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FINAL TRANSCRIPT

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SCOX - SCO Expands Scope of its Agreement With Boies, Schiller & Flexner LLP And Provides 4th Quarter Financial Guidance

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SCOX - SCO Expands Scope of Its Agreement With Boies, Schiller & Flexner LLP And Provides 4th Quarter Financial Guidance

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SCO Group - President and CEO

Robert Bench

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David Boies

Boies, Schiller & Flexner - Partner

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Andy Shopick

Nutmeg Securities - Analyst

Jonathan Bear

Bloomberg News - Analyst

David Bank

Wall Street Journal - Analyst

Scott Phillips

Merrill Lynch - Analyst

Brian Skiba

Deutsche Bank - Analyst

David Poletes

Analyst

Paula Rooney

CRN - Analyst

Larry Greenmeyer

Informationweek - Analyst

Larry Solomon

Capital International - Analyst

Matt Whipp

Dennis Publishing - Analyst

PRESENTATION

Operator

Thank you for standing by. Good day and welcome to the SCO Group conference call. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to Mr. Blake Stowell.

Blake Stowell - SCO Group - Corporate Communications

Thanks everyone for joining us today. We have on the call today Darl McBride, SCO's President and CEO; Bob Bench,

SCO's Chief Financial Officer, and David Boies, Managing Partner of Boies, Schiller & Flexner.

I will start today's call with a statement and turn the time over to Darl McBride after which we will have a Q&A session where you will have an opportunity to ask questions of any of the three participants on today's call.

This teleconference contains forward-looking statements related to SCO's efforts to protect its intellectual property rights, certain non-cash charges to recorded in its fourth quarter fiscal 2003 and financial guidance for its fourth quarter that ended October 31st, 2003. These forward-looking statements are subject to risks and uncertainties, including the risks that SCO may not prevail impending or contemplated litigation or otherwise be successful in its efforts to protect its intellectual property rights. In addition, SCO's anticipation that it will record certain non-cash charges in its fourth quarter of fiscal 2003 at its stated revenue expectations for its fourth quarter and fiscal year ended October 31st, 2003 are subject to the completion of its fiscal 2003 audit and any audit adjustments. Other risks and uncertainties related to these forward-looking statements are set forth in SCO's filings with the Securities and Exchange Commission.

With that, I will turn the time over to Darl McBride for opening statements.

Darl McBride - SCO Group - President and CEO

Thanks, Blake, and thank you all for joining our call this morning. As Blake mention, I want to make a few brief comments, and then we will open it up for your questions. We are pleased today to announce that we're deepening our relationship with the law firm of Boies, Schiller & Flexner and other associated firms by expanding the scope of their representation.

Throughout the course of this year, Mr. Boies and his colleagues have served us extremely well, focusing primarily on contract issues related to IBM. With today's announcement, we are confirming a significant expansion of that scope to include broader protection and enforcement of our UNIX system five-source code, our copyrights and related intellectual property.

On a related note, in connection with our recent \$50 million private equity placement completed on October 16, we will provide our law firm's with 400,000 shares of SCO common

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stock and \$1 million in cash. This consideration will result in a charge to earnings of approximately \$8.9 million in our fourth quarter that ended October 31, 2003. This \$8.9 million charge is comprised of a non-cash expense of 7.9 million related to the issuance of the 400,000 shares I mentioned and a cash expense of \$1 million. I would like to add that we're very pleased to have Mr. Boies' firm and his colleagues join us as significant shareholders in SCO.

Also in connection with the October 16 private placement, we will record a non-cash charge in Q4 that is the result of an accounting treatment known as beneficial conversion feature. As you may recall, we set the conversion price for the October offering at 16.93 per share, which was the five-day average of SCO shares prior to that offering. On the day we actually closed the transaction, the closing price at SCO is \$19.89, so the intrinsic value of the difference between the conversion price and the closing price will result in a non-cash charge to our Q4 earnings of \$8.7 million.

Importantly, we are reaffirming today our prior guidance and expect revenue for the fourth quarter to be in the range of 22 to 25 million. With the exception of the above noted earnings charges connected to their October equity offering, we expect our operating expenses for the fourth quarter will be similar to the previous quarter.

We are in the middle of our annual financial audit, which should be completed in the next several weeks. We look forward to providing you with full details on our fiscal fourth quarter and year-end results during our teleconference scheduled for December 8.

