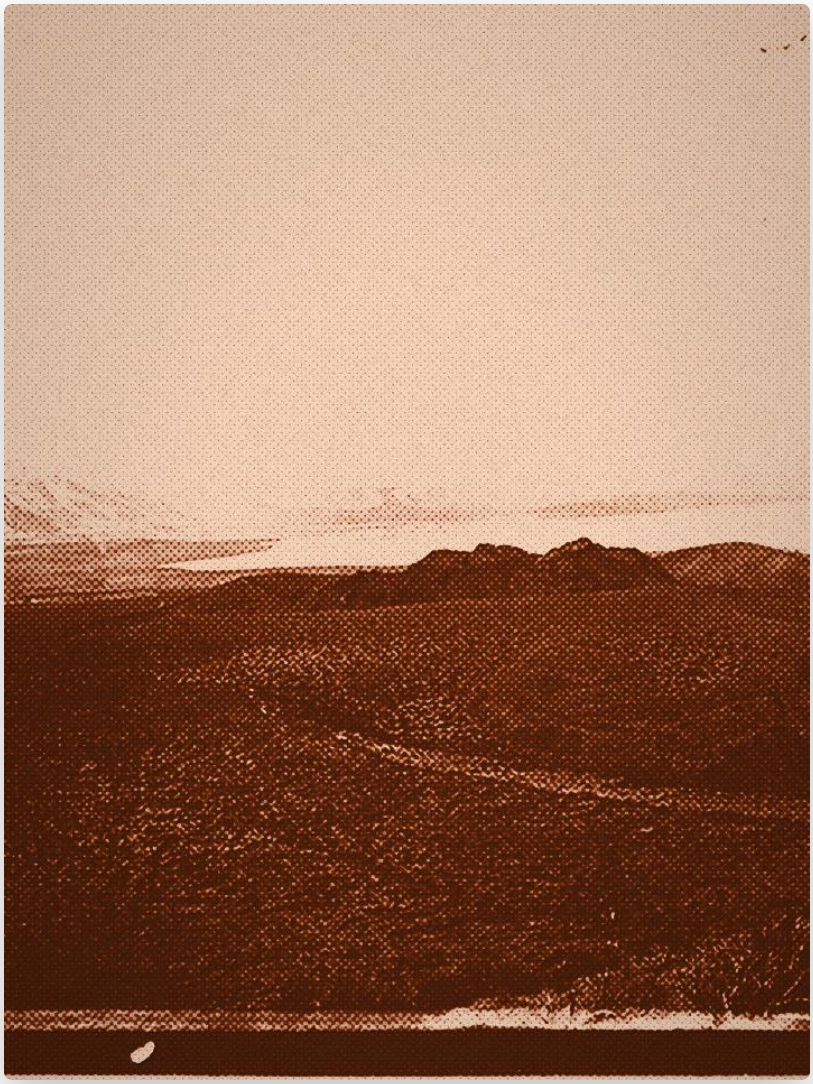
FORM S-1 · REGISTRATION STATEMENT

SCO Group Inc

IPO priced 2000-03-21 · $14.00 a share · CALD



From S1 Directory · www.s1directory.com/s1/sco-group-inc/ · Source: https://www.sec.gov/Archives/edgar/data/1102542/000103570400000008/0001035704-00-000008.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 10, 2000.

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

CALDERA SYSTEMS, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	7372	87-0617393
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

240 WEST CENTER STREET OREM, UT 84057 TELEPHONE: (801) 765 4999 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) RANSOM H. LOVE CHIEF EXECUTIVE OFFICER CALDERA SYSTEMS, INC. 240 WEST CENTER STREET OREM, UT 84057 TELEPHONE: (801) 765-4999 FACSIMILE: (801) 765-1313 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE OF AGENT FOR SERVICE)

COPIES TO:

RICHARD R. PLUMRIDGE, ESQ. JOHN E. HAYES III, ESQ. BRUCE E. CUNNINGHAM, ESQ. TROY M. KELLER, ESQ. BROBECK, PHLEGER & HARRISON LLP 370 INTERLOCKEN BOULEVARD, SUITE 500 BROOMFIELD, CO 80021 (303) 410-2000	KENNETH L. GUERNSEY, ESQ. JAMIE E. CHUNG, ESQ. STEVE R. DAETZ, ESQ. ERIN A. SAWYER, ESQ. COOLEY GODWARD LLP ONE MARITIME PLAZA, 20TH FLOOR SAN FRANCISCO, CA 94111-3580 (415) 693-2000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. [ ] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, CHECK THE FOLLOWING BOX. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE
Common stock, par value $0.001 per share.....	$57,500,000	$15,180

(1) ESTIMATED SOLELY FOR THE PURPOSE OF CALCULATING THE REGISTRATION FEE IN ACCORDANCE WITH RULE 457(O).

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL SECURITIES, AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES, IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, JANUARY 10, 2000

[LOGO]

SHARES

COMMON STOCK

Caldera Systems, Inc. is offering shares of its common stock. This is our initial public offering and no public market currently exists for our shares. We have applied for quotation of our common stock on the Nasdaq National Market under the symbol "CALD." We anticipate that the initial public offering price will be between $ and $ per share.

Investing in Our Common Stock Involves Risks. See "Risk Factors" Beginning on Page 5.

Per Share	*Total*
Public Offering Price	$ $
Underwriting Discounts and Commissions	$ $
Proceeds to Caldera Systems, Inc.	$ $

THE SECURITIES AND EXCHANGE COMMISSION AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED OF THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Caldera Systems, Inc. has granted the underwriters a 30-day option to purchase up to an additional shares of common stock to cover over-allotments.

ROBERTSON STEPHENS BEAR, STEARNS & CO. INC. WIT CAPITAL CORPORATION FIRST SECURITY VAN KASPER The date of this prospectus is , 2000.

[Art to be depicted on the inside front cover shows a man holding the Caldera logo as business people move around him. Text on the page reads "Linux for eBusiness Solutions -- Caldera."]

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SHARES OF COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF

DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF OUR COMMON STOCK. IN THIS PROSPECTUS, "CALDERA SYSTEMS," "WE," "US" AND "OUR" REFER TO CALDERA SYSTEMS, INC., A DELAWARE CORPORATION.

UNTIL , ALL DEALERS THAT BUY, SELL OR TRADE OUR COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

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We have license rights to "CALDERA(R)" and "CALDERA SYSTEMS(TM)", a pending trademark application. This prospectus also contains trademarks and trade names of other companies.

Prospectus Summary

You should read this summary together with the entire prospectus, including the more detailed information in this prospectus, including risk factors, regarding our company and the common stock being sold in this offering.

Our Business

Caldera Systems, Inc. enables the development, deployment and management of Linux specialized servers and Internet access devices that simplify computing. Our Linux software products and service offerings are specifically designed to meet the complex needs of eBusiness, or business over the Internet. We employ commercial software development practices in producing our Linux products by assembling open source code so that it is logically arranged and then rigorously testing for quality and performance. Our use of this process, known as self-hosting, is unique in the Linux community and gives our products a high level of stability and reliability. During 1999 our OpenLinux technology received many awards and recognitions including Internetweek's "Best of the Best," The Linux Show's "Best Distribution of Millennium," Linux Journal's Product of the Year award at Comdex and Network Computing's Well-Connected Award for Best Network Operating System.

We complement our product offerings with value-added services. We offer a comprehensive, distribution-neutral education and training for Linux. A student who has successfully completed our courses will be proficient with the leading distributions, or versions, of Linux. Other services that we offer include technical support to assist end users during installation and operation of our products, consulting and custom development, optimization and certification for specific hardware platforms and documentation on Linux usage.

We have an effective distribution channel through electronic solution providers, which enables us to easily reach business users. We define electronic solution providers to include distributors, value-added resellers, or VARs, original equipment manufacturers, or OEMs, Internet service providers, or ISPs, and any partner that offers value-added solutions for eBusiness. We provide electronic solution providers with the products, third-party applications, education, training and tools to effectively facilitate or offer a Linux solution for eBusiness. We primarily distribute our products and services through this indirect distribution channel model. Our customers include AST Computers, Cendant, First International Computers, Frank Kasper & Associates, Gates/Arrow, IBM, Ingram Micro, MediaGold, MTI Technology Corporation, Navarre Corporation, Support Net and Tech Data.

Market Opportunity

The Internet has accelerated the introduction of processes for managing information, providing services and solutions and handling customers and has changed the way software applications are developed and deployed. The Internet has also enabled and accelerated a trend towards distributed software applications. This has led to a rise of thin appliance servers, or specialized servers. Dataquest projects that the worldwide market for thin appliance servers will grow from approximately $2.2 billion in 1999 to approximately $16.0 billion by 2003. In addition, low cost Internet access devices, such as personal digital assistants and television set-top boxes, are emerging to allow more users the ability to participate in eBusiness.

This new eBusiness computing environment requires an operating system that can accommodate its accelerated evolution. Linux, with its comprehensive Internet functionality, flexibility and customizability, high scalability, stability, interoperability with multiple systems and networks and multi-appliance capability is an optimal operating system for eBusiness. International Data Corporation projects the total market for Linux shipments will increase at a compound annual growth rate of 25% from 1999 to 2003. Also, Dataquest has predicted that Linux thin servers will account for approximately $3.8 billion in server appliance revenues by 2003. However, historically, business users have lacked a Linux solution that is specifically tailored for eBusiness. We seek to fulfill this need with our solution for eBusiness.

Our Strategy

Our goal is to become the leading provider of Linux for eBusiness. Key elements of our strategy to achieve this goal include:

- providing Linux software for specialized servers and Internet access devices, which are becoming key components in the new eBusiness environment;

- remaining committed to our research and development effort and staying abreast of the fast changing eBusiness environment;

- increasing our channel presence in Linux, which has given us a head start in accessing the business community with our Linux products;

- leveraging our technology, marketing and distribution partners to facilitate faster growth;

- facilitating the adoption of Linux for eBusiness through education and training;

- establishing our Web site as the one-stop center for eBusiness; and - expanding our international presence to take advantage of growing market opportunities.

Corporate Information

We began operations in 1994 as Caldera, Inc. In July 1996, Caldera, Inc. acquired an additional business line which was not engaged in developing and marketing Linux software. Caldera, Inc. subsequently made the strategic determination to separate its two business lines into separate entities and, effective September 1, 1998, sold the assets relating to its business of developing and marketing Linux software to Caldera Systems, Inc., a newly-formed corporation. Caldera Systems, Inc. has operated as a separate legal entity engaged in developing and marketing Linux software since September 1, 1998. Caldera Systems, Inc. was incorporated in Utah in August 1998. We intend to reincorporate in Delaware prior to the closing of this offering. Our principal offices are located at 240 West Center Street, Orem, Utah 84057. Our telephone number at this location is (801) 765-4999. Our Web site address is www.calderasystems.com. The information on our Web site does not constitute part of this prospectus.

The Offering

Common stock offered by Caldera Systems..... shares Common stock to be outstanding after this offering..... shares Use of proceeds..... To provide for general corporate purposes, including sales and marketing activities, product development and support, and hiring of additional personnel and potentially for acquisitions or investments. See "Use of Proceeds."

Nasdaq National Market symbol..... CALD

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     The outstanding share information is based on our shares outstanding as of
January   , 2000. This information excludes           shares of common stock
issuable upon the exercise of stock options outstanding as of January   , 2000,
with a weighted average exercise price of $     per share.
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Unless otherwise indicated, all information contained in this prospectus:

- gives effect to the conversion of all outstanding convertible preferred stock into common stock upon the closing of this offering;

- assumes our reincorporation in Delaware prior to the closing of this offering; and - assumes the underwriters' over-allotment option is not exercised.

Summary Financial Data

(In Thousands, Except Per Share Data)

The following tables summarize the financial data for our business. The summary financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus.

	YEAR ENDED OCTOBER 31,				
	1995 (UNAUDITED)	1996 (UNAUDITED)	1997	1998	1999
STATEMENT OF OPERATIONS DATA:					
Revenue	$ --	$ 1,108	$ 1,117	$ 1,057	$ 3,050
Cost of revenue	--	880	1,142	2,398	2,926
Gross margin (deficit)	--	228	(25)	(1,341)	124
Loss from operations	(1,359)	(2,649)	(7,578)	(6,853)	(9,103)
Net loss	(1,350)	(2,757)	(8,148)	(7,963)	(9,367)
Basic and diluted net loss per common share	$ (0.11)	$ (0.23)	$ (0.68)	$ (0.66)	$ (0.67)
Basic and diluted weighted average common shares outstanding	12,033	12,033	12,033	12,033	13,882
Basic and diluted pro forma net loss per common share (unaudited)					$ (0.51)
Basic and diluted pro forma weighted average common shares outstanding (unaudited)					18,458

	AS OF OCTOBER 31, 1999		
	ACTUAL	PRO FORMA (UNAUDITED)	PRO FORMA AS ADJUSTED (UNAUDITED)

BALANCE SHEET DATA:			
Cash	$ 122	$27,622	$
Working capital	678	28,178	
Total assets	3,714	45,665	
Long-term liabilities	6	6	
Total stockholders' equity	1,516	43,467	

The pro forma amounts reflect:

- our issuance in December 1999 of 106,356 shares of our common stock in exchange for 159 shares or approximately 2 percent of the outstanding common stock of Troll Tech AS, a strategic technology partner of ours;

- our sale in December 1999 and January 2000 of 5,000,000 shares of Series B convertible preferred stock for net proceeds of approximately $29.5 million and our recording of a beneficial conversion feature valued at $10.0 million based on the difference between the conversion price and the estimated fair market value of our common stock at the time of the sale;

- our purchase in January 2000 of 592,592 shares of common stock or approximately 4 percent of the outstanding common and preferred stock of Evergreen Internet, Inc., a strategic technology partner of ours, for $2.0 million and our issuance to Evergreen Internet, Inc. of 200,000 shares of our common stock;

- our issuance in January 2000 of 1,250,000 shares of our common stock in exchange for 3,238,437 shares or approximately 17 percent of the outstanding common stock of Lineo, Inc., a strategic technology partner of ours; and - the conversion of our Series A convertible preferred stock and Series B convertible preferred stock into our common stock upon the closing of this offering.

Pro forma as adjusted amounts reflect the pro forma adjustments as well as the sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Risk Factors

An investment in our common stock involves a high degree of risk. You should consider carefully the following information about these risks, together with our financial statements and related notes and the other information contained in this prospectus, before you decide to buy our common stock. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. In this case, the market price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

Risks Related to Our Operations

WE HAVE A LIMITED OPERATING HISTORY SO IT WILL BE DIFFICULT FOR YOU TO EVALUATE AN INVESTMENT IN OUR COMPANY.

Although we began operations in 1994, during the past 12 months we have substantially revised our business plan to focus on Linux for eBusiness, made additions to our product line and hired a significant number of new employees, including key members of our management team. Consequently we have only a limited relevant operating history for you to evaluate an investment in our company. As a company in a new and rapidly evolving industry, we face risks and uncertainties relating to our ability to successfully implement our strategy. You must consider the risks, expenses and uncertainties that a company like ours, operating with an unproven business model, faces in a new and rapidly evolving market such as the market for Linux software. These risks include our ability to:

- spur demand for Linux in the business community;

- broaden awareness of the Caldera Systems brand;

- maintain our current, and develop new, strategic relationships with technology partners and solution providers;

- attract, integrate and retain qualified management personnel;

- attract, integrate and retain qualified personnel for the expansion of our sales, professional services, engineering, marketing and customer support organizations;

- continue to develop and upgrade product offerings tailored for business;

- respond effectively to competitive pressures; and - generate revenues from the sale of our software products, services, education programs and training.

If we cannot address these risks and uncertainties or are unable to execute our strategy, we may not be successful, which would significantly reduce the value of your investment.

We Have Not Been Profitable and We Expect Our Losses to Continue.

We have never been profitable. If our revenues decline or grow at a slower rate than we anticipate, or if our spending levels exceed our expectations or cannot be adjusted to reflect slower revenue growth, we may not generate sufficient revenues to achieve or sustain profitability or generate positive cash flow. In this case, the value of your investment could be reduced. For the fiscal year ended October 31, 1999, we incurred a net loss of approximately $9.4 million. As of October 31, 1999, we incurred total net losses of approximately $29.6 million since inception of our business in 1994. We expect to continue to incur losses because we anticipate incurring significant expenses in connection with developing our products, hiring and training employees, expanding our market reach and building awareness of our brand. We forecast our future expense levels based on our operating plans and our estimates of future revenues. We may find it necessary to accelerate expenditures relating to product development and support and our sales and marketing efforts beyond our current expectations or otherwise increase our financial commitment to creating and maintaining brand awareness among potential customers.

YOU SHOULD NOT RELY ON OUR QUARTERLY OPERATING RESULTS AS AN INDICATION OF OUR FUTURE RESULTS BECAUSE THEY ARE SUBJECT TO SIGNIFICANT FLUCTUATIONS. FLUCTUATIONS IN OUR OPERATING RESULTS OR THE FAILURE OF OUR OPERATING RESULTS TO MEET THE EXPECTATIONS OF PUBLIC MARKET ANALYSTS AND INVESTORS MAY NEGATIVELY IMPACT OUR STOCK PRICE.

Our quarterly operating results have varied in the past and we expect them to fluctuate significantly in the future due to a variety of factors that could affect our revenues or our expenses in any particular quarter. For example, historically, we have experienced substantial fluctuations in our revenues from period to period relating to the introduction of new products and new versions of our existing products. Upon our announcement of an expected release date for a new product or upgrade, we often experience a significant decrease in sales of our existing products. Additionally, we often experience the strongest sales for a new product during the first 30 days after its introduction as we fill advance orders from our distribution channel. Fluctuations in our quarterly operating results could cause our stock price to decline. You should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. Factors that may affect our quarterly results include:

- the interest level of electronic solution providers in recommending our Linux business solutions to end users;

- the introduction, development, timing, competitive pricing and market acceptance of our products and services and those of our competitors;

- changes in general economic conditions, such as recessions, that could affect capital expenditures and recruiting efforts in the software industry in general and in the Linux environment in particular;

- the magnitude and timing of marketing initiatives;

- changing business attitudes toward Linux as a viable operating system alternative to other competing systems;

- the maintenance and development of our strategic relationships with technology partners and solution providers;

- the attraction, retention and training of key personnel; and - our ability to manage our anticipated growth and expansion.

As a result of the factors listed above and elsewhere in this "Risk Factors" section of the prospectus, it is possible that in some future periods our results of operations may be below the expectations of public market analysts and investors. This could cause our stock price to decline. In addition, we plan to significantly increase our operating expenses to expand our sales and marketing, administration, consulting and training, maintenance and technical support and research and development groups. If revenues fall below our expectations in any quarter and we are unable to quickly reduce our spending in response, our operating results would be lower than expected and our stock price may fall.

WE RELY ON OUR INDIRECT SALES CHANNEL FOR DISTRIBUTION OF OUR PRODUCTS, AND ANY DISRUPTION OF OUR CHANNEL AT ANY LEVEL COULD ADVERSELY AFFECT THE SALES OF OUR PRODUCTS.

We have a two-tiered distribution channel through which the majority of our sales occur. As of November 1, 1999, we had approximately 35 distributors worldwide who purchased directly from us. These distributors in turn sell to approximately 4,000 retail outlets in the United States and approximately 900 equivalent sites internationally. These relationships allow us to offer our products and services to a much larger customer base than we would otherwise be able through our direct sales and marketing efforts. Some electronic solution providers also purchase eBusiness solutions through our distributors, and we anticipate they will continue to do so as we expand our product offerings for eBusiness. Because we usually do not sell directly to electronic solution providers, we cannot control the relationships through which they purchase our products. In turn we do not control the presentation of our products by electronic solution providers to end users. Therefore, our distribution channel could be affected by disruptions in the relationships between our distributors and electronic solution providers or between electronic solution providers and end users. Also, distributors and electronic solution providers may choose not to emphasize use of our products to their customers. Any of these occurrences could diminish the effectiveness of our distribution channel and lead to decreased sales.

In particular, we are highly dependent on our relationships with our distribution partners, such as Frank Kasper & Associates, Ingram Micro, Navarre Corporation and Tech Data, domestically, and MediaGold in Europe, for the distribution of our products. Sales through distributors together accounted for approximately 73% of our total revenue for the fiscal year ended October 31, 1999. We plan to continue to develop relationships with new distributors to introduce product and service offerings into new markets, including into foreign countries. If any of these distribution partners do not provide opportunities for growth or become closed to us, or if we are unable to create new distribution channels for new markets, we will be required to seek alternative channels of distribution for our products and services. We may be unable to do so, in which case our business would suffer.

WE ARE HIGHLY DEPENDENT UPON OUR STRATEGIC RELATIONSHIPS WITH OUR TECHNOLOGY PARTNERS AND THE LOSS OF ANY OF THESE RELATIONSHIPS COULD ADVERSELY AFFECT OUR BUSINESS PROSPECTS.

We depend on our alliances with our technology partners such as Citrix Systems, Evergreen Internet, Novell and Sun Microsystems. These relationships encompass product integration, two-way technology transfers, channel partnerships and revenue-generating initiatives in areas such as product bundles, training and education and third level technical support for our partners. We expect that these relationships will create opportunities for our products and services in business markets in which we otherwise might not have access. If we are unable to maintain these relationships, we will not be able to develop and deploy our products in certain segments of the business community and our product development and sales will not grow.

In addition, our existing strategic relationships with technology partners do not, and any future strategic relationships may not, afford us any exclusive marketing development or distribution rights. As a result, the companies with which we have strategic alliances are free to pursue alternative technologies and to develop alternative products and services in addition to or in lieu of our products and services, either on their own or in collaboration with others, including our competitors. Moreover, we cannot guarantee that the companies with which we have strategic relationships will market our products effectively or continue to devote the resources necessary to provide us with effective sales, marketing and technical support, or that our partners will not choose to open source products into which we have invested significant time and resources, thereby reducing the value of our rights in these products.

In particular we rely on our relationship with Evergreen Internet from whom we license the rights to significant components of our eBuilder product. Evergreen Internet has the right to terminate our license if eBuilder has not been made available for shipping by June 30, 2000, and may also terminate our license at any time after January 1, 2003. If Evergreen Internet terminates our license or fails to provide necessary support for our development and marketing efforts, including providing necessary upgrades to eBuilder, we may be unable to provide products integral to our eBusiness solutions.

Risks Relating to Linux and Our Open Source Software

WE RELY ON INDEPENDENT DEVELOPERS IN THE OPEN SOURCE COMMUNITY, SUCH AS LINUS TORVALDS, IN ORDER TO RELEASE UPGRADES OF OUR LINUX-BASED PRODUCTS.

Many of the components of our software products, including the Linux kernel, the core of the Linux operating system, are developed by independent developers in the open source community and are available for inclusion in our products without cost. Linus Torvalds, the original developer of the Linux kernel, and a small group of independent engineers are primarily responsible for the development and evolution of the Linux kernel. Neither Mr. Torvalds nor any significant contributor to the Linux kernel is an employee of ours. If these independent developers and others in the open source community do not further develop the Linux kernel and other open source software included in our products on a timely basis, or at all, our ability to enhance our product offerings will suffer. As a consequence, we will be forced to rely to a greater extent on our own development efforts or license commercial software products as replacements, which would increase our expenses and delay enhancements to our products. For example, in the past we have sometimes been unable to upgrade all open source components of a product in connection with a proposed release because enhancements had not yet been made by these independent developers. Any failure on the part of the kernel developers to further develop and enhance the kernel could also stifle the development of additional Linux applications.

OUR BUSINESS MODEL, WHICH RELIES ON A COMBINATION OF OPEN SOURCE SOFTWARE AND PROPRIETARY TECHNOLOGY IS UNPROVEN.

Our business model incorporates as integral elements of our product offerings both commercial products and open source software. We know of no company that has built a profitable business based in whole or in part on open source software. By incorporating open source components in our product offerings, we face many of the same risks that other open source companies experience, including the inability to offer warranties and indemnities on products and services. In addition, by developing products based on proprietary technology that is not freely downloadable we may run counter to the perception of Linux as an open source model and alienate the Linux community. For example, our business model has been criticized by some members of the open source software community on various Web-based forums, including online articles, electronic bulletin boards and online chat rooms. Others have asserted that we are trying to dominate the market for Linux operating systems much like other companies have been able to dominate traditional software markets. Our critics argue that our business model, if successful, would fragment the Linux community, resulting in a less cohesive and cooperative development process. Negative reaction such as this, if widely shared by our customers, developers or the open source community, could harm our reputation, diminish our brand and decrease our revenue. Our business will fail if we are unable to successfully implement our business model.

Our business model also depends upon incorporating contributions from the open source community into products that we open source. The viability of our product offerings depends in large measure upon the efforts of the open source community in enhancing products and making them compatible for use across multiple software and hardware platforms. There are no guarantees that these products will be embraced by the open source community such that programmers will contribute sufficient resources for their development. If the open source community does not embrace products that we view as integral to providing eBusiness solutions, we will be required to devote significant resources to develop these products on our own.

OUR RELIANCE ON INDEPENDENT THIRD PARTIES WHO DEVELOP MOST OF THE SOFTWARE INCLUDED IN OUR PRODUCTS COULD RESULT IN DELAYS OR UNRELIABLE PRODUCTS AND DAMAGE TO OUR REPUTATION.

Our products consist of many different software components and applications, most of which are developed by independent third parties over whom we have limited or no control. While we use rigid engineering standards in testing the products or applications that we integrate in our products, we cannot guarantee that we have selected or will select in the future the most reliable components available in the market or that we will successfully integrate the many components of our products. In addition, if any of these third-party products are not reliable or available, we may have to develop them ourselves, which would significantly increase our development expenses and delay our time to market. Our customers could be dissatisfied if any of these products fail to work as designed or if adequate support is not provided, which could damage our reputation and lead to potential litigation.

BUSINESSES MAY NOT ADOPT OUR LINUX PRODUCTS DUE TO THE SCARCITY OF SOFTWARE APPLICATIONS FOR LINUX OPERATING SYSTEMS AND THE LACK OF LINUX STANDARDS FOR THESE APPLICATIONS.

Businesses will not adopt our Linux products if sufficient Linux applications are not available to meet their needs. For example, widely-used software products such as Microsoft Office, Intuit Quicken, Adobe and others have not been developed for use with Linux operating systems, such as OpenLinux. In addition, no standards for compatibility among the several versions of Linux currently in the market have been widely adopted. Many software developers will be unlikely to develop products for Linux if they will not be compatible with the majority of Linux versions. If these developers decide not to develop applications that meet the needs of eBusiness, demand for our products and services may decline or fail to grow.

The Market for Linux Business Solutions May Not Grow as We Anticipate.

Our strategy for marketing Linux solutions to businesses depends in part upon our belief that many businesses will follow a trend away from the use of networked computers linked by centralized servers and move toward the use of distributed applications through thin appliance servers, or specialized servers, Internet access devices and application service providers. We also are relying on electronic solution providers making these technologies available on Linux and on Linux then becoming a desirable operating system under these circumstances. We also plan to market our Linux products for use on these specialized servers and Internet access devices, which we believe will become widely used for eBusiness. However, if businesses do not adopt these trends in the near future, or if Linux is not viewed as a desirable operating system in connection with these trends, a significant market for our products may not develop. Factors that may keep businesses from adopting these trends include:

- costs of installing and implementing new hardware devices;

- costs of porting legacy systems into new platforms;

- security concerns regarding manipulation of data through application service providers;

- limited adoption of Linux among businesses generally;

- previous significant investments in competing systems;

- lack of adequate Linux-trained professionals and support services;

- lack of standards among Linux products and applications; and - lack of acceptance of the Internet as a medium for distributing business applications.

Even if these trends toward distributed applications are adopted, if the development of Linux products and Linux applications is not sufficient to meet the needs of eBusiness, a significant market for Linux business solutions such as ours may not materialize.

Risks Related to Legal Uncertainty

WE COULD BE PREVENTED FROM SELLING OR DEVELOPING OUR PRODUCTS IF THE GNU GENERAL PUBLIC LICENSE AND SIMILAR LICENSES UNDER WHICH OUR PRODUCTS ARE DEVELOPED AND LICENSED ARE NOT ENFORCEABLE.

The Linux kernel and certain other components of our products have been developed and licensed under the GNU General Public License and similar licenses. These licenses state that any program licensed under them may be liberally copied, used, modified and distributed freely, so long as all modifications are also freely made available and licensed under the same conditions. We know of no instance in which a party has challenged the validity of these licenses or in which these licenses have been interpreted in a legal proceeding. To date, all compliance with these licenses has been voluntary. It is possible that a court would hold one or more of these licenses to be unenforceable in the event that someone were to file a claim asserting proprietary rights in a program developed and distributed under them. Any ruling by a court that these licenses are not enforceable, or that Linux operating systems, or significant portions of them, may not be liberally copied, modified or distributed freely, would have the effect of preventing us from selling or developing our products, unless we are able to negotiate a license to use the software or replace the affected portions. These licenses could be expensive, which could impair our ability to competitively price our products.

