

FINAL TRANSCRIPT

Thomson StreetEventsSM

SCOX - Q3 2004 The SCO Group Earnings Conference Call

Event Date/Time: Aug. 31. 2004 / 5:00PM ET

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

FINAL TRANSCRIPT

SCOX - Q3 2004 The SCO Group Earnings Conference Call

CORPORATE PARTICIPANTS

Darl McBride
SCO Group - President & CEO

Bert Young
SCO Group - CFO

CONFERENCE CALL PARTICIPANTS

Dion Cornett
Decatur Jones - Analyst

Steven Vaughan-Nichols
eWeek.com - Analyst

Maureen O'Gara
Client Server News - Analyst

Michael Singer
Dual Tour Media (ph) - Analyst

Larry Solomon
Capital Guardian - Analyst

Stephen Shankland
CNET - Analyst

PRESENTATION

Operator

Good day everyone and welcome to the SCO Group's third-quarter 2004 earnings conference call. (OPERATOR INSTRUCTIONS). Participating on the call today are Darl McBride, President and Chief Executive Officer, and Bert Young, Chief Financial Officer. Each of you should have a copy of the press release issued this afternoon containing our third-quarter and year-to-date results for fiscal year 2004, which we will be discussing further in this call.

I wish to point out to the participants on today's conference call that the information provided during this call will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are made only as of the date of this conference call, and we undertake no obligation to update or revise the projections of revenue or other forward-looking information whether as a result of new information, future developments or otherwise. Our performance is subject to significant risks and uncertainties known and unknown that could cause our actual results to differ materially from those that may be anticipated by the forward-looking statements. These risks and uncertainties may cause our actual results, level of activity, performance

or achievements to be materially different from any other projections or future results implied by these forward-looking statements.

In particular, our projections of fourth-quarter revenue for 2004 contain revenue from our SCOSource licensing initiative. This initiative and the underlying intellectual property are the subject of litigation. The projection of the SCOSource revenue and expenses is particularly difficult and subject to both known and unforeseen risks. Accordingly, you should not place undue reliance on projections of future revenue and expenses and results or other forward-looking statements.

For a full discussion of these and other risks, please see our annual report on Form 10-K for the fiscal year ended October 31st, 2003, and our quarterly reports on Form 10-Q for the first quarter ended January 31st, 2004, the second quarter ended April 30, 2004, and other filings we have made with the SEC, all available at www.sco.com or on the SEC's EDGAR database.

I would now like to turn the call over to Mr. Darl McBride, President and Chief Executive Officer of the SCO Group Inc. Please go ahead, sir.

Darl McBride - SCO Group - President & CEO

Thanks a lot and thanks to all of you for joining us on today's call. I would like to start off by apologizing for the delay in getting started. We had a couple of last-minute details we had to take care of.

I'm pleased to say that the third quarter has been both an active and productive quarter for the Company. With greater detail to come, we have accomplished and in many cases exceeded almost every bar we set for ourselves last quarter. Most visibly we restored profitability in our core UNIX business and saw a nice uplift in SCOSource revenue. Additionally we closed the BayStar transaction and put into place a shareholder rights plan designed to ensure that our shareholders realized full value from their investment in the Company. We believe accomplishing these two things will help stabilize our Company's shareholder structure going forward.

In summary the quarter can best be described as one where the Company is firing on all cylinders from improved performance in the UNIX business to enhanced financial

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

1

FINAL TRANSCRIPT

SCOX - Q3 2004 The SCO Group Earnings Conference Call

discipline and greater investment in our legal case. Before I turn the call over to Bert to review our third-quarter financial results, I would like to point out that we will remain steadfastly focused on driving a dual path of success in both the marketplace and in the core group, and we will take whatever steps are necessary to ensure both.

And now let's turn the call over to Bert Young, our CFO, for an overview of the Company's financial results.

Bert Young - SCO Group - CFO

The Company reported revenue of 11.2 million for the third quarter fiscal year 2003 as opposed to 20.1 million for the comparable quarter of the prior year. The net loss for the third quarter was 7.4 million compared to income of 3.1 million reported in the comparable quarter of the prior year. Net income to common stockholders was 7.5 million or 38 cents per diluted common share for the third quarter of fiscal year 2004. Included in this net income of common stockholders for the third quarter was a contribution of capital of 15.5 million related to the repurchase and retirement of the remaining 40,000 shares of the Company's Series A-1 convertible preferred stock in connection with BayStar.

