

shares from BayStar, cash used to purchase shares of our common stock on the open market of \$2,414,000 and cash used in the exchange of Series A-1 for Series A shares of \$211,000. These uses of cash were offset from proceeds received from the exercise of stock options of \$591,000 and proceeds from the purchase of shares of common stock by our employees through our employee stock purchase program of \$810,000. Cash provided by financing activities was \$2,329,000 for the first three quarters of fiscal year 2003 and was attributable to proceeds received from the exercise of stock options of \$1,443,000, the exercise of a warrant for \$650,000 and proceeds from the purchase of shares of common stock by our employees through our employee stock purchase program of \$236,000.

During fiscal year 2003 and fiscal year 2004, we have expanded our efforts with the law firms representing us in connection with our pursuit of our intellectual property claims and we currently expect to devote substantially more financial resources to this effort. In addition to paying fees at reduced hourly rates to these firms, our agreement with the law firms provides that we will pay the law firms a contingency fee of 20 percent of the proceeds from specified events related to the protection of our intellectual property rights.

As explained above in this Item 2 under the caption "Recent Developments," we have entered into a nonbinding letter of intent with BSF, our outside litigation legal counsel, to revise the existing fee agreement with BSF. Upon completing the revised agreement, we expect we will limit our future cash costs of legal fees, including accrued legal fees to BSF as of July 31, 2004, associated with our pending intellectual property litigation to a total of \$31,000,000. In addition, the nonbinding letter of intent provides that the contingency fee payable to BSF and other law firms associated with any settlement or judgment award, which is currently set at 20 percent, will vary on a scaled basis from 20 to 33 percent, depending on the size of the award. Events that may trigger a contingency fee may include settlements, judgments, certain licensing fees, subject to certain exceptions, and a sale of our company during the pendency of litigation or through settlement, subject to agreed upon credits for amounts received as discounted hourly fees and unused retainer fees. Additionally, our current agreement with the law firms may also be construed to include contingency fee payments in connection with our issuance of equity securities, although we currently anticipate eliminating this contingency in the contemplated revised fee agreement.

We expect that legal fees will vary from quarter to quarter depending on the level of, and activity surrounding, our intellectual property claims, and therefore such costs are difficult to predict. Additionally, although we intend to cap our potential legal expenses by revising our fee agreement with BSF, legal expenses could increase over time depending on developments in litigation involving us, and certain events outside of our control could occur or certain contingent events could take place that would require us to pay additional fees to the law firms. To the extent that our SCOSource related costs and legal fees exceed our budgeted amounts, or SCOSource revenue is below our expectations, our liquidity will be adversely impacted and fewer financial resources will be available for other initiatives such as maintaining and enhancing our UNIX business. Additionally, future contingency fees payable to the law firms may be significant in future periods, which may have an adverse impact on our liquidity. Our current fee arrangement with our law firms could also impair our ability to raise equity capital in future periods. If we are not able to enter into a definitive revised fee agreement with BSF that effectively limits the cash payments we may be required to make to pursue our claims, our liquidity will be adversely impacted.

We have entered into operating leases for our corporate offices located in the United States and our international sales offices. We have commitments under these leases that extend through fiscal year 2010. In prior corporate restructuring actions, we partially vacated some of these facilities, but still have contractual obligations to continue to make ongoing lease payments

for one facility that will use available cash. We have pursued and will continue to pursue sublease opportunities, as available, to minimize this use of cash; however, we may not be successful in eliminating or reducing cash expenditures for this facility.

The following table summarizes our contractual lease obligations as of July 31, 2004:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>More than 3 years</u>
Operating lease obligations	\$ 5,826,000	\$ 2,389,000	\$ 2,844,000	\$ 593,000

As of July 31, 2004, we did not have any long-term debt obligations, purchase obligations or material capital lease obligations.

During fiscal year 2004, we have undertaken certain cost-cutting measures to reduce our overall operating costs. These cost-cutting measures have focused on streamlining operations and job functions where possible, and have impacted all operating departments within the Company. Even though we have undertaken these measures, our ability in the future to cut costs to offset revenue declines in our UNIX business is limited to a certain extent because of contractual commitments to maintain and support our existing UNIX customers. The decline in our UNIX business may be accelerated if industry partners withdraw their support as a result of declines in our UNIX business or our SCOSource initiatives and in particular any lawsuits against end users violating our intellectual property and contractual rights. The decline in our UNIX business and our SCOSource initiatives, particularly lawsuits against such end users, may cause industry partners, developers and hardware and software vendors to choose not to support or certify to our UNIX operating system products. This may lead to an accelerated decline in our UNIX products and services revenue. If our UNIX products and services revenue is less than expected, our liquidity will be adversely impacted.

In the event that cash required to fund operations and strategic initiatives exceeds our current cash resources and cash generated from operations, we will be required to reduce costs and perhaps raise additional capital. We may not be able to reduce costs in a manner that does not impair our ability to maintain our UNIX business and pursue our SCOSource initiatives. We may also not be able to raise capital for any number of reasons including those listed under the section "Risk Factors" below. If additional equity financing is available, it may not be available to us on attractive terms and may be dilutive to our existing stockholders. In addition, if our stock price declines, we may not be able to access the public equity markets on acceptable terms, if at all. Our ability to effect acquisitions for stock would also be impaired.