Finally, I would like to comment on the additional copyright issues we reference in our press release. For the last several months, we have consistently stated and maintained that our System 5 code is in LINUX. We have been careful and responsible in the manner in which we have addressed these issues with the software industry, with LINUX end-users and with members of the open source community. The claims that SCO has are both broad and deep. These claims touch not just IBM but other vendors as well. They also touch certain industry consortium and corporate LINUX end-users. Our claims are not trivial. The violations of our intellectual property are not easily repaired.

As we have stated over the last several months, it is our intention to vigorously protect and enforce SCO's intellectual property, our System 5 source code and our copyrights. We are now fully prepared to do that. As a result of our October

private placement, we have a significant war chest to fund this effort. As a result of the expanded scope of representation of Boies, Schiller & Flexner and their associated firms, we have more than ample legal talent and resource for this effort.

So at this point, we would be glad to take any questions that you have for myself, for David or for Bob Bench, our CFO

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Dion Cornett, Decatur Jones. (technical difficulty) --. Andy Shopick, Nutmeg Securities.

Andy Shopick - Nutmeg Securities - Analyst

Gentlemen, what I would like to understand is what was and where did the impetus for this agreement originate? Secondly if I may, do I understand that the payments to your attorneys are in addition to their regular and normal hourly billings and not tied to any ultimate outcome of this litigation?

Robert Bench - SCO Group - CFO, Principal Accounting Officer

Maybe I can take that Darl. Our agreement with the law firms is contingent in nature. We entered into that agreement in February of this year. It includes a payment of a 20 percent fee on proceeds from events related to the protection of SCO's intellectual property rights.

Andy Shopick - Nutmeg Securities - Analyst

Yes. However, this most recent announcement, if I understand it correctly, does provide for \$1 million in cash and the issuance of 400,000 shares of SCO stock. That does not seem to be contingent upon anything.

Darl McBride - SCO Group - President and CEO

The contingency in those events as we have disclosed previously include settlements, judgments, certain licensing fees, and the sale of the company during dependency of litigation or through settlement and can include events such as the equity event that just occurred.

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Andy Shopick - Nutmeg Securities - Analyst

Can or does?

Darl McBride - SCO Group - President and CEO

You know, the future issues with this agreement have not yet been memorialized, but they include events such as these if and when they occur, and as you can recognize a contingency agreement such as this that is far-reaching as many future events that may or may not occur. We really consider this much like a partnership as we move forward to protect SCO's intellectual property, and we would expect future events not dissimilar to come into place. We will reach agreement on those as they come about.

Andy Shopick - Nutmeg Securities - Analyst

Will there be a \$1 million cash payment that will be recorded on your profit and loss on your income statement to reflect this agreement?

Darl McBride - SCO Group - President and CEO

Yes. That will be recorded in our Q4 as stated in our press release.

Andy Shopick - Nutmeg Securities - Analyst

So it is not contingent?

Robert Bench - SCO Group - CFO, Principal Accounting Officer

That event has already occurred, so it was contingent.

Andy Shopick - Nutmeg Securities - Analyst

And the issuance of the 400,000 shares was also tied to prior contingencies?

Robert Bench - SCO Group - CFO, Principal Accounting Officer

That is right.

Operator

Jonathan Bear (ph), Bloomberg News.

Jonathan Bear - Bloomberg News - Analyst

Darl, I was wondering if you could give an update of where your sales of the licenses are coming from end LINUX users and how that is going along? And also for Mr. Boies, can you tell me how often your firm accepts fees or does business in the way you do business with SCO? Is this unusual for your firm or not?

Darl McBride - SCO Group - President and CEO

I will take the first one, David. We have been off meeting for the last several months with large corporate LINUX end-users. The pipeline is very healthy there. We have done additional finance for LINUX end-user licenses. We have not published those at this point. We have a number of folks that are in the evaluation process, and we definitely have a lot of interest in what is going on there.

Jonathan Bear - Bloomberg News - Analyst

Can you give me anymore specific numbers?

Darl McBride - SCO Group - President and CEO

We're not publishing those at this point in time. We are going through the process, and at this point in time, we are not coming out with additional numbers.

Jonathan Bear - Bloomberg News - Analyst

Mr. Boies, can you answer the other question?

