



**SCO Group, Inc.**  
**(SCOX)**  
**December 23, 2003**

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|                            |                  |          |
|----------------------------|------------------|----------|
| Rating                     | Underperform     |          |
| Current Price              | \$17.73          |          |
| 52 Week Range              | \$0.78 - \$21.57 |          |
| DCF Price                  | \$8.00           |          |
| Shares Outstanding         | 16,962,000       |          |
| Market Cap (\$000's)       | \$300,736        |          |
| Cash and Equiv. (\$000's)  | \$68,523         |          |
| Long-term Debt (\$000's)   | \$45,548*        |          |
| Book Value / Share         | \$ 1.15          |          |
| Enterprise Value (\$000's) | \$277,761        |          |
| Year                       | Oct-03           | Oct-04   |
| Revenue (\$000's)          | \$79,264         | \$65,897 |
| Rev Growth                 | 23%              | -17%     |
| EPS (GAAP)                 | \$0.36           | \$0.20   |
| EPS (consensus)            | Nm               | nm       |
| EPS Growth                 | nm               | -46%     |
| EV/Rev (x)                 | 3.5              | 4.22     |
| P/E (x)                    | 49               | 90       |

\*Includes effect of \$50 million Series A Preferred private placement

**With little in the way of end-user visibility, no change in outlook**  
 SCO Group reported results for 4Q03 yesterday before market open.

**Investment Considerations:**

- Revenues were in-line but expenses were generally higher mostly associated with legal costs;
- Q1 revenue guidance of \$10 million to \$15 million was below our prior estimate of \$17.0 million;
- The company does not expect Linux-related licensing deals in Q1;
- We remain concerned about the company's ability to win significant IP-related licensing revenues;
- New software claims by SCO are complicated and we believe will have limited impact;
- Our long-term investment opinion is unchanged.

**Investment Summary**

Our outlook for SCO remains unchanged following its release of 4Q03 results and announcement of a new licensing initiative. Given the evidence SCO has openly provided thus far, we are skeptical of the company's ability to derive significant end-user Linux-related licensing revenue without a court order. This belief is independent of whether SCO's intellectual property has actually been infringed upon or not, and actual results and guidance reinforce our concern. The dilemma for SCO is that near-term court proceedings entail numerous risks that could effectively hamstring its collection efforts even if some of its claims are later proven to be valid.

PLEASE SEE PAGE 6 FOR ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES

**Quarter generally as expected, but with higher legal expenses**

Revenues of \$24.3 million were in-line with our estimate of \$24.0 million and pro forma eps was reported as \$.44 versus our estimate \$.33. However, the reported pro forma number included a \$2.8 million non-cash benefit related to accretion of the derivative value of the preferred stock. Without this benefit, pro forma eps was \$.31 versus our estimate of \$.39 when using a constant 16.962 million shares. Our original estimate had accounted for the future conversion of preferred stock.

**Next quarter's guidance was disappointing**

During the call, the company provided revenue guidance of \$10 million to \$15 million versus our prior estimate of \$17.0 million. Our new eps estimate calls for a \$.02 loss on a GAAP basis and breakeven if a \$275,000 charge for stock based compensation is excluded. Our prior GAAP estimate was \$.08 at the higher sharecount, \$.10 on a constant share basis. The decline in revenue and earnings estimates is almost wholly attributable to a drop in expected end-using licensing revenue. The company's continued inability to close significant end-user Linux-related licensing revenues remains of concern.

**Our major concern has still not been addressed**

We believe SCO's latest claim will have limited impact on end-users contemplating purchase of a SCOSource license. Recall that these are the licenses that allow end-users to use Linux without fear of litigation for potential violation of SCO's intellectual property rights. One of our ongoing criticisms of SCO is that they have provided little clear evidence of copyright infringement. If IP-violations do exist then we believe SCO will need to provide more convincing evidence or produce a court victory to win significant IP-related licensing revenue. As we see it, the fact that only three to four customers have signed up to date supports this assertion.

**New claims provide greater specificity...**

Yesterday in conjunction with its earnings release, SCO announced that it would send notice to 6000 Unix licensees of potential Linux infringement issues and ask for certification from the various licensees that they were protecting SCO's intellectual property. The letters also contained a list of 65 files that SCO claimed were in Linux and infringed their copyrights.