On March 10, 2004, our board of directors authorized management, in its discretion, to purchase up to 1,500,000 shares of our common stock over a 24-month period. Shares may be purchased in open market transactions, block purchases or privately negotiated transactions. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. During the second quarter of fiscal year 2004, a total of 290,000 shares of our common stock were repurchased for a total of \$2,414,000. We did not purchase any shares during the third quarter of fiscal year 2004. However, if we repurchase a substantial number of shares during this 24-month period, and we do not generate off-setting revenue from our UNIX and SCOSource businesses, our cash position could decrease significantly and our ability to fund future operations could be adversely impacted. Purchases under the stock repurchase program are subject to the discretion of management based on market conditions and other factors including the trading price of our common stock, availability of stock, alternative uses of capital and our financial condition.

Recent Accounting Pronouncements

The Emerging Issues Task Force has issued EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The issue addressed in EITF 03-1 is to determine the meaning of other-than-temporary impairment and its application to debt and equity securities. The Task Force reached a consensus that the application guidance in EITF 03-1 should be used to determine when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The guidance also includes accounting considerations subsequent to the recognition of other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The recognition and measurement guidance should be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004, or our fourth fiscal quarter of 2004. The adoption of this interpretation is not expected to have a material effect on our business, results of operations, financial position, or liquidity.

ITEM 3 . QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk. We have foreign offices and operations in Europe and Asia. As a result, a portion of our revenue is derived from sales to customers outside the United States. Most of this international revenue is denominated in U.S. dollars. However, most of the operating expenses related to our foreign-based operations are denominated in foreign currencies and therefore operating results are affected by changes in the U.S. dollar exchange rate in relation to foreign currencies such as the Euro, among others. If the U.S. dollar weakens compared to the Euro, our operating expenses for foreign operations will be higher when translated back into U.S. dollars. Our revenue can also be affected by general economic conditions in the United States, Europe and other international markets. Our results of operations may be affected in the short term by fluctuations in foreign currency exchange rates.

We have in the past utilized foreign currency forward exchange contracts for market exposures of underlying assets and liabilities. We do not use forward exchange contracts for speculative or trading purposes. Our accounting policies for foreign exchange contracts are based on our designation of each contract. The criteria we use for designating each contract include the contracts' effectiveness in risk reduction and one-to-one matching of forward exchange contracts to underlying assets and liabilities. Gains and losses on currency forward contracts that are firm commitments are deferred and recognized in income in the same period that the underlying transactions are settled. Gains and losses on currency forward contracts that are designated and effective for existing transactions are recognized in income in the same period as losses and gains on the underlying transactions are recognized and generally offset. Gains and losses on any instruments not meeting the above criteria are recognized in income in the current period. As of July 31, 2004, we had no outstanding instruments classified as hedges.

Interest Rate Risk. The primary objective of our cash management strategy is to invest available funds in a manner that assures maximum safety and liquidity and maximizes yield within such constraints. We do not borrow money for short-term investment purposes.

Investment Risk. We have invested in equity instruments of privately held and public companies in the technology industry for business and strategic purposes. Investments are accounted for under the cost method if our ownership is less than 20 percent and we are not able to exercise influence over operations. Our investment policy is to regularly review the assumptions and operating performance of these companies and to record impairment losses when events and circumstances indicate that these investments may be impaired. As of July 31, 2004,

our investments balance was approximately \$565,000 and was related to our investment in a 30 percent owned Chinese company.

The stock market in general, and the market for shares of technology companies in particular, has experienced extreme price fluctuations. In addition, factors such as new product introductions by our competitors or developments in the litigation related to our SCOSource initiatives may have a significant impact on the market price of our common stock. Furthermore, quarter-to-quarter fluctuations in our results of operations caused by changes in customer demand may have a significant impact on the market price of our common stock. These conditions could cause the price of our common stock to fluctuate substantially over short periods of time.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were adequately designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms.

Changes in internal control over financial reporting. During the most recent fiscal quarter ended July 31, 2004, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Forward-Looking Statements and Factors That May Affect Future Results and Financial Condition

With the exception of historical facts, the statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current expectations and beliefs regarding our future results of operations, performance and achievements. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may or may not materialize. These forward-looking statements include, but are not limited to, statements concerning:

- Our continued investment in and commitment to our UNIX operating systems, including investing in research and development efforts during fiscal year 2004 to enhance our OpenServer and UnixWare, which enhancements we believe will help prolong our UNIX revenue stream for future quarters;
- Our estimation that the decline in our UNIX business revenue may be accelerated if industry partners withdraw their support as a result of our declining UNIX business and our SCOSource initiatives and in particular any lawsuits against end users violating our intellectual property and contractual rights;
- Our belief that the future success of our SCOSource initiatives will depend on our ability to protect our intellectual property;
- Our expectation that quarterly legal fees and other SCOSource related costs will vary from quarter to quarter depending upon the level of, and activity surrounding, our intellectual property claims, and therefore are difficult to predict;