David Boies - Boies, Schiller & Flexner - Partner

Sure. I think the summary answer would be that this is not unusual, but it is not unique either. The firm has a variety of ways bills (inaudible) sometimes we bill on a normal standard hourly basis. I would say that that is the majority of what we bill. We also bill sometimes with an engagement fee at the beginning of a representation, followed by formal hourly fees. Sometimes we do it strictly on a contingency fee basis, and then sometimes we do it on some mixture.

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Jonathan Bear - Bloomberg News - Analyst

Gentlemen, there has been suspicion from LINUX users that you guys are being funded -- this litigation is being funded by Microsoft or that you have been coordinated with Microsoft. I was wondering if Darl or Mr. Boies would care to address that.

David Boies - Boies, Schiller & Flexner - Partner

I have not had any conversation nor insofar as I know, and I think I would know, has anybody from my firm had any conversation with Microsoft or with Microsoft representatives. This has been entirely litigation that we have undertaken on behalf SCO. Obviously the recent equity class actions, our Series A preferred transactions, is something that is, as I think Darl indicated, will provide adequate financing for the litigation without looking to any other company.

Jonathan Bear - Bloomberg News - Analyst

Okay.

Darl McBride - SCO Group - President and CEO

SCO's perspective, we are 100 percent driving our strategy here. There is no connection with Microsoft on this. It is a favorite topic of the open source community. People love talking about this because there are natural interests here. Anybody who owns an operating system that thinks it should not be for free would naturally fall on this side of the table that SCO is on. So it's not just Microsoft, it is Wind River Systems, it is Sun Microsystems. Essentially anybody who thinks that they are valuable intellectual property in an operating system should have a pricetag on it, naturally lines up with SCO on this.

Jonathan Bear - Bloomberg News - Analyst

Okay. That is all I have.

Operator

David Bank, Wall Street Journal.

David Bank - Wall Street Journal - Analyst

Two related questions. First, back to the first question. If the payment that you have just recorded was a contingency, what was the settlement or event or something that triggered the contingency? If it's rather for something going forward and you talk about a big expansion of the effort, what do you mean by the big expansion? When are you doing that?

Robert Bench - SCO Group - CFO, Principal Accounting Officer

Let me take on the expansion side of this. When we came out with the agreement with David's firm earlier this year, in the February/January timeframe, we talked about protecting SCO's intellectual property. That basically turned into a scope that was very focused around IBM and the contract issues that we have with IBM and related parties. We are on a very good course with that scope.

We are set to be in a Utah federal courtroom for a jury trial about 17 months from now. April 2005 is when that will be heard. We are very pleased with the progress there. We are going through discovery. We are deposing witnesses. We like the course that is on, and David can speak more about where we are on the litigation side, but overall from a company standpoint, we feel very good about that.

Along the way over the last several months, once we had the copyright issue resolved where fully we had clarity around the copyright ownership on UNIX and System 5 source code, we have gone in and done a deep dive into LINUX. We have compared the source code or LINUX with UNIX every which way but Tuesday. We've come out with a number of violations that relate to those copyrights, and what you're seeing now is a memorialization of David's firm getting on board to go out and really enforce and protect our copyrights as it relates to the LINUX operating system. So that is where we are now.

Getting David on board to go after this, this is not going to be something that is measured in years. We do have copyrights out there now that are being broken. We have situations with other settlement agreements with respect to the BSD case from a few years ago, where we do have a legal settlement. We are in strong shape to go out and start enforcing these now, and this is really what David and his team are going to be expanding their focus around.

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David Bank - *Wall Street Journal* - Analyst

So the funds that you are providing them and the shares are for this expanded effort going forward? Am I just not understanding what contingency is -- (multiple speakers)

Darl McBride - *SCO Group* - President and CEO

(multiple speakers). As we look at the Boies firm, when we signed them early on, our market cap was done around \$17 million. We said we are going to go out and enforce our intellectual property, and as the company is successful along the way, there are going to be contingent events that happen, and if we have a license fee, as we succeed, then the Boies firm will succeed. As we have success in the courtroom, the Boies firm will also share in that success. As we have an ability to bring money into the company in this particular case by putting consideration into David's hands, we are now fully stocked to go after this next wave of enforcement issues.

David Bank - *Wall Street Journal* - Analyst

Okay. Am I just not understanding the technical meaning of contingency? I thought that came after some kind of settlement came in? This sounds like it is before, so maybe I am not understanding what contingency means?