Revenue for the third quarter was derived from 678,000 in SCOsource licensing, which represented a significant increase from revenue of 11,000 generated in the second quarter of fiscal year 2004 and approximately 10.5 million from our UNIX products and services. Revenue for UNIX products and services was split at 53 percent in the Americas and 47 percent in the international group.

As indicated in our press release, let me take a moment to reiterate that we have increased our operating performance and restored profitability in our UNIX business and generated operating income for the third quarter. The cost of revenue for the UNIX business was 1.7 million resulting in cost margin or gross margin of 8.8 million or 84 percent. Cost and expenses for selling, marketing, R&D, general and administrative and non-cash amortization totaled 8.5 million. As a management team, we are extremely pleased with the progress we have made in the business despite a challenging operating environment.

Revenue from our SCOsource division relating to compliance licenses was 678,000 for the third quarter and 709,000 year-to-date. This revenue was primarily from two sources, including a transaction that was completed in a prior quarter

and a newly signed license agreement in the third quarter. Due to confidentiality reasons, we are not disclosing specific terms of either of these license agreements.

As in previous quarters, we are continuing to classify legal and professional fees and other costs and expenses that relate to the enforcement of our intellectual property rights as cost of revenue. For the third quarter, these costs were 7.3 million which reflects an unusually busy but very productive quarter for the company in the defense of its intellectual property. Operating costs for selling, marketing, R&D support and general administrative totaled approximately .9 million for SCOsource. And as I mentioned previously in connection with the closing of the BayStar transaction in the third quarter, the Company recorded a contribution of capital of 15.5 million, which represents the difference in the carrying value of the Series A shares and the fair value of the 2.1 million common shares and \$13 million of cash that we issued. This contribution of capital classified as a dividend increased earnings to common stockholders in the third quarter of fiscal year 2004.

For the first three quarters of fiscal year 2004, the Company reported a net loss to common stockholders of 9.7 million or 67 cents per basic and diluted common share on year-to-date revenue of 32.7 million. This was down from revenue of 55 million for the first three quarters of fiscal year 2003 and net income to common stockholders of 6.9 million or 47 cents per diluted common share.

Switching gears from our operating results and moving to the subject of streamlining costs and operations, let me say that we are pleased but not fully satisfied with our progress on this front. Continuing forward with our third-quarter efforts, we have been focused on bringing new levels of financial discipline to the Company.

In the fourth quarter, we will make additional adjustments in all of our operating functions on both the UNIX and the SCOsource and we anticipate recording restructuring costs in quarter four related to these actions. We expect these adjustments will further increase the effectiveness of our Company's operations. Management is prepared to monitor closely the Company's cost structure to further ensure that the expense side is appropriate for the level of business activity and to ensure success in our litigation efforts. To that point, we are please to have entered into a letter of intent with Boies, Schiller & Flexner to revise our fee agreement with them to limit the overall cash costs of the legal fees associated with our Company's litigation to a total of \$31 million.

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

2

FINAL TRANSCRIPT

SCOX - Q3 2004 The SCO Group Earnings Conference Call

Equally important the agreement also says that Boies, Schiller & Flexner has agreed to lead SCO's effort through the duration and completion of the pending litigation. In return for this new fee agreement, we have agreed to increase the contingency associated with any award on a scaled or sliding basis from 20 to 33 percent depending on the overall size of the award. We will release further details upon finalization of the agreement.

This is obviously a big development for us. With the 31 million cap in place, it means the remaining cap that we have can then be used for working capital and financing our efforts in the business going forward.

Finally, looking forward to the fourth quarter, we expect consolidated revenue to be in the range of 10 to 12 million. As previously indicated, SCOSource revenue remains extremely difficult to predict, including the timing and level of revenue in the near-term or in any given quarter. Operating expenses for the fourth quarter relating to our UNIX products and services exclusive of any restructuring charges that may be incurred are anticipated to slightly decline from the third quarter. Costs and expenses for the fourth quarter for SCOSource including legal fees are expected to vary from quarter to quarter depending on the level of and activities surrounding our intellectual property claims and, therefore, are difficult to predict. The Company will take the necessary steps to protect our valuable UNIX intellectual property and aggressively pursue our legal claims.

Finally, our cash and available-for-sale securities were 43 million as of July 31, 2004, and we will continue to pursue our UNIX business goals and force our intellectual property rights and pursue our litigation.

So, Darl, I will turn the time back over to you.

Darl McBride - SCO Group - President & CEO

The legal team has done a great job of preparing our cases and allowing the rest of the team to concentrate on running our business. I would like to spend the remainder of the call addressing our business performance and prospects.