- Our anticipation that we will enter into a revised fee agreement with BSF as contemplated in our nonbinding letter of intent that will limit the future cash costs of legal fees, including accrued legal fees to BSF as of July 31, 2004, associated with our pending intellectual property litigation to a total of \$31,000,000, confirm that BSF will lead our intellectual property legal efforts through the duration and completion of our pending litigation, provide that the contingency fee payable to BSF and other law firms associated with any settlement or judgment award will vary on a scaled basis from 20 to 33 percent, depending upon the size of the award, and eliminate the right of our law firms to receive any contingency fee payment in connection with any issuance of equity securities;
- Our expectation that, although we intend to cap our potential legal expenses by revising our fee agreement with BSF, our legal expenses could increase depending on developments in our litigation, and, even if we do revise our fee agreement with BSF, the occurrence of certain events outside our control or certain contingent events could require us to pay additional fees to our law firms;
- Our intention to continue seeking to enter into license agreements with UNIX vendors and offering SCOsource IP licenses to Linux end users;
- Our anticipation that for the fourth quarter of fiscal year 2004 our UNIX revenue will be consistent with or slightly lower than revenue generated in the third quarter of fiscal year 2004;
- Our expectation that our UNIX business will continue to be impacted by competition from Linux;
- Our expectation that during the fourth quarter of fiscal year 2004, we will take additional cost reduction actions, which will include reductions in staff as well as certain reductions and consolidation in office space, which will further decrease the operating costs of our UNIX business. We estimate that the restructure cost associated with these actions may be approximately \$2,000,000, but the actual cost associated with these actions may differ from this estimate;
- Our expectation that our future level of services revenue depends in part on our ability to generate UNIX products revenue from existing customers as well as renew certain annual support and services agreements with existing UNIX customers;
- Our expectation for the fourth quarter of fiscal year 2004 that our cost of products revenue in dollars will be consistent with our cost of products revenue incurred in the third quarter of fiscal year 2004;
- Our expectation for the fourth quarter of fiscal year 2004 that our cost of services revenue in dollars will be lower than in the third quarter of fiscal year 2004;
- Our expectation for the fourth quarter of fiscal year 2004 that our sales and marketing expenses in dollars will decrease from our expenses incurred in the third quarter of fiscal year 2004;
- Our expectation for the fourth quarter of fiscal year 2004 that our research and development expenses in dollars will decrease from our expenses incurred in the third quarter of fiscal year 2004 due to recently implemented cost reductions;
- Our expectation for the fourth quarter of fiscal year 2004 that our general and administrative expenses in dollars will be consistent with our general and administrative expenses incurred in the third quarter of fiscal year 2004;

- Our belief that the India Income Tax Department probably will pursue tax assessments on revenue for taxable periods subsequent to March 2001 deemed by such tax authority to be royalty revenue of our UK subsidiary, The SCO Group, Ltd.;
- Our intention to use the net proceeds from our preferred stock financing as well as our other cash resources to pursue our SCOSource initiatives and fund other cash needs of our business;
- Our belief that we have sufficient cash resources to fund our current operations for at least the next 12 months;
- Our belief that our allowance for bad debts will remain consistent with our prior experience; and
- Our belief that certain legal actions to which we are a party will not have a material adverse effect on us.

We wish to caution readers that our operating results are subject to various risks and uncertainties that could cause our actual results and outcomes to differ materially from those discussed or anticipated, including the success of our SCOSource initiatives, competition from other operating systems, particularly Linux, the amount and timing of SCOSource licensing revenue, our ability to enhance our UNIX operating systems and maintain our UNIX products and services business, and the factors set forth in the subsection entitled "Risk Factors" below. We also wish to advise readers not to place any undue reliance on the forward-looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances or any changes in our beliefs or expectations, other than as required by law.

Risk Factors

We do not have a history of profitable operations.

Our fiscal year ended October 31, 2003 was the first full year we were profitable in our operating history. Our profitability in fiscal year 2003 resulted primarily from our SCOSource licensing initiatives. For the nine months ended July 31, 2004, we incurred a net loss from operations of \$21,963,000 and our accumulated deficit as of July 31, 2004 was \$217,700,000. If we do not receive SCOSource licensing revenue in future quarters and our revenue from the sale of our UNIX products and services continues to decline, we will need to further reduce operating expenses to generate positive cash flow. We may not be able to further reduce operating expenses without damaging our ability to support our existing UNIX business. Additionally, we may not be able to achieve profitability through additional cost-cutting actions.

Our UNIX products and services revenue has declined in each of the last four years primarily as a result of increased competition from alternative operating systems, particularly Linux, lower information technology spending for UNIX products, and a general overall decline in economic conditions. In our quarterly results of operations, we recognize revenue from agreements for support and maintenance contracts and other long-term contracts that have been previously invoiced and are included in deferred revenue. While our deferred revenue balance increased from \$5,501,000 as of October 31, 2003 to \$5,936,000 as of July 31, 2004, our deferred revenue balance had declined prior to this period and this recent modest increase in deferred revenue may not continue into future quarters, which may have a negative impact on our UNIX revenue. Our future UNIX revenue may be adversely impacted and may continue to decline if we are unable to replenish these deferred revenue balances with long-term maintenance and

support contracts or replace them with other sustainable revenue streams. If we are unable to generate positive cash flow and profitable operations, our operations may be adversely impacted.