Darl McBride - *SCO Group* - President and CEO

I guess what I am focusing on here is we've had some successful events occur. We've had some licensing events occur, and we have shared that with David. We've had some successful events to get some money in here; we shared that with David. That is going to help us go out and fight this next battle.

So we went out and said we are setting up for the long-haul here. We raised \$50 million. We did not raise \$50 million to get CD interest sitting over in the bank. We brought this money, and now in this case, we are able to -- David is coming in at a partnership level. He is coming in. He is taking stock for the most part. He is coming in with his firm, and we are going after this in a very strong partnership way. So we could not be more pleased with getting him onboard with us as a strong partnership arrangement.

David Boies - *Boies, Schiller & Flexner* - Partner

This is David Boies. I think the key thing, as Darl was saying, is that the contingency is not simply a contingency with a final resolution; there are a series of contingent events, some of which have already occurred, which is why you have the stock and cash being paid. We have agreed to take an obviously very substantial portion of what we would otherwise receive in the form of stock because we have confidence in where the company is going.

David Bank - *Wall Street Journal* - Analyst

Okay.

Operator

Scott Phillips, Merrill Lynch.

Scott Phillips - *Merrill Lynch* - Analyst

This question is for Mr. Boies. I wonder if you could bring us up to speed as to where we are at in terms of litigating and forcing the violation. One would expect that you would probably name a marque defendant, maybe perhaps a fortune class company who has a good deal of this LINUX code in place and has not paid any licensing fees on to SCO to move the case forward. Where are we along those lines, and what as investors should we be looking for going forward here?

Darl McBride - *SCO Group* - President and CEO

I think that your anticipation is exactly right, which is that one of the things that we will be looking to do is to identify a defendant that we believe will illustrate the nature of the problem. I don't want to try to identify that defendant on this call for obvious reasons, but I think that you are exactly right, that that is an additional aspect of what will be happening.

Now we are going to continue to vigorously prosecute the existing litigation against IBM. But you will be seeing in the near-term -- and again, I don't want to get into the specifics of the identification of the defendant or the specifics of the timing -- but you will be seeing the identification of a significant user that has not paid license fees and is, in fact, using proprietary and copyright material.

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Scott Philips - Merrill Lynch - Analyst

I appreciate the fact that you don't want to announce who might be on the short list.

Darl McBride - SCO Group - President and CEO

We don't want a reduction subpoena.

Scott Philips - Merrill Lynch - Analyst

Exactly. But for the benefit of investors and the people on this call, maybe conceptually we are thinking in terms of months, quarters, years, and what should we be thinking of in terms of when we could expect some motion along these lines?

Darl McBride - SCO Group - President and CEO

I think that you would certainly be seeing that within the next 90 days.

Scott Philips - Merrill Lynch - Analyst

All right. Well, it is going to be interesting. Thank you very much. Good luck.

Operator

Brian Skiba, Deutsche Bank.

Brian Skiba - Deutsche Bank - Analyst

Just following-up on the the last call there or the last question. You guys purchased about 1500 companies earlier on this year and notified them that there may be some kind of a issuer problem here. Would we be right in assuming that those 1500 would be the same class of company that you would be looking at in terms of the next steps to pursue remedy on this?

Darl McBride - SCO Group - President and CEO

That is the right starting point. We will start there. That is not going to be the ending point, but clearly large customers that are using a lot of LINUX machines inside of their environment would be the starting point for us.

Brian Skiba - Deutsche Bank - Analyst

Just in terms of in the event that those large customers also happened to be Hewlett-Packard customers and Hewlett-Packard has stated that they are going to provide an indemnity to customers under certain situations, how do you see that playing out there? Will you be approaching directly the customer or Hewlett-Packard or how will that work?

Darl McBride - SCO Group - President and CEO

Right. HP is a good partner of ours as it relates to our UNIX offerings. We tried to work things out with them to cleanup the LINUX problems that we see out in the marketplace. The issue is it was going to be on the order of hundreds of millions of dollars to get a cleanup program in place. I believe the financial decision on the HP side was they can write a lot of indemnification or they can cover a lot of the expenses, be it through license fees that they approach from their customers or whether it is through litigation.

I don't know yet from HP's prospective whether they want their customers to send them over an invoice that they would then pay on or whether they are going to prefer that the HP LINUX end-user receives a lawsuit, and then they follow-up on that. So that would be an HP question, but I suppose it's going to be one of those two areas.