As you know by now, we are pleased with the cost adjustments we have made in our UNIX business and its return to profitability despite a challenging operating environment. Between UNIX products and services, we provided additional support to more than 25 existing customers. Some of the

more notable customers would include companies like ADP, Bell Communications, Kroger, McDonald's, Samsung, Telecom Italia, TJ Max and Zales. These sales were primarily related to our UnixWare and OpenServer technology.

Importantly the third quarter saw the launch of a number of new UNIX OS products. These include UnixWare 714 and SmallFoot embedded UNIX. UnixWare 714 represents a major upgrade to the product line with the addition of Web service capabilities, increased security and greater hardware support from industry-leading vendors such as Dell, HP, Intel, Acer, HCL, Fujitsu, Siemens and many others.

Our SmallFoot embedded UNIX brings the same reliability that is found in our UNIX operating systems to the point of sale, gaming and many other small device markets. We also recently introduced SCOoffice Server 4.1, the Company's new email and collaboration product. The SCOoffice Server has seen marked interest in the marketplace. All of these products have been well-received by our customer base, and we believe they will provide some revenue opportunities in the coming quarters.

On deck and on track for calendar Q1 2005 is a major upgrade to OpenServer. This is code-named Legend. We provided many of the attendees at SCO Forum, our recent annual conference, with a sneak peek at many of the capabilities that will be added to this new version of OpenServer, and the feedback was overwhelmingly positive. We believe the release of Legend will strengthen the overall ecosystem of partners, developers, customers and resellers that rely on OpenServer and also present SCO with opportunities to upgrade our current installed base. While this current plate of releases marks the largest across the board group product enhancements in the Company in several years, we are committed to continuing investment in our business toward delivering unique product solutions for our customers.

Now shifting gears from UNIX to SCOSource, we are certainly pleased with the increased revenue in the business from the prior quarter, though we would continue to caution that forecasting these revenues is very difficult. On this I will reiterate that we believe there is value in our UNIX licensing business and that we are offering our customers and potential customers a value they must be made aware of. There is continued interest in the licensing or UNIX technology, and we believe that when our legal claims are substantiated in a court of law that demand for this licensing business will see an increase. Some end-users have chosen not to wait for a

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

3

FINAL TRANSCRIPT

SCOX - Q3 2004 The SCO Group Earnings Conference Call

court resolution, and we've accommodated their request to license our intellectual property now.

On the topic of our litigation, the past quarter was one of increased investment in our cases. While our legal costs came in higher than previous quarters, we believe that this was money well spent, and Bert mentioned we have a solution in terms of how we manage those costs going forward. In particular, our litigation against IBM is progressing as planned, and we look forward to having our case heard before a jury in the U.S. District Court starting in 14 months. In the meantime, we are in the process of putting a plan in place that will help us to better manage our legal costs from quarter to quarter.

At this point, we have our eye on two developments that we feel have the potential to accelerate our SCOsource revenue growth. The first is any action by the court that suggests Novell copyrights are unfounded. Despite an increase in SCOsource revenues and the accrual of additional SCOsource customers, we continue to believe that Novell's claims have greatly impacted our ability to realign traction in this business. When the Novell case is resolved, we believe this will help create a healthier SCOsource licensing pipeline moving forward.

The other development involves the risk in Linux development process. A study was recently released by Open Source Risk Management that claims that Linux potentially infringes on 283 software patents. While SCO litigation has not involved patents, it does give an indication regarding some of the problems that have existed for years with the Linux development process. SCO believes that its development process has also been responsible for the misappropriation of SCO's intellectual property into Linux. We believe that upon a favorable court judgment demand for SCO's UNIX licensing business could increase.

We believe that intellectual property is the core of the technology company. We believe our intellectual property has been infringed upon, and we will vigorously defend our IP at every turn. If you followed our Company closely, you have seen that we are laser-focused on this issue and have no intention of backing down.

Lastly and as noted in my opening remarks, we were pleased to have closed on the BayStar Capital transactions and to have introduced a shareholder rights plan. As Bert touched on the BayStar transaction, I will briefly address the shareholder rights plan.

On August 10th, the board approved a shareholder rights plan. At its simplest, the plan was put in place to ensure SCO shareholders realized fair value from their investment in the Company. The rights plan is designed to ensure that our stockholders realize the long-term value of their investment in the company and is similar to those adopted by over two-thirds of the Fortune 200. The plan will not prevent a takeover attempt, but should encourage anyone seeking to acquire the company to negotiate fair value directly with the Board of Directors.