Our future SCOSource licensing revenue is uncertain.

We initiated the SCOSource licensing effort in January 2003 to review the status of UNIX licensing and sublicensing agreements. This effort resulted in the execution of two significant vendor license agreements during fiscal year 2003 and generated \$25,846,000 in revenue. During the three and nine months ended July 31, 2004, we recorded SCOSource licensing revenue of \$678,000 and \$709,000, respectively, related to the execution of intellectual property compliance licenses. Due to a lack of historical experience and the uncertainties related to SCOSource licensing revenue, we are unable to estimate the amount and timing of future SCOSource licensing revenue, if any. If we do receive revenue from this source, it may be sporadic and fluctuate from quarter to quarter. Our SCOSource initiatives are unlikely to produce stable, predictable revenue for the foreseeable future. Additionally, the success of these initiatives may depend on the strength of our intellectual property rights and contractual claims regarding UNIX, including the strength of our claim that unauthorized UNIX source code and derivatives are prevalent in Linux.

We may not prevail in our legal actions against IBM, Novell and end users, and unintended consequences of our actions against IBM, Novell and end users and other initiatives to assert our intellectual property rights may adversely affect our business.

We continue to pursue our litigation against IBM. As described in more detail in Item 1 of Part II of this quarterly report, we seek damages for claims generally relating to our allegation that IBM has inappropriately used and distributed our UNIX source code and derivative works in connection with its efforts to promote the Linux operating system. IBM has responded to our claims and brought counterclaims against us asserting generally that we do not have the right to assert claims based on our ownership of UNIX intellectual property against IBM or others in the Linux community. Discovery is continuing in the case, and several motions are currently pending before the court. If we do not prevail in our action against IBM, or if IBM is successful in its counterclaims against us, our business and results of operations could be materially harmed and we may not be able to continue in business. The litigation with IBM and others will be costly, and our costs for legal fees have been and may continue to be substantial and may exceed our capital resources. Additionally, the market price of our common stock may be negatively affected as a result of developments in our legal action against IBM that may be, or may be perceived to be, adverse to us.

In addition, we have publicly, and in individual letters, cautioned users of Linux that there are unresolved intellectual property issues surrounding Linux that may expose them to unanticipated liability to us. We have also notified a large number of licensees under our UNIX contracts requiring them to, among other things, certify they are in compliance with their agreements, including that they are not using our proprietary UNIX code in Linux, have not allowed unauthorized use of licensed UNIX code by their employees or contractors and have not breached confidentiality provisions relating to licensed UNIX code. As a result of our action against IBM and our other SCOSource initiatives to protect our intellectual property rights, several participants in the Linux industry and others affiliated with IBM or sympathetic to the Linux movement have taken actions attempting to negatively affect our business and our SCOSource efforts. Linux proponents have taken a broad range of actions against us, including, for example, attempting to influence participants in the markets in which we sell our products to reduce or eliminate the amount of our products and services they purchase from us. We expect that similar efforts likely will continue. There is a risk that participants in our marketplace will negatively view our action against IBM, DaimlerChrysler and AutoZone and our other SCOSource initiatives, and we may lose support from such participants. Any of the foregoing could adversely affect our position in the marketplace, our results of operations and our stock price and our ability to stay in business. We have also

experienced several denial-of-service attacks on our website, which have prevented web users from accessing our website and doing business with us for a period of time. If such attacks continue or if our customers and strategic partners are also subjected to similar attacks, our business and results of operations could be materially harmed.

Also, some of the more significant participants in the Linux industry have made efforts to ease Linux end users' concerns that their use of Linux may subject them to potential copyright infringement claims from us. For example, Hewlett-Packard, Novell and Red Hat have each established indemnification programs for qualified customers purchasing Linux-based products and services that may potentially become subject to copyright infringement claims from us. Additionally, Open Source Development Labs, a non-profit organization ("OSDL"), has established a legal defense fund that will be used to defend Linux users against copyright infringement lawsuits brought by us. It has been reported that OSDL so far has attracted several million dollars in pledges from contributors including IBM and Intel among others. Similarly, Red Hat, Inc. has announced it has committed one million dollars for a separate fund it created to cover the legal expenses of other companies developing Linux.

As a further response to our SCOSource initiatives and claim that our UNIX source code and derivative works have inappropriately been included in Linux, Novell has publicly asserted its belief that it owns certain copyrights in our UNIX source code, and it has filed 15 copyright applications with the United States Copyright Office related to UNIX. Novell also claims that it has a license to UNIX from us and the right to authorize its customers to use UNIX technology in their internal business operations. Specifically, Novell has also claimed to have retained rights related to legacy UNIX SVRx licenses, including the license with IBM. Novell asserts it has the right to take action on behalf of SCO in connection with such licenses, including termination rights. Novell has purported to veto our termination of the IBM, Sequent and SGI licenses. We have repeatedly asserted that we obtained the UNIX business, source code, claims and copyrights when we acquired the assets and operations of the server and professional services groups from The Santa Cruz Operation (now Tarantella, Inc.) in May 2001, which had previously acquired all such assets and rights from Novell in September 1995 pursuant to an asset purchase agreement, as amended. In January 2004, in response to Novell's actions, we brought suit against Novell for slander of title seeking relief for Novell's alleged bad faith effort to interfere with our copyrights related to our UNIX source code and derivative works and our UnixWare products. Our lawsuit against Novell is also described in more detail in Item 1 of Part II of this quarterly report.