**...but still not the clear-cut enough to win end-users**

The files listed were generally what are known as header files that define certain variables. For example, a problem with an input/output device like a mouse might produce an error called EIO for Input-Output Error. This in itself is not proprietary. What SCO is claiming is proprietary is assigning "EIO" as error code "4." The assignment of certain values to variables is what allows interoperability between different software programs so changing these codes could be burdensome. Whether or not SCO can claim "EIO=4" as proprietary is disputed.

| *Where is that one file that a reasonable observer (i.e. typical business manager) would agree violates SCO's IP?*

**In SCO's favor, settlement of the AT&T vs BSD possibly violated...**

A similar case between AT&T (T: not rated) and UC Berkeley discussed in prior reports ended in 1994 with a court approved settlement stating that the header files may be freely distributed if copyright attribution is made. The Linux equivalent files are reported to not contain the copyright attribution and thus potentially violate the terms of this agreement. This is possibly akin to using a Reuters price chart in a stock report and not including the copyright notice.

*Retrying the AT&T case would not be prudent given the trial's rulings*

**...but Linux community points to judge's ruling**

Prior to the settlement of the AT&T case, the judge denied a preliminary injunction requested by AT&T stating, "One fact does seem clear: the header files, filenames, and function names used by Defendants are not trade secrets. Defendants could have printed these off of any of the thousands of unrestricted copies of Plaintiff's binary object code." Furthermore, other courts have ruled that software interfaces are not protected in that their "fair use" allows for interoperability. Finally, the fact that these header files contain definitions but not functional code sheds more doubt on SCO claims, in our view. The AT&T judge also declared, "Moreover, the nonfunctional elements of the code, such as comments, cannot be trade secrets because these elements are minimal and confer no competitive advantage."

**End-user lawsuit may be catalyst**

Apart from the indisputable file, end-users may be pushed to action by pending lawsuits. In early November, SCO's counsel David Boise stated that they would file an end-user lawsuit within the next three months. We believe SCO has little choice but to follow through with this commitment to retain credibility. On the positive side, we believe that simply filing such suits will have a positive impact on SCOSource revenue. For many companies, licensing fees will be much cheaper and less risky than even preliminary legal work. Thus we have modeled \$2 million in licensing fees for the April-qtr and \$3 million for the Jul-qtr under the assumption that every settlement makes it easier to win the next.

*Once sued, carefully chosen targets are likely to settle versus fight*

**However, end-user lawsuits are very risky**

The ability to win end-user settlements is based on our presumption that SCO will be very careful in choosing its initial targets. Suing the wrong end-user early on, one that is willing to fight, poses several problems for SCO. An end-user willing to fight could mean higher legal fees, management distraction, and further Linux community scrutiny of SCO's claims. More importantly however, the end-user does not even need to fight to victory to damage SCO's ability to collect licensing fees. In our opinion, the first end-user that successfully wins a stay of proceedings pending the outcome of the IBM (IBM: not rated) or Red Hat (RHAT: market outperform) cases effectively could shut SCO's efforts down as detailed in prior reports. For modeling purposes we assume that by

October at least one end-user has chosen to fight potentially slowing SCOSource collection efforts.

### **Novell's action further complicates SCO's end-user efforts**

*Novell's copyright registrations may delay any end-user lawsuit for years*

Yesterday, Novell (NOVL: market perform) announced that it had obtained copyrights from the US Copyright Office for some of the same Unix System V code that SCO claims. Thus end-users would appear to have a fairly valid defense in pointing out that they have no way of knowing who really owns the code. If such a defense were raised, we are skeptical that a judge would allow the case to proceed until ownership issues between SCO and Novell were resolved. This in itself could take years to resolve, further supporting our concern with regards to SCO's ability to win meaningful SCOSource licensing revenue.