It is important to point out we have not introduced this plan in response to any specific interests in or offer made for the company. More than two-thirds of the Fortune 200 do have these plans in place, and while this plan is recently put in, we believe that this will basically keep any outside offers or potential takeovers that are not in the best interest of the shareholders at bay.

So in summary we have accomplished a great deal of the goals we set before us during the last quarter. The Company's UNIX business achieved profitability and added to the Company's cash balance. We increased SCOsource revenues. We have protected the Company from an undervalued bid by implementing a shareholder rights plan. We have clarified our shareholder structure by removing the rights and preferences associated with the BayStar deal and every tire of their preferred shares. We continue to deliver on our product development and marketing plans, and we believe that we will provide new sales opportunities for the company in the future.

And then last but certainly not least, we talked about the letter of intent we've entered into with Boies, Schiller & Flexner that will give us much more flexibility and staying power as the case moves forward. It also obviously demonstrates the belief that they have in our case. Our litigation is on track and progressing as expected through the court system, and with that we are fully funded to follow this through to its full conclusion.

So I will now turn the call over to the operator, and let's open up the phone lines for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Dion Cornett, Decatur Jones.

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

4

FINAL TRANSCRIPT

SCOX - 03-2004 The SCO Group Earnings Conference Call

Dion Cornett - Decatur Jones - Analyst

Congratulations on the sequential pickup in business. If I can sneak in too here that the first one had to do with the negotiated fee settlement. Could you give me an explanation, you know your \$43 million in cash and securities, \$31 million cap, how was that accounted against fees already paid, and how does that relate to the roughly \$8 million in deferred legal comp you are shown on the balance sheet?

Bert Young - SCO Group - CFO

Okay, so the 43 million in cash that we have, of that 31 million will be allocated towards this agreement. Some of that is for fees that we have already incurred. The majority of it will be over time over the next year. You know year and a bit, and we are still fleshing out all the details on it. So some of it applies to what we have already incurred, some will apply going forward.

Dion Cornett - Decatur Jones - Analyst

The bottom line is no matter what happens in the courts you will have \$12 million leftover after legal expenses?

Darl McBride - SCO Group - President & CEO

Exactly. Right.

Dion Cornett - Decatur Jones - Analyst

And then the next question may be a little bit tougher. A number of recent articles have come out where purportedly independent legal experts and a variety of lawfirms have expressed (technical difficulty)– with respect to your case. Can you describe what precautions you have taken to protect your shareholders from what could be perceived as bad legal advice?

Darl McBride - SCO Group - President & CEO

You're talking about --

Bert Young - SCO Group - CFO

So you are saying some experts think we don't have a good case. I think what we have done to protect ourselves is pick

one of the best firms in the country and top-notch litigators and professionals.

Darl McBride - SCO Group - President & CEO

I think to take that on, I believe that if you look at the claims that we have, we are moving forward very nicely through the court system. At every turn of the way, there are IBM-sponsored Web sites out there that claim that the next claim is going to be the one that SCO is going down. They have been saying this for a year. The cases keep moving through. As Bert said, we retained one of America's if not one of the world's best litigators. They have a lot of confidence in our cases, and we look forward to having those cases tried in the courtrooms.

Dion Cornett - Decatur Jones - Analyst

Maybe to be a little bit more specific, I mean attorneys from (technical difficulty) -- the list goes on, and I don't know what the reasoning, what purposes these people may have in common, but these are all (technical difficulty)– law firms have expressed skepticism. Judge Kimball in his last finding used the word substantial doubt with respect to the transfer of copyrights. You know there seems to be -- I don't know if it is right or wrong. I'm just saying that to the outside observer there seems to be a plethora of legal opinion that stands counter to what you're hearing from Boies, Schiller & Flexner. Have you guys maybe efforts to quietly contact other third-party intellectual property firms to get sort of -- just as you would going to the doctor and get sort of a second opinion?

Darl McBride - SCO Group - President & CEO

Well just so you're aware, as we go through these legal bills, there are multiple lawfirms involved in this. There are multiple intellectual property lawfirms involved in this, and they are top tier intellectual property lawfirms. So absolutely Boies, Schiller & Flexner have surrounded themselves with a strong set of legal talent as we've gone through these cases.

Now with respect to our detractors out there, I would come back and ask them the question, "Have they reviewed the material that is in front of the courts right now?" I can guarantee you they have not reviewed it all because many key pieces are under seal. As I said on my last call, there is a wide gap between what the judge and the two parties and

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

5

FINAL TRANSCRIPT

SCOX - Q3 2004 The SCO Group Earnings Conference Call

between IBM and SCO are looking at, and what the world is currently seeing. As this gap is closed, we are very confident about what the so-called pundits will think about SCO's case.