Notwithstanding our assertions of full ownership of UNIX-related intellectual property rights, as set forth above, including copyrights, and even if we are successful in our legal action against Novell and end users such as AutoZone and DaimlerChrysler, the efforts of Novell and the other Linux proponents described above may cause Linux end users to be less willing to purchase from us our SCOSource IP licenses authorizing their use of our intellectual property contained in the Linux operating system, which may adversely affect our revenue from our SCOSource initiatives. These efforts of Linux proponents also may increase the negative view some participants in our marketplace have regarding our legal actions against IBM, Novell and end users such as AutoZone and DaimlerChrysler and regarding our SCOSource initiatives and may contribute to creating confusion in the marketplace about the validity of our claim that the unauthorized use of our UNIX source code and derivative works in Linux infringes on our copyrights. Increased negative perception and potential confusion about our claims in our marketplace could impede our continued pursuit of our SCOSource initiatives and negatively impact our business. Additionally, if we fail in our lawsuit against Novell and end users such as AutoZone and DaimlerChrysler, the negative perception and confusion in our marketplace about our intellectual property rights and claims likely would increase significantly, and the effectiveness of our SCOSource initiatives could be materially harmed.

We may lose the support of industry partners leading to an accelerated decline in our UNIX products and services revenue.

The decline in our UNIX business and our SCOSource initiatives, particularly lawsuits against end users violating our intellectual property and contractual rights, may cause industry partners, developers and hardware and software vendors to choose not to support or certify to our UNIX operating system products. This would lead to an accelerated decline in our UNIX products and services revenue and would adversely impact our results of operations and liquidity.

Our claims relating to our UNIX intellectual property may subject us to additional legal proceedings.

In August 2003, Red Hat brought a lawsuit against us asserting that the Linux operating system does not infringe on our UNIX intellectual property rights and seeks a declaratory judgment for non-infringement of copyrights and no misappropriation of trade secrets. In addition, Red Hat claims we have engaged in false advertising in violation of the Lanham Act, deceptive trade practices, unfair competition, tortious interference with prospective business opportunities, and trade libel and disparagement. We intend to vigorously defend this action, but if Red Hat is successful in its claim against us, our business and results of operations could be materially harmed.

In addition, other regulators or others in the Linux community have initiated or in the future may initiate legal actions against us, all of which may negatively impact our operations or future operating performance.

Fluctuations in our operating results or the failure of our operating results to meet the expectations of public market analysts and investors may negatively impact our stock price.

Fluctuations in our quarterly operating results or our failure to meet the expectations of analysts or investors, even in the short-term, could cause our stock price to decline significantly. Because of the potential for significant fluctuations in our SCOSource licensing revenue in any particular period, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance.

Factors that may affect our results include:

- our ability to successfully negotiate and complete licensing and other agreements related to our intellectual property;
- the interest level of resellers in recommending our UNIX business solutions to end users;
- the introduction, development, timing, competitive pricing and market acceptance of our products and services and those of our competitors;
- changes in general economic conditions, such as recessions, that could affect capital expenditures and recruiting efforts in the software industry;
- results of, or developments in, our ongoing litigation with IBM, Novell, Red Hat, AutoZone and DaimlerChrysler concerning our UNIX intellectual property;
- changes in business attitudes toward UNIX as a viable operating system compared to other competing systems, especially Linux;
- the contingency and other legal fees we may pay to the law firms representing us in our efforts to establish our intellectual property rights; and

- changes in attitudes of customers and partners due to the decline in our UNIX business and our aggressive position against the inclusion of our UNIX code and derivative works in Linux and our lawsuits against end users violating our intellectual property and contractual rights.

We also experience fluctuations in operating results in interim periods in Europe and the Asia Pacific regions due to seasonal slowdowns and economic conditions in these areas. Seasonal slowdowns in these regions typically occur during the summer months.

As a result of the factors listed above and elsewhere, it is possible that our results of operations may be below the expectations of public market analysts and investors in any particular period. This could cause our stock price to decline. If revenue falls below our expectations and we are unable to quickly reduce our spending in response, our operating results will be lower than expected. Our stock price may fall in response to these events.

We rely on our indirect sales channel for distribution of our products, and any disruption of our channel at any level could adversely affect the sales of our products.

We have a two-tiered distribution channel. The relationships we have developed with resellers allow us to offer our products and services to a much larger customer base than we would otherwise be able to reach through our own direct sales and marketing efforts. Some solution providers also purchase solutions through our resellers, and we anticipate they will continue to do so. Because we usually sell indirectly through resellers, we cannot control the relationships through which resellers, solution providers or equipment integrators purchase our products. In turn, we do not control the presentation of our products to end users. Therefore, our sales could be affected by disruptions in the relationships between us and our resellers, between our resellers and solution providers, or between solution providers and end users. Also, resellers and solution providers may choose not to emphasize our products to their customers. Any of these occurrences could diminish the effectiveness of our distribution channel and lead to decreased sales.