### **Legal influence undermines key decision**

SCO's management has stated that they turned down a buy-out offer from a major vendor in the sum of \$30 million. This fee would have assured the vendor an unlimited right to ship Linux without fear of violating SCO's intellectual property rights. According to CEO Darl McBride, SCO did not accept the deal believing that more money could be earned on a unit basis and fearing that such a buy-out could potentially cap damages in the IBM case. We believe that this was the wrong decision. A \$30 million vendor licensing deal would more than quadruple our SCOSource estimate for the year, send the stock soaring and facilitate similar deals with numerous other vendors. Also in support of our thesis, we believe the potential for capping damages to IBM has already been raised via the Sun (SUNW: not rated) and Microsoft (MSFT: not rated) licensing agreements (SCO does not believe it will receive additional royalties as part of Sun's 100 million unit computer deal with China). Plus \$30 million represents about 1% of the \$3 billion annualized Linux server market worldwide according to IDC. To extract this amount from a single vendor at one-time would be a tremendous win for any software company. Based on the IBM concern, was management's decision too heavily biased by legal counsel?

### **Further model details**

For FY04 we have reduced our revenue estimate slightly to \$65.9 million from \$66.2 million and have kept our eps estimate flat at \$.20. Our full year estimates are relatively unchanged in that we have assumed the same \$7 million in SCOSource licensing fees as before, but they are now more back-end loaded. Also, we have not included conversion of the preferred shares as before. The core business is expected to grow roughly 2% to 3% sequentially each quarter, strongest in January 1Q04 aided by year-end spending trends.

Also we have made an attempt to separate legal expenses previously include in COGS. For the first time, pro forma legal fees will most likely exceed SCOSource revenue in the January quarter. If included in COGS,

these fees would severely distort margins generated by the core business. We would also note that legal fees are expected to be higher than R&D costs in each quarter and more than 50% higher for the the year. As we see it, legal team earns significant dollars win or lose, while investors and SCO management will only benefit given a favorable legal outcome. To illustrate, during FY03, we estimate that Boies and company collected roughly \$16 million, versus SCO's \$5.3 million in earnings, while still being a long from from any victory over IBM.

*This winter is likely to be a volatile period for SCO's shares with the nearer term catalysts being negative*

#### **Stock outlook – a negative, a negative, a plus**

We still expect the next stock catalyst to be the Delaware judges decision to deny SCO's motion to dismiss the Red Hat lawsuit. SCO's announcement yesterday that they will mail another round of letters warning of potential infringement makes this decision more likely. Unlike a jury, a judge may consider recent events not presented during proceedings when making a decision.

Also in January, SCO is required to present additional details of their claim to IBM. We believe it is likely that IBM will file its own motion to dismiss some or even all of SCO's claims. The very filing of such a document is likely to have a negative impact on SCO's stock price. Granting of such a motion would obviously deal a severe blow to SCO.

In February, early details of an end-user lawsuit should be available based on David Boise's comment, mentioned earlier. The potential such a suit has to force action amongst end-users which have to-date taken a wait-and-see attitude is likely to have a positive impact on SCO's stock price. As discussed above however, the risk at this point to SCO's stock price may be higher than ever before given the potential for such a case to quickly halt, even temporarily, SCO's collection efforts.

#### **DCF and target price unchanged**

Our DCF model and target price are unchanged from prior reports. The most significant risk to the stock price remains setbacks during legal proceedings. We believe the market places limited emphasis on the performance of the Company's core UnixWare™ and OpenServer™ products. We would also note that upside in the stock may be mitigated by conversion of preferred stock. Complete conversion would add roughly three million shares to the total share count.

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never collect a single dollar from the companies we write about. Call or e-mail for more information.

### SCOX One-year Stock Performance



Exhibit 1: SCO Group Stock Performance

Source: [www.reuters.com](http://www.reuters.com)

### Company Description

According to company reports, the SCO Group (Nasdaq: [SCOX - News](#)), the owner and licensor of the core UNIX operating system source code, helps millions of customers in more than 82 countries to grow their businesses. Headquartered in Lindon, Utah, SCO has a worldwide network of more than 11,000 resellers and 4,000 developers. SCO Global Services provides reliable, localized support and services to all partners and customers. For more information on SCO products and services, visit <http://www.sco.com>