WE ARE VULNERABLE TO CLAIMS THAT OUR PRODUCTS INFRINGE THIRD-PARTY INTELLECTUAL PROPERTY RIGHTS, PARTICULARLY BECAUSE OUR PRODUCTS ARE COMPRISED OF MANY DISTINCT SOFTWARE COMPONENTS DEVELOPED BY THOUSANDS OF INDEPENDENT PARTIES.

We may be exposed to future litigation based on claims that our products infringe the intellectual property rights of others. This risk is exacerbated by the fact that most of the code in our products is developed by independent parties over whom we exercise no supervision or control and who, themselves, might not have the same financial resources as us to pay damages to a successful litigant. Claims of infringement could require us to re-engineer our products or seek to obtain licenses from third parties in order to continue offering our products. In addition, an adverse legal decision affecting our intellectual property, or the use of significant resources to defend against this type of claim, could place a significant strain on our financial resources and harm our reputation.

FAILURE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS WOULD RESULT IN SIGNIFICANT HARM TO OUR BUSINESS.

While much of the code for our products is open source, our success depends significantly on our ability to protect our trademarks, trade secrets and certain proprietary technology contained in our products. We rely on a combination of copyright and trademark laws, and on trade secrets and confidentiality provisions and other contractual provisions to protect our proprietary rights. These measures afford only limited protection. Some trademarks that have been registered in the United States have been licensed to us, and we have other trademark applications pending in the United States. Effective trademark protection may not be available in every country in which we intend to

offer our products and services. Our means of protecting our proprietary rights in the United States or abroad may not be adequate and competitors may independently develop similar technologies. Our future success will depend in part on our ability to protect our proprietary rights. Despite our efforts to protect our proprietary rights and technologies unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary. Legal proceedings to enforce our intellectual property rights could be burdensome and expensive and could involve a high degree of uncertainty. These legal proceedings may also divert management's attention from growing our business. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. If we do not enforce and protect our intellectual property, our business may suffer substantial harm.

BECAUSE WE DO NOT OWN THE LINUX TRADEMARK, WE MAY BE PROHIBITED FROM USING IT IN CONNECTION WITH OUR PRODUCTS, WHICH COULD DAMAGE OUR BRAND AWARENESS.

We use the term, Linux, as part of the name of several of our products, including OpenLinux. We also use Linux in our advertising and marketing materials and in our product documentation and for other commercial uses. However, we have no ownership of or contractual right to use the Linux trademark. In September 1999, our trademark applications in the United States for "OpenLinux(TM)" and "Linux for Business(TM)" were rejected. If the "Linux" trademark is invalidated through a legal action, or if we are prohibited from using it, our reputation and brand awareness could suffer. Also, because we do not control the use of this trademark, use by others could lead to confusion about the source, quality, reputation and dependability of Linux in general, which could negatively affect the market for Linux products.

WE MAY BE LIABLE AS A RESULT OF INFORMATION RETRIEVED FROM OR TRANSMITTED OVER THE INTERNET.

We may be sued for defamation, civil rights infringement, negligence, copyright or trademark infringement, personal injury, product liability or other legal claims relating to information that is 10 published or made available on our Web site and the other sites linked to it. These types of claims have been brought, sometimes successfully, against providers of online services in the past. We could also be sued for the content that is accessible from our Web site and through links to other Internet sites or through content and materials that may be posted by members in chat rooms or on bulletin boards. Our insurance does not specifically provide for coverage of these types of claims and therefore may not adequately protect us against these types of claims. In addition, we could incur significant costs in investigating and defending such claims, even if we ultimately are not liable. If any of these events occur, our revenues and the value of your investment could be materially adversely affected.

Other Risks Relating to Our Business

WE MUST ACHIEVE RAPID MARKET PENETRATION OF OUR PRODUCTS IN ORDER TO COMPETE SUCCESSFULLY.

Because the Linux and eBusiness markets are new and emerging, companies that are early in providing products and solutions for these markets will have an advantage in building awareness and consumer loyalty. Therefore, in order for us to successfully market our products on a wide-scale basis, we must rapidly achieve market penetration. For example, if we are unable to demonstrate the viability of our products through rapid growth:

- software developers will be less likely to develop applications for our products;

- we will be unable to achieve economies of scale;

- we will be less able to negotiate favorable terms with distributors and other partners; and - customers will be less likely to devote resources to purchasing and implementing our products if they are not seen as an industry standard.

We may lack the economic and managerial resources necessary to promote this growth. Also, the fact that we rely almost entirely on the success of a few principal products affects our ability to penetrate diversified markets. In addition, while we believe our process of self-hosting results in superior products, it requires time and resources that may delay new product releases and upgrades. These delays could affect our ability to take advantage of market opportunities on a timely basis.

Our Brand May Not Achieve the Broad Recognition Necessary to Succeed.

We believe that broad recognition and a favorable audience perception of the Caldera Systems brand will be essential to our success. If our brand does not achieve broad recognition as the leading provider of Linux solutions for eBusiness, our success will be limited. We intend to build brand recognition through advertising our products and services and by marketing www.calderasystems.com as a premier online resource for eBusiness solutions. During the fiscal year ended October 31, 1999, we spent approximately $1.2 million for advertising. We expect to significantly increase our advertising expenses in future periods as we build the Caldera Systems brand and awareness of our products and services. We may lack the resources necessary to accomplish these initiatives. Even if the resources are available, we cannot be certain that our brand enhancement strategy will deliver the brand recognition and favorable audience perception that we seek. If our strategy is unsuccessful, these expenses may never be recovered and we may be unable to increase future revenues. Even if we achieve greater recognition of our brand, competitors with greater resources or a more recognizable brand could reduce our market share of the emerging Linux market, as well as the broader market for the provision of eBusiness solutions.

OUR STRATEGY TO PROVIDE SOLUTIONS FOR EBUSINESS DEPENDS UPON OUR ABILITY TO SUCCESSFULLY INTRODUCE PRODUCTS TAILORED FOR EBUSINESS.

To date practically all of our sales revenue has come from retail sales of OpenLinux, which is designed to assist the first-time Linux user who may be familiar with a Windows, desktop environment. However, our business model is targeted toward using Linux solutions to facilitate eBusiness. In order for our

strategy of providing Linux solutions for eBusiness to be successful, we must provide products that meet the needs of solution providers and their eBusiness customers. We recently developed our server product, OpenLinux eServer, and plan to release our eBusiness framework product, eBuilder, in the first half of 2000. These new products, which are our primary eBusiness products, may not be adopted by solution providers and their customers for any number of reasons, including lack of customer awareness of our company and our products, malfunction of the products and failure to meet needs of eBusiness. If our eBusiness products are not successful, we will fail to execute our strategy and our sales may not grow.

WE MAY NOT BE SUCCESSFUL IN DEVELOPING AND MARKETING OUR EDUCATION AND TRAINING SERVICES, IN WHICH CASE OUR REVENUE AND BRAND AWARENESS COULD SUFFER.

We depend upon our education and training services as a source of revenue and to broaden awareness of Linux and our products. Our ability to successfully develop and market our Linux courses could be adversely affected if we do not:

- develop and maintain relationships with our Authorized Linux Education Centers;

- develop a sufficient variety of course selections;

- adequately update the content of our courses;

- competitively price our course offerings; and - translate and localize our courses for use internationally.

In order to accomplish these objectives, we plan to significantly increase investment of resources for the expansion of our education and training services. If we are unsuccessful in developing and marketing our Linux courses, we may be unable to recoup our investments in these services.

THE NETWORK SOLUTIONS AND OPERATING SYSTEMS INDUSTRIES ARE INTENSELY COMPETITIVE AND WE MAY BE UNABLE TO COMPETE EFFECTIVELY WITH PROVIDERS OF SOLUTIONS FOR MODULAR COMPUTING, PROVIDERS OF LINUX OPERATING SYSTEMS AND OTHER MORE ESTABLISHED OPERATING SYSTEMS.

We face direct competition in the area of software for specialized servers or Internet access devices from Berkeley Software Design, Inc., Microsoft and a joint venture involving Compaq and The Santa Cruz Operation. Cygnus Solutions, VA Linux and Wind River provide similar solutions embedded into their hardware offerings. Many of these competitors are large, well-established companies with significantly greater financial resources, more extensive marketing and distribution capabilities, larger development staffs and more widely recognized brands and products.

We also compete with other providers of Linux operating systems, particularly, Corel, MacMillan, Red Hat, SuSE and TurboLinux. Many of these competitors, such as Red Hat, have more established customer bases and stronger brand names than we do. Also, due to the open source nature of Linux, anyone can freely download Linux and many Linux applications and modify and re-distribute them with few restrictions. For example, solution providers upon whom we depend for the distribution of

our eBusiness products could instead create their own Linux solutions to provide to their customers. Also, established companies and other institutions could easily produce competing versions of Linux. In particular, distributors of UNIX operating systems could leverage their existing service organizations, due to the fact that Linux and UNIX operating systems share many common features. Also, Cygnus Solutions and Sun Microsystems have indicated an interest in creating Linux operating systems and related products. These companies have more significant resources, stronger brand awareness and larger customer bases than we do and could quickly achieve significant market share.

We compete with providers of other, more established operating systems. AT&T, Compaq, Hewlett-Packard, IBM, Microsoft, Novell, Olivetti, Sun Microsystems, The Santa Cruz Operation and Unisys are each providers of competing operating systems, which, in most cases, are more established among business users. We also compete for service revenue with a number of companies that provide technical support and other professional services to users of Linux operating systems, including some original equipment 12 manufacturers with which we have agreements. Many of these companies have larger and more experienced service organizations than we do.

OUR COMPETITIVE POSITION COULD DECLINE IF WE ARE UNABLE TO ACQUIRE BUSINESSES OR TECHNOLOGIES THAT ARE STRATEGIC FOR OUR SUCCESS OR IF WE FAIL TO SUCCESSFULLY INTEGRATE ANY ACQUISITIONS WITH OUR CURRENT BUSINESS.

If appropriate opportunities arise, we intend to acquire businesses, technologies, services or products that we believe are strategic for our success. The market for eBusiness solutions such as Linux products is new and is rapidly evolving and our competitive position could decline if we are unable to identify and acquire businesses or technologies that are strategic for our success in this market. We do not have any present agreement or understanding relating to any material acquisition or investment.

We have not made a significant acquisition or investment to date. If we acquire businesses, products, services or technologies, we could have difficulty in assimilating them into our operations. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses. In addition, effecting acquisitions could require us to use a significant amount of cash. Furthermore, we may have to issue equity or equity-linked securities to pay for future acquisitions, and any of these issuances could be dilutive to existing and future stockholders. In addition, acquisitions and investments may have negative effects on our reported results of operations due to acquisition-related charges and amortization of acquired technology and other intangibles. Any of these acquisition-related risks or costs could harm our business, financial condition and operating results.

Our Success Depends on Our Ability to Successfully Manage Growth.

We have recently experienced a period of rapid growth. In order to execute our business plan, we must continue to grow significantly. We had 28 employees when we began operations as a separate legal entity in September 1998. As of December 31, 1999, the number had increased to 108. We expect that the number of our employees will continue to increase for the foreseeable future.

Our planned growth entails risk. If we do not expand our operations in an efficient manner, our expenses could grow disproportionately to revenues or our revenues could decline or grow more slowly than expected, either of which could negatively affect the value of your investment. Our current and anticipated future growth, combined with the requirements we will face as a public company, will place a significant strain on our management, systems and resources. Our key personnel have limited experience managing this type of growth. We also need to improve our financial and managerial controls and reporting systems and procedures and to continue to expand and maintain close coordination among our technical, accounting, finance and sales and marketing organizations. If we do not succeed in these efforts, it could reduce our revenues and the value of your investment.

IF WE DO NOT SUCCESSFULLY IMPLEMENT OUR INTERNATIONAL EXPANSION, OUR BUSINESS MAY NOT GROW AS ANTICIPATED AND SUBSTANTIAL RESOURCES MAY BE DRAINED.

A key component of our growth strategy is to expand our presence in foreign markets. It will be costly to establish international facilities and operations, promote our brand internationally, and develop localized products and support. Revenue from international activities may not offset the expense of establishing and maintaining these foreign operations. In addition, we may not be successful in marketing and distributing our products because we have little experience in these markets.

Some of the factors that may impact our ability to initiate and maintain successful operations in foreign markets include:

- hiring and successful supervision of employees in foreign jurisdictions;

- language and cultural differences;

- the inability to find necessary partners for the successful distribution of our products in foreign jurisdictions;

- varying technology standards and capabilities;

- compliance with foreign laws with which we are not familiar;

- issues relating to uncertainties of laws and enforcement relating to the protection of intellectual property;

- differences in reliability of telecommunications infrastructure and Internet access;

- export controls that may prevent us from shipping our products into and from some markets;

- potentially adverse tax consequences;

- restrictions against repatriation of earnings from our foreign operations;

- unexpected changes in trading policies, regulatory requirements and exchange rates; and - general political and economic trends.

If we are unable to profitably operate in foreign markets, our business may not grow as anticipated, substantial resources could be drained and our stock price could suffer.

We Could Lose Revenues as a Result of Software Errors or Defects.

Software programs frequently contain errors or defects, especially when first introduced or when new versions are released. We could, in the future, lose revenue as a result of errors or defects in our software products. We cannot assure you that errors will not be found in new products or releases. While we test our products prior to release, the fact that most of the components of our software offerings are developed by independent parties over whom we exercise no supervision or control makes it particularly difficult to identify and remedy any errors or defects that could exist. Any errors could result in loss of revenue, or delay in market introduction or acceptance, diversion of development resources, damage to our reputation or increased service costs.

OUR CURRENT AND POTENTIAL CUSTOMERS MAY FIND IT DIFFICULT TO HIRE AND TRAIN QUALIFIED EMPLOYEES TO HANDLE INSTALLATION AND IMPLEMENTATION OF OUR PRODUCTS, WHICH COULD NEGATIVELY AFFECT SALES OF OUR PRODUCTS TO NEW CUSTOMERS AND LEAD TO DISSATISFACTION AMONG CURRENT CUSTOMERS.

There are limited numbers of individuals that are trained and qualified to manage Linux systems, including OpenLinux and our other products. End users and our distribution partners may lack the resources to hire or train such qualified personnel to install and implement our products, which could lead to dissatisfaction with our product among end users and deter potential end users from purchasing our product.

DUE TO THE COMPETITIVE LABOR MARKETS, WE MAY NOT BE ABLE TO RECRUIT AND RETAIN SUFFICIENT QUALIFIED PROFESSIONALS NECESSARY FOR OUR GROWTH.

In order to grow as we anticipate, we need to hire significant numbers of professionals to develop and market our products and provide technical support, education and training and other services to our customers. Competition for qualified professionals in the software industry is intense, and we may be unable to recruit and retain sufficient professionals to grow as we anticipate. In addition, because we are not located in a major metropolitan area, many potential candidates may be unwilling to relocate to our headquarters in Orem, Utah.

Our Management Team Is Not Complete and Has Only Recently Begun Working Together.

Our business is highly dependent on our ability to acquire necessary members of our management team and on our management team's ability to work together effectively. Several members of our 14 management, including our Chief Financial Officer and our Vice President of Sales, have been employed by us for a relatively short period of time. These individuals have not previously worked together as a management team and have had only limited experience managing a rapidly growing company on either a public or private basis. We are also searching for a Chief Technical Officer and a

Chief Operating Officer. Our failure to find qualified individuals to fill these positions and the failure of our management team to work together effectively could negatively offset efficient decision-making, product development, sales and marketing efforts and the management of our financial and other resources, which would negatively impact our operating results.

Loss of Any of Our Key Management Personnel Could Negatively Impact Our Business.

The loss or departure of any of our officers or key employees could harm our ability to implement our business plan and could lower our revenues. Our future success depends to a significant extent on the continued service and coordination of our management team, particularly Ransom H. Love, our President and Chief Executive Officer. We do not maintain key person insurance for any member of our management team.

WE MAY NOT BE ABLE TO OBTAIN ADDITIONAL FINANCING NECESSARY TO EXECUTE OUR BUSINESS STRATEGY.

We currently believe that the net proceeds from this offering, together with our current cash and cash equivalents, will be sufficient to fund our working capital and capital expenditure requirements for at least the next 12 months. However, we may need to raise additional funds to support more rapid expansion, respond to competitive pressures, acquire complementary businesses or technologies or respond to unanticipated requirements. We cannot assure you that additional funding will be available to us in amounts or on terms acceptable to us. If sufficient funds are not available or are not available on acceptable terms, our ability to fund our expansion, take advantage of acquisition opportunities, develop or enhance our services or products, or otherwise respond to competitive pressures would be significantly limited.

IF WE FAIL TO MANAGE TECHNOLOGICAL CHANGE EFFECTIVELY, DEMAND FOR OUR PRODUCTS AND SERVICES WILL SUFFER.

The market for eBusiness solutions is in an early stage of development and is characterized by rapidly changing technology, evolving industry standards, frequent new service and product introductions and changes in customer demands. Our future success will depend to a substantial degree on our ability to offer products and services that incorporate leading technology and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. You should be aware that:

- our technology or systems may become obsolete upon the introduction of alternative technologies;

- the technological life cycles of our products have been historically short and are difficult to accurately estimate;

- we may not have sufficient resources to develop or acquire new technologies or to introduce new services capable of competing with future technologies or service offerings; and - the price of the products and services we provide may decline as rapidly as, or more rapidly than, the cost of any competitive alternatives.

We may not be able to effectively respond to the technological requirements of the changing market for eBusiness solutions. To the extent we determine that new technologies and equipment are required to remain competitive, the development, acquisition and implementation of those technologies and equipment are likely to continue to require significant capital investment by us. We may not have sufficient capital for this purpose in the future, and even if it is available, investments in new technologies may not result in commercially viable technological processes and there may not be commercial applications for those technologies. If we do not develop and introduce new products and services and achieve market acceptance in a timely manner, demand for our products and services will drop and our business will suffer. 15 YEAR 2000 COMPLIANCE ISSUES PRESENT TECHNOLOGICAL RISKS, COULD CAUSE DISRUPTION TO OUR BUSINESS AND COULD HARM SALES OF OUR PRODUCTS.

Concern over, and problems associated with, the impact of the occurrence of the Year 2000 on our software products, internal systems, customers, suppliers and the overall software industry could affect our future operating results in several ways. Errors or defects that affect the operation of our software could result in:

- delay or loss of revenue;

- cancellation of customer contracts;

- diversion of development resources;

- damage to our reputation;

- increased service and warranty costs; and - litigation costs.

We engaged an affiliated third party to test our OpenLinux 2.2/2.3 product. This testing was completed in the third quarter of 1999 and did not result in any findings of Year 2000 problems that were not remedied or documented. We are continuing to evaluate the Year 2000 compliance of our products currently under development. Some of our customers are still using older discontinued products of ours which have not been tested for Y2K readiness. We may be required to support and correct any failed systems as a result of any problems that may arise in connection with these older products. Also, we bundle third-party applications and software components with our products. It is possible that some of our customers may experience difficulties related to third-party software which may affect the performance of our products and may lead to adverse results such as additional support calls or return of products thus diverting resources from pursuing our business strategy which could materially adversely affect our business. In addition, we rely on third parties such as suppliers of energy and other utilities, financial institutions, transportation providers, communications vendors, including value added network vendors and other significant vendors. We have received Year 2000 readiness

statements from some but not all of these third-party suppliers. The failure of any of these third parties to achieve Year 2000 compliance could have a material impact on our business, operating results and financial condition.

To date, Year 2000 problems have had a minimal effect on our business. However, we may not have identified and remediated all significant Year 2000 problems. Further remediation efforts may involve significant time and expense, and unremediated problems may have a material adverse effect on our business. Also, we sell our products to companies in a variety of industries, each of which is experiencing different Year 2000 issues. Customer difficulties with Year 2000 issues might require us to devote additional resources to resolve underlying problems. Finally, although we have not been made a party to any litigation or arbitration proceeding to date involving our products or services and related to Year 2000 compliance issues, we may in the future be required to defend our products or services in such proceedings, or to negotiate resolutions of claims based on Year 2000 issues. The costs of defending and resolving Year 2000-related disputes, regardless of the merits of such disputes, and any liability for Year 2000-related damages, including consequential damages, would negatively affect our business, results of operations, financial condition and liquidity, perhaps materially.

Risks Related to Our Internet Strategy

IF WE FAIL TO PROMOTE AND ENHANCE OUR WEB SITE EFFECTIVELY, BROAD MARKET ACCEPTANCE OF OUR PRODUCTS AND SERVICES COULD BE IMPAIRED.

Our strategy for promoting and enhancing the www.calderasystems.com Web site is critical to the development of a Linux community of education, support and software applications providers. This community is in turn critical for broad market acceptance of our products and services. Our success in promoting and enhancing our Web site will depend on our ability to provide high quality content, features and functionality. If we fail to promote our Web site successfully or if visitors to our Web site do not perceive our services to be useful, current or of high quality, market acceptance of our products and services could be significantly impaired.

THE GROWTH OF OUR BUSINESS WILL BE DIMINISHED IF THE INTERNET IS NOT ACCEPTED AS A MEDIUM FOR COMMERCE AND BUSINESS NETWORKING APPLICATIONS.

An important part of our business strategy is to develop and market our products for the support of secure business networks hosted on the Internet. In addition, we plan to sell our products and provide a significant amount of technical support and education via our Web site. If the Internet is not accepted as a medium for commerce and business networking applications, demand for our products and services will be diminished. A number of factors may inhibit Internet usage, including:

- inadequate network infrastructure;

- lack of knowledge and training on Internet use and benefits;

- consumer concerns for Internet privacy and security;

- lack of availability of cost-effective, high-speed service;

- changes in government regulation relating to the Internet; and - Internet taxation.

If Internet usage grows, the infrastructure may not be able to support the demands placed on it by that growth and its performance and reliability may decline. Web sites have experienced interruptions as a result of delays or outages throughout the Internet infrastructure. If these interruptions continue, Internet usage may decline.

A DISASTER OR MALFUNCTION THAT DISABLES OUR COMPUTER SYSTEMS COULD HARM OUR WEB SITE AND NEGATIVELY AFFECT OUR BRAND.

The continuing and uninterrupted performance of our computer systems is critical to our success. Our customers and other members of the eBusiness community who access our Web site for technical support, news, educational resources and business solutions, may become dissatisfied by any systems disruption or failure that interrupts our ability to provide our services and content to them. Substantial or repeated system disruptions or failures would reduce our ability to provide adequate customer service and undermine our reputation in the eBusiness community. Substantially all of our communications hardware and computer hardware operations are located in our facilities in Orem, Utah. Our Web site is hosted in Salt Lake City, Utah. Fire, earthquakes, power loss, telecommunications failures, break-ins and similar events could negatively affect the operation of our Web site. Computer viruses, electronic break-ins or other similar disruptive problems could also harm our Web site. Our Web site in the past has experienced, and could experience in the future, slower response times or other problems for a variety of reasons, including delays or malfunctions as a result of third-party distributors on which we rely. Any of these occurrences and any resulting dissatisfaction among our customers and members of the eBusiness community could negatively affect the Caldera Systems brand image. Our insurance policies may not adequately compensate us for any losses that may occur due to any failures or interruptions in our systems. We do not presently have a formal disaster recovery plan.

Risks Related to This Offering

A Single Stockholder Will Be Able to Exert Significant Control on Caldera Systems, Inc.

After this offering, Raymond J. Noorda will have indirect ownership of approximately % of our outstanding common stock. As a result, Mr. Noorda will be able to determine the outcome of actions that require stockholder approval. For example, Mr. Noorda could elect all of our directors, delay or prevent a transaction in which stockholders might receive a premium over the prevailing market price for their shares and control changes in management.

FUTURE SALES OF OUR COMMON STOCK AFTER THIS OFFERING MAY NEGATIVELY AFFECT OUR STOCK PRICE.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market following the offering, or the perception that such sales could occur. Following this offering, we will have a large number of shares of common stock outstanding and available for resale beginning at various points in time in the future. These sales also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. The shares of our common stock currently outstanding will become eligible for sale without registration pursuant to Rule 144 under the Securities Act, subject to certain conditions of Rule 144. Certain holders of our common stock also have certain demand and piggyback registration rights enabling them to register their shares under the Securities Act for sale. In connection with this offering, our senior officers and directors and certain of our common and preferred stockholders and option holders, who hold or will hold a total of shares of common stock after the offering, have agreed, subject to certain exceptions, not to sell their shares for 180 days after the date of this prospectus without the consent of the underwriters.

CERTAIN PROVISIONS OF OUR CHARTER AND OF DELAWARE LAW MAKE A TAKEOVER OF CALDERA SYSTEMS, INC. MORE DIFFICULT, WHICH COULD LOWER THE MARKET PRICE OF THE COMMON STOCK.

Our corporate documents and Section 203 of the Delaware General Corporation Law could discourage, delay or prevent a third party or a significant stockholder from acquiring control of Caldera Systems, Inc. In addition, provisions of our certificate of incorporation may have the effect of discouraging, delaying or preventing a merger, tender offer or proxy contest involving Caldera Systems, Inc. Any of these anti-takeover provisions could lower the market price of the common stock and could deprive our stockholders of the opportunity to receive a premium for their common stock that they might otherwise receive from the sale of Caldera Systems, Inc.

THERE HAS BEEN NO PRIOR MARKET FOR OUR COMMON STOCK, OUR STOCK PRICE MAY EXPERIENCE EXTREME PRICE AND VOLUME FLUCTUATIONS AND ANY VOLATILITY IN OUR STOCK PRICE COULD RESULT IN CLAIMS AGAINST US.

Prior to this offering, investors could not buy or sell our common stock publicly. An active public market for our common stock may not develop or be sustained after the offering. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters. The market price of our common stock may decline below the initial public offering price after this offering.

Fluctuations in market price and volume are particularly common among securities of Internet-related and other technology companies. The market price of our common stock may fluctuate significantly in response to the following factors, some of which are beyond our control:

- variations in quarterly operating results;

- changes in market valuations of Internet-related and other technology companies;

- our or our competitors' announcements of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

- failure to complete significant advertising and merchandise sales;

- additions or departures of key personnel;

- active "day" trading in our stock;

- future sales of common stock; and - changes in financial estimates by securities analysts.

In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their common stock. In the future, we may be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources.

We May Spend the Net Proceeds of This Offering in Ways with Which You May Not Agree.

The net proceeds of this offering are not allocated for specific uses. Our management will have broad discretion to spend the net proceeds of this offering in ways with which investors may not agree. The failure of our management to apply these funds effectively could result in unfavorable returns, which could cause the price of our common stock to decline.

You Will Incur Substantial and Immediate Dilution.

You will incur substantial and immediate dilution in the net tangible book value of $ per share, assuming an initial public offering price of $ per share. Net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by the number of shares of common stock then outstanding. To the extent that currently outstanding options are exercised or converted, there will be further dilution in your shares. See "Dilution."

Special Note Regarding Forward-looking Statements

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus constitute forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "might," "could," "will," "should," "expect," "plan," "intend," "forecast," "anticipate," "believe," "estimate," "predict," "foreseeable," "potential," "continue" or the negative of these terms or other comparable terminology. The forward-looking statements contained in this prospectus involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These factors include, among others, those listed under "Risk Factors" and elsewhere in this prospectus.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements.

Use of Proceeds

We estimate that we will receive net proceeds from the sale of the shares of common stock in this offering of $ million, assuming an initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be $ million.

We intend to use the net proceeds of this offering for general corporate purposes, including sales and marketing activities, product development and support, and hiring of additional personnel. We may also use a portion of net proceeds to acquire or invest in complementary businesses, technologies, services or products, although we have no present agreement or understanding with respect to any material acquisition or investment. We have not determined the amount of net proceeds to be used specifically for each of the foregoing purposes. Accordingly, our management will have broad discretion to spend flexibly in applying the net proceeds of this offering. Pending their use, we intend to invest the net proceeds of this offering in interest-bearing securities.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain any future earnings for the expansion and operation of our business.

Capitalization

The following table sets forth our capitalization as of October 31, 1999:

- on an actual basis;

- on a pro forma basis to reflect:

- our issuance in December 1999 of 106,356 shares of our common stock in exchange for 159 shares or approximately 2 percent of the outstanding common stock of Troll Tech AS, a strategic technology partner of ours;

- our sale in December 1999 and January 2000 of 5,000,000 shares of Series B convertible preferred stock for net proceeds of approximately $29.5 million and our recording of a beneficial conversion feature valued at $10.0 million based on the difference between the conversion price and the estimated fair market value of our common stock at the time of the sale;

- our purchase in January 2000 of 592,592 shares of common stock or approximately 4 percent of the outstanding common and preferred stock of Evergreen Internet, Inc., a strategic technology partner of ours, for $2.0 million and our issuance to Evergreen Internet, Inc. of 200,000 shares of our common stock;

- our issuance in January 2000 of 1,250,000 shares of our common stock in exchange for 3,238,437 shares or approximately 17 percent of the outstanding common stock of Lineo, Inc., a strategic technology partner of ours; and - the conversion of our Series A convertible preferred stock and Series B convertible preferred stock into our common stock upon closing of this offering.