If the market for UNIX continues to contract, our business will be harmed.

Our revenue from the sale of UNIX products has declined over the last four years. This decrease in revenue has been attributable primarily to increased competition from other operating systems, particularly Linux and lower information technology spending for UNIX products. Our sales of UNIX products and services are primarily to existing customers. If the demand for UNIX products continues to decline, and we are unable to develop UNIX products and services that successfully address a market demand, our UNIX revenue will continue to decline, industry participants may not certify to our operating system and products, we may not be able to attract new customers or retain existing customers and our business and results of operations will be adversely affected. Because of the long adoption cycle for operating system purchases and the long sales cycle of our operating system products, we may not be able to reverse these revenue declines quickly.

We operate in a highly competitive market and face significant competition from a variety of current and potential sources; many of our current and potential competitors have greater financial and technical resources than we do; thus, we may fail to compete effectively.

In the UNIX operating system market, our competitors include IBM, Hewlett-Packard, Sun, Microsoft and other Linux distributors. These and other competitors are aggressively pursuing the current UNIX operating system market. Many of these competitors have access to substantially greater resources than we do. The major competitive alternatives to our UNIX products are Microsoft Windows Server, Linux and other UNIX systems. The expansion of Microsoft's and our

other competitors' offerings may restrict the overall market available for our server products, including some markets where we have been successful in the past.

Our future success may depend in part on our ability to continue to meet the increasing needs of our customers by supporting existing and emerging technologies. If we do not enhance our products to meet these evolving needs, we may not remain competitive and be able to grow our business. Additionally, because technological advancement in the UNIX operating system market and alternative operating system markets is progressing at an advanced pace, we will have to develop and introduce enhancements to our existing products and any new products on a timely basis to keep pace with these developments, evolving industry standards and changing customer requirements. Our failure to meet any of these and other competitive pressures may render our existing products and services obsolete, which would have an adverse impact on our revenue and operations.

The success of our UNIX business will depend on the level of commitment and certification we receive from industry partners and developers. In recent years, we have seen hardware and software vendors as well as software developers turn their certification and application development efforts toward Linux and elect not to continue to support or certify to our UNIX operating system products. If this trend continues, our competitive position will be adversely impacted and our future revenue from our UNIX business will decline. The decline in our UNIX business may be accelerated if industry partners withdraw their support from us for any reason including as a result of our SCOsource initiatives and in particular any lawsuit against end users violating our intellectual property and contractual rights, such as our lawsuits against AutoZone and DaimlerChrysler.

Our compensation arrangement with the law firms representing us to enforce our intellectual property rights may reduce our ability to raise additional financing.

Our compensation arrangement with the law firms representing us in our efforts to establish our intellectual property rights could inhibit our ability to raise additional funding if needed. In addition to receiving fees at reduced hourly rates, our agreement with the law firms provides that the law firms will receive a contingency fee of 20 percent of the proceeds from specified events related to the protection of our intellectual property rights, and, if we reach a revised fee agreement with the law firms as currently contemplated in the nonbinding letter of intent we have entered into with BSF, such contingency fee may reach 33 percent of such proceeds. Events triggering a contingency fee may include settlements, judgments, certain licensing fees, subject to certain exceptions, and a sale of our company during the pendency of litigation or through settlement, subject to agreed upon credits for amounts received as discounted hourly fees and unused retainer fees. Our current agreement with the law firms may also be construed to include contingency fee payments in connection with issuances of our equity securities. Future payments payable to the law firms under this arrangement may be significant. Our law firms' right to receive such contingent payments could cause prospective investors to choose not to invest in our company or limit the price at which new investors would be willing to provide additional funds to our company. We may be unable to reach a definitive revised fee agreement with BSF that reflects the terms of the nonbinding letter of intent as described elsewhere in this filing.

Our foreign-based operations and sales create special problems, including the imposition of governmental controls and taxes and fluctuations in currency exchange rates that could hurt our results.

We have foreign operations, including development facilities, sales personnel and customer support operations in Europe, Latin America and Asia. These foreign operations are subject to certain inherent risks, including:

- potential loss of developed technology through piracy, misappropriation, or more lenient laws regarding intellectual property protection;
- imposition of governmental controls, including trade restrictions and other tax requirements;
- fluctuations in currency exchange rates and economic instability;
- longer payment cycles for sales in foreign countries;
- seasonal reductions in business activity; and
- political unrest, particularly in areas where we have facilities.

In addition, certain of our operating expenses are denominated in local currencies, creating risk of foreign currency translation losses that could harm our financial results and cash flows. When we generate profits in foreign countries, our effective income tax rate is increased.

In Latin America and Asia in particular, several countries have suffered and may be especially susceptible to recessions and economic instability which may lead to increased governmental ownership or regulation of the economy, higher interest rates, increased barriers to entry such as higher tariffs and taxes, and reduced demand for goods manufactured in the United States, resulting in lower revenue.