Brian Skiba - Deutsche Bank - Analyst

One last thing. Is the RTU license fee in the event that you're going after these companies, is this a \$1400, \$700, \$200 type of fee per server? What kind of number are you --?

Darl McBride - SCO Group - President and CEO

We're talking on the order of \$700 to \$1400. We have extended this to 700, the 699 number through the end of this calendar year. As we continue to work through these issues, that is the current price that we are still targeting, but there is an accelerated rate where it eventually kicks up to 1399.

Brian Skiba - Deutsche Bank - Analyst

Thank you.

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Operator

David Poletes (ph).

David Poletes - Analyst

Bob, I have a question for you specifically to start off. Can you clarify again the contingency relationship with Boies, Schiller & Flexner. It is 20 percent based upon three different events occurring; is that correct?

Robert Bench - SCO Group - CFO, Principal Accounting Officer

Thanks, David. There may be a number of events, but some of those events that are specific would be any settlements, judgments, license fees, the sale of the company, and as I mentioned, there may be future events which have not yet been memorialized but that will come about in the future. That is why I said this has to be an agreement that is somewhat flexible for those future events that may or may not occur.

David Poletes - Analyst

I understand that. In connection with that then, if my math is correct, 20 percent of \$50 million comes out to about \$10 million; is the right?

Robert Bench - SCO Group - CFO, Principal Accounting Officer

Yes.

David Poletes - Analyst

So does this nearly \$10 million contingent payment, does that tieback into the \$50 million that was announced here back in October as far as the private placement?

Robert Bench - SCO Group - CFO, Principal Accounting Officer

I think that and all the benefits that have been derived in some of the other contingencies, but, yes, that's certainly is an event.

David Poletes - Analyst

A totally different question. This can be either for Darl or David. I am curious to know given the announcements of last week, does your preliminary research suggest that any previous owner of the UNIX IP, the contracts, the copyrights gave permission to anyone as far as modification of UNIX code or derivation of UNIX code into LINUX, specifically for example the LINUX (inaudible)?

Darl McBride - SCO Group - President and CEO

I was with you until you said specifically LINUX (inaudible). So you are asking if LINUX has rights to make modifications?

David Poletes - Analyst

I am asking a couple of things. First of all, does your recent suggest that any of the previous owners of the UNIX --?

Darl McBride - SCO Group - President and CEO

The answer to that one is simply no. In the case of Novell, when SCO bought the property from Novell, there was noncompete language in there that would preempt Novell from competing against the core offerings of SCO. UNIX is a core offering of SCO, LINUX is a knockoff of is UNIX. There could not be a more straight reading of a noncompete issue. When the Novell (inaudible) deal is complete, we will take the appropriate measures to enforce that noncompete at that point in time.

David Poletes - Analyst

And the same thing to your understanding traces back to AT&T when they had (inaudible) UNIX system --?

Darl McBride - SCO Group - President and CEO

The issue went from AT&T to Novell, although we do hold the exclusive ownership rights on those, and there is a noncompete in place along the way to protect that.

David Poletes - Analyst

So then to extend your answer, would it also make sense to suggest you don't believe that Mr. (inaudible) had any permission to actually modify or to make a derivative order?

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Darl McBride - SCO Group - President and CEO

We don't get any contract reading on that whatsoever.

David Poletes - Analyst

Okay. Thanks.

Operator

Paula Rooney, CRN.

Paula Rooney - CRN - Analyst

I think you just answered my question, but so it is decided that you will be suing Novell. Are you preparing that paperwork?

Darl McBride - SCO Group - President and CEO

I don't know that it necessarily turns into a lawsuit. It depends on how Novell responds. Our view on it is there is nothing to respond to yet because their transaction is not complete. When their transaction is complete, I guess it's not even a given that they will be violating a noncompete. I guess they could choose to not put a competitive product in the marketplace, meaning LINUX. But to the extent that they complete the transaction and they do what they say they are going to do in terms of taking SUSE in, going out and competing with us, then, yes, we will take the appropriate measures, and we will see how they respond.

Paula Rooney - CRN - Analyst

How many lawsuits do you have now and against which vendors? I think you've got IBM --

Darl McBride - SCO Group - President and CEO

We have one lawsuit out there right now that is against IBM.

Paula Rooney - CRN - Analyst

What is the status of the Red Hat (ph) issue?

Darl McBride - SCO Group - President and CEO

The Red Hat issue is currently with a Delaware Judge, and we are waiting right now for some feedback from her as I understand it.