- on a pro forma as adjusted basis to reflect the pro forma adjustments, as well as the sale of shares of common stock by us in this offering at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and offering expenses payable by us.

	AS OF OCTOBER 31, 1999		
	ACTUAL	PRO FORMA (UNAUDITED)	PRO FORMA AS ADJUSTED (UNAUDITED)

Current portion of long-term debt..... $ 3,698 $ 3,698 $ 3,698 Long-term lease obligations, less current portion.... $ 5,762 $ 5,762 $ 5,762 Shareholders' Equity: Preferred stock, $0.001 par value; 25,000,000 shares authorized (actual, pro forma and pro forma as adjusted) -- Series A convertible preferred stock, 6,596,146 shares designated, 6,596,146 shares outstanding (actual), no shares outstanding (pro forma and pro forma as adjusted)..... 6,596 -- -- Series B convertible preferred stock, 5,000,000 shares designated, no shares outstanding (actual, pro forma and pro forma as adjusted)..... -- -- -- Common stock, $0.001 par value; 75,000,000 shares authorized, 20,011,183 shares outstanding (actual), 33,163,685 shares outstanding (pro forma), and shares outstanding (pro forma as adjusted)..... 20,011 33,163

	AS OF OCTOBER 31, 1999		
	ACTUAL	PRO FORMA (UNAUDITED)	PRO FORMA AS ADJUSTED (UNAUDITED)
Additional paid-in capital.....	16,160,312	68,104,604	
Stock subscription receivable.....	(1,500,000)	(1,500,000)	(1,500,000)
Deferred compensation.....	(2,734,934)	(2,734,934)	(2,734,934)
Accumulated comprehensive loss.....	(4,365)	(4,365)	(4,365)
Accumulated deficit.....	(10,431,590)	(20,431,590)	(20,431,590)
Total Stockholders' equity.....	1,516,030	43,466,878	
TOTAL CAPITALIZATION.....	$ 1,521,792	$ 43,472,640	

Note:

The information in this table does not include the following:

- 2,964,240 shares of common stock issuable upon exercise of outstanding options as of October 31, 1999 with a weighted average price of $1.04 per share, of which options to purchase 752,206 were exercisable at that date; and - 2,035,738 shares of common stock reserved for issuance under our 1998 Stock Option Plan as of October 31, 1999. On December 1, 1999, the Company adopted the 1999 Omnibus Stock Incentive Plan as a successor equity incentive program to the 1998 plan. The 1999

plan provided for an additional 1,700,000 shares of common stock to be reserved for issuance. Subsequent to October 31, 1999, the Company has granted 2,369,388 additional options to purchase shares of common stock with a weighted average price of $5.66 per share.

You should read this table together with our financial statements and the related notes, "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Management -- Director Compensation," "Management -- Employee Benefit Plans" and "Description of Capital Stock" included elsewhere in this prospectus.

Dilution

Our pro forma net tangible book value as of October 31, 1999 was approximately $43.4 million, or $1.31 per share of common stock. Pro forma net tangible book value per share is determined by dividing the amount of our pro forma tangible assets less total liabilities by the pro forma number of shares of common stock outstanding at that date. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma as adjusted net tangible book value per share of common stock immediately after the completion of this offering.

After giving effect to the issuance and sale of the shares of common stock offered by us at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and the application of the estimated net proceeds from this offering, our pro forma as adjusted net tangible book value as of October 31, 1999 would have been $ million or $ per share. This represents an immediate increase in pro forma net tangible book value to our existing stockholders of $ per share and an immediate dilution to purchasers in this offering of $ per share. If the initial public offering price is higher or lower, the dilution to purchasers in this offering will be greater or less, respectively.

The following table illustrates this per share dilution:

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share at October 31, 1999..... $1.31 Increase in pro forma net tangible book value per share attributable to this offering..... Pro forma as adjusted net tangible book value per share after this offering Dilution per share to new investors..... $

Assuming the exercise in full of the underwriters' over-allotment option, our pro forma as adjusted net tangible book value at October 31, 1999 would have been approximately $ per share, representing an immediate increase in pro forma net tangible book value of $ per share to our existing stockholders and an immediate dilution in pro forma net tangible book value of $ per share to purchasers in this offering.

The following table summarizes, on a pro forma basis as of October 31, 1999, the differences between the number of shares of common stock purchased from us, the aggregate cash consideration paid to us and the average price per share paid by existing stockholders and new investors purchasing shares of

common stock in this offering. The calculation below is based on an assumed initial public offering price of $ per share, before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us:

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders	33,163,685	%	$68,137,767	%	$2.05
New investors					
Total		100.0%		$100.0%	

This discussion and table assumes no exercise of any stock options outstanding as of October 31, 1999. As of October 31, 1999, there were options outstanding to purchase a total of 2,964,240 shares of common stock with a weighted average exercise price of $1.04 per share. Subsequent to October 31, 1999 the Company granted 2,369,388 additional options to purchase shares of common stock with a weighted average price of $5.66 per share. To the extent that any of these options are exercised, there will be further dilution to new investors. Please see "Capitalization."

Selected Financial Data

The tables that follow present portions of our financial statements and are not complete. You should read the selected financial data set forth below in conjunction with our financial statements and the related notes included elsewhere in this prospectus and in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The selected statement of operations data for the years ended October 31, 1997, 1998 and 1999 and the selected balance sheet data as of October 31, 1998 and 1999 are derived from, and are qualified by reference to, the audited financial statements and related notes appearing elsewhere in this prospectus. The selected statement of operations data for the years ended October 31, 1995 and 1996 and the selected balance sheet data as of October 31, 1995, 1996 and 1997 are derived from unaudited financial statements not appearing in this prospectus.

We began operations in 1994 as Caldera, Inc. In July 1996, Caldera, Inc. acquired an additional business line which was not engaged in developing and marketing Linux software. Caldera, Inc. subsequently made the strategic determination to separate its two business lines into separate entities and, effective September 1, 1998, sold the assets relating to its business of developing and marketing Linux software to Caldera Systems, Inc., a newly-formed corporation. Caldera Systems, Inc. has operated as a separate legal entity engaged in developing and marketing Linux software since September 1, 1998. For purposes of presenting our financial statements we have segregated or "carved-out" the operations related to the Linux business from the historical financial statements of Caldera, Inc. Accordingly, our consolidated financial statements in this prospectus and the selected financial data present our financial condition and results of operations as if Caldera Systems, Inc. had existed as a separate legal entity for all periods presented. The carved-out historical results presented are not

necessarily indicative of what would have actually occurred had Caldera Systems, Inc. existed as a separate legal entity and any historical results are not necessarily indicative of results that may be expected for any future period.

YEAR ENDED OCTOBER 31, 1995 1996 1997 1998 1999 (UNAUDITED) (UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)

STATEMENT OF OPERATIONS DATA:					
Revenue:					
Software and related products	$ --	$ 1,108	$ 1,117	$ 1,057	$ 2,773
Services	--	--	--	--	277
Total revenue	--	1,108	1,117	1,057	3,050
Cost of revenue:					
Software and related products	--	880	1,142	1,017	2,388
Services	--	--	--	--	538
Write-off of prepaid royalties	--	--	--	1,381	--
Total cost of revenue	--	880	1,142	2,398	2,926
Gross margin (deficit)	--	228	(25)	(1,341)	124
Operating expenses:					
Sales and marketing	179	1,339	4,620	2,224	4,768
Research and development	507	826	2,136	1,489	2,302
General and administrative	673	712	797	1,799	1,748
Amortization of deferred compensation	--	--	--	--	409
Total operating expenses	1,359	2,877	7,553	5,512	9,227
Loss from operations	(1,359)	(2,649)	(7,578)	(6,853)	(9,103)
Other income (expense):					
Interest expense	(1)	(133)	(593)	(1,081)	(226)
Other income (expense)	10	25	23	5	(3)
Other income (expense), net	9	(108)	(570)	(1,076)	(229)
Loss before income taxes	(1,350)	(2,757)	(8,148)	(7,929)	(9,332)
Provision for income taxes	--	--	--	(34)	(35)
Net loss	$(1,350)	$(2,757)	$(8,148)	$(7,963)	$(9,367)
Basic and diluted net loss per common share	$ (0.11)	$ (0.23)	$ (0.68)	$ (0.66)	$ (0.67)
Basic and diluted weighted average common shares outstanding	12,033	12,033	12,033	12,033	13,882
Basic and diluted pro forma net loss per common share (unaudited)					$ (0.51)
Basic and diluted pro forma weighted average common shares outstanding (unaudited)					18,458

	AS OF OCTOBER 31,				
	1995 (UNAUDITED)	1996 (UNAUDITED)	1997 (UNAUDITED)	1998	1999
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Cash	$ 33	$ 207	$ 398	$ 76	$ 122
Working capital (deficit)	(32)	(122)	1,157	(28)	678
Total assets	407	1,639	3,915	872	3,714
Long-term liabilities	--	--	--	--	6
Caldera, Inc.'s equity in carved-out operations	104	576	2,163	--	--
Total stockholders' equity	--	--	--	391	1,516

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our Consolidated Financial Statements and Notes thereto, included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

Overview

Caldera Systems, Inc. enables the development, deployment and management of Linux specialized servers and Internet access devices that simplify computing. Our Linux software products and service offerings are specifically designed to meet the complex needs of eBusiness, or business over the Internet. During 1999 our OpenLinux technology received many awards and recognitions, including Internetweek's "Best of the Best," The Linux Show's "Best Distribution of Millennium," Linux Journal's Product of the Year award at Comdex and Network Computer's Well-Connected Award for Best Network Operating System. We facilitate the adoption of Linux by providing educational programs designed to help our customers to develop, deploy and administer Linux systems. We embrace the open source model and participate as a key member of many open source, industry standards and partner initiatives, including Linux Professional Institute, Linux Standards Base, and Linux International Group. We primarily distribute our products and services through our indirect distribution channel model. Our customers include AST Computers, Cendant, First International Computers, Frank Kasper & Associates, Gates/Arrow, IBM, Ingram Micro, MediaGold, MTI Technology Corporation, Navarre Corporation, Support Net and Tech Data.

We began operations in 1994 as Caldera, Inc. In July 1996, through an asset purchase, Caldera, Inc. acquired an additional business unit which was not engaged in developing and marketing Linux software. Caldera, Inc. subsequently made the strategic determination to separate its two business lines into separate entities and, effective September 1, 1998, sold the assets relating to its business of developing and marketing Linux software to Caldera Systems, Inc., a newly-formed corporation. Caldera Systems, Inc. has operated as a separate legal entity engaged in developing and marketing Linux software since September 1, 1998. For purposes of presenting our financial statements we have segregated or carved-out the operations related to the Linux business from the historical financial statements of Caldera, Inc. Accordingly, our consolidated financial statements in this prospectus and the following discussion present our financial condition and results of operations as if Caldera Systems, Inc. had existed as a separate legal entity for all periods presented.

Substantially all of our revenues since fiscal 1996 have been derived from sales of Linux products and related services. We expect that for the foreseeable future the majority of our revenues will continue to be derived from our OpenLinux product line, while revenues from our service offerings including training, customer support, and consulting will increase as a percentage of revenue. Historically, we

have experienced substantial fluctuations in our revenues from period to period relating to the introduction of new products and new versions of our existing products. Upon our announcement of an expected release date for new products or upgrades we often experience a significant decrease in sales of our existing products. Additionally, we often experience the strongest sales for a new product during the first 30 days after its introduction as we fill advance orders from our distribution channels.

We began shipping our product in fiscal 1996 through indirect distribution channels such as distributors, value added resellers, original equipment manufacturers and system integrators, as well as directly to the end user using our internal sales and marketing force. Over time, our business model has evolved such that we now sell primarily through our two-tier distribution channels. We began offering Linux training during fiscal 1999.

We market our software and related products primarily in North America, Europe, Asia and Australia. Revenues from customers outside the United States were $0 in fiscal 1997, $56,000 in fiscal 1998 and $203,000 in fiscal 1999.

We recognize revenues in accordance with the American Institute of Certified Public Accountants, or AICPA, Statement of Position 97-2. Software and related product revenue is recognized upon delivery of the product if collection is probable. We provide certain telephone and e-mail technical support services at no additional charge. The cost of providing the post-contract support services are not significant; accordingly, we accrue the estimated costs of providing the services at the time of revenue recognition. If other significant post-delivery vendor obligations exist or if a product is subject to customer acceptance, revenues are deferred until no significant obligations remain or acceptance has occurred. Further implementation guidelines relating to SOP 97-2 and related modifications may result in unanticipated changes in our revenue recognition practices and such changes could affect our future revenues and earnings. Maintenance revenues are recognized ratably over the contract term, typically one year. Revenues from training and consulting services are recognized as such services are performed.

Since inception, we have incurred substantial research and development costs and have invested heavily in the expansion of our sales, marketing and professional services organizations to support our long-term growth strategy. As a result of these investments, we have incurred net losses in each fiscal year since inception and, as of October 31, 1999, had incurred total net losses of approximately $29.6 million since inception. We anticipate that our operating expenses will increase substantially for the foreseeable future as we increase the number of people and programs in sales and marketing, product development and professional services. Accordingly, we expect to incur net losses for the foreseeable future.

In connection with the grant of stock options to employees during fiscal 1999, we recorded deferred compensation of $3.1 million representing the difference between the deemed fair market value of the common stock for accounting purposes and the exercise price of these options as of the date of grant. Deferred compensation is presented as a reduction of shareholders' equity and is amortized over the vesting period of the applicable options. We expensed $409,000 of deferred compensation during

fiscal 1999. Based on the option grant activity through October 31, 1999, we expect to amortize deferred compensation of $1.4 million in fiscal 2000, $743,000 in fiscal 2001, $396,000 in fiscal 2002 and $162,000 in fiscal 2003.

In December 1999 and January 2000, we sold 5.0 million shares of Series B convertible preferred stock at $6.00 per share, resulting in net proceeds of approximately $29.5 million. Each share of Series B convertible preferred stock is immediately convertible into one share of common stock. Due to the beneficial conversion feature associated with the Series B convertible preferred stock, during the first quarter of fiscal 2000, we will record a preferred stock dividend in the amount of $10.0 million thereby increasing the net loss applicable to common stockholders. Additionally, in December 1999 and January 2000 we acquired an equity investment in Lineo, Inc. in exchange for 1,250,000 shares of common stock, acquired an equity investment in Evergreen Internet, Inc. in exchange for $2.0 million in cash and 200,000 shares of common stock and acquired an equity investment in Troll Tech AS in exchange for 106,356 shares of common stock. These investments will be accounted for under the cost method of accounting.

Software and related products revenue is comprised of revenue from the sale of software and other products such as manuals. Services revenue is comprised of training royalties and tuition fees, consulting fees and customer support fees.

Cost of software and related products revenue primarily consists of our costs for production, packaging, fulfillment and shipment of our product offerings. Additionally, royalties paid to third-parties for inclusion of their software products in our product offering are included in these costs.

Cost of services revenue represents the employee and related infrastructure costs necessary to provide training, consulting and customer support.

Included in sales and marketing expenses are the following: advertising, channel promotions, marketing development funds, promotional activities, public relations, trade show and personnel-related expenses such as salaries, benefits, commissions, recruiting fees, travel and entertainment expenses.

Research and development expenses consist of payroll and related costs for software engineers, technical writers, quality assurance and research and development management personnel and the costs of materials used by these employees in the development of new or enhanced product offerings. Also included are the costs associated with outside contractors.

General and administrative expenses are composed of professional fees, salaries and related costs for accounting, administrative, finance, human resources, information systems and legal personnel as well as costs associated with implementing and expanding our internal information and management reporting systems.

We plan to significantly increase our expenditures for sales and marketing, research and development and general and administrative expenses in fiscal 2000.

Results of Operations

The following table sets forth certain statement of operations data as a percentage of total revenues for the years indicated:

Years Ended October 31, 1997 1998 1999

Revenue:			
Software and related products	100.0%	100.0%	90.9%
Services	--	--	9.1
Total revenue	100.0	100.0	100.0
Cost of Revenue:			
Software and related products	102.3	96.2	78.3
Services	--	--	17.6
Other	--	130.7	--
Total cost of revenue	102.3	226.9	95.9
Gross margin (deficit)	(2.3)	(126.9)	4.1
Operating Expenses:			
Sales and marketing	413.6	210.4	156.3
Research and development	191.3	140.8	75.5
General and administrative	71.3	170.2	57.3
Other	--	--	13.4
Total operating expenses	676.2	521.4	302.5
Loss from operations	(678.5)	(648.3)	(298.4)
Other expense, net	(51.1)	(101.8)	(7.5)
Loss before income taxes	(729.6)	(750.1)	(305.9)
Provision for income taxes	--	(3.2)	(1.1)
Net loss	(729.6)%	(753.3)%	(307.0)%

Fiscal Years Ended October 31, 1997, 1998 and 1999

Revenue

Our revenue was $1.1 million for fiscal 1997, $1.1 million for fiscal 1998 and $3.1 million for fiscal 1999. During fiscal 1997 and fiscal 1998, all of our revenue was derived from our software and related products offerings.

Software and Related Products. Our software and related products revenue was $1.1 million in fiscal 1997, $1.1 million in fiscal 1998, and $2.8 million in fiscal 1999, representing a decrease of $60,000, or 5%, from fiscal 1997 to fiscal 1998 and a $1.7 million, or 162%, increase from fiscal 1998 to fiscal 1999. The slight decrease in our software and related products revenue from fiscal 1997 to fiscal 1998 was due to a reduction of capital for sales and marketing activities and a diversion of limited resources allocated to our business because of growth of non-related product lines associated with Caldera, Inc. The increase in software and related product revenue from fiscal 1998 to fiscal 1999 was a result of management's expansion of our marketing efforts, as well as the increased market awareness of the Linux operating system.

Services. We began to realize service revenue in fiscal 1999. This revenue was $277,000 or 9% of our total revenue in fiscal 1999. Service revenue was mostly derived from sales of training-related offerings and tuition fees.

Cost of Revenue

Cost of Software and Related Products Revenue. Our cost of software and related products revenue was $1.1 million in fiscal 1997, $1.0 million in fiscal 1998 and $2.4 million in fiscal 1999, representing a $125,000, or 11%, decrease from fiscal 1997 to fiscal 1998 and a $1.4 million, or 135%, increase from fiscal 1998 to fiscal 1999. On a percentage basis of related revenue, cost of software and related products revenue was 102% in fiscal 1997, 96% in fiscal 1998 and 86% of fiscal 1999. The decrease in the cost of revenues percentage from fiscal 1997 to fiscal 1998 and from fiscal 1998 to fiscal 1999 primarily resulted from reduced royalty expenses as a component of product costs as certain third-party software packages were open-sourced and the elimination of certain other royalty-bearing components. In addition, the decrease from fiscal 1998 to fiscal 1999 resulted from improved margins on increased volumes. These improvements in fiscal 1999 were partially offset by an increase in inventory obsolescence. The negative gross margin incurred in fiscal 1997 was due to the payment of significant royalties. During fiscal 1997, our product incorporated substantial amounts of proprietary software which has since been eliminated or open sourced.

Cost of Services Revenue. We began to realize services revenue in fiscal 1999. Cost of services revenue was $538,000, or 194%, of related revenue during fiscal 1999. The negative margin incurred during fiscal 1999 is due to our hiring of employees and building additional infrastructure in anticipation of future training and support revenues.

Write-off of Prepaid Royalties. During fiscal 1996 and 1997, we entered into royalty agreements with a supplier pursuant to which we prepaid royalties of approximately $2.1 million. During fiscal 1998, we asserted that the supplier breached the terms of the royalty agreements and we determined that the remaining prepaid royalties, in the amount of $1.4 million, were impaired and accordingly we wrote off the remaining balance.

Operating Expenses

Sales and Marketing. Sales and marketing expenses were $4.6 million in fiscal 1997, $2.2 million in fiscal 1998 and $4.8 million in fiscal 1999, representing a decrease of $2.4 million, or 52%, from fiscal 1997 to fiscal 1998 and an increase of $2.5 million, or 114%, from fiscal 1998 to fiscal 1999. Sales and marketing expenses represented 414% of our total revenues in fiscal 1997, 210% of our total revenues in fiscal 1998 and 156% of our total revenues in fiscal 1999. The decrease in amounts expended from fiscal 1997 to fiscal 1998 was due to the reduction in the resources devoted to the Linux business, prior to our reorganization. During fiscal 1999, we expanded our sales and marketing efforts.

Research and Development. Research and development expenses were $2.1 million in fiscal 1997, $1.5 million in fiscal 1998 and $2.3 million in fiscal 1999, representing a decrease of $647,000, or 30%, from fiscal 1997 to fiscal 1998 and an increase of $813,000, or 55%, from fiscal 1998 to fiscal 1999. Research and development costs represented 191% of our total revenue in fiscal 1997, 141% of our total revenue in fiscal 1998 and 76% of our total revenue in fiscal 1999. The decrease from fiscal 1997 to fiscal 1998 was primarily related to a reduction of capital for research and development activities and a diversion of limited resources allocated to our business because of growth of non-related product lines associated with Caldera, Inc. The increase in research and development expenses from fiscal 1998

to fiscal 1999 was due to an increased investment in the number of software developers, quality assurance personnel and outside contractors to support our product development and testing activities including the development of training courses and technical support offerings.

General and Administrative. General and administrative expenses were $797,000 in fiscal 1997, $1.8 million in fiscal 1998, and $1.7 million in fiscal 1999, representing an increase of $1.0 million, or 126%, from fiscal 1997 to fiscal 1998 and a decrease of $51,000, or 3%, from fiscal 1998 to fiscal 1999. General and administrative costs represented 71% of our total revenue in fiscal 1997, 170% of our total revenue in fiscal 1998 and 57% of our total revenue in fiscal 1999. The increase from fiscal 1997 to fiscal 1998 was primarily the result of the significant fees associated with our reorganization in 1998. The increase also reflects the employment of additional administrative, executive, and finance personnel during most of fiscal 1998. General and administrative expenses remained fairly constant from fiscal 1998 to fiscal 1999 as the nonrecurrence of the costs of reorganization was more than offset by the increase in personnel in 1999.

Amortization of Deferred Compensation. In connection with the granting of stock options to employees during fiscal 1999, we recorded deferred compensation of $3.1 million. During fiscal 1999, we amortized $409,000 of deferred compensation. We did not record any deferred compensation or amortization during fiscal 1997 and 1998 as no stock options were granted in those years.

Other Income (Expense), net Other income (expense), net, which consists principally of interest expense, was $570,000 in fiscal 1997, $1.1 million in fiscal 1998, and $228,000 in fiscal 1999, representing an increase of $506,000, or 89%, from fiscal 1997 to fiscal 1998 and a decrease of $847,000, or 79%, from fiscal 1998 to fiscal 1999. The increase between fiscal 1997 and fiscal 1998 resulted from additional borrowings to fund operating losses. During fiscal 1999, these borrowings were effectively converted to common stock in connection with our incorporation. After our incorporation in fiscal 1998, we entered into a secured convertible promissory note arrangement with our major stockholder. We borrowed amounts during the last portion of fiscal 1998 and during fiscal 1999 under this agreement. These borrowings were converted into common stock through the exercise of the conversion feature in August 1999.

Income Taxes

For fiscal years 1998 and 1999 our German subsidiary, Caldera Deutschland GmbH, incurred income tax expense of $34,000 and $35,000, respectively. As of October 31, 1999, we had net operating loss carryforwards for federal and state income tax reporting purposes of approximately $10.6 million that expire at various dates from 2018 to 2019. The Internal Revenue Code contains provisions that likely could reduce or limit the availability and utilization of our net operating loss carryforwards. For example, limitations are imposed on the utilization of net operating loss carryforwards if certain ownership changes have taken place or will take place.

We had deferred tax assets, including our net operating loss carryforwards and other temporary differences between book and tax deductions, totaling approximately $11.1 million as of October 31, 1999. A valuation allowance in the amount of $11.1 million has been recorded as of October 31, 1999 as a result of uncertainties regarding the realizability of the deferred tax asset balance.

Liquidity and Capital Resources

Since our establishment as a separate legal entity in August 1998, we have funded our operations primarily through loans from our major stockholder and through sales of our common and preferred stock.

As of October 31, 1999, we had cash of $122,000 and working capital of $678,000.

Net cash used in operating activities was $8.8 million in fiscal 1997, $5.1 million in fiscal 1998 and $7.6 million in fiscal 1999. Cash used in operating activities was primarily attributed to the net loss of $8.1 million in fiscal 1997, net loss of $8.0 million in fiscal 1998 and net loss of $9.4 million in fiscal 1999 offset by non-cash expenses and changes in working capital.

Our investing activities have consisted of purchases of property and equipment and certain intangible assets. Capital expenditures totaled $306,000 in fiscal 1997, $170,000 in fiscal 1997, and $587,000 in fiscal 1999. Additionally, we invested $80,000 in certain intangible technology during fiscal 1999. Historically, the acquisition of property and equipment has been primarily through cash purchases. In the future, we anticipate that we will finance such acquisitions through capital lease arrangements. We anticipate that we will experience an increase in our capital expenditures and lease commitments consistent with our anticipated growth in operations, infrastructure and personnel.

Our financing activities provided $9.3 million in fiscal 1997, $4.9 million in fiscal 1998 and $8.3 million in fiscal 1999. In fiscal 1997, cash provided by financing activities consisted of $9.3 million received in borrowings from The Canopy Group, Inc. In fiscal 1998, cash provided by financing activities consisted primarily of $4.4 million additional borrowings from The Canopy Group, Inc. and $519,000 in equity funding received from The Canopy Group, Inc. upon our incorporation. During fiscal 1999, cash provided by financing activities consisted primarily of $15.5 million of equity funding received from The Canopy Group, Inc. and $3.0 million of equity funding from MTI Technology Corporation. Additionally, we received $4.8 million from The Canopy Group, Inc. under a secured convertible promissory note agreement. These proceeds plus accrued interest were converted to equity during fiscal 1999. Approximately $15.0 million was paid to our predecessor during fiscal 1999 in connection with the reorganization of our predecessor and our own incorporation.

As of October 31, 1999, we had only one debt arrangement for approximately $9,500. As of that date, we had no other bank or other borrowing arrangements in place.

We believe that our current cash on hand, after receiving approximately $29.5 million of net proceeds from the sale of preferred stock in December 1999 and January 2000, together with the proceeds from this offering will be sufficient to meet our capital expenditures and working capital requirements for at least the next twelve months. However, we may need to raise additional funds to support more rapid expansion, respond to competitive pressures, acquire complimentary businesses or technologies or respond to unanticipated requirements. We cannot assure you that additional funding will be available to us in amounts or on terms acceptable to us. If sufficient funds are not available or are not available

on acceptable terms, our ability to fund our expansion, take advantage of acquisition opportunities, develop or enhance our services or products, or otherwise respond to competitive pressures would be significantly limited.

Recent Accounting Pronouncements

In March 1998, the American Institute of Certified Public Accountants, or AICPA, issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", or SOP 98-1. SOP 98-1 requires entities to capitalize certain costs related to internal-use software once certain criteria have been met. We adopted SOP 98-1 in fiscal 1999. The adoption of SOP 98-1 did not have a material impact on our results of operations, financial position or liquidity.

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", or SFAS 133. SFAS 133 establishes new accounting and reporting standards for companies to report information about derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. This statement is effective for financial statements issued for all fiscal quarters of fiscal years beginning after June 15, 1999. In June 1999, FASB delayed the effective date of SFAS 133 for one year, to apply to fiscal quarters of all years beginning after June 15, 2000. We do not expect this statement to have a material impact on our results of operations, financial position or liquidity.

Qualitative and Quantitative Disclosures About Market Risk

Our products and services are primarily developed in the United States and marketed in North America, and to a lesser extent in Europe and Asia/Pacific regions. As a result, our financial results could be affected by changes in foreign currency exchange rates or weak economic conditions in foreign markets. Because all of our revenues are currently denominated in U.S. dollars, a strengthening of the dollar could make our Linux products less competitive in foreign markets.

Year 2000 Compliance

Background.

Many currently installed computer systems and software and devices with embedded technology are coded to two digits for time sensitive dating purposes. Beginning with the year 2000, these date code fields will need to be coded to four digits in order to distinguish between twentieth century and twenty-first century dates. For example, computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This error could result in system failures or miscalculations causing disruptions of operations, including, among other things, a

temporary inability to process transactions, send invoices or engage in similar normal business activities. As a result, many companies' software and computer systems may need to be upgraded or replaced to comply with such "Year 2000" requirements.

