new Mobility Server product provides a secure, reliable connection point between handheld devices and corporate infrastructure applications and servers; a HipCheck Service which enables pro-active mobile administration for UNIX and Windows servers; a Shout product which enables users to communicate multimedia messaging to groups of any size via a mobile smart phone or rich media web landing page; and a Shout Postcard product which allows users to send virtual postcards from their smart phone.

23. The Company has business alliances with a number of key global industry partners. 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. The Company also has alliances with a number of solution providers who write and develop custom applications to run on UNIX operating systems. Most of SCO's small business customers that cannot afford high-end solutions or an information technology staff rely on one of SCO's channel partners for these services. Maintaining these strategic alliances for the year ending October 31, 2007 will be critical to the success of SCO's UNIX business. The Company intends to continue to

keep relationships with key partners in certain vertical markets such as retail, medical/pharmaceutical, manufacturing and accounting where the Company's UNIX operating systems have an existing presence. The Company's efforts to maintain or expand industry partnerships may be adversely impacted by issues related to the Litigation (defined hereinafter).

24. The Company's UNIX sales and marketing and field operations are organized by geographic area: SCO's Americas division and its International division. Each division includes a sales organization, field marketing, pre- and post-sales technical support, and local professional services personnel.

25. The Americas team has field sales and support personnel located around the United States, Latin America and Canada. This region delivered approximately 54% of the total revenue for the year ended October 31, 2006.

26. The International region delivered approximately 46% of the total revenue for the year ended October 31, 2006 and includes EMEA (Europe, the Middle East and Africa) and Asia Pacific. SCO has resources, employees or contractors in the United Kingdom, Germany, France, Israel, Italy, China, Korea, Netherlands, Eastern Europe, India, Japan, Australia, and Taiwan.

27. SCO considers its indirect sales channel as one of its most valuable assets. In addition to the current revenue this channel produces, SCO's reseller partners are valuable for the influence they wield on the purchasing decisions of small and medium businesses. SCO's resellers are often not only the primary point of contact for their business customers' purchasing decisions, but are their customers' outsourced information technology

department. The reach of SCO's network of resellers into the small and medium business community is broad as evidenced by its large install base of servers running various versions of SCO's OpenServer and UnixWare operating systems..

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

- a. branding SCO's UNIX and mobile products through public relations and advertising activities;
- b. maintaining an effective partner program to generate brand awareness and promote SCO's UNIX and mobile products; as well as
- c. increasing public awareness of SCO's UNIX and mobile products by participating in strategic tradeshow, conferences and technology forums.

Software Engineering and Development

29. The Company 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 Company believes that these product enhancements will extend the lives and improve the functionality of SCO's UNIX products, they will not result in significant revenue increases in the short-term due to the long adoption

cycle for new operating system purchases and the length of SCO's operating system product sales cycle as well as the competition in the Company's markets.

30. The Company also deploys engineering resources for its mobility products and services for personal and professional productivity, as well as custom services for business, government and consumer users. The Company expects 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.

31. The Company's product development process is modeled to standard, commercial software engineering practices and it applies these practices to ensure consistent product quality. As a result, SCO is able to offer its platform products to OEM customers in several configurations without significant additional effort. The Company incurred \$8,045,000, \$8,337,000 and \$10,661,000 in research and development expense during the years ended October 31, 2006, 2005 and 2004, respectively.

SCOsorce Business

32. The Company 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, which Novell acquired from UNIX System Laboratories, a subsidiary of AT&T. Through this process, the Company 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 the control over UNIX derivative works. The UNIX licenses the Company obtained has 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 the Company.

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

B. Events Leading to SCO's Filing of Chapter 11 Case

i. *Competition*

34. Sales of SCO's UNIX-based products and services have been declining over the last several years. This decline in revenue has been primarily attributable to significant competition from alternative operating systems, particularly Linux.

35. The Company faces direct competition in the operating system market from Linux

36. operating system providers, other non-UNIX operating system providers and other UNIX-based operating system providers. In the operating system market, some of the Company'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 and SCO’s UNIX revenue has declined over the last several years.

37. SCO believes that it competes favorably with many of its operating system competitors in a number of respects, including product performance, functionality and networking capability.

38. Notwithstanding these factors, the Company’s revenue has declined over the last several years. Many of SCO’s competitors are significantly larger than SCO and have much greater access to funding, technical expertise, marketing, and research and development. In addition, many of SCO’s competitors have established brand recognition and market presence that may prevent SCO from obtaining or retaining market share. Additionally, there has been negative publicity surrounding the litigation relating to the Company’s ownership of UNIX and related copyrights that has, to some degree, hampered SCO’s ability to compete favorably.

39. The success of SCO’s UNIX business will, in large measure, depend on the level of commitment and certification it receives from industry partners and developers. In recent years, the Company has 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’s UNIX operating system products. This trend continued for the Company’s fiscal year ended October 31, 2006, and it continue during the year ending October 31, 2007. If this trend continues, SCO’s competitive position will be adversely impacted and future revenue from UNIX business will decline. The decline in SCO’s UNIX business may be accelerated if industry partners withdraw their support from the