**Disclosure**

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**Ratings System**

Decatur Jones rates stocks Outperform (expected to produce returns at least 15% higher than the appropriate index over the next twelve months), Market perform (returns within 15% of the appropriate index) and Underperform (returns at least 15% below the appropriate index).

| Fiscal Year End                  | 2001        | Jan-02     | Apr-02    | Jul-02    | Oct-02    | 2002       | Jan-03   | Apr-03   | Jul-03   | Oct-03    | 2003     | Jan-04e  | Apr-04e  | Jul-04e  | Oct-04e  | 2004e    |
|----------------------------------|-------------|------------|-----------|-----------|-----------|------------|----------|----------|----------|-----------|----------|----------|----------|----------|----------|----------|
| <b>Revenues:</b>                 |             |            |           |           |           |            |          |          |          |           |          |          |          |          |          |          |
| Product licensing                | \$33,878    | \$14,906   | \$12,606  | \$12,639  | \$12,824  | \$52,975   | \$11,090 | \$11,122 | \$10,784 | \$11,400  | \$44,396 | \$11,856 | \$12,034 | \$12,214 | \$12,398 | \$48,502 |
| SCO source licensing             |             |            |           |           |           |            |          | \$8,250  | \$7,300  | \$10,300  | \$25,850 | \$500    | \$2,000  | \$3,000  | \$1,500  | \$7,000  |
| Services                         | \$6,563     | \$3,007    | \$2,870   | \$2,745   | \$2,644   | \$11,266   | \$2,450  | \$1,997  | \$1,971  | \$2,600   | \$9,018  | \$2,541  | \$2,579  | \$2,618  | \$2,657  | \$10,395 |
| Total revenues                   | \$40,441    | \$17,913   | \$15,476  | \$15,384  | \$15,468  | \$64,241   | \$13,540 | \$21,369 | \$20,055 | \$24,290  | \$79,264 | \$14,897 | \$16,613 | \$17,832 | \$16,555 | \$65,897 |
| <b>Cost of revenues:</b>         |             |            |           |           |           |            |          |          |          |           |          |          |          |          |          |          |
| Cost of products and services    | \$14,923    | \$5,596    | \$5,456   | \$4,071   | \$3,109   | \$18,316   | \$2,878  | \$2,837  | \$2,490  | \$4,479   | \$12,684 | \$4,319  | \$4,384  | \$4,450  | \$4,516  | \$17,669 |
| Estimated SCOSource legal cost   |             |            |           |           |           |            | \$0      | \$2,310  | \$2,044  | \$2,884   | \$7,238  | \$2,940  | \$3,560  | \$4,040  | \$3,820  | \$14,360 |
| Total cost of revenues           | \$14,923    | \$5,596    | \$5,456   | \$4,071   | \$3,109   | \$18,316   | \$2,878  | \$5,147  | \$4,534  | \$7,363   | \$19,922 | \$3,954  | \$4,237  | \$4,446  | \$4,281  | \$16,298 |
| <i>Gross profit</i>              | \$25,518    | \$12,317   | \$10,020  | \$11,313  | \$12,359  | \$45,925   | \$10,662 | \$16,222 | \$15,521 | \$16,927  | \$59,342 | \$10,943 | \$12,376 | \$13,386 | \$12,274 | \$49,599 |
| <b>Operating expenses:</b>       |             |            |           |           |           |            |          |          |          |           |          |          |          |          |          |          |