Dion Cornett - *Decatur Jones - Analyst*

Thank you and congratulations again on improvements in the core business.

Operator

Steven Vaughan-Nichols, eWeek.com

Steven Vaughan-Nichols - *eWeek.com - Analyst*

I have two relatively minor questions. Hopefully you can get them both. The first is in regard to the shareholders rights plan, you said earlier that was not in response to any expected or any deals currently on the table. Is this, though, in response to the past efforts by BayStar where BayStar clearly had a distinct idea that SCO should dedicate itself strictly to its intellectual property litigation and sort of a warning that a situation similar to the BayStar one which dragged out for months won't happen again?

Darl McBride - *SCO Group - President & CEO*

You know clearly our position on this is that we are just trying to make sure that shareholders realized fair value from their investment in the company. The right plan is really designed to ensure that stockholders get this long-term value and to make sure that someone is not able to come in with a less than friendly takeover attempt to put the Company and the shareholders at risk vis-a-vis something that we would view to be a fair deal. So again it is not directed at any particular camp per se, but it is -- you know the share prices we are right now we are concerned about somebody that would try and be opportunistic.

I get asked this question quite frequently, Steven, "Well, what is to keep IBM or what is to keep some other company from coming in and taking you guys out at a much lower price than what you even have on your claims on the table?" Well, this will help deal with some of those issues.

Steven Vaughan-Nichols - *eWeek.com - Analyst*

Okay. My second question is, considering your reorganization in the fourth quarter, are you all looking at layoffs, at reductions in force?

Bert Young - *SCO Group - CFO*

Well, some of those things are always things we look at quarterly on a quarter to quarter basis. I think a majority of what we had have in mind for quarter four has to do with office closings and downsizing of some offices both here in the U.S. and then primarily overseas.

Steven Vaughan-Nichols - *eWeek.com - Analyst*

Very good. Thank you very much.

Operator

Maureen O'Gara, Client Server News.

Maureen O'Gara - *Client Server News - Analyst*

So this idea about the shareholder rights plan has nothing to do with anything essentially? I don't think this is going to play in Peoria.

Darl McBride - *SCO Group - President & CEO*

Well --

Maureen O'Gara - *Client Server News - Analyst*

Is it the price of the stock that is alarming you?

Darl McBride - *SCO Group - President & CEO*

Absolutely. We are very concerned about the current price of the stock vis-a-vis what we think the long-term value of the Company is, and the disparity between those two right now is definitely at the core of why we put this plan in place.

Maureen O'Gara - *Client Server News - Analyst*

So what would it take to buy you with the poison pill?

FINAL TRANSCRIPT

SCOY - Q3 2004 The SCO Group Earnings Conference Call

Darl McBride - SCO Group - President & CEO

We're not here to talk about that right now. You know --

Bert Young - SCO Group - CFO

The Board determines the fair value.

Darl McBride - SCO Group - President & CEO

The Board will determine the fair value.

Maureen O'Gara - Client Server News - Analyst

I'm sorry, what determines fair value?

Bert Young - SCO Group - CFO

The Board.

Maureen O'Gara - Client Server News - Analyst

The Board.

Darl McBride - SCO Group - President & CEO

If offers were to come in, then that would be up to the Board to sit down and review that, and then ultimately take that to shareholders.

Maureen O'Gara - Client Server News - Analyst

You are already contemplating restructuring costs, but we're not sure exactly what they are aside from closing a few offices overseas?

Darl McBride - SCO Group - President & CEO

Right.

Maureen O'Gara - Client Server News - Analyst

But you do have too many people for a company of this size?

Bert Young - SCO Group - CFO

Well, we have been taking some of those reductions all along. In fact, almost every quarter we have reductions happening there. We want to make sure that our balance and costs can continue to drive profits in the business for the revenue that we are bringing in, but also deliver good products and services to our customers.

Maureen O'Gara - Client Server News - Analyst

How many folks do you have currently?

Bert Young - SCO Group - CFO

At the end of the quarter, 230 people.

Maureen O'Gara - Client Server News - Analyst

How much money have you paid to Boies that will go towards this -- I don't know how else to express it -- toward the credit so to speak, toward this \$34 million?

Bert Young - SCO Group - CFO

We're not going to disclose details of how much we pay to any one of our vendors.

Maureen O'Gara - Client Server News - Analyst

Each quarter you have said how much you paid in legal bills.