Our business is dependent on the operation of numerous systems that could potentially be affected by Year 2000-related problems. Those systems include, among others:

- software products sold to customers;

- hardware and software systems used by us to deliver products and services to customers, including our proprietary software systems as well as software supplied by third parties;

- hardware and software systems used internally by us in the management of our business;

- communications networks such as the Internet and private intranets;

- internal systems of our customers and suppliers; and - non-information technology systems and services, such as energy and utility suppliers, telephone systems and building systems, and financial institutions and transportation providers.

State of Readiness.

In October 1998, we created a team to oversee the audit and resolution of potential Year 2000 problems. Since that time, we have evaluated the readiness of our systems and products for Year 2000 compliance.

Products. We engaged an affiliated third party to test our OpenLinux 2.2/2.3 product. This testing was completed in the third quarter of 1999 and did not result in any findings of Year 2000 problems that were not remedied or documented. We are continuing to evaluate the Year 2000 compliance of our products currently under development. Some of our customers are still using older discontinued products of ours which have not been tested for Year 2000 readiness. While we have not been informed of any problems or failures relating to these products, if problems arise concerning these systems, we will recommend that these customers upgrade to a more recent and supported version. We may be required to support and correct any failed systems as a result of any problems that may arise in connection with these older products.

We bundle third-party applications and software components with our products. We have tested some of these products and have researched the suppliers. To date, we know of no problems with these products nor have we had to correct any deficiencies. Most of these products are open source and therefore if unforeseen problems do arise, we have the ability to rapidly provide corrections and support to customers. We do not intend to expend resources to seek out and correct additional problems before they arise. Accordingly, it is possible that some of our customers may experience difficulties related to third-party software which may affect the performance of our products and may lead to adverse results such as additional support calls or return of products. This could divert resources from the pursuit of our business strategy which could materially adversely affect our business.

Internal Systems. We replaced the hardware servicing our internal office network systems in the third quarter of 1999. These hardware systems have their respective companies' statements of compliance, and we have independently tested these systems for Year 2000 readiness. We have also substantially completed inventorying, assessing and testing our major non-IT systems, and have implemented any remedial actions to the extent deemed appropriate. No problems in these systems have surfaced to date, and we do not expect any to occur. We have also tested and verified compliance on our external servers which host our Web site and other Internet services.

Material Third-Party Relationships. We rely on third parties such as suppliers of energy and other utilities, financial institutions, transportation providers, communications vendors, including value added network vendors and other significant customers. We have received Year 2000 readiness statements from some but not all of these third-party suppliers. The failure of any of these third parties to achieve Year 2000 compliance could have a material impact on our business, operating results and financial condition.

Costs.

To date, we have incurred approximately $600,000 in costs to improve our IT systems, certify products, and prepare for Year 2000 readiness efforts. We are not tracking internal costs such as payroll costs for our information systems group for our Year 2000 review activities. We expect that any additional costs for Year 2000 compliance of internal systems to be minimal. We have not estimated costs to support customers in post-Year 2000 efforts.

Contingency Plans.

All of our critical systems are powered through compliant uninterruptible power supply systems and/or backup generators in the event of Year 2000 or other power related outages. We have not otherwise developed contingency plans with respect to our products or internal systems. To date, Year 2000 problems have had a minimal effect on our business. However, we may not have identified and remediated all significant Year 2000 problems. Further remediation efforts may involve significant time and expense, and unremediated problems may have a material adverse effect on our business. Also, we sell our products to companies in a variety of industries, each of which is experiencing different Year 2000 issues. Customer difficulties with Year 2000 issues might require us to devote additional resources to resolve underlying problems. Finally, although we have not been made a party to any litigation or arbitration proceeding to date involving our products or services and related to Year 2000 compliance issues, we may in the future be required to defend our products or services in such proceedings, or to negotiate resolutions of claims based on Year 2000 issues. The costs of defending and resolving Year 2000-related disputes, regardless of the merits of such disputes, and any liability for Year 2000-related damages, including consequential damages, would negatively affect our business, results of operations, financial condition and liquidity, perhaps materially.

Business

Overview

Caldera Systems, Inc. enables the development, deployment and management of Linux specialized servers and Internet access devices that simplify computing. Our Linux software products and service offerings are specifically designed to meet the complex needs of eBusiness, or business over the Internet. During 1999 our OpenLinux technology received many awards and recognitions, including Internetweek's "Best of the Best," The Linux Show's "Best Distribution of Millennium," Linux Journal's Product of the Year award at Comdex and Network Computing's Well-Connected Award for Best Network Operating System. We facilitate the adoption of Linux by providing educational programs designed to help our customers to develop, deploy and administer Linux systems. We embrace the open source model and participate as a key member of many open source, industry standards and partner initiatives, including Linux Professional Institute, Linux Standards Base and Linux International Group. We primarily distribute our products and services through our indirect distribution channel model. Our customers include AST Computers, Cendant, First International Computers, Frank Kasper & Associates, Gates/Arrow, IBM, Ingram Micro, MediaGold, MTI Technology Corporation, Navarre Corporation, Support Net and Tech Data.

Industry Background

The Internet has emerged as the fastest growing global communications medium, enabling millions to connect to a world wide network to conduct business and share information electronically. According to International Data Corporation, or IDC, the overall number of Internet users will grow from approximately 159 million in 1998 to approximately 510 million by 2003. As Internet usage becomes more pervasive, many companies worldwide are devising new ways to leverage this network to conduct business over the Internet, or eBusiness. eBusiness is more than just the purchasing transaction associated with buying an item on the Internet. It involves all the necessary communications and transactions between suppliers, partners and customers to conduct business. IDC projects that commerce conducted over the Internet will grow from approximately $50 billion in 1998 to approximately $1.3 trillion by 2003.

The Internet has accelerated the introduction of processes for managing information, providing services and solutions and handling customers and has changed the way software applications are developed and deployed. These processes enable companies to utilize the Internet to extend their businesses closer to their customers, partners and suppliers and to communicate more effectively with employees. The Internet has also enabled and accelerated a trend towards distributed software applications. With a distributed application, instead of installing and running software on an individual desktop, end users can access the application from remote locations using the Internet. The Internet makes the physical location of a software application or service irrelevant to the end user. Rather than individually installing programs on a number of PCs, businesses can use the Internet to

allow end users to access a single server maintaining the software. As a result of this trend, application service providers, or ASPs, have emerged. An ASP is a service provider that centrally hosts services and software applications and leases them to companies. These companies can access these applications for a fee through the Internet, rather than buying and installing the programs. Nonetheless, operating under previous computing models, many companies have already invested tremendous amounts of capital in their existing legacy computer systems and applications. Therefore, new software applications must be developed to allow seamless integration between existing legacy systems and applications being offered by ASPs over the Internet.

Another trend in distributed applications is the advent of thin appliance servers, or specialized servers. These specialized servers perform specific applications, such as file and print sharing, secure Internet services, backup services and electronic mail services. Dataquest projects that the worldwide market for thin appliance servers will grow from approximately $2.2 billion in 1999 to approximately $16 billion by 2003. Companies are realizing that they can deploy efficient, discrete applications on specialized servers and do not need to install massive, costly, multi-functional systems merely to install a new application or add a particular function. Companies have started using specialized servers to administer the new eBusiness software applications that are emerging. Having separate servers for each application improves performance and increases stability, while decreasing overall operating and maintenance costs.

In addition, the proliferation of information on the Internet has driven the need to customize information for individual use. As a result, manufacturers have developed ways to separate the visual elements of a standard PC program from its computing functions, allowing most of the computing function to be performed remotely. This has facilitated the creation of alternative Internet access devices for individuals, such as personal digital assistants, Internet-capable cellular telephones and television set-top boxes. These Internet access devices are far less costly than personal computers and allow more users access to the Internet and the ability to participate in eBusiness. Internet devices are becoming popular worldwide as a way of getting businesses and consumers connected to the new eBusiness economy.

The trend towards distributed software applications and specialized servers and the proliferation of Internet access devices have increased companies' ability to conduct eBusiness and consumers' access to eBusiness. The dynamic and fast changing nature of eBusiness requires an operating system, the software that enables a computer and its various components to interact, that can change with the accelerated evolution of eBusiness. The ideal operating system must enable companies to connect specialized servers and Internet access devices to the Internet network to conduct eBusiness. It must be customizable to adapt to the changing software applications environment, shifting hardware infrastructures and emergence of new Internet access devices. It must be scalable to accommodate the growing number of users and the ways that they access the Internet. The ideal operating system must be highly stable and easy to maintain to minimize overall operating and maintenance costs. It must allow for rapid deployment and development and be easily upgradeable to keep pace with the changing

needs of eBusiness. Finally, this operating system must interface with existing systems and embrace open technical and communications standards like Java and extensible mark-up language, or XML, to take full advantage of the Internet.

Linux is an optimal operating system for eBusiness. The term open source applies to software that has its internal source code open to the public for viewing, copying, examining and modification. As a result, the Linux source code is available for download over the Internet. Open source code allows thousands of developers around the world to continually collaborate to improve and enhance the software. The Internet has facilitated and greatly enhanced this collaborative environment. In fact, IDC has projected that the total market for Linux shipments will increase at a compound annual growth rate of 25% from 1999 through 2003. Also, Dataquest has predicted that Linux thin appliance servers will account for approximately $3.8 billion in server appliance revenues by 2003. Benefits of Linux include:

- comprehensive Internet functionality;

- flexibility and customizability;

- high scalability;

- stability;

- interoperability with multiple systems and networks;

- multi-appliance capability, including Internet access devices;

- low acquisition and maintenance costs; and - compliance with technical and communications standards.

Despite these benefits, Linux as an open source system is not without drawbacks. Linux has not yet been widely adopted by business due to:

- the absence of Linux products tailored for business;

- the fragmentation of Linux offerings;

- inadequate education and training;

- the lack of proper distribution channels for Linux solutions; 35 - the lack of technical knowledge and support;

- difficulty in management and deployment; and - the limited number of applications available for use on Linux.

Historically, business users have lacked a Linux solution that suits their needs. For Linux to fully support eBusiness, a solution must consist not only of advanced technology but also should be enhanced and tailored for business. This solution must promote the benefits of Linux for eBusiness and provide the proper education and training to facilitate adoption. Proper distribution channels are required to facilitate access to the business user. The Linux for eBusiness solution must be able to accommodate business applications and be able to interoperate properly with the diverse environment

of internal corporate information systems and the Internet. It must have the flexibility to be maintained centrally or managed remotely. Finally, a solution must adhere and conform to commercial standards to incorporate the latest technological advancement and ensure wide acceptance.

Caldera Systems Solution

We enable the development, deployment and management of Linux specialized servers and Internet access devices that simplify computing. We believe that our Linux solution is a comprehensive solution for eBusiness. Key benefits of our solution include:

Focused business framework. We were the first to tailor Linux open source code from various sources into sound discrete products that are usable, deployable and manageable for eBusiness. Our development team consists of experienced Linux engineers and business professionals. We develop our products by first carefully choosing the Linux features that are the most relevant and useful for eBusiness. Then we assemble the code so that it is logically arranged and works together as seamless applications in which source and binary code match for logic and order. Our products are then tested for quality and performance. This enhances reliability and reduces the need for technical support when used under strenuous business conditions. This process, known as self-hosting, is unique in the Linux community and accounts for the high levels of stability and performance of our products. Our products are also designed to be interoperable with multiple platforms to enable businesses to make efficient use of existing information technology investments.

Effective distribution channel. We provide products and services to the people who serve the business community. Most of our products that are purchased by corporate information systems departments are sold through our distribution channel to electronic solution providers. We define electronic solution providers to include value added resellers, or VARs, original equipment manufacturers, or OEMs, Internet service providers, or ISPs, corporate information technology managers and any partner, ranging from independent local technical specialists to large system integrator organizations, that offers value-added solutions for eBusiness. Business customers often rely on solution providers to recommend which technology to purchase. We provide solution providers with products, third-party applications, education, training and tools to effectively facilitate or offer a Linux solution for eBusiness. Solution providers benefit from the lower maintenance and support costs necessary to maintain our Linux solution. We offer our services to solution providers on a worldwide basis.

Comprehensive product offerings. We believe that our OpenLinux technology is the most advanced for eBusiness. OpenLinux is the technology foundation on which we are able to build multiple products that perform different tasks. Each product has specific components that can be modified. For example, our desktop product can be modified to perform client specific functions such as running business automation applications or accessing the Internet as an email client on hand-held appliances. Our server product contains modular components that can be configured to run specialized servers such as an email server or a Web site server. We continually enhance the OpenLinux technology through our development centers in Germany and the United States. As a result, we are able to incorporate the latest Linux enhancements or modifications into our products. Our business experience enables us to

build relevant business enhancements to Linux through add-on segments of code that connect to the core source code. These enhancements include Web administration applications, the Caldera Systems open administration system, and an easy-to-use Linux installation wizard. We also offer our products in multiple language versions.

Complementary value-added services. In order for businesses to implement our product offerings, we provide a wide range of valuable services. We believe that our service offerings provide significant benefits for eBusiness. These service offerings include:

- Technical Support -- Our technical support provides assistance during installation and operation of OpenLinux;

- Consulting and Custom Development -- Our consultants have extensive technological and business knowledge, which allows us to assist our partners in implementing Linux solutions;

- Hardware Optimization and Certification -- Our consultants can optimize OpenLinux for a specific hardware platform and provide a rigorous testing and certification process; and - Documentation -- We provide consistent and up-to-date documentation on Linux that is not readily available in the open source development community.

Comprehensive, distribution-neutral education and training. Many companies are delivering different versions of Linux called distributions. We provide a comprehensive distribution-neutral training program for Linux. Our courses focus on educating and training the business community on Linux's benefits for business use. We offer a comprehensive set of courses designed to prepare students to develop, deploy and manage Linux in a business environment, including system, network and Internet administration and programming. A student who has successfully completed our courses will be proficient with the leading distributions of Linux. We offer high-quality instructor-led training through our own training center at our headquarters and also offer our educational programs indirectly through our Authorized Linux Education Centers, or ALECs, around the world.

Business community catalyst and open source advocate. We were the first Linux provider to introduce an open source operating system designed for the business environment. By demonstrating to key information technology companies such as Corel and Netscape that open source systems can work well with proprietary systems, we believe that we have sparked the interest of more conservative technology adopters and accelerated acceptance of Linux for business use. We help port, or convert, business applications to the Linux platform and offer ways to incorporate those products into existing systems. We are a major driver of Linux standards based initiatives such as Linux Professional Institute, or LPI, an independent organization dedicated to the establishment of professional certification standards for Linux professionals, and Linux Standards Base, or LSB, an initiative that is designed to standardize application development for the Linux platform. An application that meets all the criteria for LSB should work on all compliant distributions of Linux. If LSB is widely adopted, we believe it will significantly reduce the fragmentation of Linux.

We fully embrace the open source model and continuously contribute tools and technology to the open source community. We give away CD ROMs containing our Linux operating system at trade shows and allow it to be freely downloaded from the Internet to encourage interest. We foster multiple development projects over the Internet and help each project progress smoothly.

Caldera Systems Strategy

Our goal is to become the leading provider of Linux solutions for eBusiness. Key elements of our strategy to achieve our goal include:

Providing Linux software for specialized servers and Internet access devices. By providing focused Linux business solutions that simplify systems management, increasing interoperability and improving ease of use, we have the goal of becoming the number one provider of Linux eBusiness products. We are a leader in applying commercial development practices to Linux, resulting in Linux products that can be more easily deployed and managed. We intend to facilitate the proliferation of highly customized, integrated Linux business solutions by offering both a Linux client and server product and further optimization and certification services to solution providers and end users. In addition, during the first half of 2000 we plan to release eBuilder, an open standards, component-based eBusiness framework, written in Java for the Linux environment. eBuilder is designed to provide businesses with the ability to incorporate existing software applications, file directories and databases into workable eBusiness solutions, such as Web storefronts.

Remaining committed to research and development. We are committed to continuing our research and development efforts to enhance our products to be efficient and effective platforms for delivering eBusiness solutions. Our primary focus will be to design and implement the software that will allow organizations to install and manage these Linux systems in a flexible and cost effective manner. We will contribute time and technology to various industry initiatives to expand the range of computing hardware on which our products can be offered. Additionally, we will support and seek to influence technology standards that will expand the scope in which our products can be sold and deployed. We are committed to the open source model for software development and will work to contribute much of our efforts to the open source development community. We will continually seek out new innovative solutions to address the needs of our customers and the evolution of the marketplace.

Increasing our channel presence in Linux. We believe that the best way to reach the business user is through solution providers. Solution providers will be invaluable in providing turnkey solutions and local support for specialized servers. We plan to enhance our product and service offerings to solution providers by introducing new products for eBusiness, increasing the reach of our education and training services and expanding resources for solution providers on our Web site.

Leveraging partners for growth. We believe that in order for us to accelerate our growth, we must enlist the help of partners to promote our brand, proliferate our products and provide us with valuable feedback. Through our partner programs, we plan to provide our partners with appropriate knowledge, tools and certifications to effectively implement our solutions for eBusiness. This will increase

awareness of Caldera Systems and our extended network of partners, thus increasing the end user's confidence in us and Linux as a viable business platform. We intend to expand our partner programs for:

- developers;

- independent software vendors, or ISVs;

- original equipment manufacturers;

- hardware vendors;

- system integrators;

- value-added resellers;

- distributors;

- retailers;

- education providers (ALECs); and - Web partners.

Facilitating the adoption of Linux for eBusiness through education and training. In addition to simply selling educational products, our strategy is to educate our partners on how to deploy, manage and administer Linux solutions. As these partners train other users, we expect increased sales referrals. We plan to expand our ALEC channel through industry partnerships to help establish market share. In addition, we plan to expand our educational offerings through Web-based classroom training, academic textbooks and training materials, and to develop additional courses to maintain our leadership in Linux educational products. Finally, we plan to expand our partnerships to include universities, course developers, communities and other institutions who may offer opportunities to increase exposure of Linux.

Establishing our Web site as the one-stop center for eBusiness. We intend to continue to enhance our Web site to provide a one-stop center for eBusiness. We expect that this will attract Linux business users, particularly those from small to medium businesses, as well as the business users who contemplate using Linux but lack the confidence that there will be sufficient education, products and support. We plan to expand our Web site as an electronic channel for our solution providers by providing information, sales and service leads.

Expanding our international presence. We currently have distribution channel representation in 47 countries to take advantage of what we believe will be high international demand for Linux business solutions. We plan to continue to penetrate the international market by recruiting local distributors and solution providers in each region, leveraging their access to the surrounding community, and by reaching partners to proliferate our brand and products. These partners will begin to generate momentum for our products and services as the international markets become educated about our solutions. Local partners will also be able to add value and customize our products and Web site to meet

local language and regulatory requirements. As our international penetration continues, we plan to expand our support resources to overcome time zone and language barriers as we are now doing in Germany and Japan.

Products

We develop, market and support Linux products and solutions specifically designed to meet the complex needs of eBusiness. According to PC Data, during the period from January 1, 1999 through October 31, 1999, Caldera Systems was third in sales of Linux operating systems in the United States, both in terms of units sold and aggregate dollar amount. Our products and solutions integrate both commercial and open source software products developed by us and third parties. For example, we have included applications that we have open sourced, such as LInux wiZARD (LIZARD), our award-winning graphical Linux step-by-step installation tool. We apply development and testing procedures to the open source code included in our products similar to those procedures applied to commercial products. This process known as self-hosting is unique in the Linux community and accounts for the high levels of stability and performance of our products. Our rigorous development procedures result in a highly consistent product that enables easier and more rapid customization, integration and support of our solutions. Our products are designed to work both individually and together to provide a rapidly expandable platform as enterprises extend their eBusiness infrastructure.

OpenLinux 2.3

We first released our principal product, OpenLinux, a Linux operating system, in 1995. We began shipping the latest release, OpenLinux 2.3, in September 1999. OpenLinux 2.3 is an integrated and pre-tested collection of approximately 300 business-relevant third-party software components, which provide for a variety of functions that can be utilized either on a single desktop computer or in a networked environment. We have historically developed OpenLinux for the first time Linux user, which predominantly has come from a Windows, desktop environment. OpenLinux 2.3 is currently available for the Intel and Sun SPARC platforms. According to Ziff-Davis, in laboratory tests, OpenLinux was 50% faster than any other Linux product in Web server performance and 200% faster than Windows NT at file and print services. We believe that these performance results are largely due to our self-hosting approach.

The suggested retail price for packaged OpenLinux 2.3 is $49.95. Examples of some of the key components of OpenLinux 2.3 and the functions they perform include:

Open Source Components Function

KDE	Graphical Desktop
Linux Kernel (Version 2.2.10)	Operating system core
Lizard	Installation software
Netscape Communicator 4.61	Web browser
Apache	Web server
Sendmail	E-mail routing software

Commercial Components Function

StarOffice 5.1 (personal edition)	Suite of office applications
Corel WordPerfect 8.0 (personal edition)	Word processor
BRU-PE	Backup and Restore Utility
PartitionMagic	Hard-drive partitioning
BootMagic	Boot-up manager
Applixware 4.4.2 office suite (trial version)	Suite of office applications

OpenLinux 2.3, in the next release, will be renamed OpenLinux Desktop to reflect its emphasis for desktop.

OpenLinux eServer 2.3 OpenLinux eServer 2.3 is targeted at solution providers, system integrators and resellers who provide specialized, thin and high-end servers to their customers. eServer supports server-oriented hardware. It is a component-based server operating system designed for OEMs, solution providers, system integrators and resellers and makes Linux server solutions easy to install, configure and operate. It is readily customizable and, in particular, has been developed for use by AST Computers, Fujitsu and Motorola. OpenLinux eServer 2.3 has been shipped to strategic partners such as Fujitsu, IBM and Motorola and will be generally available in the first quarter of 2000.

eBuilder

We plan to release our eBusiness framework, eBuilder, in the first half of 2000. eBuilder is one of the first fully open standards, component-based eBusiness frameworks written in Java for the Linux environment. eBuilder can be used to develop ecommerce components, packages and processes. These packages and processes can be re-used in multiple client environments. eBuilder utilizes Java to introduce plug-and-play capability into an environment for a business' existing software applications, file directories and databases. eBuilder is Java and CORBA compliant, utilizes XML for data encapsulation and is Enterprise Java Bean compliant. The eBuilder framework, coupled with eServer, will provide solution providers the ability to transform traditional products and services into integral components of a comprehensive eBusiness solution, allowing them to provide new eBusiness services to their existing customers without requiring them to totally replace their existing business solutions.

Services

Linux Education and Training Services Our educational programs and products are designed to help our customers learn to develop, deploy and administer Linux systems. Our courses provide preparation for Linux certification tests being provided by the Linux Professional Institute, an independent organization. We provide the most comprehensive distribution-neutral training program for Linux.

We provide Linux training through our training center in Orem, Utah and through 24 ALECs located in the United States and abroad. ALECs are independent centers that we have authorized to provide courses that we have developed. Currently, we offer eight separate courses relating to Linux training and network administration, which are categorized by their educational objective. The three categories of courses we provide allow multiple educational tracks, including:

- Linux certification;

- system administration; and - Linux developer training.

The suggested retail price for our non-developer courses is $1,995. Developer courses have a suggested retail price of $2,250.

eBusiness Consulting, Custom Development and Optimization Services Our eBusiness consulting services stem from our experience testing and integrating software products to work in a Linux environment. We assist ISVs and solution providers by helping them in creating customized Internet solutions which they can then pass along as products and solutions for their customers. Examples of the eBusiness consulting services we provide include:

- Customization and optimization of our products to support a client's proprietary system or configuration. Fees for this service start at $10,000.

- Assessment services relating to the proposed migration of a client's software for use with Linux. Fees for this service start at $3,000.

- Porting services for customers migrating their software to Linux. Fees are billed on a daily, weekly or monthly basis.

Technical Support

Customers who purchase OpenLinux products through our distribution channels are entitled to 90 days or five incidents of email or Internet technical support at no additional charge. We support solution providers with second tier support.

Customers seeking additional technical support directly from us may enter into service agreements that best suit their needs. Examples of our service plans include:

- yearly unlimited telephone support agreements for $950 per system;

- yearly unlimited email support agreements for $495 per system;

- pay-as-you-go support agreements starting at $150 per incident;

- telephone support for up to 5, 10 or 20 calls ranging in price from $625 to $1,500 per call pack; and - 7 day, 24 hour telephone support available at a 50% premium to the base rates.

Awards and Recognitions

Caldera Systems and its products have received several recognitions and awards, including:

- Internetweek's "Best of the Best" award for best software for 1999 (December 1999);

- The Linux Show's "Best Distribution of Millennium" (December 1999);

- Linux Journal's Product of the Year award at Comdex (November 1999);

- listing in PC Magazine's Top 100 Technology Companies That Are Changing the World (October 1999);

- Linuxworld Editor's Choice Award: Best Client and Distribution (August 1999); and - Network Computing's Well-Connected Award for Best Networked Operating System (May 1999).

Customers

We sell our products primarily through indirect channels. Our customers include:

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AST Computers                          MediaGold
Cendant                                MTI Technology Corporation
First International Computers          Navarre Corporation
Frank Kasper & Associates              Support Net
Gates/Arrow                            Tech Data
IBM
Ingram Micro
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Navarre Corporation and Frank Kasper & Associates each accounted for more than 10% of our revenue in fiscal 1999. Substantially all of the revenue we have received from these two parties reflects revenue from sales of our Linux products.

Strategic Technology Alliances

We have business alliances with key global industry partners, including Citrix Systems, Evergreen Internet, Corel, IBM, Novell, Oracle and Sun Microsystems. These relationships encompass product integration, two-way technology transfers, channel partnerships and revenue generating initiatives in areas of product bundles, training and education, consulting and third-level technical support for our partners. The objectives of these partnerships include:

- providing complete hardware and software Linux solutions;

- licensing our education materials to be used in our partners' training centers;

- supporting our partners' Linux engineering efforts as well as their end-user customers; and - mutually developing our sales and distribution channel by coordinating marketing initiatives in creating demand for our products.

These relationships are non-exclusive, leaving us opportunities to explore other strategic partnerships on a global level. In particular, in January 2000, we entered into license agreements with Sun Microsystems which allow us to create and commercially distribute applications developed utilizing Java2 Standard Edition for Linux, Java HotSpot Performance engine, EmbeddedJava and PersonalJava for use on the Itanium (Merced), PowerPC, Sun x86, and UltraSPARC processors. These licenses are non-exclusive. In connection with the licenses relating to the Java2 Standard Edition and the Java HotSpot Performance Engine, we agreed to pay Sun Microsystems $1.3 million in the first quarter of 2000 for a license term of 18 months. This term may be extended for up to an additional two years, either through a lump sum payment of an additional $2.3 million prior to March 24, 2000, or through

yearly payments of $1.5 million by June 2001 and $1.8 million by June 2002. The licenses for EmbeddedJava and PersonalJava have initial terms of three years, which may be renewed yearly thereafter, and for which we have agreed to pay royalties for sales of products based on these technologies.

Also, in January 2000, we entered into license agreements with Evergreen Internet, Inc., pursuant to which we licensed rights to bundle their ECential software products with components of OpenLinux to create eBuilder. These ECential products comprise significant components of eBuilder. Under the agreement, both we and Evergreen Internet may market and distribute eBuilder. This license is exclusive with respect to use on the Linux platform for a one-year period beginning on the date eBuilder is first distributed, and is terminable by either party after January 6, 2003. However, if eBuilder is not available for commercial distribution by June 30, 2000, either party may terminate the license agreement.

Industry Participation

We participate as a key member of many industry standard, partner and open source initiatives, including the following:

- Linux Professional Institute, an independent organization dedicated to the establishment of professional certification standards for Linux professionals;

- Linux Standards Base, a Linux community initiative dedicated to addressing problems and defining standards associated with the many versions of Linux distributions currently in the marketplace;

- Linux Internationalization Group, a voluntary Linux community working group, of which we are one of the founding members, dedicated to addressing interoperability, internationalization and localization of Linux applications in the international context;

- The Trillian Project, an Intel-sponsored initiative to port the Linux kernel to the Intel Itanium processor;

- Distributed Management Task Force, an independent organization including most of the largest software and systems vendors in the world, dedicated to creating new standards for computer systems management. We are working with this task force to incorporate into our OpenLinux products commonality standards already in place among enterprise-level businesses; and - Java, Sun Microsystem's proprietary software programming language. We plan to incorporate standards that will allow the majority of current Java applications to run on Linux and to provide for developers to create new applications in Java for use on Linux.