| Sales and marketing              | \$33,858    | \$8,371    | \$7,665   | \$6,908   | \$6,610   | \$29,554   | \$6,440  | \$6,051  | \$5,930  | \$5,971   | \$24,392 | \$5,911  | \$6,000  | \$6,090  | \$6,181  | \$24,183 |
| Research and development         | \$16,761    | \$5,367    | \$4,159   | \$4,284   | \$3,748   | \$17,558   | \$2,650  | \$2,542  | \$2,950  | \$2,870   | \$11,012 | \$2,841  | \$2,884  | \$2,927  | \$2,971  | \$11,623 |
| General and administrative       | \$9,257     | \$2,724    | \$2,523   | \$2,260   | \$1,913   | \$9,420    | \$1,650  | \$1,462  | \$1,413  | \$1,705   | \$6,230  | \$1,502  | \$1,525  | \$1,547  | \$1,571  | \$6,145  |
| Amortization Expense             | \$10,664    | \$840      | \$695     | \$701     | \$701     | \$2,853    | \$700    | \$700    | \$895    | \$895     | \$3,190  | \$895    | \$895    | \$895    | \$895    | \$3,580  |
| Restructuring Charge             | \$3,130     | \$5,261    |           | \$1,245   | \$1,147   | \$6,728    | (\$252)  | \$136    | \$614    | \$0       | \$498    | \$0      | \$0      | \$0      | \$0      | \$0      |
| Stock based compensation         | \$1,975     | \$265      | \$239     | (\$89)    | \$597     | \$1,012    | \$212    | \$406    | \$309    | \$277     | \$1,204  | \$275    | \$275    | \$275    | \$275    | \$1,100  |
| In Process R&D                   | \$1,500     |            |           |           |           |            |          |          |          |           |          |          |          |          |          |          |
| Write Downs and Other            | \$82,009    |            | \$1,180   | \$246     | \$222     | \$1,180    |          |          |          | \$9,370   | \$9,370  |          |          |          |          |          |
| Total operating expenses         | \$159,154   | \$22,828   | \$16,461  | \$15,309  | \$14,716  | \$68,305   | \$11,400 | \$11,297 | \$12,111 | \$21,088  | \$55,896 | \$11,425 | \$11,578 | \$11,735 | \$11,893 | \$46,631 |
| <i>Operating Income</i>          | (\$133,636) | (\$10,511) | (\$6,441) | (\$3,996) | (\$2,357) | (\$22,380) | (\$738)  | \$4,925  | \$3,410  | (\$4,161) | \$3,446  | (\$481)  | \$798    | \$1,652  | \$381    | \$2,348  |
| <b>Other income (expense):</b>   |             |            |           |           |           |            |          |          |          |           |          |          |          |          |          |          |
| Change in preferred derivative   |             |            |           |           |           |            |          |          |          | \$2,800   | \$2,800  |          |          |          |          |          |
| Interest Income and Other        | \$2,587     | (\$333)    | (\$135)   | (\$55)    | (\$98)    | (\$218)    | \$19     | (\$123)  | (\$126)  | \$86      | (\$144)  | \$207    | \$274    | \$434    | \$662    | \$1,576  |
| Pre-tax income                   | (\$131,049) | (\$10,844) | (\$6,576) | (\$4,051) | (\$2,455) | (\$22,598) | (\$719)  | \$4,802  | \$3,284  | (\$1,275) | \$6,092  | (\$275)  | \$1,071  | \$2,085  | \$1,043  | \$3,924  |