During the second quarter of fiscal year 2004, the Indian branch of our UK subsidiary was given a withholding tax assessment from the Government of India Income Tax Department. The Tax Department assessed a 15 percent withholding tax on certain revenue transactions in India that the Tax Department deemed royalty revenue under the Income Tax Act. We have filed an appeal with the Tax Department and believe that our packaged software does not qualify for "royalties" treatment and therefore would not be subject to withholding tax. However, we may be unsuccessful in our appeal against the Tax Department and be obligated to pay the assessed taxable amounts. If other countries in which we have international operations, such as India, continue to develop and begin enforcing their tax regimes, we may be subject to withholding or other taxes.

If we are unable to retain key personnel in an intensely competitive environment, our operations could be adversely affected.

We need to retain our management, technical, and support personnel. Competition for qualified professionals in the software industry is intense, and departures of existing personnel could be disruptive to our business and can result in the departure of other employees. The loss or departure of any officers or key employees could harm our ability to implement our business plan and could adversely affect our operations. Our future success depends to a significant extent on the continued service and coordination of our management team, particularly Darl C. McBride, our President and Chief Executive Officer. We do not maintain key person insurance for any member of our management team.

Our stock price is volatile.

The trading price for our common stock has been volatile, ranging from a low closing sales price of \$1.09 in mid-February 2003, to a high closing sales price of \$20.50 per share in October 2003, to a current sales price of \$3.89 on September 13, 2004. The share price has changed dramatically over short periods with increases and decreases of over 25 percent in a single day. We believe that the changes in our stock price are affected by changing public perceptions concerning the strength of our intellectual property claims and other factors beyond our control. Public perception can change quickly and without any change or development in our underlying

business or litigation position. An investment in our stock is subject to such volatility and, consequently, is subject to significant risk.

Risks associated with the potential exercise of our options outstanding.

As of September 1, 2004, we have issued and outstanding options to purchase up to approximately 3,478,000 shares of common stock with exercise prices ranging from \$0.76 to \$28.00 per share. The existence of such rights to acquire common stock at fixed prices may prove a hindrance to our efforts to raise future equity and debt funding, and the exercise of such rights will dilute the percentage ownership interest of our stockholders and may dilute the value of their ownership. The possible future sale of shares issuable on the exercise of outstanding options could adversely affect the prevailing market price for our common stock. Further, the holders of the outstanding rights may exercise them at a time when we would otherwise be able to obtain additional equity capital on terms more favorable to us.

The issuance of common shares to BayStar may have an adverse impact on the market value of our stock and the existing holders of our common stock.

We have an effective registration statement relating to the sale or distribution by BayStar and Royal Bank of Canada, an initial investor in our private placement of Series A shares ("RBC") as selling stockholders of up to 3,703,704 shares of common stock that were issuable upon conversion of our previously outstanding Series A-1 shares, although the only shares of common stock issued pursuant to the conversion of Series A-1 shares that may be sold or distributed pursuant to this registration statement are 740,740 shares issued to RBC. Additionally, we have an effective registration statement relating to the sale or distribution by BayStar as a selling stockholder of the 2,105,263 shares of common stock issued to BayStar in connection with our repurchase completed in July 2004 of all Series A-1 shares previously held by BayStar. With respect to either of these registration statements, we will not receive any proceeds from the sales of the shares they cover. The shares that may be sold or distributed pursuant to these registration statements represent approximately 12.1 percent of our issued and outstanding common stock as of September 1, 2004.

The sale of the block of stock covered by the registration statement, or even the possibility of its sale, may adversely affect the trading market for our common stock and reduce the price available in that market. The shares of common stock subject to our registration statements will, upon issuance, dilute the equity ownership percentage of the holders of our common stock.

Our stock price could decline further because of the activities of short sellers.

Our stock has attracted the interest of short sellers. The activities of short sellers could further reduce the price of our stock or inhibit increases in our stock price.

The right of our board of directors to authorize additional shares of preferred stock could adversely impact the rights of holders of our common stock.

Our board of directors currently has the right, with respect to the 5,000,000 shares of our preferred stock, to authorize the issuance of one or more additional series of our preferred stock with such voting, dividend and other rights as our directors determine. The board of directors can designate new series of preferred stock without the approval of the holders of our common stock. The rights of holders of our common stock may be adversely affected by the rights of any holders of additional shares of preferred stock that may be issued in the future, including without limitation, further dilution of the equity ownership percentage of our holders of common stock and their voting power if we issue preferred stock with voting rights. Additionally, the issuance of preferred stock could make it more difficult for a third party to acquire a majority of our outstanding voting stock.

Our Stockholder Rights Plan could make it more difficult for a hostile bid for the Company or a change of control transaction to succeed at current market prices for our stock.

We have adopted a Stockholder Rights Plan ("Rights Plan") as described elsewhere in this filing. The power given to the Board of Directors by the Rights Plan may make it more difficult for a change of control of our Company to occur or for the Company to be acquired when the acquisition is opposed by the Board of Directors.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

IBM Corporation

On or about March 6, 2003, we filed a complaint against IBM. This action is currently pending in the United States District Court for the District of Utah, under the title *The SCO Group, Inc. vs. International Business Machines Corporation*, Civil No. 2:03CV0294. The initial complaint included claims for breach of contract, misappropriation of trade secrets, tortious interference, and unfair competition. The initial complaint also alleged that IBM obtained information concerning the UNIX source code and derivative works from us and inappropriately used and distributed that information in connection with its efforts to promote the Linux operating system. As a result of IBM's actions, we are requesting damages in an amount to be proven at trial, together with additional damages through and after the time of trial. On or about June 13, 2003, we delivered to IBM a notice of termination of IBM's UNIX license agreement with us that underlies IBM's AIX software.