Sales, Marketing and Distribution

Our focus on Linux for eBusiness enables us to promote the development, deployment, and management of Linux appliances and devices that facilitate the eBusiness infrastructure. Our primary strategy is to distribute our products and services through our indirect distribution channel model.

The majority of our revenue comes from distributors. As of November 1, 1999, we had approximately 35 distributors worldwide who purchase directly from us. These distributors in turn sell to approximately 4,000 retail outlets in the United States and approximately 900 equivalent sites internationally. On a worldwide level, we utilize over 700 VARs to promote technology and service integration of our products and solutions to their end-user business customers.

For the fiscal year ended October 31, 1999, our distributor channel represented 73% of the current business and includes distributors such as Frank Kasper & Associates, Ingram Micro, Navarre Corporation and Tech Data, domestically, and MediaGold in Europe. We plan to continue to recruit new distributors to introduce OpenLinux technology into new markets, including into foreign countries with language specific products.

We sell directly to OEM partners, including AST Computers in the United States and First International Computers in Taiwan. These arrangements are typically royalty-based and our revenues are determined by volume of OpenLinux products shipped on our partners' hardware or bundled together in distribution.

Our marketing efforts support our sales and distribution efforts, promotions and product introductions and include marketing development funds to push OpenLinux products. Pull marketing, apart from delivering quality products and services needed in the marketplace, is focused on branding, solutions, advertising, tradeshows, press releases, white papers and marketing literature. We focus our marketing on public relations and press relations extensively to communicate the progress we are making in the business arena. In particular, our marketing strategy consists of:

- branding "Linux for eBusiness" through public relations announcements and advertising;

- announcing technology and solution awards;

- creating an effective Partner program to generate brand awareness and promote our products; and - increasing public awareness through speaking engagements at strategic tradeshows and conferences worldwide and participating in technology forums.

Our Web site, www.calderasystems.com, is focused on strengthening our Linux for eBusiness strategy. In addition to allowing visitors to download free software, our Web team is expanding our current Web strategy of branding, direct sales through our online store and linking customers to channel partners. Through our Web site, we plan to join together ISVs, hardware partners, customers, channel players, developers, ISPs and other Linux players who want to connect for business reasons and to generate royalties based on introductions, advertising and transactions.

Competition

The market for eBusiness solutions is emerging rapidly and is therefore intensely competitive, characterized by rapidly changing technology and evolving standards. We expect competition to increase both from existing competitors and new market entrants. We face direct competition in the area of specialized servers and Internet devices from other providers of solutions for specialized servers. We also face competition from traditional, non-Linux operating systems, other Linux operating systems, technical support providers and professional services organizations.

Companies currently offering software solutions for specialized servers or Internet access devices include Berkeley Software Design, Microsoft and a joint venture involving The Santa Cruz Operation and Compaq. Cygnus Solutions, VA Linux and Wind River provide similar solutions embedded into their hardware offerings. Many of these competitors are large, well-established companies with significantly greater financial resources, more extensive marketing and distribution capabilities, larger development staffs and more widely recognized brands and products.

Companies currently offering competitive non-Linux operating systems include providers of hardware-independent multi-user operating systems for Intel platforms, such as Microsoft, IBM and Novell. They also include providers of proprietary versions of the UNIX operating system, such as AT&T, Compaq, Hewlett-Packard, IBM, Olivetti, Sun Microsystems and Unisys. These competitors often bundle their operating systems with their hardware products, creating an additional barrier for us to overcome in penetrating their customer bases. There are also significantly more user applications available for competing operating systems, such as Windows NT and UNIX, than there are for Linux operating systems.

In the Linux operating system market, our competitors include Corel, MacMillan, Red Hat, SuSE and TurboLinux. Several of these competitors have established customer bases, strong brand names and continue to attract new customers. Red Hat, in particular, has had more visibility and a stronger brand. In addition, this market is not characterized by the traditional barriers to entry that are found in most other markets, due to the open source nature of our products. For example, anyone can readily download the Linux kernel and packages from the Internet, optimize and add value to it, and thereafter market their own version of the Linux operating system. Similarly, anyone can copy, modify and freely redistribute the open source components of OpenLinux. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share. Our product, however, is specifically suited for and targeted toward the requirements of business. In addition, our education and training program is more pervasive and our distribution channel is more developed and mature. We believe that these three key advantages give us a competitive advantage in the Linux operating system market.

We also compete for service revenue with a number of companies that provide technical support and other professional services to users of Linux operating systems, including some original equipment manufacturers with which we have agreements. Many of these companies have larger and more experienced service organizations than we do. We also may face competition on this front from

companies with larger customer bases and greater financial resources and name recognition, such as Corel, Cygnus Solutions and Sun Microsystems, which have indicated interest in the Linux operating systems market.

Based upon these market factors, we believe that the most significant criteria affecting the competitive landscape for our products include:

- networking capability;

- distribution strength;

- market perception of vendor;

- education and training;

- ease of customization;

- commercial development process;

- product performance, functionality and price;

- education and training;

- ease of use;

- breadth of hardware compatibility;

- quality of support and customer services;

- strength of relationships in the open source community; and - availability of user applications.

We believe that we compete favorably with many of our competitors in a number of respects, including product performance, functionality and price, networking capability and breadth of hardware compatibility. To solidify and improve our competitive ability, our near term strategy is to strengthen our existing strategic relationships and enter into new ones in an effort to enhance our name recognition, expand our distribution capabilities and attract more attention to the open source movement, which in turn should create additional incentives for software developers to write more applications for OpenLinux.

Software Engineering and Development

We have invested and will continue to invest in the development of innovative new product features and technologies in response to the evolving market for Linux solutions and input from key customers. We seek to deliver consistently strong Linux products targeted at specific usage as opposed to the more traditional one-size-fits-all Linux distribution in which the customer may be required to re-build the kernel to attain the proper configuration. This product segmentation of eServer and eDesktop allows us to tailor the delivery of the product to work optimally as installed off the CD, yet continue to provide customization, one of the essential values of Linux.

One of our key strategies has been to focus on identifying and removing the traditional barriers for mass deployment of UNIX-style operating systems (e.g., installation, system configuration and management). The delivery of the award-winning LIZARD installation system, initially shipped in OpenLinux 2.2 in April 1998, successfully paved the way for a much broader base of users to experience Linux with a much lower learning curve. Going forward, we intend to continue to apply this philosophy as we work toward addressing the broader issues of system configuration management and administration, specifically as it pertains to the deployment of eServer-based information appliances and eDesktop platforms. Our latest component of this architecture, the LUI (Linux Unattended Install) was developed in cooperation with a large European University to allow many systems (eServer or eDesktop) to be installed and upgraded without requiring direct user interaction. We intend to introduce new components with each subsequent product.

Our major commitment in the area of research is how to extract the management aspects of individual systems, new and legacy applications to enable the deployment, management and administration of platforms and applications to be handled from anywhere on the network. Leveraging Linux, open source and open standard technologies is a way of providing necessary infrastructure components. We believe that contributing back to Linux much of our research will facilitate more of an industry standard as well as industry cooperation.

Our product development process is modeled to standard, commercial software engineering practices. We apply these practices to both documentation and procedures to ensure consistent product quality. As a result, we are able to offer our platform products to OEM customers in several configurations without significant effort. We are also able to move our platform products efficiently to new processor platforms as new business opportunities arise.

As of December 31, 1999, we employed an in-house engineering staff of 31 in addition to maintaining a contract consulting arrangement with a Japanese firm for product development needs specific to the Japanese market. The engineering staff consists of two primary teams, the U.S. Engineering group located near corporate headquarters in Utah and the European group located in Erlangen, Germany. Our staff members possess a broad range of both Linux and other industry experience.

Intellectual Property

Our success depends significantly on our ability to protect our trademarks, trade secrets, and certain proprietary technology. To accomplish this, we rely primarily on a combination of trademark and copyright laws and trade secrets. We also require that our employees and consultants sign confidentiality and nondisclosure agreements. We generally regulate access to and distribution of our documentation and other proprietary information.

Certain components of OpenLinux have been developed and made available for licensing under the GNU General Public License and similar licenses, which generally allow any person or organization to copy, modify and distribute the software. The only restriction is that any resulting or derivative work must be made available to the public under the same terms. Therefore, although we retain the

copyrights to the code that we develop ourselves, due to the open source nature of our software products and the licenses under which we develop and distribute them, our collection of trademarks constitutes our most important intellectual property.

We have licensed the registered trademark "CALDERA(R)" and also have license rights relating to "CALDERA SYSTEMS(TM)", a pending trademark application. We plan to respond to the rejection in September 1999 of our trademark applications in the United States for "OpenLinux(TM)" and "Linux for Business(TM)".

Despite our efforts to protect our trademark rights, unauthorized third parties have in the past attempted and in the future may attempt to misappropriate our trademark rights. We cannot be certain that we will succeed in preventing the continued misappropriation of our tradename and trademarks in these circumstances or that we will be able to prevent this type of unauthorized use in the future. The laws of some foreign countries do not protect our trademark rights to the same extent as do the laws of the United States. In addition, policing unauthorized use of our trademark rights is difficult, expensive and time consuming. The loss of any material trademark or trade name could have a significant negative effect on our business, operating results and financial condition.

We do not believe that our products infringe the rights of third parties. However, our products are comprised of many distinct software components, developed by many independent parties, and therefore third parties have in the past asserted, and may in the future assert infringement claims against us which may result in costly litigation or require us to obtain a license to third-party intellectual rights. There can be no assurance that such licenses will be available on reasonable terms or at all, which could have a negative effect on our business, operating results and financial condition.

Employees

As of December 31, 1999, we had a total of 108 employees. Of the total employees, 31 were in software engineering, 30 in sales and marketing, 20 in customer service and technical support, 7 in operations, 11 in finance and administration and 9 assigned to development of our electronic channel. From time to time we also employ independent contractors to support our professional services, product development, sales, marketing and business development organizations. Our employees are not represented by any labor union and are not subject to a collective bargaining agreement, and we have never experienced a work stoppage. We believe our relations with our employees are good.

Facilities

Our principal executive office is currently located in Orem, Utah where we sublease approximately 10,600 square feet under a lease that will expire in August 2000. Our annual rental expense under the lease is approximately $145,000. We also occupy 8,300 square feet of additional office space in Orem, Utah, under a lease that costs $10,000 per month, and 5,544 square feet of warehouse space in Orem, Utah, under an 18 month lease that costs approximately $32,000 per year. In May 2000, we plan to

consolidate our two Orem office facilities into one in a new building in Orem, Utah, which is currently under construction. We expect that our lease terms in that facility will be comparable to those which we have currently. Our German subsidiary occupies 3,375 square feet in Erlangen, Germany under a five-year renewable lease for approximately $4,880 per month. This lease expires September 1, 2004, and additional space is available under similar terms. We believe that our existing facilities are adequate for our current requirements and that additional space can be obtained on commercially reasonable terms to meet our future requirements.

Legal Proceedings

We are not a party to any material legal proceedings.

Management

Executive Officers, Directors and Key Employees

The following table presents information regarding our executive officers, directors and key employees as of December 31, 1999:

Name Age Position

Ransom H. Love	40	Chief Executive Officer, President and Director
Alan J. Hansen	36	Chief Financial Officer and Secretary
Drew A. Spencer	38	Vice President, Development
Royce D. Bybee	43	Vice President, Sales
Benoy Tamang	35	Vice President, Marketing
R. Dean Taylor	37	Vice President, Electronics Channel
John Thomas	38	Vice President, Support Services
Walter D. Hammond	37	Vice President, Operations and Information Systems
Ralph J. Yarro III	35	Chairman of the Board of Directors
Raymond J. Noorda	75	Director
Thomas P. Raimondi, Jr	42	Director

Ransom H. Love has served as our President, Chief Executive Officer, and member of our board of directors since August 1998. Prior to that date, Mr. Love was a founder and served as Vice President of Marketing and Sales, Vice President of Business Development and General Manager of the OpenLinux division for Caldera, Inc., from January 1995 to September 1998. Prior to Caldera, Inc., Mr. Love held senior marketing positions at Novell and Sanyo Icon. Mr. Love has been in various management positions in sales, marketing, support, testing and education in the computer industry since 1982. He holds a BA in international relations and an MBA from Brigham Young University.

Alan J. Hansen has served as our Chief Financial Officer since November 1999. From March 1996 through September 1997, he was Controller for PowerQuest Corporation, and from September 1997 through November 1999, he was Vice President of Finance for PowerQuest. From December 1994 through March 1996, Mr. Hansen was self-employed as a public accountant. Mr. Hansen also spent more than eight years working in the finance and securities industries, including more than four years as controller with an investment management firm in the San Francisco Bay area. Mr. Hansen holds a BS in accounting and an MBA from California State University at Hayward.

Drew A. Spencer has served as our Vice President of Development since December 1998. Prior to joining Caldera, Mr. Spencer spent ten years with Novell, Inc. in a variety of senior technical and management positions, including engineering consultant and was a member of the Corporate Architecture Team. He has a BS degree in computer science from Westminster College.

Royce D. Bybee has served as our Vice President of Sales since August 1999. From November 1998 to August 1999 he served as Vice President of Sales and Marketing at Word Place, Inc. From December 1995 to June 1998, he was Senior Vice President of Sales and Marketing, Vice President of Marketing and Director of Channel Retail Sales for PowerQuest Corporation. From December 1994 to December 1995 he was a sales agent for Osmond Real Estate. From February 1989 to March 1994 he served as Regional Manager and Product Marketing Director at WordPerfect Corporation. Mr. Bybee holds a BS in finance from Brigham Young University.

Benoy Tamang has served as our Vice President of Marketing since December 1998. From January 1996 through August 1998, Mr. Tamang was General Manager of Viewpoint Datalabs, where he coordinated domestic and international sales. Previously, he served as Sales Director and Program Manager at Novell, Inc. from March 1993 through August 1996. Mr. Tamang holds a BS in computer information systems from Brigham Young University -- Hawaii and an MBA from the Marriott School of Management at Brigham Young University.

R. Dean Taylor has served as our Vice President, Electronic Channel since November 1999. He was employed in the channel sales department of Caldera, Inc. from June 1995 through November 1999. From May 1995 through November 1995, he also worked in channel marketing for The Canopy Group, Inc., and from November 1994 through May 1995, he worked in channel marketing for Novell, Inc. Mr. Taylor is the co-author of the book Teach Yourself StarOffice for Linux in 24 Hours. He holds a BS degree from Brigham Young University.

John Thomas has served as our Vice President of Support Services since November 1999. From April 1999 to November 1999, he was our Director of Customer Support. From July 1994 until April 1999, Mr. Thomas served as Vice President of Operations for Viewpoint DataLabs.

Walter D. Hammond has served as our Vice President of Operations and Information Systems since May 1999. From December 1996 to April 1999, Mr. Hammond was Director of Operations at Caldera, Inc. and then Caldera Systems, Inc. Prior to joining Caldera, Inc. Mr. Hammond served as Senior Account Manager of Banta Global Services from February 1994 to December 1996. Mr. Hammond holds a BA in communications from Brigham Young University and an MBA from Utah State University.

Ralph J. Yarro III has served as a member of our board of directors since August 1998. Mr. Yarro has served as the President and Chief Executive Officer of the Canopy Group, Inc. since April 1995. Prior to joining The Canopy Group, Inc., he served as a graphic artist for the Noorda Family Trust. Mr. Yarro holds a BA from Brigham Young University.

Raymond J. Noorda has served as a member of our board of directors since August 1998. Mr. Noorda currently serves as chairman of the board of directors of MTI Technology Corporation and The Canopy Group, Inc. Mr. Noorda previously served as President, Chief Executive Officer and Chairman of Novell, Inc. from 1983 to 1994 and has served as a trustee of the Noorda Family Trust since 1994. Prior to joining Novell, Inc. Mr. Noorda served as Chief Executive Officer of Boschert, Inc. and System Industries, Inc. He holds a BS in electrical engineering from the University of Utah.

Thomas P. Raimondi, Jr. has served as a member of our board of directors since September 1999. He has been with MTI Technology Corporation since 1987, serving as President and Chief Executive Officer since December 1999, as Chief Operating Officer from July 1998 to December 1999, as Senior Vice President and General Manager from January 1996 to July 1998 and as Vice President of Marketing from 1987 to December 1995. Mr. Raimondi holds a BS in communications from the University of Maryland.

Composition of the Board

We currently have four directors. Directors are elected by stockholders at each annual meeting of shareholders to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified. There are no family relationships among any of our directors, officers or key employees.

Under a voting agreement, entered into in December 1999, certain of our stockholders agreed to increase the board to nine directors, and for the board members to be designated pursuant to the terms of that agreement. These rights to designate members under the voting agreement terminate upon the closing of this offering. See "Certain Transactions -- Preferred Stock Transactions."

Board Committees

The compensation committee of the board of directors recommends, reviews and oversees the salaries, benefits and stock option plans for our employees, consultants, directors and other individuals compensated by us. The compensation committee also administers our compensation plans.

The audit committee of the board of directors reviews, acts on and reports to the board of directors with respect to various auditing and accounting matters, including the recommendation of our auditors, the scope of the annual audits, fees to be paid to the auditors, the performance of our independent auditors and our accounting practices.

Compensation Committee Interlocks and Insider Participation

None of the members of the compensation committee has at any time been one of our officers or employees. None of our executive officers currently serves or in the past year has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board or compensation committee. Prior to the creation of our compensation committee, all compensation decisions were made by our full board. Mr. Love did not participate in discussions by our board with respect to his compensation.

Director Compensation

Our directors do not receive cash compensation for their services as directors, although members are reimbursed for expenses in connection with attendance at board and compensation meetings.

In December 1999, the board granted an option to Thomas P. Raimondi, Jr., to purchase 100,000 shares of our common stock at an exercise price $6.00 per share. In August 1999, the board granted options to Ralph J. Yarro III to purchase 100,000 shares of our common stock, and in December 1999, the board granted Mr. Yarro options to purchase 50,000 shares of our common stock, at a combined average exercise price of $2.67 per share. These options vest monthly over a two-year period. We may grant our non-employee directors additional options in the future.

Employment Agreements

We have not entered into employment agreements with any of our executive officers.

Executive Compensation

The following table presents compensation information for our most recent fiscal year, ended October 31, 1999, paid or accrued by our Chief Executive Officer and each of our other executive officers whose salary and bonus for fiscal 1999 was more than $100,000.

Summary Compensation Table

	ANNUAL COMPENSATION(1)		LONG-TERM COMPENSATION AWARDS
NAME	SALARY	BONUS	SECURITIES UNDERLYING OPTIONS
Ransom H. Love	$106,077	--	560,000
Drew A. Spencer	$105,333	--	100,000

(1) The column for "Other Annual Compensation" has been omitted because there is no compensation required to be reported in that column. The aggregate amount of perquisites and other personal benefits provided to each executive officer listed above is less than the lesser of $50,000 and 10% of his total annual salary and bonus.

Option Grants in Last Fiscal Year

The following table presents the grants of stock options under our 1998 Stock Option Plan during fiscal 1999, ended October 31, 1999, to each of our executive officers named in the Summary Compensation Table.

All option grants under the 1998 Stock Option Plan are nonqualified stock options. Options expire ten years from the date of grant.

The exercise price of each option granted is equal to the fair market value of our common stock, as determined by our board on the date of grant. In fiscal 1999, we granted to our employees options to purchase a total of 3,106,566 shares of our common stock.

Potential realizable values are computed by - Multiplying the number of shares of common stock subject to a given option by the exercise price per share, - Assuming that the aggregate option exercise price derived from that calculation compounds at the annual 5% or 10% rates shown in the table for the entire 10 year term of the option, and - Subtracting from that result the aggregate option exercise price.

The 5% and 10% assumed annual rates of stock price appreciation are required by the rules of the Securities and Exchange Commission and do not represent our estimate or projection of future common stock prices.

	INDIVIDUAL GRANTS					
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE ($/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME					0%	5% 10%
Ransom H. Love.....	68,000	18.03%	$1.00	12/28/2008	--	$ 42,765 $108,374
	492,000		$1.00	6/3/2009	$61,500	$409,593 $943,636
Drew A. Spencer.....	45,000	3.22%	$1.00	12/28/2008	--	$ 28,300 $ 71,718
	55,000		$1.00	6/3/2009	$ 6,875	$ 45,788 $105,488

Aggregated Option Exercises in the Year Ended October 31, 1999 and Year-end Option Values

None of our executive officers exercised options during the year ended October 31, 1999. The following table presents the number of shares of common stock subject to vested and unvested stock options held as of October 31, 1999 by each of our executive officers named in the Summary Compensation Table. Also presented are values of "in-the-money" options, which represent the positive difference between the exercise price of each outstanding stock option and the assumed initial public offering price of $ per share.

	NUMBER OF SHARES UNDERLYING UNEXERCISED OPTIONS AT OCTOBER 31, 1999		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT OCTOBER 31, 1999	
NAME	VESTED	UNVESTED	VESTED	UNVESTED
Ransom H. Love	377,233	182,767		
Drew A. Spencer	27,083	72,917		

1998 Stock Option Plan

The 1998 Stock Option Plan was adopted by the board of directors on December 29, 1998 and subsequently approved by the stockholders. The plan became effective upon its adoption by the board.

5,000,000 shares of common stock were authorized for issuance under the 1998 Stock Option Plan.

Under the 1998 Stock Option Plan eligible individuals in our employ or service (including officers, non-employee board members and consultants) could be granted options to purchase shares of our common stock. The 1998 Stock Option Plan is administered by our compensation committee.

The exercise price for the options may be paid in cash or in shares of our common stock valued at fair market value on the exercise date. The option may also be exercised through a same-day sale program without any cash outlay by the optionee.

In the event that we are acquired, whether by merger or asset sale, each outstanding option not assumed by the successor corporation, and all outstanding repurchase rights not assigned to the successor corporation, will automatically terminate. Each option assumed by the successor corporation will be adjusted to apply to the number and class of securities which would have been issuable to the option holder had the option been exercised immediately prior to the merger or asset sale. Following such merger or asset sale, appropriate adjustments will also be made to the number and class of securities available for issuance under the 1998 Stock Option Plan and the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same.

The compensation committee has the authority, with the consent of the affected option holders, to cancel outstanding options in return for the grant of new options for the same or different number of option shares with an exercise price per share based upon the fair market value of the common stock

on the new grant date.

The board may amend or modify the 1998 Stock Option Plan at any time, subject to any required stockholder approval. The 1998 Stock Option Plan will terminate no later than December 29, 2008.

1999 Omnibus Stock Incentive Plan

The 1999 Omnibus Stock Incentive Plan is intended to serve as the successor equity incentive program to our 1998 Stock Option Plan. The 1999 plan became effective upon its adoption by the board of directors on December 1, 1999; it was approved by the stockholders by unanimous written consent on December 1, 1999.

3,605,238 shares of common stock have been authorized for issuance under the 1999 plan. This share reserve includes 1,905,238 shares available for issuance under the 1998 Stock Option Plan on the effective date of approval of the 1999 plan by the stockholders. No one participant in the 1999 plan may receive option grants or any other awards for more than 200,000 shares in the aggregate in any tax year of Caldera Systems except for grants of options for a total of 379,752 shares to Mr. Love authorized by our board of directors in December 1999 and January 2000. The 1999 plan allows for the grant of awards in the form of incentive and non-qualified stock options, stock appreciation rights, restricted shares, phantom stock and stock bonuses. Awards may be granted to individuals in Caldera System's employ or service.

The 1999 plan will be administered by our compensation committee. This committee will determine which eligible individuals are to receive awards under the 1999 plan, the type of award to be made, the time or times when such awards are to be made, the number of shares subject to each such award, and the vesting schedule and the other terms to be in effect for the award.

The exercise price for the options may be paid in cash, in shares of our common stock valued at fair market value on the exercise date or by having us retain sufficient shares of our common stock from shares which would be issuable upon the exercise of the option. The option may also be exercised through a same-day sale program without any cash outlay by the optionee.

Tandem stock appreciation rights may be issued under the 1999 plan which will provide the holders with the election to surrender their outstanding options for a cash appreciation distribution from Caldera Systems equal to the fair market value of the vested shares subject to the surrendered option less the aggregate exercise price payable for such shares. In addition, we may issue stand-alone stock appreciation rights which will entitle the holder to receive a cash payment from Caldera Systems equal to the fair market value of the vested shares subject to the right less the base price for such right.

Phantom stock awards will entitle the holder to receive in cash the fair market value of our common stock on the vesting date.

In the event that we are acquired (whether by merger or asset sale) or there is a change in who controls us (effected through an acquisition of 50% or more of our voting stock or by proxy contest for the election of board members), options and stand-alone stock appreciation rights exercisable at that time

will remain exercisable until their expiration, and options and stand-alone stock appreciation rights not exercisable at that time will expire. Also, if we are acquired or experience a change in control, all restrictions on outstanding vested shares of restricted stock granted under Section 10 of our 1999 Omnibus Stock Incentive Plan will lapse, and all outstanding, unvested shares of such restricted stock will expire and be cancelled. Similarly, all outstanding, unvested shares of phantom stock will expire and be cancelled if we are acquired or experience a change in control.

The board may amend or modify the 1999 plan at any time, subject to any required stockholder approval. The 1999 plan will terminate no later than December 1, 2009.

2000 Employee Stock Purchase Plan

We plan to adopt an Employee Stock Purchase Plan prior to the date of this offering. The plan will become effective immediately upon the execution of the underwriting agreement for this offering. The plan is designed to allow eligible employees of Caldera Systems, Inc. and its participating subsidiaries to purchase shares of our common stock, at semi-annual intervals, through their periodic payroll deductions. A total of 500,000 shares of our common stock will initially be reserved for issuance under the plan. The share reserve will increase on the first trading day of each calendar year beginning with the 2001 calendar year by 1% of the total number of shares of common stock outstanding on the last day of the immediately preceding year but no such annual increase will exceed 750,000 shares. In no event, however, may any participant purchase more than 1,000 shares, nor may all participants in the aggregate purchase more than 125,000 shares on any one semi-annual purchase date.

The plan will have a series of successive offering periods, each with a maximum duration of 24 months. However, the initial offering period will begin on the day the underwriting agreement is executed in connection with this offering and will end on the last business day in April 2002. The next offering period will begin on the first business day in May 1, 2002, and subsequent offering periods will be set by our compensation committee. Shares will be purchased on semi-annual purchase dates (the last business day of April and October each year) during the offering period. The first purchase date will be October 31, 2000. Should the fair market value of our common stock on any semi-annual purchase date be less than the fair market value on the first day of the offering period, then the current offering period will automatically end and a new offering period will begin, based on the lower fair market value.

Individuals who are eligible employees on the start date of any offering period may enter the Plan on that start date or on any subsequent semi-annual entry date (generally May 1 or November 1 each year). Individuals who become eligible employees after the start date of the offering period may join the plan on any subsequent semi-annual entry date within that period.

A participant may contribute up to 15% of his or her cash earnings through payroll deductions and the accumulated payroll deductions will be applied to the purchase of shares on the participant's behalf on each semi-annual purchase date (the last business day in April and October each year). The purchase

price per share will be 85% of the lower of the fair market value of our common stock on the participant's entry date into the offering period or the fair market value on the semi-annual purchase date.

The board may at any time amend or modify the plan. The plan will terminate no later than the last business day in April 2010.

Certain Transactions

Other than the transactions described below, since October 31, 1997 there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

- in which the amount exceeds $60,000; and - in which any director, executive officer, holder of more than 5% of our common stock or any member of their immediate family had or will have a direct or indirect material interest.

Relationship with Caldera, Inc.

We began operations in 1994 as a business unit comprising substantially all of the operations of Caldera, Inc. In July 1996, through an asset purchase, Caldera, Inc. acquired an additional business unit which was not engaged in developing and marketing Linux software. Caldera, Inc. subsequently made the strategic determination to separate its two business lines into separate entities. Therefore, pursuant to an Asset Purchase and Sale Agreement dated as of September 1, 1998, as amended, by and between Caldera, Inc. and Caldera Systems, Inc., Caldera, Inc. sold to Caldera Systems certain assets of its Linux software business unit for $19.9 million, $15.0 million of which was paid in the form of a cash payment in fiscal year 1999, $36,174 of which was in the form of assumption of liabilities and $4.9 million of which was in the form of forgiveness of a note receivable from Caldera, Inc.

On September 1, 1998, we entered into a sublease with Caldera, Inc. for office space in Orem, Utah. The sublease provides for annual rent of approximately $150,000 and terminates August 31, 2000.

Ralph J. Yarro III, chairman of our board of directors, and Raymond J. Noorda, one of our directors, are directors of Caldera, Inc. Caldera, Inc. is majority-owned by The Canopy Group, Inc. which holds more than 5% of our common stock. The Noorda Family Trust, of which Mr. Noorda and his spouse are co-trustees, is the controlling stockholder of The Canopy Group, Inc.

Relationship with the Canopy Group, Inc.