| Income taxes                     | \$578       | \$162      | \$55      | \$214     | \$52      | \$483      | \$5      | \$302    | \$188    | \$279     | \$774    | \$0      | \$107    | \$209    | \$104    | \$420    |
| <b>Net income</b>                | (\$131,627) | (\$11,006) | (\$6,631) | (\$4,265) | (\$2,507) | (\$23,081) | (\$724)  | \$4,500  | \$3,096  | (\$1,554) | \$5,318  | (\$275)  | \$964    | \$1,877  | \$939    | \$3,504  |
| <b>EPS</b>                       | (\$2.74)    | (\$0.77)   | (\$0.47)  | (\$0.34)  | (\$0.24)  | (\$1.79)   | (\$0.06) | \$0.33   | \$0.19   | (\$0.09)  | \$0.36   | (\$0.02) | \$0.05   | \$0.11   | \$0.05   | \$0.20   |
| excluding charges and derivative | (\$0.89)    | (\$0.38)   | (\$0.37)  | (\$0.23)  | (\$0.05)  | (\$1.10)   | (\$0.07) | \$0.37   | \$0.25   | \$0.31    | \$0.86   | \$0.00   | \$0.07   | \$0.12   | \$0.07   | \$0.26   |
| Shares outstanding               | 48,096      | 14,355     | 14,235    | 12,714    | 10,396    | 12,893     | 11,244   | 13,663   | 16,180   | 16,962    | 14,582   | 17,600   | 17,725   | 17,850   | 17,975   | 17,869   |
| <b>Margin Analysis:</b>          |             |            |           |           |           |            |          |          |          |           |          |          |          |          |          |          |
| Total Gross Margin               | 63.1%       | 68.8%      | 64.7%     | 73.5%     | 79.9%     | 71.5%      | 78.7%    | 75.9%    | 77.4%    | 69.7%     | 74.9%    | 73.5%    | 74.5%    | 75.1%    | 74.1%    | 75.3%    |
| Sales and marketing              | 83.7%       | 46.7%      | 49.5%     | 44.9%     | 42.7%     | 46.0%      | 47.6%    | 28.3%    | 29.6%    | 24.6%     | 30.8%    | 39.7%    | 36.1%    | 34.2%    | 37.3%    | 36.7%    |
| Research and development         | 41.4%       | 30.0%      | 26.9%     | 27.8%     | 24.2%     | 27.3%      | 19.6%    | 11.9%    | 14.7%    | 11.8%     | 13.9%    | 19.1%    | 17.4%    | 16.4%    | 17.9%    | 17.6%    |
| General and administrative       | 22.9%       | 15.2%      | 16.3%     | 14.7%     | 12.4%     | 14.7%      | 12.2%    | 6.8%     | 7.0%     | 7.0%      | 7.9%     | 10.1%    | 9.2%     | 8.7%     | 9.5%     | 9.3%     |
| Operating Income                 | -330.4%     | -58.7%     | -41.6%    | -26.0%    | -15.2%    | -34.8%     | -5.5%    | 23.0%    | 17.0%    | -17.1%    | 4.3%     | -3.2%    | 4.8%     | 9.3%     | 2.3%     | 3.6%     |
| Net Income                       | -325.5%     | -61.4%     | -42.8%    | -27.7%    | -16.2%    | -35.9%     | -5.3%    | 21.1%    | 15.4%    | -6.4%     | 6.7%     | -1.8%    | 5.8%     | 10.5%    | 5.7%     | 5.3%     |
| Product y/y Revenue growth       |             |            |           |           |           | 56%        | -26%     | -12%     | -15%     | -11%      | -16%     | 7%       | 8%       | 13%      | 9%       | 9%       |
| Revenue growth year-over-year    |             |            |           |           |           | 59%        | -24%     | 38%      | 30%      | 57%       | 23%      | 10%      | -22%     | -11%     | -32%     | -17%     |
| Y/Y Earnings Growth              |             |            |           |           |           | nm         | nm       | nm       | nm       | nm        | nm       | nm       | nm       | nm       | nm       | nm       |