Bert Young - SCO Group - CFO

Yes. So this quarter we have had just over \$7 million in total legal bills.

Maureen O'Gara - Client Server News - Analyst

That is just for the quarter. Since you began on this expedition, how much have you paid for your legal representation? That is just a summary of what you have announced each quarter.

Bert Young - SCO Group - CFO

If you go back and just pull up the last -- I think I have got five quarters here on my list it is just over \$15 million

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

7

FINAL TRANSCRIPT

SCOX - Q3 2004 The SCO Group Earnings Conference Call

Maureen O'Gara - Client Server News - Analyst

15?

Bert Young - SCO Group - CFO

Yes.

Maureen O'Gara - Client Server News - Analyst

Now, this 31 million allocated, that is just for Boies or that is for all of these other lawfirms as well?

Bert Young - SCO Group - CFO

All of the lawfirms.

Maureen O'Gara - Client Server News - Analyst

Okay. So they have all bought into this 31 million allocation?

Bert Young - SCO Group - CFO

Working with Boies, Boies will work with lawfirms that will work with them, and they will manage all of our effort going forward.

Darl McBride - SCO Group - President & CEO

Think of Boies as the general contractor at this point.

Maureen O'Gara - Client Server News - Analyst

Right and I think that is what he has always been, isn't it?

Darl McBride - SCO Group - President & CEO

The different here is you are not on a cost-plus model. You are really on something that goes to final conclusion and then beyond if there is appeals.

Maureen O'Gara - Client Server News - Analyst

What are these lawyers likely to make in the final analysis however? I mean, because this 31 million is only part of what they are making, right?

Bert Young - SCO Group - CFO

Yes, I mean the fees that we are paying are part of it. The fee agreement that we already have, that is public, provides 20 percent of any settlement that we achieve would go to the lawfirms and be offset by the amounts we have already paid them. In other words, the amounts we paid them would be deducted from that 20 percent.

As we move forward, our agreement, our letter of intent with Boies and the other lawfirms contemplates a sliding scale that can go anywhere from 20 percent to 33 percent depending upon the size of the settlement and would include a credits of fees paid. So you know the way it works the more we get the more they make to a certain degree. It does decrease over time, but they are going to be a key part of us achieving a success in this.

Operator

(OPERATOR INSTRUCTIONS). Michael Singer (ph), Dual Tour Media (ph).

Michael Singer - Dual Tour Media (ph) - Analyst

I am just looking over some of the financials at this point and I am curious on how you're seeing the software development coming along and if you're seeing other opportunities with other investment groups besides BayStar at this point?

Darl McBride - SCO Group - President & CEO

We actually had some interest from some other folks. We don't have an immediate need for capital, but we have had some interest on the heels of the BayStar deal being resolved. So that is clearly interest out there, but we have not pursued it fully at this point.

Operator

Larry Solomon, Capital Guardian.

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

8

FINAL TRANSCRIPT

SCOX - Q3 2004 The SCO Group Earnings Conference Call

Larry Solomon - Capital Guardian - Analyst

Just to be clear, Darl, the 15 million in legal fees that you have paid so far goes against the 31 million? So your future expenditures would be 16 million more?

Darl McBride - SCO Group - President & CEO

The Boies-related expenses would tie into that. There are some firms that would not fit into that agreement, right, Bert?

Bert Young - SCO Group - CFO

Yes, so, Larry, when I say 15, that includes cost for a number of things that would not be offset against the contingency.

Larry Solomon - Capital Guardian - Analyst

Would not be, but are --?

Bert Young - SCO Group - CFO

But a majority of that cost would be offset.

Larry Solomon - Capital Guardian - Analyst

So if all of them applied against it, then that would imply 16 million more relative to your 43.5 million that you have on the balance sheet. So that would imply that you would have \$27 million left, less the amounts that you have paid to firms other than Boies?

Bert Young - SCO Group - CFO

Yes. So let me clarify because the way you're asking the question, I am not sure. Maybe we have not been clear. The 31 million that we will commit is from basically this point going forward. In other words, it does not totally take into account that 15. Now some of that 15 is not paid yet, so it does include them. So if you will, we will basically allocate in our minds this 31 million, we will finalize terms under which that 31 million will be paid out over time, and some of that 31 is for bills that we have already recognized as expenses but just have not yet paid. But it does not really offset that 15. It does not offset against the 31, maybe only 8 of it.

Larry Solomon - Capital Guardian - Analyst

Maybe 8 of it. So that means there would be 23 million more that you might pay compared to your 43.5 million on the balance sheet?