Effective August 31, 1998, we sold 16,000,000 shares of our common stock to The Canopy Group, Inc. for an aggregate purchase price of $21.0 million. Of this amount, $16.0 million was paid in cash ($519,000 in fiscal year 1998 and $15.5 million in fiscal year 1999), and $4.9 million was in the form of a note receivable from Caldera, Inc., which The Canopy Group transferred to us.

Effective September 1, 1998, we entered into a convertible promissory note with The Canopy Group. The note, which was secured by all of our assets, was due on December 31, 1999. The note bore interest at the prime rate, less 1/2% (currently 7.5%), and was convertible into our common stock at $1.00 per share. A total of $4.8 million was advanced under the note. The principal balance, along with $455,000 of accrued interest was converted into 5,273,974 shares of our common stock on August 19, 1999.

In May 2000, we anticipate moving into new office space, under a lease to be entered into with The Canopy Group on market terms.

The Canopy Group holds more than 5% of our common stock. Mr. Noorda, one of our directors, and his spouse are co-trustees of the Noorda Family Trust, which is the controlling stockholder of The Canopy Group.

We have adopted a 401(k) plan sponsored by The Canopy Group for our employees, under which we began making matching contributions beginning January 1, 2000.

Relationship with Mti Technology Corporation

Effective July 27, 1999, we sold 5,333,333 shares of our common stock to MTI Technology Corporation for an aggregate purchase price of $6.0 million. Of this amount, $3.0 million was paid at closing, $1.5 million was to be due at January 1, 2000, and $1.5 million is due at July 1, 2000. The first $1.5 million was paid early on November 15, 1999 in return for a waiver by us of accrued and future interest on the unpaid portions of the purchase price.

On August 12, 1999, we entered into a Distribution and License Agreement with MTI Technology Corporation. Under this agreement, MTI Technology Corporation includes as available for sale in its price book all of our products, technology or services that are commercially available for sale, and we sell or license, as applicable, to MTI Technology Corporation, and allow MTI Technology Corporation to sell, re-sell, license, reproduce, use, distribute, sublicense, have made and prepare derivative works of all of our products, technology, or services that are commercially available. This agreement is terminable by either party on 90 days prior written notice.

We use a computer system provided by MTI Technology Corporation without charge. The computer system is valued at $105,000.

MTI Technology Corporation owns more than 5% of our common stock. The Canopy Group, Inc. holds more than 45% of the outstanding common stock of MTI Technology Corporation. The Noorda Family Trust, of which Mr. Noorda and his spouse are co-trustees, is the controlling stockholder of The Canopy Group. Mr. Noorda is one of our directors and is chairman of the board of directors of MTI Technology Corporation. Thomas P. Raimondi, Jr., one of our directors, is president and chief executive officer of MTI Technology Corporation.

Relationship with Lineo, Inc.

We have begun to provide OpenLinux to Lineo, Inc. for inclusion in their embedded Linux products, although we have not reached an agreement with respect to the economics of this arrangement. We expect to enter into agreement with Lineo on market terms. In January, 2000 we sold 1,250,000 shares of our common stock to Lineo in return for 3,238,437 shares of common stock of Lineo.

Lineo is majority-owned by Caldera, Inc., which is majority owned by The Canopy Group, Inc. The Noorda Family Trust, of which Mr. Noorda and his spouse are co-trustees, is the controlling stockholder of The Canopy Group, Inc.

Preferred Stock Transactions

Effective December 30, 1999, we entered into a conversion agreement with The Canopy Group and MTI Technology Corporation. Under the conversion agreement, we issued and exchanged 5,273,974 shares of our Series A convertible preferred stock for 5,273,974 shares of our common stock held by The Canopy Group. We also issued and exchanged 1,322,172 shares of our Series A convertible preferred stock for 1,322,172 shares of our common stock held by MTI Technology Corporation.

In December 1999 and January 2000, we issued 5,000,000 shares of our Series B convertible preferred stock at a purchase price of $6.00 per share to various investors including Chicago Venture Partners, Citrix Systems, Inc., Egan Managed-Capital, Novell, Inc., Sun Microsystems and The Santa Cruz Operation, Inc. Under a voting agreement entered into in connection with the Series B financing, the holders of the Series A convertible preferred stock and the holders of the Series B convertible preferred stock agreed to a board of nine directors, of which two would be designated by the holders of a majority of the outstanding shares of Series A convertible preferred stock, one would be designated by Citrix Systems Inc., one would be designated by Egan Managed-Capital, one would be designated by Novell Inc., one would be designated by Sun Microsystems, one would be designated by MTI Technology Corporation, one would be our chief executive officer and one would be designated by the holders of a majority of the capital stock subject to the voting agreement. The parties also agreed that if this offering does not close by June 30, 2000, the board will be increased to eleven directors, with the two additional directors to be designated by a majority of the outstanding shares of Series A convertible preferred stock. The rights to designate members of the board under the voting agreement terminate upon the closing of this offering. We have not yet increased our board size, and the parties have not designated directors pursuant to the terms of this agreement.

In connection with the Series B financing, the holders of the Series A convertible preferred stock and the holders of the Series B convertible preferred stock also entered into a second amended and restated investors rights agreement with us, under which:

- We are obligated to provide certain registration rights with respect to shares of our capital stock held by the other parties to this agreement. See, "Description of Capital Stock -- Registration Rights."

- We granted the other parties a right of first offer with respect to any future issuance and sale of shares of our capital stock other than shares of our common stock to be issued publicly. This right will terminate upon the closing of this offering.

Indemnification Agreements

Prior to the close of this offering, we will enter into indemnification agreements with our non-employee directors.

Principal Stockholders

The following table presents information as to the beneficial ownership of our common stock as of January 10, 2000 by:

- Each shareholder known by us to be the beneficial owner of more than 5% of our common stock;

- Each of our directors;

- Each executive officer listed in our summary compensation table; and - All directors and executive officers as a group.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Unless indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of January 10, 2000 are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

NAME AND ADDRESS	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENT OF SHARES BENEFICIALLY OWNED BEFORE THE OFFERING	AFTER THE OFFERING
The Canopy Group, Inc.	21,273,974(1)	64.0%	
MTI Technology Corporation	5,333,333(2)	16.1	
Ransom H. Love	532,616(3)	1.6	
Drew A. Spencer	59,434(4)	*	
Ralph J. Yarro, III	60,417(5)	*	
Raymond J. Noorda	27,857,307(6)	83.8	
Thomas P. Raimondi, Jr.	--(7)	*	
All 11 directors and executive officers as a group	28,710,194(8)	84.2	

* Less than 1%

(1) The address for The Canopy Group, Inc. is 240 West Center Street, Orem, Utah 84057.

(2) The address for MTI Technology Corp. is 4905 East La Palma Avenue, Anaheim, California 92807.

(3) Consists of options to purchase 532,616 shares of common stock.

(4) Consists of options to purchase 59,434 shares of common stock.

(5) Consists of options to purchase 60,417 shares of common stock. Mr. Yarro is President and Chief Executive Officer of The Canopy Group, Inc. Mr. Yarro disclaims beneficial ownership of the shares held by The Canopy Group, Inc.

(6) Includes 21,273,974 shares of common stock held by The Canopy Group, Inc., 5,333,333 shares of common stock held by MTI Technology Corporation and 1,250,000 shares held by Lineo, Inc. Mr. Noorda is chairman of the boards of directors of The Canopy Group, Inc. and MTI Technology Corporation, and is a director of Lineo, Inc. Additionally, the Noorda Family Trust, of which Mr. Noorda and his spouse serve as co-trustees is the controlling stockholder of The Canopy Group, Inc. The Canopy Group, Inc. holds more than 45% of the outstanding common stock of MTI Technology Corporation. Lineo, Inc. is majority-owned by Caldera, Inc., which is majority-owned by The Canopy Group. By virtue of his holding corporate offices, his stock ownership and his service as co-trustee, all as described above, Mr. Noorda may be deemed to control The Canopy Group, Inc., MTI Technology Corporation and Lineo, Inc., and Mr. Noorda may be deemed to possess indirect beneficial ownership of the common stock held by The Canopy Group, Inc., MTI Technology Corporation and Lineo, Inc. Mr. Noorda disclaims beneficial ownership of such shares. The address for Mr. Noorda is c/o MTI Technology Corporation, 4905 East La Palma Avenue, Anaheim, California 92807.

(7) Mr. Raimondi is President and Chief Executive Officer of MTI Technology Corporation. Mr. Raimondi disclaims beneficial ownership of the shares held by MTI Technology Corporation.

(8) See notes 3 through 7. Includes an additional 200,420 shares issuable upon the exercise of options.

Description of Capital Stock

General

Upon completion of this offering, our authorized capital stock will consist of 100,000,000 shares of common stock, par value $0.001 per share. As of January 10, 2000, assuming conversion of our Series A and Series B convertible preferred stock into common stock, there were outstanding 33,163,685 shares of common stock held of record by approximately twenty stockholders and options to purchase 5,288,896 shares of common stock.

Prior to the closing of this offering, we will reincorporate in Delaware and amend and restate our certificate of incorporation. The following summary of certain provisions of the common stock and preferred stock does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the forms of amended and restated certificate of incorporation and amended and restated bylaws to be effective upon the closing of this offering.

Common Stock

Dividend Rights. Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available at the times and in the amounts as our board may from time to time determine.

Voting Rights. Each common stockholder is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Cumulative voting for the election of directors is not provided for in our articles of incorporation, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election.

No Preemptive or Similar Rights. Our common stock is not entitled to preemptive rights and is not subject to conversion or redemption.

Right to Receive Liquidation Distributions. Upon our liquidation, dissolution, or winding up, the assets legally available for distribution to our stockholders are distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time after payment of liquidation preferences, if any, on any outstanding preferred stock and payment of other claims of creditors. Each outstanding share of common stock is, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and non-assessable.

Preferred Stock

Upon the closing of this offering, there will be no shares of preferred stock outstanding. Upon the closing of this offering, the board of directors will be authorized, without further stockholder approval, to issue from time to time up to an aggregate of 25,000,000 shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each series thereof, including the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or designation of series. We have no present plans to issue any shares of preferred stock. See "-- Anti-Takeover Effects of Various Provisions of Delaware Law and Caldera Systems's Certificate of Incorporation and Bylaws."

Registration Rights

Pursuant to a Second Amended and Restated Investors Rights Agreement, dated January 7, 2000, we entered into with holders of 11,596,146 shares of our common stock (assuming conversion of all outstanding shares of preferred stock), the holders of these shares are entitled to certain registration rights regarding these shares. The registration rights provide that if we propose to register any securities under the Securities Act, either for our own account or for the account of other security holders exercising registration rights, they are entitled to notice of the registration and are entitled to include shares of their common stock in the registration. This right is subject to conditions and

limitations, including the right of the underwriters in an offering to limit the number of shares included in the registration. Beginning six months after our initial public offering, the holders of at least 22 percent of these shares may also require us to file up to two registration statements under the Securities Act at our expense with respect to their shares of common stock. We are required to use our best efforts to effect these registrations, subject to conditions and limitations. Furthermore, the holders of these shares may require us to file additional registration statements on Form S-3, subject to conditions and limitations. These rights terminate on the earlier of three years after the effective date of this offering, or when a holder is able to sell all its shares pursuant to Rule 144 under the Securities Act in any 90-day period.

Delaware Anti-takeover Law and Charter Provisions

The provisions of the Delaware General Corporation Law, our certificate of incorporation and our bylaws described below may have the effect of delaying, deferring, or discouraging another person from acquiring control of us.

We will be subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. This section prevents Delaware corporations from engaging, under limited circumstances, in a business combination, which includes a merger or sale of more than 10% of the corporation's assets, with any interested stockholder, which is a stockholder who owns 15% or more of the corporation's outstanding voting stock, as well as affiliates and associates of stockholders, for three years following the date that the stockholder became an interested stockholder unless:

- the transaction is approved by the board of directors before the date the interested stockholder attained that status;

- upon the closing of the transaction that resulted in the stockholder becoming an interested stockholder, the stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or - on or after the date the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

A Delaware corporation may opt out of this provision with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. However, we have not opted out of this provision. This provision of the Delaware General Corporation Law could prohibit or delay mergers or other takeover or change-in-control attempts and may discourage attempts to acquire us.

Charter and Bylaws

Charter

Upon the closing of this offering, our certificate of incorporation will provide that all stockholder actions must be effected at a duly-called annual or special meeting and not by a consent in writing. Our certificate of incorporation will also require the approval of our board of directors to adopt, amend or repeal our bylaws. In addition, our certificate of incorporation will permit the stockholders to adopt, amend or repeal our bylaws only upon the affirmative vote of the holders of at least two-thirds of the voting power of all then outstanding shares of stock entitled to vote.

Directors will be removable for cause only by stockholders holding a majority of the then outstanding shares of stock entitled to vote. Vacancies on the board of directors resulting from death, resignation, removal or other reason may be filled by a majority of the directors then in office, even if less than a quorum. Vacancies from newly created directorships must be filled by a majority of the directors then in office. Lastly, the provisions in the certificate of incorporation described above and other provisions pertaining to the limitation of liability and indemnification of directors will be able to be amended or repealed only with the affirmative vote of the holders of at least two-thirds of the voting power of all then outstanding shares of stock entitled to vote.

These provisions may have the effect of deterring hostile takeovers or delaying changes in the control or management of Caldera Systems, which could have an adverse effect on the market price of our common stock.

Bylaws

Upon the closing of this offering, our bylaws will also contain many of the provisions in our certificate of incorporation described above. Our bylaws will not permit stockholders to call a special meeting. In addition, our bylaws will establish an advance notice procedure for matters to be brought before an annual or special meeting of our stockholders, including the election of directors. Business permitted to be conducted at any annual meeting or special meeting of stockholders will be limited to business properly brought before the meeting.

Our bylaws will also provide that we will indemnify officers and directors against losses that they may incur in investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures. These provisions may have the effect of preventing changes in our management.

Indemnification of Directors and Executive Officers and Limitation of Liability

Our certificate of incorporation limits the liability of directors to the fullest extent permitted by the Delaware General Corporation Law. In addition, our certificate of incorporation and bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by the Delaware General Corporation Law. We intend to enter into separate indemnification agreements with our directors and executive officers that provide them indemnification protection if our certificate of incorporation is subsequently amended.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Securities Transfer and Trust, Inc.

Shares Eligible for Future Sale

Before this offering, there has been no public market for our common stock. Future sales of substantial amounts of our common stock, including shares issued upon exercise of outstanding options, in the public market after this offering could adversely affect market prices prevailing from time to time. Furthermore, as described below, no shares currently outstanding will be available for sale immediately after this offering due to contractual and legal restrictions on resale. Nevertheless, sales of substantial amounts of our common stock in the public market after the restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

- Upon the closing of this offering, we will have outstanding an aggregate of approximately shares of common stock.

- Of these shares, the shares of common stock to be sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless the shares are held by affiliates of Caldera Systems, Inc., defined as persons who directly or indirectly control or are controlled by or are under common control with Caldera Systems, Inc.

All remaining shares held by our existing stockholders were issued and sold by Caldera Systems, Inc. in private transactions and are eligible for public sale as follows:

APPROXIMATE NUMBER OF SHARES THAT DATE MAY BE SOLD COMMENT Date of this prospectus 0 Freely tradable shares 181 days after the date of this prospectus 16,000,022 Restricted securities held for at least one year may be sold under Rule 144, in some cases subject to the volume of other restrictions described below.

Lock-up Agreements

All of our officers and directors and substantially all of our security holders have signed lock-up agreements under which they agreed not to sell, dispose of, loan, pledge or grant any rights to any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock without the prior written consent of FleetBoston Robertson Stephens for a period of 180 days after the date of this prospectus.

FleetBoston Robertson Stephens may choose to release some of these shares from these restrictions before the expiration of this 180-day period, although it has no current intention to do so.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the shares of common stock then outstanding, which will equal approximately shares immediately after this offering; or - The average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 for the sale.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(K)

Under Rule 144(k), a person who has not been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell those shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, shares that have been held by a non-affiliate for at least two years may be sold in the open market immediately after the lock-up agreements expire.

Rule 701

Any employee, officer or director of, or consultant to, us who purchases his shares under a written compensatory plan or contract may be entitled to sell his shares in reliance on Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell these shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. All holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling those shares. However, all shares issued under Rule 701 are subject to lock-up agreements and will only become eligible for sale when the 180-day lock-up agreements expire.

Registration Rights

Following this offering, in some circumstances and subject to conditions, holders of 11,596,146 shares of our outstanding common stock will have demand registration rights to require us to register their shares of common stock under the Securities Act, and they will have rights to participate in any future

registration of securities by us. These holders are subject to lock-up periods of not more than 180 days following the date of this prospectus and of not more than 90 days after any subsequent prospectus. See "Description of Capital Stock -- Registration Rights."

Stock Options

We intend to file a Form S-8 registration statement under the Securities Act on or immediately after the date of this prospectus to register all shares of common stock covered by outstanding options or reserved for future issuance under our 1998 Stock Option Plan, our 1999 Omnibus Stock Incentive Plan and our 2000 Employee Stock Purchase Plan. Such registration statement will automatically become effective upon filing. Accordingly, shares covered by that registration statement will thereupon be eligible for sale in the public markets, unless such options are subject to vesting restrictions or the contractual restrictions described above.

Underwriting

The underwriters named below, acting through their representatives, FleetBoston Robertson Stephens Inc., Bear, Stearns & Co. Inc., Wit Capital Corporation and First Security Van Kasper, have severally agreed with us, subject to the terms and conditions of the underwriting agreement, to purchase from us the number of shares of common stock set forth opposite their respective names below. The underwriters are committed to purchase and pay for all shares if any are purchased.

Number of Underwriter Shares

FleetBoston Robertson Stephens Inc. ..... Bear, Stearns & Co. Inc. ..... Wit Capital Corporation..... First Security Van Kasper..... Total.....

The representatives have advised us that the underwriters propose to offer the shares of common stock to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession of not more than $ per share, of which $ may be reallowed to other dealers. After this offering, the public offering price, concession and reallowance to dealers may be reduced by the representatives. No such reduction shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus. The common stock is offered by the underwriters as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

The underwriters have advised us that they do not expect sales to discretionary accounts to exceed ten percent of the total number of shares offered.

Over-allotment Option. We have granted to the underwriters an option, exercisable during the 30-day period after the date of this prospectus, to purchase up to additional shares of common stock, at the initial public offering price per share as we will receive for the shares that the underwriters have agreed to purchase. To the extent that the underwriters exercise this option, each of the underwriters will have a firm commitment, subject to conditions, to purchase approximately the same percentage of the additional shares that the number of shares of common stock to be purchased by it shown in the above table represents as a percentage of the shares offered hereby. If purchased, these additional shares will be sold by the underwriters on the same terms as those on which the shares are being sold. We will be obligated, pursuant to the option, to sell shares to the extent the option is exercised. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the shares of common stock offered in this offering. If this option is exercised in full, the total public offering price, underwriting discounts and commissions and proceeds to us will be $, $ and $, respectively.

The following table summarizes the compensation to be paid to the underwriters by us:

	PER SHARE	TOTAL WITHOUT OVER-ALLOTMENT	WITH OVER-ALLOTMENT
Underwriting discounts and commissions payable by us.....	$	$	$

We estimate that expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately $.

Indemnity. The underwriting agreement contains covenants of indemnity among the underwriters and us against certain civil liabilities, including liabilities under the Securities Act and liabilities arising from breaches of representations and warranties contained in the underwriting agreement.

Lock-Up Agreements. Each of our officers and directors and stockholders has agreed, for a period of 180 days after the date of this prospectus, that, subject to exceptions, they will not offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any shares of common stock, any options or warrants to purchase any shares of common stock, or any securities convertible into or exchangeable for shares of common stock owned as of the date of this prospectus or, with certain exceptions, thereafter acquired directly by those holders or with respect to which they have or hereafter acquire the power of disposition, without the prior written consent of FleetBoston Robertson Stephens Inc. However, FleetBoston Robertson Stephens Inc. may, in its sole discretion and at any time, without notice, release all or any portion of the securities subject to the lock-up agreements. There are no agreements between the representatives and any of our stockholders providing consent to the sale of shares prior to the expiration of the lock-up period.

Future Sales. In addition, we have agreed that until 180 days after the date of this prospectus, we will not, subject to certain exceptions, without the prior written consent of FleetBoston Robertson Stephens Inc.:

- Consent to the disposition of any shares held by stockholders prior to the expiration of the lock-up period; or - Issue, sell, contract to sell, or otherwise dispose of, any shares of common stock, any options or warrants to purchase any shares of common stock or any securities convertible into, exercisable for or exchangeable for shares of common stock other than 1) the sale of shares in this offering;

2) the issuance of common stock upon the exercise of outstanding options or warrants; and 3) the issuance of options under existing stock option and incentive plans.

See "Shares Eligible for Future Sales."

Listing. We have applied for quotation on the Nasdaq National Market under the symbol CALD.

No Prior Public Market. Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price for the common stock offered hereby will be determined through negotiations between us and the representatives. Among the factors to be considered in such negotiations are prevailing market conditions, certain of our financial information, market valuations of other companies that we and the representatives believe to be comparable to us, estimates of our business potential, our present state of development and other factors deemed relevant.

Stabilization. The representatives have advised us that, pursuant to Regulation M under the Securities Act, certain persons participating in this offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids, that may have the effect of stabilizing or maintaining the market price of the shares of the common stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of shares of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A "syndicate covering transaction" is the bid for or the purchase of the common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with this offering. A "penalty bid" is an arrangement permitting the representatives to reclaim the selling concession otherwise accruing to an underwriter or syndicate member in connection with this offering if the common stock originally sold by such underwriter or syndicate member is purchased by the representatives in a syndicate covering transaction and has therefore not been effectively placed by such underwriter or syndicate member. The representatives have advised us that such transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

NASD Compliance. Entities affiliated with FleetBoston Robertson Stephens Inc. and Wit Capital each acquired 66,666 shares of our Series B convertible preferred stock in our December 1999 private placement at a price of $6.00 per share.

Directed Share Program. At our request, the underwriters have reserved for sale, at the initial public offering price, up to ten percent of the shares of common stock offered in this offering under a directed share program. We currently expect that approximately half of these shares will be offered to directors, officers, employees, business associates, and related persons of Caldera Systems pursuant to a directed share program being administered by FleetBoston Robertson Stephens Inc., and that approximately half of these shares, pursuant to a directed share program being administered by Wit Capital

Corporation, will be offered to open source software developers and other persons that we believe have contributed to the success of the open source software community and to the growth of Caldera Systems. We cannot assure you that any of the reserved shares will be so purchased. The number of shares of common stock available for sale to the general public in this offering will be reduced by the number of reserved shares sold. Any reserved shares not purchased will be offered to the general public on the same basis as the other shares offered in this offering.

Purchases of the reserved shares pursuant to the directed share program administered by Wit Capital are to be made through an account at Wit Capital in accordance with Wit Capital's procedures for opening an account and transacting in securities. In addition, Wit Capital is an underwriter of additional shares in the offering. A prospectus in electronic format is being made available on an Internet web site maintained by Wit Capital. In addition, all dealers purchasing common shares from Wit Capital in this offering have agreed to make a prospectus in electronic format available on a web site maintained by each of them. Other than the prospectus in electronic format, the information on the web site and any information contained on any other web site maintained by Wit Capital or any dealer purchasing common shares from it is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved or endorsed by us or any underwriter in its capacity as underwriter and should not be relied on by prospective investors. The National Association of Securities Dealers, Inc. approved the membership of Wit Capital on September 4, 1997. Since that time, Wit Capital has acted as a co-lead managing underwriter on one offering, a co-managing underwriter on 61 offerings and a dealer on 107 offerings.

Legal Matters

The validity of the common stock offered hereby will be passed upon for us by Brobeck, Phleger & Harrison LLP, Broomfield, Colorado. Certain legal matters in connection with the offering will be passed upon for the underwriters by Cooley Godward LLP, San Francisco, California.

Experts

The audited financial statements and schedule included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

Where You Can Find Additional Information

Caldera Systems, Inc. has filed with the Securities and Exchange Commission a registration statement on Form S-1, including exhibits, schedules and amendments filed with the registration statement, under the Securities Act with respect to the common stock to be sold in this offering. This prospectus does not contain all of the information set forth in this registration statement. For further information

about Caldera Systems, Inc. and the shares of common stock to be sold in the offering, please refer to this registration statement. For additional information, please refer to the exhibits that have been filed with our registration statement on Form S-1.

You may read and copy all or any portion of the registration statement or any other information Caldera Systems files at the Securities and Exchange Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C., 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the Securities and Exchange Commission. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information about the public reference rooms. Caldera Systems, Inc.'s Securities and Exchange Commission filings, including the registration statement, will also be available to you on the Securities and Exchange Commission's Web site (http://www.sec.gov).

We intend to furnish our stockholders with annual reports containing audited financial statements by an independent public accounting firms and quarterly reports containing unaudited financial information for the first three quarters of each year.

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

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Arthur Andersen Llp

Salt Lake City, Utah January 10, 2000

Report of Independent Public Accountants

To Caldera Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Caldera Systems, Inc. (a Delaware corporation), the carved-out portion of Caldera, Inc. (a Utah corporation) and their subsidiary as of October 31, 1998 and 1999, and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended October 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Caldera Systems, Inc., the carved-out portion of Caldera, Inc. and their subsidiary as of October 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1999 in conformity with generally accepted accounting principles.

Arthur Andersen Llp

Salt Lake City, Utah January 10, 2000 (except with respect to the reincorporation discussed in the first paragraph of Note 12, as to which the date is , 2000)

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

Consolidated Balance Sheets as of October 31, 1998 and 1999

Assets

1998 1999

CURRENT ASSETS:		
Cash	$ 75,586	$ 121,989
Accounts receivable, net of allowance for doubtful accounts of $15,000 and $90,000, respectively	151,546	670,043
Stock subscription receivable	--	1,500,000
Other receivables	--	375,000

Inventories	49,746	169,409
Other current assets	176,605	33,524
Total current assets	453,483	2,869,965
PROPERTY AND EQUIPMENT:		
Computer equipment	401,015	609,665
Furniture and fixtures	332,915	675,181
Leasehold improvements	50,514	86,973
	784,444	1,371,819
Less accumulated depreciation and amortization	(366,269)	(652,399)
Net property and equipment	418,175	719,420
OTHER ASSETS, net	--	124,430
Total assets	$ 871,658	$ 3,713,815
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 314,138	$ 1,309,255
Accrued liabilities	112,948	450,157
Accrued marketing development	--	172,900
Accrued sales returns and other allowances	54,000	169,000
Deferred revenue	--	38,080
Current portion of long-term debt	--	3,698
Related party payables	--	48,933
Total current liabilities	481,086	2,192,023
LONG-TERM DEBT, net of current portion	--	5,762
COMMITMENTS AND CONTINGENCIES (Notes 1, 7, and 12)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value; 25,000,000 shares authorized --		
Series A convertible preferred stock, 6,596,146 shares designated, 3,966,517 and 6,596,146 shares outstanding, respectively	3,967	6,596
Series B convertible preferred stock, 5,000,000 shares designated, no shares outstanding	--	--
Common stock, $0.001 par value; 75,000,000 shares authorized, 12,033,483 and 20,011,183 shares outstanding, respectively	12,033	20,011
Additional paid-in capital	1,752,693	16,160,312
Stock subscriptions receivable	(317,110)	(1,500,000)
Deferred compensation	--	(2,734,934)
Accumulated comprehensive income (loss)	3,991	(4,365)
Accumulated deficit	(1,065,002)	(10,431,590)
Total stockholders' equity	390,572	1,516,030
Total liabilities and stockholders' equity	$ 871,658	$ 3,713,815

See accompanying notes to consolidated financial statements. F-3

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE YEARS ENDED OCTOBER 31, 1997, 1998 AND 1999 1997 1998 1999

REVENUE:			
Software and related products	$ 1,116,794	$ 1,057,088	$ 2,772,878
Services	--	--	277,429
Total revenue	1,116,794	1,057,088	3,050,307
COST OF REVENUE:			
Software and related products	1,142,187	1,016,682	2,388,601
Services	--	--	537,877
Write-off of prepaid royalties	--	1,381,695	--
Total cost of revenue	1,142,187	2,398,377	2,926,478

GROSS MARGIN (DEFICIT)	(25,393)	(1,341,289)	123,829
OPERATING EXPENSES:			
Sales and marketing	4,619,341	2,223,814	4,767,508
Research and development	2,136,118	1,489,041	2,302,302
General and administrative	796,806	1,798,872	1,748,087
Amortization of deferred compensation	--	--	409,296
Total operating expenses	7,552,265	5,511,727	9,227,193
LOSS FROM OPERATIONS	(7,577,658)	(6,853,016)	(9,103,364)
OTHER INCOME (EXPENSE):			
Interest expense	(593,182)	(1,081,179)	(225,657)
Other income (expense)	22,923	4,838	(2,792)
Other expense, net	(570,259)	(1,076,341)	(228,449)
LOSS BEFORE INCOME TAXES	(8,147,917)	(7,929,357)	(9,331,813)
PROVISION FOR INCOME TAXES	--	(33,780)	(34,775)
NET LOSS	$(8,147,917)	$(7,963,137)	$(9,366,588)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.68)	$ (0.66)	$ (0.67)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	12,033,483	12,033,483	13,881,785
OTHER COMPREHENSIVE LOSS:			
Net loss	$(8,147,917)	$(7,963,137)	$(9,366,588)
Foreign currency translation adjustments	--	3,991	(8,356)
COMPREHENSIVE LOSS	$(8,147,917)	$(7,959,146)	$(9,374,944)

See accompanying notes to consolidated financial statements.