All values in thousands except per share data

All values in thousands except per-share data  
 Exhibit 2: SCO Group Income Statement  
 Source: Decatur Jones and Company Reports

| Fiscal Year End October             | 2001     | Jan-02   | Apr-02   | Jul-02   | Oct-02   | 2002     | Jan-03   | Apr-03   | Jul-03   | Oct-03   | 2003 | Jan-04e  |
|-------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|------|----------|
| <b>Current Assets</b>               |          |          |          |          |          |          |          |          |          |          |      |          |
| Cash                                | \$22,435 | \$26,105 | \$21,826 | \$9,609  | \$6,589  | \$6,589  | \$4,942  | \$10,015 | \$14,661 | \$68,523 |      | \$62,735 |
| Restricted Cash                     |          |          |          |          | \$1,428  | \$1,428  | \$1,250  | \$1,779  | \$1,428  | \$2,025  |      | \$2,000  |
| Accounts Receivable                 | \$16,742 | \$13,082 | \$6,185  | \$10,954 | \$8,622  | \$8,622  | \$9,489  | \$8,793  | \$7,398  | \$9,282  |      | \$8,000  |
| Other Current Assets                | \$9,381  | \$3,489  | \$3,693  | \$3,780  | \$4,483  | \$4,483  | \$3,902  | \$4,392  | \$2,943  | \$2,450  |      | \$2,500  |
| Total Current Assets                | \$48,558 | \$42,676 | \$31,704 | \$24,343 | \$21,122 | \$21,122 | \$19,583 | \$24,979 | \$26,430 | \$82,280 |      | \$75,235 |
| Property and Equipment              | \$6,116  | \$3,989  | \$3,329  | \$2,571  | \$2,021  | \$2,021  | \$1,742  | \$1,331  | \$1,561  | \$1,148  |      | \$1,200  |
| Intangibles                         | \$15,408 | \$14,568 | \$12,726 | \$12,041 | \$11,258 | \$11,258 | \$10,473 | \$9,689  | \$11,431 | \$10,452 |      | \$10,500 |
| Other Assets                        | \$4,777  | \$4,768  | \$947    | \$1,010  | \$3,005  | \$3,005  | \$2,064  | \$1,873  | \$3,210  | \$1,072  |      | \$1,500  |
| Total Assets                        | \$74,859 | \$66,001 | \$48,706 | \$39,965 | \$37,406 | \$37,406 | \$33,862 | \$37,872 | \$42,632 | \$94,952 |      | \$88,435 |
| <b>Current Liabilities</b>          |          |          |          |          |          |          |          |          |          |          |      |          |
| Accounts Payable                    | \$2,881  | \$1,633  | \$2,416  | \$1,676  | \$2,467  | \$2,467  | \$2,051  | \$1,978  | \$1,788  | \$1,978  |      | \$1,900  |
| Accrued Expenses                    | \$13,641 | \$14,450 | \$12,982 | \$11,958 | \$10,849 | \$10,849 | \$5,700  | \$5,709  | \$5,559  | \$8,506  |      | \$6,000  |
| Accrued Comp to law firms           |          |          |          |          |          |          |          |          |          | \$10,556 |      | 0        |
| Current Portion of Deferred revenue | \$8,241  | \$8,827  | \$7,714  | \$11,278 | \$10,056 | \$10,056 | \$9,802  | \$9,218  | \$6,822  | \$5,501  |      | \$5,000  |
| Derivative related to convertible   |          |          |          |          |          |          |          |          |          | \$15,224 |      | \$15,224 |
| Other Current Liabilities           | \$9,394  | \$9,940  | \$3,600  | \$3,361  | \$4,082  | \$4,082  | \$5,816  | \$6,620  | \$6,254  | \$3,347  |      | \$4,000  |
| Total Current Liabilities           | \$34,157 | \$34,850 | \$26,712 | \$28,273 | \$27,454 | \$27,454 | \$23,369 | \$23,525 | \$20,423 | \$45,112 |      | \$32,124 |
| Long Term Liabilities               | \$5,925  | \$6,869  | \$4,514  | \$2,526  | \$1,625  | \$1,625  | \$2,340  | \$618    | \$611    | \$508    |      | \$500    |
| Minority Interest                   | \$173    | \$173    | \$150    |          | \$150    | \$150    | \$150    | \$150    | \$150    | \$145    |      | \$145    |
| Convertible preferred Stock         |          |          |          |          |          |          |          |          |          | \$29,671 |      | \$30,000 |
| <b>Stockholders Equity</b>          | \$34,604 | \$24,109 | \$17,330 | \$9,166  | \$8,177  | \$8,177  | \$8,003  | \$13,579 | \$13,579 | \$19,516 |      | \$25,666 |
| <b>Total Liab &amp; Equity</b>      | \$74,859 | \$66,001 | \$48,706 | \$39,965 | \$37,406 | \$37,406 | \$33,862 | \$37,872 | \$34,763 | \$94,952 |      | \$88,435 |
| Cash per share                      | \$ 0.47  | \$ 1.82  | \$ 1.53  | \$ 0.76  | \$ 0.63  | \$ 0.51  | \$ 0.44  | \$ 0.73  | \$ 0.91  |          |      |          |
| Book Value per Share                | \$ 0.72  | \$ 1.68  | \$ 1.22  | \$ 0.72  | \$ 0.79  | \$ 0.63  | \$ 0.71  | \$ 0.99  | \$ 0.84  |          |      |          |
| DSO's                               |          | 66       | 36       | 64       | 50       |          | 63       | 37       | 33       |          |      |          |

All values in thousands except per share data

All values in thousands except per-share data.

Exhibit 3: SCO Group Balance Sheet

Source: Decatur Jones and Company Reports