Paula Rooney - CRN - Analyst

Novell currently does sell LINUX product in the marketplace. Why not just move now?

Darl McBride - SCO Group - President and CEO

You know they don't do a LINUX distribution. They have LINUX-related products, but that is much different than -- again, you have to go back to the contract reading which is competing against the core products of SCO's business. When you do a LINUX distribution, you are directly in the middle of the cross-hairs of SCO's core products.

Paula Rooney - CRN - Analyst

But you will be going after Novell given that there is no settlement on a noncompete, purely a noncompete issue?

Darl McBride - SCO Group - President and CEO

All I am saying is we have a noncompete protection in our contracts with Novell, and to the extent we have to enforce those once the acquisition is complete over there, then we will be prepared to do that.

Paula Rooney - CRN - Analyst

Thank you.

Operator

Larry Greenmeyer (ph), InformationWeek magazine.

Larry Greenmeyer - Informationweek - Analyst

I just wanted to confirm the 400,000 shares that SCO is giving to the Boies law firm. What percentage then will Boies own of SCO as a whole?

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Darl McBride - SCO Group - President and CEO

Bob, can you do a quick calculation on that against our fully diluted?

Robert Bench - SCO Group - CFO, Principal Accounting Officer

It is about 2 or 3 percent.

Larry Greenmeyer - Informationweek - Analyst

Does the Boies firm have ownership in any other software companies, or is this a unique arrangement based upon the law firm client relationship estimates in place?

Darl McBride - SCO Group - President and CEO

I don't think -- I mean individual partners obviously have a lot of individual investments. The firm does not have this kind of investment in any other software company in this category. There would be Internet companies, companies providing various Internet services, that we have and do represent where we would have an interest in the company, either directly or through options or warrants.

Larry Greenmeyer - Informationweek - Analyst

So it is not unique in terms of the technology company paying Boies in stock?

David Boies - Boies, Schiller & Flexner - Partner

Right. I think that is a true statement. I think the implication of your question, which is that this is primarily something that happens with technology companies, is correct. It is not exclusive to technology companies, but that is where it happens most often.

Operator

Larry Solomon, Capital International.

Larry Solomon - Capital International - Analyst

Larry Solomon. A couple of questions. One, if the company is sold, what is the mechanism that pays the Boies law firm

the additional 20 percent? Do you issue news shares? That is the first question.

The second is the LINUX community is saying that they want to take the code out of LINUX. As you go through the IBM lawsuit, if you have to disclose the elements that are part of UNIX that have been contributed into LINUX, won't the LINUX community just simply rewrite that? So what is the mechanism to disclose that code without losing your confidentiality?

And then the third question regards the legal milestones. You talked about some events. You talked about within 90 days identifying a defendant to illustrate the infringement. You talked about the legal case beginning in April of 2005. Can you just walk us through all the milestones that we should put on our calendars to monitor, to gauge the success of the process?

David Boies - Boies, Schiller & Flexner - Partner

Maybe, Darl, I could take the first question. That and the sale of the company, there could be proceeds, Larry, from several ways. That could be stock of a new company if they use stock to acquire this company or a cash transaction, and the Boies firms would determine which method of consideration at that point in time. So a fairly simple methodology there.

Larry Solomon - Capital International - Analyst

(multiple speakers)

Darl McBride - SCO Group - President and CEO

The other question, we have gone through and shown the LINUX community a bunch of code. We sat down in August and we shared with them the derivative works code that was out there, and one sample file that was out there on a direct copyright infringement. The LINUX community has said they have removed the copyright infringed file. That was a very small number of infringements we see out there, which will address the coming out version of the 2.6 (inaudible). It does not address the fact that the 2.4 (inaudible) is out there today. Companies are copying, sharing and spreading that around. That essentially is not cleaned up. It is still out there as an issue.

But more importantly, what we are announcing today is a substantial number of copyright issues that relate to a

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settlement agreement that is already in place around the BSD settlement from the 1994 timeframe. As we move forward, we will be outlining those issues. From a timeline standpoint, one thing that you can expect to see from us, Larry -- this is again separate from the IBM issues and the contract issues there -- by the way, we have shared the code in question there with IBM and litigation event. They know what we are talking about over there.

On the copyright front, expect us to be showing this to the end-user customers as we go forward as one event. Also, as David mentioned, a set of customers that we will follow-up on in the timeframe that David talked about.