Bert Young - SCO Group - CFO

Correct.

Larry Solomon - Capital Guardian - Analyst

So you would have something like \$20 million of cash after the 31 million roughly?

Bert Young - SCO Group - CFO

No. I don't think that is the right way. So we have 43 at the end of the quarter, and we will allocate 31 million of that. We will pay some now, and some over time, but that is all we will pay on the legal expense then. 31.

Darl McBride - SCO Group - President & CEO

You are basically on a cap, Larry, on the legal fees, that 31 (multiple speakers).

Larry Solomon - Capital Guardian - Analyst

I understand that part. I understand that part. So the 8 million, that is the accrued compensation, the lawfirms that is on your balance sheet. So you have not paid it yet, but you have been billed for it so --?

Bert Young - SCO Group - CFO

Right.

Larry Solomon - Capital Guardian - Analyst

I get it.

Bert Young - SCO Group - CFO

So it leaves really 12 in the business.

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

9

FINAL TRANSCRIPT

SCOX - Q3 2004 The SCO Group Earnings Conference Call

Larry Solomon - Capital Guardian - Analyst

Got it. Just another quick question. In terms of the legal action and the court responses so far, can you just sort of summarize the responses that you've gotten back from the court that have been positive to your case?

Darl McBride - SCO Group - President & CEO

Sure, I will be glad to do that. If you go look at -- let's take a summary of the cases. Let's start with IBM. Going back on April 19th I believe it was, the judge came out -- the magistrate in that case -- I guess it was March -- March 6th, somewhere in that timeframe -- came out and ruled that SCO had shown good-faith in its discovery process and its claims process. We put some things on the table, then ordered IBM to come out and deliver to us all of (technical difficulty) documents, emails, etc., as well as a bunch of other executives. Ordered for them to give us AIX and Dynex. Ordered a bunch of different witnesses. There are a bunch of things that were in there.

But that was a very positive development, and on April 19th we actually received some very good information and we have been working through that. Now even though the judge ordered delivery of all that material, IBM has still been significantly deficient in meeting the judge's order, and that is why you see motions back and forth right now that will be heard on September 4th and 14th in Utah with respect to continued motions to compel to get them to just live up to the judge's orders. But the order itself was very positive, and the result of that order have been positive for the company to date, and we look forward to some more discovery.

In the Novell case, you know Novell has filed a motion to dismiss. That case obviously was not dismissed. The case is moving on. And now Novell has filed another motion to dismiss, and we look forward to hearing that.

You know in the Daimler you had a situation where we claimed that they had a responsibility to certify their compliance with the UNIX contract. After we sued them, they came back and certified. We continued the case because we wanted some other questions answered. The judge disagreed that we could after those additional questions, but left open the possibility that we could go back after them for damages and various things with respect to having the suit and getting them to certify.

In the AutoZone case, the case was stayed, but the judge came back and said you get 90 days of discovery to go in and figure out if you want to file a preliminary injunction. We are going through that process right now.

So again there are a number of cases here in the various dockets, but there have been a number of positive developments for those hearings. Now if we look at what is coming up, everybody here on the call and otherwise should tune in to the hearings that are going to be held on September 14th and the 15th. The 14th is going to be as we said about motions to compel on discovery that we feel we are owed that they have not delivered to us. The 15th is going to be a hearing on a couple of things. One is on the IBM case regarding one of their motions for partial summary judgment, which we feel good about. And the other one is with respect to the next hearing on the Novell case. So we look forward to those.

We believe that in the IBM case that there are a lot of things you can go out there and read, but the characterization that IBM is trying to do of our Legacy AT&T contracts is misguided. We think that some of the things that they have tried to do in the court room is not going to work in terms of summary judgment motions. They have motions that are directly at odds with the plain language of the license agreements. They have another motion that depends on the testimony of witnesses that in prior cases under oath have given directly contradictory testimony on the very issue that is at stake here in our cases, and we look forward to having those contradictions brought up.

So in another event they have taken the fine-print of the contracts that we have here, they have come out and tried to say you cannot protect your property unless it is literal implementation. So in other words they are trying to say the contracts we have signed have less value than a typical copyright violation. So there are a variety of things here that we feel very positive that when we get into a courtroom these things will be put on the table, and our litigators feel confident about getting in and having these cases heard.

Operator

(OPERATOR INSTRUCTIONS). Stephen Shankland, CNET.

