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*Office of the Vice President
Assistant General Counsel*

*Route 100
Somers, NY 10589*

August 14, 2003

VIA AIRBORNE EXPRESS

Mr. Darl McBride
President and Chief Executive Officer
The SCO Group, Inc.
355 South 520 West
Lindon, Utah 84042

Re: Software Agreement Number Soft-000321
Sublicensing Agreement Number Sub-000321A

Dear Mr. McBride:

This responds to your letter of May 29, 2003 and Mr. Sontag's letter of August 11, 2003, both addressed to Sequent Computer Systems, Inc. As you know, Sequent has been merged into International Business Machines Corporation.

In Mr. Sontag's letter of August 11, SCO purports to have terminated IBM's licenses as of July 30, 2003. You stated in your May 29 letter, however, that SCO would not undertake to terminate IBM's licenses until September 2, 2003, and you have not previously notified us regarding a purported July 30 termination. In any event, contrary to your assertions, IBM does not believe that it has breached any of its obligations to SCO, either under the agreements to which you refer (the "Agreements") or under applicable law, and SCO may not terminate IBM's rights under the terms of the Agreements.

We have investigated the allegations in your May 29 letter and the amended complaint filed by SCO in connection with its lawsuit against IBM, and we do not believe that either IBM or Sequent has breached the Agreements. Although your letter states that IBM has breached the Agreements in "numerous ways", none of the alleged breaches are identified with meaningful specifics. Thus, I write to ask that you inform IBM specifically what SCO contends IBM has done in violation of its obligations to SCO, and what you contend IBM should do to cure such violations. As you acknowledge in your letter, the provisions to which you refer would entitle IBM to a period of no less than two months, from proper notice, in which to cure any alleged breach.

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Please advise me as soon as possible of the specific acts or omissions by IBM that you allege constitute a breach of the Agreements. In particular, please specify:

- (1) any products, code, files, trade secrets and/or confidential information that SCO believes IBM has improperly used, transferred, disposed of or disclosed;
- (2) the ways and specific instances in which you allege IBM has improperly used, transferred, disposed of or disclosed any products, code, files, trade secrets and/or confidential information; and
- (3) the steps that SCO believes IBM is required to take to cure the alleged breaches and injuries about which SCO complains.

Sincerely,



Ronald A. Lauderdale
Vice President and Assistant General Counsel

Copy to: Evan R. Chesler, Esq.
David Boies, Esq.