Larry Solomon - *Capital International - Analyst*

Okay. So, is the endgame here that you will end up having to disclose everything that is included in LINUX, you would hopefully get a very large payment from IBM and then all of that infringing code would be remedied by the LINUX community as they rewrite it and then thereafter there would be no claim? I guess I am not understanding --?

Darl McBride - *SCO Group - President and CEO*

As far as the claims go, the sample code that we trotted out on the sample, the one little file we trotted out in August, we would agree that was one you could cleanup easy. You can take it out. It's hard to take it out of versions that are there being spread around inside of organizations. That is a separate issue.

But what we're talking about now are two sets of issues that are both broad indeed and deep in terms of how substantial they touch and affect LINUX. The one set of issues has to do with IBM's contract and derivative works. That is on a fuse for about a year and half, and during that period of time, then we will have some legal -- something on a legal paper we can point to, and everybody can say, okay, that is how it turned out.

If it turns out the way SCO is saying, the ability to yank a million lines of code roughly out of a 5 million lines (inaudible) that is there today is substantial. When you take out the SMP, when you take out Numa (ph), when you take out RCU, you are talking not about hardened unbreakable LINUX, you are not talking about LINUX that will run in an enterprise if you take all of that code out. So that's going to be a fundamental question they would have to ask at that point in time.

Do we want to turn the clock back? Do we want to turn LINUX back to where it was in the '90s, or do we want to keep going and pay some kind of an ongoing royalty fee to SCO.

In the short-term, coming up over the next weeks and months, we are looking at these copyright issues that are touching end-users. The GPL forces the copyright issues down on the end-user. In that particular case, we will be showing code that is not easily remedied. Over the coming weeks here, you will see us outlining that, spelling that out, and then we will see where they want to go from there.

Larry Solomon - *Capital International - Analyst*

Okay. Thank you very much.

Operator

Matt Whipp (ph), Dennis Publishing.

Matt Whipp - *Dennis Publishing - Analyst*

Just a quick question about the LINUX invoicing. A month ago I was talking to Blake and he said that SCO stopped invoicing commercial end-users of LINUX because he was very satisfied with the way things are going. You still seem to be satisfied with the way things are, going, so can you explain why you are bringing the legal firm into making sure these go a bit better?

Darl McBride - *SCO Group - President and CEO*

Yes, I think we never really did issue an invoicing plan. I know there was talk of that. What we have done instead of just sending out mass invoices -- the real issue us with sending out mass invoices where you don't know exactly what everybody is using, you run the risk of not getting the invoice correct. We don't want to take that risk. What we are doing instead is we are following up with companies on a one-on-one basis. We're going through their issues. We're working with them, and then based on that, we will issue in invoice to them more individually and tailor-made.

To the extent that we go through these one-on-one issues with customers and they choose to say I would rather have a court hearing on this so we can see if your issues hold up in a courtroom, then that is where the partnership we are announcing today with David kicks in to gear. We hand those

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FINAL TRANSCRIPT

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over to David, he takes that side of it, and then we go down the litigation path.

Matt Whipp - Dennis Publishing - Analyst

Would you say that something has changed in the amount of people that are coming moving forward, or is this -- what is the reason for this new policy is really my question?

Darl McBride - SCO Group - President and CEO

The issue right now is we have said if you go back to what we talked about in July, we were going to give people a period of time to license up. We have had some people licensed. Then we said we're going to then move into a litigation phase, so it is license or litigate. What we are announcing today is that phase.

Matt Whipp - Dennis Publishing - Analyst

This was a schedule thing all along then?

Darl McBride - SCO Group - President and CEO

Yes. Okay. I believe that was the last caller. Thank you for joining us here today.

Just to summarize, we really do have two legal fronts here. One is the contract issue for IBM. You can set your clock for April 11, 2005 on that issue. We feel good with the progress that is being made there. The second front has to do with copyright infringement issues at the end-user level that are tied into the use of LINUX. That timeframe for resolution you can measure that in months and quarters, not in years. We brought on the Boies firm to help us go out with that.

SCO is extremely pleased with the value that has received from David Boies and his team. We look forward to our continued partnership with him as we move forward to this important phase of resolving our IP ownership issues of UNIX that we have vis-a-vis the LINUX operating environment.

Thank you for joining us today.

Operator

Thank you and this does conclude today's program. You may disconnect at any time.

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