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED OCTOBER 31, 1997, 1998 AND 1999

	SERIES A CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN	STOCK SUBSCRIPTIONS	DEFERRED
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	RECEIVABLE	COMPENSATION
Balance, October 31, 1996	--	$ --	--	$ --	$ --	$ --	$ --
Debt funding and related accrued interest applicable to carved-out operations of Caldera, Inc.	--	--	--	--	--	--	--
Net loss applicable to carved-out operations of Caldera, Inc.	--	--	--	--	--	--	--
Balance, October 31, 1997	--	--	--	--	--	--	--
Debt funding and related accrued interest applicable to carved-out operations of Caldera, Inc.	--	--	--	--	--	--	--
Net loss applicable to carved-out operations of Caldera, Inc. through August 31, 1998	--	--	--	--	--	--	--
Incorporation of Caldera Systems, Inc. and reorganization of Caldera, Inc.	3,966,517	3,967	12,033,483	12,033	1,752,693	(317,110)	--
Cumulative translation adjustment	--	--	--	--	--	--	--
Net loss for the period subsequent to incorporation	--	--	--	--	--	--	--
Balance, October 31, 1998	3,966,517	3,967	12,033,483	12,033	1,752,693	(317,110)	--
Receipt of stock subscription receivable	--	--	--	--	--	317,110	--
Conversion of promissory note and accrued interest to common and Series A convertible preferred shares at $1.00 per share	1,307,457	1,307	3,966,517	3,967	5,268,700	--	--
Issuance of common and Series A convertible preferred shares for cash and stock subscription receivable at $1.13 per share	1,322,172	1,322	4,011,161	4,011	5,994,667	(1,500,000)	--
Issuance of common shares upon exercise of stock							

options at $1.00 per share..... -- -- 22 -- 22 -- -- Cumulative translation adjustment..... -- -- -- -- -- -- -- Deferred compensation related to stock option grants..... -- -- -- -- 3,144,230 -- (3,144,230) Amortization of deferred compensation..... -- -- -- -- -- -- 409,296 Net loss..... -- -- -- -- -- -- -- Balance, October 31, 1999..... 6,596,146 $6,596 20,011,183 $20,011 $16,160,312 $(1,500,000) $(2,734,934)

	ACCUMULATED COMPREHENSIVE INCOME (LOSS)	ACCUMULATED DEFICIT	CALDERA, INC.'S EQUITY IN CARVED-OUT OPERATIONS
Balance, October 31, 1996.....	$ --	$ --	$ 575,567
Debt funding and related accrued interest applicable to carved-out operations of Caldera, Inc.....	--	--	9,891,743
Net loss applicable to carved-out operations of Caldera, Inc.	--	--	(8,147,917)
Balance, October 31, 1997.....	--	--	2,319,393
Debt funding and related accrued interest applicable to carved-out operations of Caldera, Inc.	--	--	5,511,325
Net loss applicable to carved-out operations of Caldera, Inc. through August 31, 1998.....	--	--	(6,898,135)
Incorporation of Caldera Systems, Inc. and reorganization of Caldera, Inc.	--	--	(932,583)
Cumulative translation adjustment.....	3,991	--	--
Net loss for the period subsequent to incorporation.....	--	(1,065,002)	--
Balance, October 31, 1998.....	3,991	(1,065,002)	--
Receipt of stock subscription receivable.....	--	--	--
Conversion of promissory note and accrued interest to common and Series A convertible preferred shares at $1.00 per share.....	--	--	--
Issuance of common and Series A convertible preferred shares for cash and stock subscription receivable at $1.13 per share....	--	--	--
Issuance of common shares upon exercise of stock options at $1.00 per share.....	--	--	--
Cumulative translation adjustment.....	(8,356)	--	--
Deferred compensation related to stock option grants.....	--	--	--
Amortization of deferred compensation.....	--	--	--
Net loss.....	--	(9,366,588)	--
Balance, October 31, 1999.....	$(4,365)	$(10,431,590)	$ --

See accompanying notes to consolidated financial statements.

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

Consolidated Statements of Cash Flows for the Years Ended October 31, 1997, 1998 and 1999

Increase (Decrease) in Cash

1997 1998 1999

CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss.....	$(8,147,917)	$(7,963,137)	$(9,366,588)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization.....	120,551	132,221	288,797
Amortization of deferred compensation.....	--	--	409,296

Accrued interest converted to equity	608,623	1,082,260	254,910
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable, net	(283,961)	142,075	(518,497)
Increase in other receivables	--	--	(375,000)
(Increase) decrease in inventories	(279,717)	281,936	(119,663)
(Increase) decrease in other current assets	(1,212,248)	1,617,138	143,081
(Increase) decrease in other assets	(123,432)	625,712	(10,097)
Increase (decrease) in accounts payable	395,832	(908,994)	1,044,050
Increase (decrease) in accrued liabilities	52,849	(159,496)	337,209
Increase in accrued marketing development	--	--	172,900
Increase (decrease) in accrued sales returns and allowances	83,300	(46,000)	115,000
Increase in deferred revenue	--	--	38,080
Net cash used in operating activities	(8,786,120)	(5,104,285)	(7,586,522)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(306,339)	(169,764)	(587,375)
Purchase of other long-lived assets	--	--	(80,000)
Net cash used in investing activities	(306,339)	(169,764)	(667,375)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings from majority stockholder under convertible promissory note	--	--	4,819,000
Proceeds from long-term debt	--	--	11,486
Repayments of long-term debt	--	--	(2,026)
Borrowings from majority stockholder prior to reorganization	9,283,120	4,429,065	--
Proceeds from common and Series A convertible preferred shares upon incorporation	--	519,000	15,481,000
Cash payment to Caldera, Inc. in asset acquisition	--	--	(14,963,826)
Capitalized offering costs	--	--	(37,000)
Proceeds from common and Series A convertible preferred stock	--	--	3,000,000
Proceeds from exercise of common stock option	--	--	22
Net cash provided by financing activities	9,283,120	4,948,065	8,308,656
NET INCREASE (DECREASE) IN CASH	190,661	(325,984)	54,759
CUMULATIVE TRANSLATION ADJUSTMENT	--	3,991	(8,356)
CASH, beginning of year	206,918	397,579	75,586
CASH, end of year	$ 397,579	$ 75,586	$ 121,989

See accompanying notes to consolidated financial statements.

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED OCTOBER 31, 1997, 1998 AND 1999 1997 1998 1999 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash paid for interest..... $ -- $ -- $ 424 SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES: Issuance of common and Series A convertible preferred shares upon incorporation for - Subscription receivable..... -- 15,481,000 -- Note receivable from Caldera, Inc..... -- 4,928,848 -- Liabilities assumed in acquisition of assets from Caldera, Inc. ..... -- (36,174) -- Issuance of common and Series A convertible preferred shares for a note

receivable..... -- -- 3,000,000 Issuance of common and Series A convertible preferred shares upon conversion of secured convertible promissory note payable and related accrued interest..... -- -- 5,273,974 See accompanying notes to consolidated financial statements.

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

Notes to Consolidated Financial Statements

(1) Organization and Description of Business

Caldera Systems, Inc. ("Caldera"), originally incorporated as a Utah corporation on August 21, 1998, (see Note 12 for description of reincorporation as a Delaware corporation) began operations in 1994 as Caldera, Inc. (the "Predecessor"). The Predecessor developed and marketed Linux operating system software and related products.

In July 1996, through an asset purchase, the Predecessor acquired an additional business line which was not engaged in developing and marketing Linux software and related products. The Predecessor subsequently made the strategic determination to separate its two business lines into separate entities and, effective September 1, 1998, sold the assets relating to its business of developing and marketing Linux software and related products to Caldera for $19,928,848. This amount was based upon the amount of funding that had been received by the Predecessor related to the Linux software business. The purchase price was paid as follows: a cash payment of $14,963,826 in fiscal year 1999, the assumption of $36,174 of liabilities, and the transfer of a note receivable due from the Predecessor in the amount of $4,928,848 (see below).

Effective upon incorporation, Caldera agreed to issue 16,000,000 shares of common stock (converted to 12,033,483 shares of common stock and 3,966,517 shares of Series A convertible preferred stock in connection with the December 1999 recapitalization, see Note 5) to The Canopy Group ("Canopy"), the majority stockholder of the Predecessor, in exchange for $20,928,848. Of this amount, $16,000,000 was paid in cash ($519,000 in fiscal year 1998 and $15,481,000 in fiscal year 1999) and Canopy transferred to Caldera a note receivable from the Predecessor of $4,928,848.

Since Canopy was the majority stockholder of the Predecessor and the sole stockholder of Caldera, this transaction has been treated as a reorganization of entities under common control. Accordingly, the accompanying consolidated financial statements include the carved-out operations of the Predecessor related to the Linux business through September 1, 1998, the effective date of the reorganization. The acquired assets and liabilities are reflected at carry-over basis.

Prior to the reorganization, the net losses of the Predecessor were funded through loans and equity contributions from Canopy. The funding applicable to the carved-out operations has been reflected as a component of Caldera, Inc.'s Equity in Carved-out Operations included in the accompanying consolidated statements of stockholders' equity. This funding has been offset by the accumulated losses applicable to the carved-out operations. The resulting net balance as of the date of reorganization, September 1, 1998, of $932,583 was transferred to equity of Caldera.

In connection with the reorganization, Caldera acquired a wholly-owned subsidiary in Germany, Caldera Deutschland, GmbH ("Caldera GmbH"), that performs research and development activities. Collectively, Caldera, the carved-out operations of the Predecessor and Caldera GmbH are referred to as the "Company."

The Company develops, markets and supports Linux operating system software products and related services. The Company's strategy is to provide commercial products and services to create Linux business solutions. The Company sells and distributes its software and related products indirectly through distributors, value added resellers, original equipment manufactures, and system integrators and directly to end-user customers. These sales occur throughout the United States and in certain international locations.

The Company is subject to certain risks including the uncertainty of market acceptance and demand for Linux related products and services, competition from larger, more established companies, short product life cycles, the Company's ability to develop and bring to market new products on a timely basis,

dependence on key employees, the ability to attract and retain additional qualified personnel and the ability to obtain adequate financing to support growth.

(2) Significant Accounting Policies

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements

and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Fair Value of Financial Instruments

The carrying amounts reported in the accompanying consolidated financial statements for cash, accounts receivable, other receivables and accounts payable approximate fair values because of the immediate or short-term maturities of these financial instruments. The carrying amounts of the Company's debt obligations approximate fair value based on current interest rates.

Principles of Consolidation

The consolidated financial statements include the accounts of the carved-out operations of the Predecessor prior to Caldera's incorporation, Caldera, and their wholly-owned subsidiary after elimination of intercompany accounts and transactions.

Foreign Currency Translation

For purposes of consolidating the Caldera GmbH operations, the Company has determined the functional currency for the Caldera GmbH operations to be the German Mark. Accordingly, translation gains and losses are included as a component of comprehensive loss.

Inventories

Inventories consist primarily of completed products and raw materials. Inventories are stated at the lower of cost (using the first-in, first-out method) or market value. As of October 31, 1998 and 1999, inventories consisted of raw materials of approximately $40,400 and $79,400, respectively, and finished goods of approximately $9,300 and $90,000, respectively.

Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values. Due to competitive pressures and technological innovation, it is possible that estimates of the net realizable value could change in the near term.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Computer equipment and furniture and fixtures are depreciated using the straight-line method over the estimated useful life of the asset, typically three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the improvement or the remaining term of the applicable lease.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments that extend the useful lives of existing equipment are capitalized and depreciated. On retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations.

Capitalized Software Costs

In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" ("SFAS 86"), development costs incurred in the research and development of new software products to be sold, leased or otherwise marketed are expensed as incurred until technological feasibility in the form of a working model has been established. Internally generated capitalizable software development costs have not been material for the years ended October 31, 1997, 1998 and 1999. The Company has charged its software development costs to research and development expense in the accompanying consolidated statements of operations.

Other Assets

Other assets consist of purchased technology and capitalized offering costs. The purchased technology is to be used in the development of the Company's web-based products and is being amortized using the straight-line method over a period of two years. Capitalized offering costs include legal and accounting fees in connection with the Company's anticipated equity offerings. These costs will be netted against the actual offering proceeds.

Impairment of Long-lived Assets

The Company reviews its long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the remaining life in measuring whether the assets are recoverable. As of October 31, 1999, the Company does not consider any of its long-lived assets to be impaired.

Revenue Recognition

The Company generates revenues from software and related products sold indirectly through distributors and business solution providers and directly to end-users. The Company also generates revenues from training royalties and tuition fees, consulting fees, and customer support fees. During fiscal 1997 and fiscal 1998, all of the Company's revenues were derived from software and related products offerings.

Revenue from the sale of software and related products is recognized upon delivery of the product if collection is probable. The Company provides certain telephone and e-mail technical support services at no additional charge. The cost of providing the post-contract support services are not significant; accordingly, the Company accrues the estimated costs of providing the services at the time of revenue recognition. If other significant post-delivery vendor obligations exist or if a product is subject to customer acceptance, revenues are deferred until no significant obligations remain or acceptance has occurred. To date, the Company has not shipped any software and related products subject to acceptance terms or subject to other post-delivery vendor obligations.

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

Notes to Consolidated Financial Statements (Continued)

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"), which the Company has adopted for transactions entered into for the years ended October 31, 1998 and 1999. The adoption of SOP 97-2 did not have a significant impact on the Company's revenue recognition practices, or its results of operations, financial position or liquidity.

In December 1998, the AICPA issued Statement of Position No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions" ("SOP 98-9"). SOP 98-9 amends SOP 97-2 to require recognition of revenue using a "residual method" in certain circumstances. We adopted SOP 98-9 for transactions entered into for the years ended October 31, 1998 and 1999. The adoption of this statement did not have a significant effect on the Company's revenue recognition practices or its results of operations, financial position or liquidity.

Sales to certain distributors are subject to agreements allowing for rights of return and price protection. Allowances for estimated future returns, price protection, stock rotations, as well as anticipated end-user customer rebates and other customer incentives, are provided at the time of sale based on the Company's policies and historical experience. At October 31, 1998 and 1999, allowances for returns, price protection and stock rotations totaled approximately $54,000 and $169,000, respectively, and are reflected as a current liability in the accompanying consolidated balance sheets.

Service revenue from training royalties and tuition fees and consulting fees are recognized as the services are performed. Revenues from customer support fees is recognized ratably over the period of the contract, typically one year. Deferred revenue primarily relates to customer support fees, which have been paid by customers in advance of the services being performed.

Royalty Costs

Royalties paid by the Company on applications licensed from third parties that are incorporated into the software products sold by the Company are expensed as cost of revenue on a per unit basis as software products are sold. Royalties paid in advance of product sales are included in prepaid expenses and recorded as cost of revenue when the related products are sold.

During the years ended October 31, 1996 and 1997, the Company entered into royalty agreements with a supplier pursuant to which the Company prepaid royalties of approximately $2,055,000. During fiscal year 1998, the Company asserted that the supplier breached the terms of the royalty agreements and the Company determined that the remaining balance of prepaid royalties was impaired and accordingly was written-off. This write-off amounted to approximately $1,381,700 and has been classified as part of cost of revenue in the accompanying consolidated statement of operations for the year ended October 31, 1998.

Sales and Marketing Expenses

Sales and marketing expenses consist of the following: advertising, channel promotions, marketing development funds, promotional activities, public relations, trade shows and the salaries, commissions and related expenses of all personnel involved in the sales process. The Company expenses the cost of advertising the first time the advertising takes place. Advertising expenses totaled approximately $2,515,800, $967,700 and $1,228,600 for the years ended October 31, 1997, 1998 and 1999, respectively.

The Company has agreements with certain retailers whereby the Company issues a credit for certain marketing development activities initiated by the retailer that directly relate to the promotion of the

Company's products. As of October 31, 1998 and 1999, the Company recorded an accrual of $0 and $172,900, respectively, for these costs.

Income Taxes

The Company recognizes a liability or asset for the deferred tax consequences of all temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets and liabilities are recovered or settled. These deferred tax assets or liabilities are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. Deferred tax assets are reviewed periodically for recoverability and valuation allowances are provided, as necessary.

Concentration of Credit Risk and Significant Customers

The Company offers credit terms on the sale of its software products to certain customers. The Company performs ongoing credit evaluations of its customers' financial condition and requires no collateral from its customers. The Company maintains an allowance for uncollectable accounts receivable based upon the expected collectibility of all accounts receivable. As of October 31, 1998, three distributors accounted for approximately 67 percent of the gross accounts receivable balance. As of October 31, 1999, three distributors accounted for approximately 71 percent of the gross accounts receivable balance. As of October 31, 1998 and 1999, the allowance for bad debts was $15,000 and $90,000, respectively.

Recent Accounting Pronouncements

In March 1998, the AICPA issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires entities to capitalize certain costs related to internal-use software once certain criteria have been met. SOP 98-1 was adopted by the Company in fiscal 1999. The adoption of SOP 98-1 did not have a material impact on the Company's results of operations, financial position or liquidity.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes new accounting and reporting standards for companies to report information about derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. This statement is effective for financial statements issued for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company does not expect this statement to have a material impact on the Company's results of operations, financial position or liquidity.

Comprehensive Income (Loss)

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting comprehensive income (loss) and its components in financial statements. Comprehensive income (loss) consists of net loss and foreign currency translation adjustments and is presented in the accompanying consolidated statements of operations and comprehensive loss. The adoption of SFAS 130 had no impact on total stockholders' equity.

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

Notes to Consolidated Financial Statements (Continued)

Net Loss Per Common Share

The Company computes net loss per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"), and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). Under the provisions of SFAS 128 and SAB 98, basic net loss per common share ("Basic EPS") is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted net loss per common share ("Diluted EPS") is computed by dividing net loss by the sum of the weighted average number of common shares and the dilutive potential common share equivalents then outstanding. Potential common share equivalents consist of shares issuable upon the exercise of stock options and shares issuable upon the conversion of Series A convertible preferred stock. As of October 31, 1997, 1998 and 1999, there were 3,966,517, 3,966,517 and 6,596,146 shares of Series A convertible preferred stock outstanding, respectively, and there were 2,964,240 outstanding options to purchase common shares as of October 31, 1999 that were not included in the computation of diluted net loss per common share as their effect would have been anti-dilutive, thereby decreasing the net loss per common share. For the years ended October 31, 1997 and 1998, the 12,033,483 shares (post Series A convertible preferred stock conversion, see Note 5) issued in the initial capitalization of Caldera were treated as outstanding for the entire fiscal year.

(3) Other Receivables

Other receivables consist of amounts due from two strategic partners that participated in a marketing program with the Company. The amounts received by the Company from the strategic partners have been applied against actual expenses incurred and have reduced the related sales and marketing expense of the Company.

(4) Secured Convertible Promissory Note Payable to Canopy

In connection with the incorporation of Caldera, Caldera and Canopy entered into a Secured Convertible Promissory Note Agreement (the "Note Agreement") pursuant to which the Company could borrow up to $2,000,000, or such other greater amount as determined necessary, to fund ongoing operations. Interest accrued on borrowings under the Note Agreement at the prime rate, less one-half percent compounded annually. Borrowings under the Note Agreement were convertible to shares of Caldera's common stock at $1.00 per share, which was deemed to be the estimated fair market value of Caldera's common stock on September 1, 1998. Under the Note Agreement, the Company borrowed $4,819,000 during the year ended October 31, 1999. Additionally, accrued interest of $454,974 was incurred by the Company related to borrowings under the Note Agreement and the amount payable to the Predecessor for the assets acquired in the reorganization (see Note 1). On August 19, 1999, the principal borrowings and accrued interest were converted into 5,273,974 shares of common stock (converted to 3,966,517 shares of common stock and 1,307,457 shares of Series A convertible preferred shares in connection with the December 1999 recapitalization, see Note 5) and the Note Agreement was cancelled.

(5) Stockholders' Equity

Reincorporation as a Delaware Corporation

As discussed in Note 12, all share and per share amounts in the accompanying consolidated financial statements have been adjusted to give effect to the reincorporation.

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

Notes to Consolidated Financial Statements (Continued)

Stock Split

On December 29, 1998, Caldera's board of directors approved a two-for-one stock split for holders of common stock. This stock split has been retroactively reflected in the accompanying consolidated financial statements for all periods presented.

Preferred Stock

On December 30, 1999, the stockholders approved articles of amendment to the Company's articles of incorporation. The amended articles of incorporation authorized the Company to issue 25,000,000 shares of no par value preferred stock and 75,000,000 shares of no par value common stock. The Company's board of directors is authorized, without stockholder approval, to designate and determine the preferences, limitations and relative rights granted to or imposed upon each share of preferred stock which are not fixed by the amended articles of incorporation. The amended articles of incorporation have designated 6,596,146 shares as Series A Convertible Preferred Stock ("Series A") and 5,000,000 shares as Series B Convertible Preferred Stock ("Series B").

The Series A and B shares have initial stated values per share of $4.03 and $6.00, respectively, and rank on parity with each other and prior to any other class or series of capital stock of the Company with respect to dividend rights, rights upon liquidation, winding up or dissolution, and redemption rights. The Series A and B shares are entitled to receive, when, as and if declared by the board of directors, cumulative and accruing preferential dividends at eight percent per annum, compounded annually, based on the stated value per share; provided, however, solely for dividend purposes the Series A stated value per share is deemed to be $6.00. Any holder of Series A or B shares may convert all or any shares of Series A or B into common shares and each share of Series A or B automatically converts into common shares immediately prior to the closing of a firm commitment underwritten public offering of at least $25,000,000, as defined. Each Series A and B share initially converts into one share of common stock. The conversion ratio is adjusted for stock splits and like events. The holders of Series A and B shares are entitled to vote on all matters submitted to the stockholders of the Company, including the election of directors, together with the holders of common stock voting together as a single class. Each share of Series A and B is entitled to one vote for each share of common stock that would be issuable upon conversion of such share.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, each holder of Series A and B then outstanding shall be entitled to receive, on a pari passu basis, out of the assets available for distribution to stockholders an amount equal to the greater of (i) the sum of (1) the respective stated value per share plus (2) an amount equal to all unpaid accruing dividends (whether or not declared) plus (3) any other dividends declared but unpaid, and (ii) the amount that such holder of Series A or B shares would hold had all shares of Series A and B been converted to common immediately prior to the liquidation, dissolution, or winding up.

Conversion of Common Shares Into Series a Shares

Prior to the offering of Series B shares discussed in Note 12, effective December 30, 1999 the Company entered into a Conversion Agreement with its two major stockholders, Canopy and MTI Technology Corporation ("MTI"). These stockholders held 99 percent of the outstanding shares of the Company's common stock at December 30, 1999. Pursuant to the Conversion Agreement, the Company converted

6,596,146 shares of outstanding common stock held by Canopy and MTI into 6,596,146 shares of Series A. This transaction has been accounted for as a recapitalization and has been retroactively reflected in the accompanying consolidated financial statements for all periods presented.

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

Notes to Consolidated Financial Statements (Continued)

Common Stock Transactions

On September 1, 1998, in connection with the initial capitalization of Caldera, Canopy purchased 16,000,000 shares of Caldera's common stock (converted to 12,033,483 shares of common stock and 3,966,517 shares of Series A in connection with the recapitalization discussed above) for $20,928,848. Of this amount, $16,000,000 was paid in cash ($519,000 in fiscal year 1998 and $15,481,000 in fiscal year 1999) and Canopy transferred to Caldera a note receivable from the Predecessor of $4,928,848. As of October 31, 1998, the stock subscription receivable of $317,110 included in the accompanying consolidated financial statements represented the difference between the $15,481,000 to be received from Canopy, less borrowings and accrued interest of $15,163,890 payable to the Predecessor.

At the time of incorporation, Canopy agreed to continue to fund the operations of the Company through a secured convertible promissory note (see Note 4). The conversion terms of the secured promissory note allowed Canopy to convert the borrowings and accrued interest into common stock at a price of $1.00 per share, which was determined by the Company's board of directors to be the estimated fair market value of the Company's common stock on September 1, 1998, the date of the convertible promissory note agreement. In August 1999, Canopy elected to convert the outstanding principal borrowings and accrued interest into 5,273,974 shares of the Company's common stock (converted to 3,966,517 shares of common stock and 1,307,457 shares of Series A in connection with the recapitalization discussed above).

In July 1999, the Company negotiated with MTI, a publicly traded company which at the time was 50 percent owned by Canopy, to sell 5,333,333 common shares (converted to 4,011,161 shares of common stock and 1,322,172 shares of Series A in connection with the recapitalization discussed above) for $6,000,000, or $1.13 per share. The Company received $3,000,000 in cash at the time of closing and issued a note receivable for $3,000,000 that bears interest at the prime rate plus one percent (9 1/4 percent as of October 31, 1999). This note receivable was to be received in two installments of $1,500,000 due in January 2000 and July 2000. The Company negotiated to receive the initial installment of $1,500,000 in November 1999 in exchange for the Company agreeing to forego the interest component attached to the note receivable. As a result of this modification, the Company did not record any accrued interest in the consolidated balance sheet as of October 31, 1999.

The $1,500,000 received in November 1999 has been reflected as a current asset in the accompanying consolidated balance sheet as of October 31, 1999 and the remaining $1,500,000 has been reflected as a component of stockholders' equity as of October 31, 1999. In connection with MTI's investment, the Company entered into an Investors' Rights Agreement with MTI and Canopy pursuant to which MTI received registration rights applicable to the stock acquired. This Investors' Rights Agreement was amended and superceded in connection with the Conversion Agreement discussed above and the subsequent offering of Series B preferred shares discussed in Note 12.

Stock Option Plans

During fiscal year 1998, the Company adopted the 1998 Stock Option Plan (the "1998 Plan") that provided for the granting of nonqualified stock options to purchase shares of common stock. Under the 1998 Plan, the Company could grant up to 5,000,000 options to employees, non-employee members of the board of directors or consultants who provide services to the Company. Options granted under the 1998 Plan are subject to expiration and vesting terms as determined by a committee of the Company's board of directors. No options can expire more than ten years from the date of grant. The exercise price for the options may be paid in cash or in shares of the Company's common stock valued at fair market value on the exercise date. The options may also be exercised through a same-day sale program without any cash outlay by the optionee. At October 31, 1999, options to purchase 2,035,738 shares of common stock were available for future grants under the 1998 Plan.

On December 1, 1999, the Company's board of directors approved the 1999 Omnibus Stock Incentive Plan (the "1999 Plan"), which is intended to serve as the successor equity incentive program to the 1998 Plan. The 1999 Plan increased the aggregate number of shares available for issuance under both plans to 6,700,000 and designated that 700,000 shares be used as director incentives. The 1999 plan allows for the grant of awards in the form of incentive and non-qualified stock options, stock appreciation rights, restricted shares, phantom stock and stock bonuses. Awards may be granted to individuals in the Company's employ or service.

The 1999 plan will be administered by the compensation committee of the board of directors. This committee will determine which eligible individuals are to receive awards under the 1999 plan, the type of award to be made, the time or times when such awards are to be made, the number of shares subject to each such award, and the vesting schedule and the other terms to be in effect for the award.

The exercise price for the options may be paid in cash, in shares of the Company's common stock valued at fair market value on the exercise date or by having the Company retain sufficient shares of common stock from shares which would be issuable upon the exercise of the option. The option may also be exercised through a same-day sale program without any cash outlay by the optionee.

Tandem stock appreciation rights may be issued under the 1999 plan which will provide the holders with the election to surrender their outstanding options for a cash appreciation distribution from the Company equal to the fair market value of the vested shares subject to the surrendered option less the aggregate exercise price payable for such shares. In addition, the Company may issue stand-alone stock appreciation rights which will entitle the holder to receive a cash payment from the Company equal to the fair market value of the vested shares subject to the right less the base price for such right.

Phantom stock awards will entitle the holder to receive in cash the fair market value of common stock on the vesting date.