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

10

FINAL TRANSCRIPT

SCOX - Q3 2004 The SCO Group Earnings Conference Call

Stephen Shankland - CNET - Analyst

I am curious on this cap payment arrangement with Boies, Schiller & Flexner. Is it fair to say that you are replacing cash payments with contingency payments when you look at the sliding scale arrangement that goes instead of being 20 percent, it is a sliding scale between 20 and 33, or at least that is what you foresee it will be when it is finalized? And also what is the -- what are the factors that go into where that shows up in that 20 to 33 percent? Is that just on the gross magnitude of some judgment, or are there other factors in there as well?

Bert Young - SCO Group - CFO

Let me address that. In a certain sense, you can think of it as replacing cash with contingency, although we're still going to spend a lot of our cash and direct that cash resource to the cases. But you are right. In a certain sense, the long-term obligation that may exist there will be covered with the contingency. The sliding nature of it will have to do with judgments and settlement amounts. So different amounts then would be the different amounts that would be paid on the contingency. And as we finalize all these details, this will all be made public, and we will have to file the definitive agreement as we conclude that here in the next few weeks.

Stephen Shankland - CNET - Analyst

Okay and then when you're talking about the possibility for new investment, there are some people that are interested. What would trigger that new investment? Is there some level of cash or expenses that would trigger you to get interested in that as opposed to just give you that warm happy glow inside?

Darl McBride - SCO Group - President & CEO

Cash is always good. Right? I think with the structure we have right now where we are drawing up positive cash on the UNIX business and now we have the cost contained on the litigation front, I think the triggering event for additional capital would probably revolve around future growth prospects of the Company. Whether you're going outside to look at additional products or acquisitions or what have you, whether you had an internal product that you wanted to try and take and run up the growth curve.

So the core business is moving along stable, throwing off cash. The litigation business is now in control from a cost standpoint, so I think it would tie into some kind of growth initiative. But we're not saying that that is what we are here to announce right now, but that if something came along that front, then we would probably consider that.

Stephen Shankland - CNET - Analyst

Thanks. Do you guys consider \$7.9 million, or is that sort of a high watermark for your monthly expenses on the SCOsource fund?

Darl McBride - SCO Group - President & CEO

Yes, we do view that as a high watermark. Now the important thing going forward is the watermark is not going to be as significantly impactful on the Company per se given that we have a partner in here to help manage the water level if you will.

Operator

Due to time constraints, this does conclude today's question and answer session. At this time, I would like to turn the call over to Mr. Darl McBride for any additional comments or closing remarks.

Darl McBride - SCO Group - President & CEO

Bert, go ahead.

Bert Young - SCO Group - CFO

Yes, let me just make one clarification. When we were talking about restructuring costs and downsizing offices, let me clarify that what we are talking about is primarily moving from larger offices into smaller offices. We are contemplating -- not contemplating -- we have announced a couple of smaller offices that we will close, but in Europe our office in Spain, for example, our office in Italy. But our primary offices will continue, and the real movement there will be from a large office costing a lot of money into a smaller office that costs a lot less. I just wanted to clarify that.

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

11

FINAL TRANSCRIPT

SCOX - Q3 2004 The SCO Group Earnings Conference Call

Darl McBride - SCO Group - President & CEO

Okay, great. So to summarize the call today, we are very enthused about where we sit at this point. If you go back to the first call today beyond asking us a question about where the public perception on this is, we have taken a response as the management team that we cannot fight back against the boisterous nature of a lot of people that are trying to shout us down. What we have tried to say is we are not going to get into a shouting match. We're not going to get into an industry brawl if you will. We feel like the Company has had injustices done to it, and we've taken those claims and put them in front of the appropriate courts.

We look forward to getting those claims heard. We feel confident in where those go. We give a few responses here on these calls only because there are a lot of investors who want us to give some basic information, so in response to a lot of our ideas analyzed that do like to come in and weigh in against us, so we give some basic remarks here. But other than that, we're going to keep our arguments confined to the courtroom.

Now with respect to those courtroom arguments, I do invite you to stay tuned. I invite you to stay tuned and watch closely the bouncing ball inside of the courtroom over the coming weeks. I know that we're certainly looking forward to it here as a management team.

As we finish this quarter then, this call, we feel like we have had a productive third quarter across all segments of our business. As we stated earlier, we are laser-focused on winning in the courtroom, on renovating our SCO UNIX product line and on protecting the rights of our shareholders.

Thanks for joining our call today.

Operator

This does conclude today's conference call. At this time, you may disconnect.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2004, Thomson Financial. All Rights Reserved.

THOMSON

streetevents@thomson.com

617.603.7900

www.streetevents.com

12