In the event that the Company is acquired (whether by merger or asset sale) or there is a change in control (effected through an acquisition of 50% or more of our voting stock or by proxy contest for the election of board members), options and stand-alone stock appreciation rights exercisable at that time will remain exercisable until their expiration, and options and stand-alone stock appreciation rights not exercisable at that time will expire. Also, if the Company is acquired or experiences a change in control, all restrictions on outstanding vested shares of restricted stock granted under the 1999 Plan will lapse, and all outstanding, unvested shares of such restricted stock will expire and be cancelled. Similarly, all outstanding, unvested shares of phantom stock will expire and be cancelled.

A summary of stock option activity under the stock option plans for the year ended October 31, 1999 is as follows:

Weighted Average Options Price Range Exercise Price

Granted	3,106,566	$1.00 - 1.13	$1.04
Exercised	(22)	1.00	1.00
Forfeited	(142,304)	1.00	1.00
Balance, October 31, 1999	2,964,240	1.00 - 1.13	1.04

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

Notes to Consolidated Financial Statements (Continued)

A summary of stock option grants with exercise prices equal to or less than the estimated fair market value on the date of grant during the year ended October 31, 1999 is as follows:

	OPTIONS GRANTED	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE FAIR VALUE OF OPTIONS

Grants with exercise price equal to estimated fair market value	645,728	$1.00	$0.20
Grants with exercise price less than estimated fair market value	2,460,838	1.04	1.54
	3,106,566	1.04	1.26

A summary of the options outstanding and options exercisable under the Company's stock option plans at October 31, 1999 is as follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICES	OPTIONS OUTSTANDING	WEIGHTED AVERAGE CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$1.00	2,116,740	9.5	$1.00	736,092	$1.00
1.13	847,500	9.9	1.13	16,114	1.13
	2,964,240	9.6	1.04	752,206	1.00

Stock-based Compensation

The Company accounts for its stock options issued to directors, officers and employees under Accounting Principles Board Opinion No. 25 and related interpretations ("APB 25"). Under APB 25, compensation expense is recognized if an option's exercise price on the measurement date is below the intrinsic fair value of the Company's common stock. During the year ended October 31, 1999, the Company granted 2,460,838 stock options with exercise prices that were below the estimated fair market value on the measurement date resulting in $3,144,230 in deferred compensation. This deferred compensation has been recorded as a component of stockholders' equity and will be expensed consistent with the vesting of the underlying stock options. Amortization of deferred compensation amounted to $409,296 for the year ended October 31, 1999. Subsequent to year-end, the Company has granted 2,369,388 additional stock options with exercise prices ranging from $1.13 to $6.00. The granting of these options will result in approximately $5,280,000 of additional deferred compensation to be recognized as expense over the vesting period of the options.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") requires pro forma information regarding net loss as if the Company had accounted for its stock options granted under the fair value method. The fair market value of the stock options is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for grants during the year ended October 31, 1999: risk-free interest rate of 5.5 percent; expected dividend yield of 0 percent; volatility of 0 percent, and expected exercise lives of five years. For purposes of the pro forma disclosure, the estimated fair market value of the stock options is amortized over the vesting periods

of the respective stock options. The following is the pro forma disclosure and the related impact on net loss for the year ended October 31, 1999:

1999

Net loss as reported..... $(9,366,588) Pro forma net loss..... (9,773,906)

(6) Income Taxes

As described in Note l, Caldera became a separate legal entity effective September 1, 1998. The income tax attributes associated with the carved-out portion of Caldera, Inc. prior to September 1, 1998 remained with the Predecessor. The net loss before income taxes consisted of the following components for the period from the reorganization (September 1, 1998) through October 31, 1998 and for the year ended October 31, 1999:

1998 1999

Domestic U.S. operations.....	$(1,070,632)	$(9,401,363)
Operations of foreign subsidiary, Caldera GmbH.....	11,260	69,550
Total.....	$(1,059,372)	$(9,331,813)

The components of the provision for income taxes for the period from the reorganization (September 1, 1998) through October 31, 1998 and for the year ended October 31, 1999 are as follows:

1998 1999

Current:		
U.S. Federal.....	$ --	$ --
U.S. State.....	--	--
Non-U.S.	33,780	34,775
	33,780	34,775
Deferred:		
U.S. Federal	(368,163)	(3,050,789)
U.S. State	(53,436)	(468,597)
Change in valuation allowance.....	421,599	3,519,386
Total provision for income taxes.....	$ 33,780	$ 34,775

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities. They are measured by applying the enacted tax rates and laws in effect for the years in which such differences are expected to reverse. The significant components of the Company's deferred income tax assets and liabilities at October 31, 1998 and 1999 are as follows:

1998 1999

Deferred income tax assets:		
Net operating loss carryforwards	$ 442,760	$ 3,967,242
Tax basis in excess of book basis related to assets acquired by Caldera from Predecessor	7,077,046	6,599,942
Reserves and accrued expenses	35,931	268,510
Stock-based compensation	--	152,667
Book depreciation in excess of tax	--	62,570
Foreign tax credit	22,970	46,617
Total deferred income tax assets	7,578,707	11,097,548
Valuation allowance	(7,578,162)	(11,097,548)
Net deferred income tax assets	545	--

1998 1999

Deferred income tax liabilities:		
Tax depreciation in excess of book	(545)	--
Total deferred income tax liabilities	(545)	--
Net deferred income taxes	$ --	$ --

The amount of and ultimate realization of the deferred income tax assets is dependant, in part, upon the tax laws in effect, Caldera's future earnings, and other future events, the effects of which cannot be determined. The Company has established a valuation allowance against its deferred income tax assets. Management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of these deferred income tax assets.

As of October 31, 1999, the Company had net operating loss carryforwards for federal income tax reporting purposes totaling approximately $10,636,000. The net operating loss carryforwards expire as follows:

Year of Expiration	*Amount*
2018	$ 1,187,000
2019	9,449,000
	$10,636,000

The Internal Revenue Code contains provisions that likely could reduce or limit the availability and utilization of net operating loss carryforwards if certain changes in ownership have taken place or will take place. The Company has not performed an analysis to determine whether any such limitations have occurred.

The differences between the provision (benefit) for income taxes at the U.S. statutory rate and the Company's effective tax rate is as follows:

1998 1999

Benefit at statutory rate	(34.0%)	(34.0%)
Non-deductible items	0.1%	0.1%
State income taxes, net of federal effect	(3.3%)	(3.3%)
Foreign income taxes	0.6%	(0.1%)
Increase in valuation allowance	39.8%	37.7%
Total provision for income taxes	3.2%	0.4%

(7) Commitments and Contingencies

Litigation

The Company is a party to certain legal proceedings arising in the ordinary course of business. Management believes, after consultation with legal counsel, that the ultimate outcome of such legal proceedings will not have a material adverse effect on the Company's financial position, liquidity or results of operations.

Operating Lease Agreements

The Company leases its corporate office facilities from the Predecessor. The lease commenced on September 1, 1998 and expires on August 31, 2000. The rent payment under this lease is approximately

$12,100 per month and is based on the portion of total square footage used by the Company. Rent expense under this arrangement totaled approximately $0, $19,200 and $144,700 for the years ended October 31, 1997, 1998 and 1999, respectively. This lease requires the Company to pay taxes, maintenance, insurance and certain other operating costs of the leased property.

In October 1999, the Company entered into an assignment and extension of an existing operating lease with an unrelated lessor for research and development space. Monthly lease payments under this arrangement are $10,000 and require the Company to pay certain operating expenses such as maintenance, insurance and other operating costs. The Company does not anticipate renewing the lease when it expires in July 2000.

On September 1, 1999, the Company entered into an operating lease arrangement for its Caldera GmbH facility. The lease requires monthly minimum payments of 8,750 DM (approximately $4,880 U.S. dollars based on the exchange rate as of October 31, 1999) and expires five years from the date of commencement. Caldera GmbH also has the option of extending the agreement for two consecutive five-year terms. This lease requires the Company to pay taxes, maintenance, insurance and certain other operating costs of the property.

The Company leases warehouse space from an unrelated lessor under an eighteen-month lease which expires in November 2000. Rent expense under the lease is approximately $32,000 per year.

Software Localization Agreement

On October 1, 1999, the Company entered into an agreement with United Systems Engineers, Inc. ("USE") to localize certain of the Company's software products for the Japanese market. As consideration, the Company agreed to pay $250,000 in cash or issue to the engineering firm shares of the Company's common stock with a market value of $202,000, based on the initial public offering price per share. On January 4, 2000, the Company and USE amended the agreement pursuant to which the Company agreed to issue 33,667 shares of common stock to USE for the services, of which 16,833 are to be issued immediately for services rendered and the remaining 16,834 are to be issued upon completion of the services. Should USE not perform under the agreement, USE has committed to make certain payments to the Company. Based on the performance commitment, the date of the amended contract has been determined to be the measurement date and the estimated fair value of the Company's common stock on that date of $269,336, or $8 per share, will be expensed as the services are rendered.

Contingent Cash Awards

In August 1999, the Company granted 24 individuals the right to receive the cash value of 25 shares of common stock if the Company completes an initial public offering, such value to be determined by the market price per share of the Company's common stock as reported on the Nasdaq National Market on the thirtieth day following the first day the Company's common stock is publicly traded.

(8) Related Party Transactions

Canopy

As discussed in Note 1, Canopy was the sole stockholder of Caldera upon incorporation and was the majority stockholder of the Predecessor. Canopy invested $20,928,848 in Caldera in exchange for 16,000,000 shares of common stock. In addition to the initial equity investment, Canopy advanced $4,819,000 under a secured convertible promissory note agreement (see Note 4). In August 1999, the

principal borrowings and accrued interest of $454,974 were converted into 5,273,974 shares of common stock. The chairman of the Company's board of directors is the president and chief executive officer and a F-20

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

Notes to Consolidated Financial Statements (Continued)

director of Canopy. Additionally, another director of the Company is the chairman of Canopy's board of directors.

The Company has entered into certain transactions with Canopy and other entities that are majority-owned by Canopy. These transactions consist mainly of participating in joint insurance coverage, training and testing services, and rent. The Company believes that the terms of these related party transactions are at least as favorable as the terms that could have been obtained from an unaffiliated third party in similar transactions. During the years ended October 31, 1997, 1998 and 1999, transactions with these related parties were as follows:

1997 1998 1999

Rent (see Note 7)	$ --	$19,200	$144,700
Training and testing	--	--	48,200
Insurance	4,600	13,200	13,800
Total expenses	$4,600	$32,400	$206,700

As discussed in Note 9, the Company participates in a 401(k) plan sponsored by Canopy. As of October 31, 1999, the Company had related party payables of $48,933.

Lineo, Inc.

As discussed in Note 12, in January 2000, the Company acquired an ownership interest in Lineo, Inc. ("Lineo"), the successor entity to the operations of the Predecessor which were not acquired by Caldera in the reorganization discussed in Note 1. The chairman of the Company's board of directors and another director are also directors of Lineo. Sales to Lineo amounted to $1,700 during the year ended October 31, 1999.

Mti

In July 1999, MTI, a company which at the time was 50 percent owned by Canopy, agreed to purchase 5,333,333 shares of common stock for $6,000,000 of which $3,000,000 was paid at closing and $3,000,000 was payable through an interest bearing note receivable. Subsequent to October 31, 1999, the Company agreed to forego the interest component of the note receivable in exchange for an

acceleration of the payment terms (see Note 5). A director of the Company is the chairman of the board of MTI. Additionally, another Company director is the current president and chief executive officer of MTI.

The Company is using certain computer equipment provided by MTI without charge. The equipment is valued at approximately $105,000. Sales to MTI amounted to $2,985 during the year ended October 31, 1999.

(9) Employee Benefit Plan

The Company has adopted a prototype 401(k) plan (the "Benefit Plan") sponsored by Canopy in which all eligible employees are entitled to make pre-tax contributions. All full-time employees become eligible for participation in the Benefit Plan once they have reached the age of 21. Eligible participants can elect to make contributions to the Benefit Plan and such contribution amounts are subject to certain limitations under the Internal Revenue Code. As of October 31, 1999, the Company has not made any contributions to the Benefit Plan; however, the Board of Directors of Canopy has approved a discretionary matching program allowing the Company to match up to 50 percent of each dollar contributed by

employees at a maximum of six percent of the employee's salary. This matching program will be in effect beginning January 1, 2000.

(10) Significant Customers

During the year ended October 31, 1997, the Company did not have sales to any one customer that accounted for more than ten percent of total net revenues. During the year ended October 31, 1998, the Company had sales to one customer that accounted for approximately 11 percent of total net revenues. During the year ended October 31, 1999, the Company had sales to two customers that accounted for approximately 33 percent and 20 percent of total net revenues, respectively. No other customer accounted for more than ten percent of net revenues during the years ended October 31, 1998 and 1999.

(11) Segment Information

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes disclosures related to components of a company for which separate financial information is available and evaluated regularly by a company's chief operating decision makers in deciding how to allocate resources and in assessing performance. It also requires segment disclosures about products and services as well as geographic areas. The Company has determined that it did not have any separately reportable operating segments as of October 31, 1997, 1998 and 1999. However, the Company does sell software and related products in geographic locations outside of the United States. Revenues attributed to individual countries based on the location of sales to unaffiliated customers for the years ended October 31, 1997, 1998 and 1999 is as follows:

1997 1998 1999

Revenue:			
United States	$1,116,794	$1,000,943	$2,847,789
Other countries	--	56,145	202,518
Total revenue	$1,116,794	$1,057,088	$3,050,307

(12) Subsequent Events

Reincorporation as a Delaware Corporation

Prior to completion of the Company's initial public offering, Caldera will reincorporate in Delaware and amend and restate its certificate of incorporation. The reincorporation into Delaware will be effected by way of a merger with a newly-formed Delaware subsidiary, and the associated issuance of one share of common stock of the subsidiary for each share of common stock of the Company held by the stockholders of record. Additionally, stockholders of record of Series A and Series B of the Company will be entitled to receive shares of Series A and Series B preferred stock of the subsidiary. All share and per share amounts in the accompanying consolidated financial statements have been adjusted to give effect to the reincorporation.

Issuance of Series B Convertible Preferred Stock and Related Agreements

On December 30, 1999, the Company's board of directors authorized the issuance of 5,000,000 shares of Series B preferred stock at $6 per share with the rights, preferences, privileges and restrictions as described in Note 5. As of January 10, 2000, the 5,000,000 shares had been sold for net proceeds of approximately $29,500,000. The Company anticipates using the proceeds from the sale of Series B preferred stock to

fund ongoing research and development efforts, sales and marketing activities, and other working capital requirements.

In connection with the preferred stock purchase agreement, the Company and the investors entered into an amended and restated investor rights agreement (the "Rights Agreement") and a voting agreement. Pursuant to the voting agreement, the Company and the preferred stockholders established the composition of the Company's board of directors.

Pursuant to the Rights Agreement, Canopy and MTI, the Series A preferred stockholders (see Note 5), and the investors in the Series B preferred stock (collectively the "Preferred Stockholders") have certain rights beginning six months following the closing of a qualified public offering with respect to registration of the common shares issued or issuable upon conversion of the Series A and Series B preferred shares in compliance with the Securities Exchange Act of 1934. The Preferred Stockholders have certain demand and piggy back rights that require the Company to use its best efforts to register the requested shares and/or permit the Preferred Stockholders to include shares in certain secondary offerings of the Company's common stock. The Company has agreed to bear all expenses in connection with any registration, other than underwriting discounts and commissions.

Software License Agreements with Sun Microsystems, Inc.

In January 2000, the Company and Sun Microsystems, Inc. ("Sun"), an investor in the Company's Series B preferred stock, entered into certain software license agreements. Pursuant to one of the software license agreements, the Company agreed to pay Sun a nonrefundable payment in the amount of $1,250,000 as follows: $400,000 within 30 days from execution of the agreement and $850,000 by March 24, 2000 for the rights to the software for an initial term of 18 months. The agreement also contains a renewal option for an additional nonrefundable payment at the end of the initial term. The other software license agreements provide for future royalty payments based on units sold.

Business Alliance with Evergreen Internet, Inc.

In January 2000, the Company and Evergreen Internet, Inc. ("Evergreen") entered into a master agreement which sets forth the terms and conditions of a business alliance. Evergreen and the Company agreed as follows: (i) Evergreen granted to the Company an original equipment manufacturer license permitting the bundling of certain of Evergreen's software products with the Company's software products; (ii) the Company and Evergreen will engage in joint development and integration of their respective software products; (iii) the Company and Evergreen will cooperate to create

educational training courses for the combined products; (iv) the Company agreed to acquire 370,370 shares of common stock of Evergreen for $2,000,000 and Evergreen agreed to transfer an additional 222,222 shares of its common stock to the Company in exchange for 200,000 shares of the Company's common stock (the 592,592 shares of Evergreen's common stock acquired by the Company is approximately 4 percent of Evergreen's common and preferred stock); and (v) the parties agreed to work together to identify new business solution opportunities for their joint products.

Stock Exchange Agreement with Lineo, Inc.

In January 2000, the Company and Lineo entered into a stock purchase and sale agreement. Lineo is the successor entity to the operations of the Predecessor which were not acquired by Caldera in the reorganization discussed in Note 1 and is majority owned by Canopy. Pursuant to the stock purchase agreement, the Company agreed to purchase 3,238,437 shares of common stock of Lineo (approximately 17 percent of Lineo's outstanding common stock) in exchange for 1,250,000 shares of the Company's

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

Notes to Consolidated Financial Statements (Continued)

common stock. The Company and Lineo have also agreed in principle to provide each other with certain marketing and other services pursuant to a strategic alliance agreement to be completed.

Stock Exchange Agreement with Troll Tech as

In December 1999, the Company and Canopy entered into an agreement with Troll Tech AS and its stockholders. Pursuant to the agreement, the Company agreed to acquire 159 shares of common stock of Troll Tech (approximately 2 percent of Troll Tech's outstanding common stock) in exchange for 106,356 shares of the Company's common stock and Canopy agreed to acquire 398 shares of common stock of Troll Tech in exchange for $1,000,000, payable in monthly installments of $100,000. The agreement also grants to Canopy and its affiliates certain license rights with respect to Troll Tech's software.

[Art to be on back cover shows the Caldera logo, with text in various formats reading "eBusiness," "Success", "Solutions," "Integration," "Linux Revolution," "Support," "Award-Winning" and "Linux for eBusiness."]

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth an estimate of the costs and expenses, other than the underwriting discounts and commissions, payable by the Registrant in connection with the issuance and distribution of the common stock being registered.

SEC registration fee..... $ 15,180 NASD fee..... 6,250 NASDAQ listing fee..... 5,000 Legal fees and expenses..... Accounting fees and expenses..... Printing expenses..... Blue sky fees and expenses..... Transfer Agent and Registrar fees and expenses..... Miscellaneous..... Total..... $

Item 14. Indemnification of Directors and Officers

The Registrant's certificate of incorporation in effect as of the date hereof, and the registrant's amended and restated certificate of incorporation to be in effect upon the closing of this offering (collectively, the "Certificate") provides that, except to the extent prohibited by the Delaware General Corporation Law, as amended (the "DGCL"), the registrant's directors shall not be personally liable to the registrant or its stockholders for monetary damages for any breach of fiduciary duty as directors of the registrant. Under the DGCL, the directors have a fiduciary duty to the registrant which is not eliminated by this provision of the Certificate and, in appropriate circumstances, equitable remedies such as injunctive or other forms of non-monetary relief will remain available. In addition, each director will continue to be subject to liability under the DGCL for breach of the director's duty of loyalty to the registrant, for acts or omissions which are found by a court of competent jurisdiction to be not in good faith or involving intentional misconduct, for knowing violations of law, for actions leading to improper personal benefit to the director, and for payment of dividends or approval of stock repurchases or redemptions that are prohibited by DGCL. This provision also does not affect the directors' responsibilities under any other laws, such as the Federal securities laws or state or Federal environmental laws. The registrant intends to obtain liability insurance for its officers and directors prior to the closing of this offering.

Section 145 of the DGCL empowers a corporation to indemnify its directors and officers and to purchase insurance with respect to liability arising out of their capacity or status as directors and officers, provided that this provision shall not eliminate or limit the liability of a director: (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) arising under Section 174 of the DGCL, or (iv) for any transaction from which the director derived an

improper personal benefit. The DGCL provides further that the indemnification permitted thereunder shall not be deemed exclusive of any other rights to which the directors and officers may be entitled under the corporation's bylaws, any agreement, a vote of stockholders or otherwise. The Certificate eliminates the personal liability of directors to the fullest extent permitted by Section 102(b)(7) of the DGCL and provides that the registrant shall fully indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (whether civil, criminal, administrative or investigative) by reason of the fact that such person is or was a director or officer of the registrant, or is or was serving at the request of the registrant as a director or officer of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding.

At present, there is no pending litigation or proceeding involving any director, officer, employee or agent as to which indemnification will be required or permitted under the Certificate. The registrant is not aware of any threatened litigation or proceeding that may result in a claim for such indemnification.

Item 15. Recent Sales of Unregistered Securities

In the three fiscal years preceding the filing of this registration statement, the Registrant has issued the following securities that were not registered under the Securities Act:

(i) On August 31, 1998, the Registrant issued to The Canopy Group, Inc. 16,000,000 shares of common stock in exchange for $20,892,674.

(ii) From December 1998 through December 1999, the Registrant granted options to purchase an aggregate of 5,475,954 shares of common stock under its 1998 Stock Option Plan and 1999 Omnibus Stock Incentive Plan with a weighted average exercise price of $3.04 (iii) On July 27, 1999, the Registrant issued and sold 5,333,333 shares of common stock to MTI Technology Corporation at a purchase price of $1.13 per share.

(iv) On August 19, 1999, under the terms of Secured Convertible Promissory Note dated September 1, 1998, $5,273,974 owed to The Canopy Group was converted into 5,273,974 shares of the Registrant's common stock.

(v) On January 4, 2000, the Registrant issued 16,834 shares of common stock to United Systems Engineers in exchange for services rendered and agreed to issue an additional 16,833 shares of common stock to United Service Engineers upon the completion of services to be rendered, pursuant to Regulation S under the Securities Act of 1933, as amended.

(vi) On December 30, 1999, the Registrant issued and exchanged 5,273,974 shares of Series A convertible preferred stock for the same number of shares of common stock held by The Canopy Group, Inc. The Registrant also issued and exchanged 1,322,172 shares of Series A convertible

preferred stock for the same number of shares of common stock held by MTI Technology Corporation.

(vii) In December 1999 and January 2000, the Registrant sold a total of 5,000,000 shares of Series B convertible preferred stock at a purchase price of $6.00 per share to ten accredited investors.

(viii) In December 1999, the Registrant issued and sold 106,356 shares of common stock to Troll Tech AS in exchange for 159 shares of common stock of Troll Tech AS.

(ix) In January 2000, the Registrant issued and sold 200,000 shares of common stock to Evergreen Internet, Inc. in exchange for 592,592 shares of common stock of Evergreen Internet, Inc..

No underwriters were involved in the foregoing sales of securities. Except as noted such sales were deemed to be exempt under the Securities Act in reliance upon Section 4(2) thereof relative to sales by an issuer not involving any public offering, or, in the case of options to purchase common stock, Rule 701 under the Securities Act. All of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules

Exhibit Number Description

1.1*	Form of Underwriting Agreement.
3.1*	Amended and Restated Articles of Incorporation, as amended.
3.2*	Form of Amended and Restated Certificate of Incorporation to be in effect upon the closing of the offering.
3.3*	Bylaws.
3.4*	Form of Amended and Restated Bylaws to be in effect upon the closing of this offering.
4.1*	Specimen Common Stock certificate.
5.1*	Opinion of Brobeck, Phleger & Harrison LLP.
10.1	Conversion Agreement dated December 30, 1999, between the Registrant, The Canopy Group, Inc. and MTI Technology Corporation.
10.2	Form of Series B Preferred Stock Purchase Agreement between the Registrant and the Series B investors.
10.3	1998 Stock Option Plan.
10.4	1999 Omnibus Stock Incentive Plan.
10.5*	2000 Employee Stock Purchase Plan.
10.6	Secured Convertible Promissory Note dated September 1, 1998 by the Registrant in favor of The Canopy Group, Inc.
10.7	Security Agreement dated September 1, 1998 between the Registrant and The Canopy Group, Inc.
10.8	Asset Purchase and Sale Agreement dated September 1, 1998 between Caldera, Inc. and the Registrant.
10.9	Amended and Restated Asset Purchase Agreement dated as of September 1, 1998 between Caldera, Inc. and the Registrant.
10.10	Stock Purchase Agreement dated July 27, 1999 by and among the Registrant, The Canopy Group, Inc. and MTI Technology Corporation.
10.11	Stock Purchase Agreement dated January 6 , 2000 between the Registrant and Lineo, Inc.
10.12	Form of Second Amended and Restated Investors Rights Agreement by and among the Registrant and the holders of the Series A and Series B convertible preferred stock.

10.13	Form of Indemnification Agreement by and between the Registrant and its outside directors.
10.14	GNU General Public License.
10.15+	Computer Software Distribution Agreement dated December 14, 1998 between the Registrant and Navarre Corporation.
10.16+	OEM Reciprocal License Agreement dated January 6, 2000 between the Registrant and Evergreen Internet, Inc.
10.17+	Sun Community Source License version 2.3 dated January 7, 2000 between the Registrant and Sun Microsystems, Inc.
10.18+	Sun Community Source License version 2.7 dated January 7, 2000 between the Registrant and Sun Microsystems, Inc.
10.19	Lease Agreement dated September 1, 1998 between the Registrant and Caldera, Inc.
10.20	Assignment and Extension of Lease dated October 6, 1999 between the Registrant and Voxel, Inc.
10.21	Form of Voting Agreement between the Registrant and the holders of the Series A and Series B convertible preferred stock.
23.1*	Consent of Brobeck Phleger & Harrison LLP (included in Exhibit 5.1).

Exhibit Number Description

23.2	Consent of Arthur Andersen LLP.
24.1	Powers of Attorney (see Signature Page on Page II-5).
27	Financial Data Schedule.

* To be filed by amendment.

+ Application has been made to the Commission to seek confidential treatment of certain provisions. Omitted material for which confidential treatment has been requested has been filed separately with the Commission.

(b) FINANCIAL STATEMENT SCHEDULES Schedule II -- Valuation and Qualifying Accounts Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or the notes thereto.

Item 17. Undertakings

The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant

will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Orem, State of Utah, on this 10th day of January, 2000.

Caldera Systems, Inc.

By: /s/ RANSOM H. LOVE Name: Ransom H. Love Title: President and Chief Executive Officer

Power of Attorney

We, the undersigned directors and/or officers of Caldera Systems, Inc. (the "Company"), hereby severally constitute and appoint Ransom H. Love, Chief Executive Officer, and Alan Hansen, Chief Financial Officer, and each of them individually, with full powers of substitution and resubstitution, our true and lawful attorneys, with full powers to them and each of them to sign for us, in our names and in the capacities indicated below, the registration statement on Form S-1 filed with the Securities and Exchange Commission, and any and all amendments to said registration statement (including post-effective amendments), and any registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended, in connection with the registration under the Securities Act of 1933, as amended, of equity securities of the Company, and to file or cause to be filed the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as

fully to all intents and purposes as each of them might or could do in person, and hereby ratifying and confirming all that said attorneys, and each of them, or their substitute or substitutes, shall do or cause to be done by virtue of this Power of Attorney.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated below:

Signature Title(s) Date

/s/ RANSOM H. LOVE Ransom H. Love	President, Chief Executive Officer and Director (Principal Executive Officer)	January 10, 2000
/s/ ALAN HANSEN Alan Hansen	Chief Financial Officer (Principal Financial and Accounting Officer)	January 10, 2000
/s/ RALPH J. YARRO III Ralph J. Yarro III	Chairman of the Board of Directors	January 10, 2000

/s/ RAYMOND J. NOORDA Director January 10, 2000 Raymond J. Noorda /s/ THOMAS P. RAIMONDI, JR. Director January 10, 2000 Thomas P. Raimondi, Jr.

Report of Independent Public Accountants on Financial Statement Schedule

To Caldera Systems, Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of Caldera Systems, Inc, the carved-out portion of Caldera, Inc. and their subsidiary included in this registration statement and have issued our report thereon dated January 10, 2000. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule II -- Valuation and Qualifying Accounts is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen Llp

Salt Lake City, Utah January 10, 1999

Caldera Systems, Inc., the Carved-out Portion of Caldera, Inc. and Their Subsidiary

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS ENDED OCTOBER 31, 1997, 1998 AND 1999

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts:				
Year ended October 31, 1997.....	$ 22,000	$ 91,000	$ (1,000)*	$112,000
Year ended October 31, 1998.....	112,000	265,000	(362,000)*	15,000
Year ended October 31, 1999.....	15,000	222,000	(147,000)*	90,000

* Represents write-offs of uncollectable accounts receivable

Exhibit Index

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