On or about June 16, 2003, we filed an amended complaint in the IBM case. The amended complaint essentially restated and re-alleged the allegations of the initial complaint and expands on those claims. Most importantly, the amended complaint raises new allegations regarding IBM's actions and breaches through the actions of Sequent Computer Systems, Inc. ("Sequent"), which IBM acquired. We alleged that our licensing agreement with Sequent was breached in several ways similar to those set forth above and we seek damages for those breaches. We are also seeking injunctive relief on several claims.

IBM has filed a response and counterclaim to the complaint, including a demand for a jury trial. We have filed an answer to the IBM counterclaim denying the claims and asserting affirmative defenses. On February 4, 2004, we filed a motion for leave to file amended pleadings in the case proposing to amend our complaint against IBM and to modify our affirmative defenses against IBM's counterclaims. On February 25, 2004, the court granted our motion for leave to amend. The second amended complaint, which was filed on February 27, 2004, alleges nine causes of action that are similar to those set forth above, adds a new claim for copyright infringement and removes the claim for misappropriation of trade secrets. IBM filed an answer and counterclaim. The counterclaim filed by IBM asserts 14 claims against us. In its counterclaim, as amended, IBM asserts that we do not have the right to terminate IBM's UNIX license or assert claims based on our ownership of UNIX intellectual property against IBM or others in the Linux community. In addition, IBM asserts we have breached the GNU General Public License and have infringed certain patents held by IBM. IBM's counterclaims include claims for breach of contract, violation of the Lanham Act, unfair competition, intentional interference with prospective economic relations, unfair and deceptive trade practices, promissory estoppel, copyright infringement for a declaratory judgment of non-infringement of copyrights, and patent infringement.

On March 3, 2004, the U.S. Magistrate Judge issued an order addressing certain discovery matters relating to both us and IBM. We have filed a motion to dismiss IBM's tenth counterclaim.

for a declaratory judgment of non-infringement of copyrights and a motion to amend the scheduling order and a motion to bifurcate IBM's patent counterclaims into another action. We filed, on May 28, 2004, a reply brief in connection with our motion to amend the scheduling order, in which we set forth detailed and specific responses to IBM's claims made in connection with that motion. A hearing for these motions was held on June 8, 2004 and the court issued its ruling on June 10, 2004.

The court granted our motion to amend the scheduling order, with certain changes. The amended scheduling order now provides, among other things, that the deadline for completing fact discovery is February 11, 2005 (previously August 4, 2004), the deadline for completing expert discovery is April 22, 2005 (previously October 22, 2004), and the trial will begin on November 1, 2005 (previously April 11, 2005). The court also denied the motion to bifurcate the patent counterclaims without prejudice to our right to request bifurcation again at a later date. IBM has also filed a motion for partial summary judgment on its tenth counterclaim for a declaration of non-infringement of our copyrights. A hearing regarding our motion to dismiss and IBM's motion for partial summary judgment on IBM's tenth counterclaim for a declaration of non-infringement is currently scheduled for September 15, 2004. We plan to vigorously oppose IBM's motion. We have filed various motions seeking additional discovery from IBM. IBM has filed two additional motions for summary judgment which we will vigorously oppose. In addition to the materials that have been publicly filed with the court, certain information has been filed under seal in accordance with the protective order entered in the case.

Red Hat, Inc.

On August 4, 2003, Red Hat filed a complaint against us. The action is currently pending in the United States District Court for the District of Delaware under the case caption *Red Hat, Inc. v. The SCO Group, Inc.*, Civil No 03-772. Red Hat asserts that the Linux operating system does not infringe our UNIX intellectual property rights and seeks a declaratory judgment for non-infringement of copyrights and no misappropriation of trade secrets. In addition, Red Hat claims we have engaged in false advertising in violation of the Lanham Act, deceptive trade practices, unfair competition, tortious interference with prospective business opportunities, trade libel, and disparagement.

On or about September 15, 2003, we filed a motion to dismiss the Red Hat complaint. The motion to dismiss asserts that Red Hat lacks standing and that no case or controversy exists with respect to the claims seeking a declaratory judgment of non-infringement. The motion to dismiss further asserts that Red Hat's claims under the Lanham Act and related state laws are barred by the First Amendment to the U.S. Constitution and the common law privilege of judicial immunity. On April 6, 2004, the court issued an order denying our motion to dismiss; however, the court stayed the case and requested status reports every 90 days regarding the case against IBM. Red Hat has filed a motion for reconsideration. We intend to vigorously defend this action.

Novell, Inc.

On January 20, 2004, we filed suit in Utah state court against Novell, Inc. for slander of title seeking relief for its alleged bad faith effort to interfere with our ownership of copyrights related to our UNIX source code and derivative works and our UnixWare product. The case is currently pending in the Third Judicial District Court, Salt Lake County, State of Utah, under the caption *The SCO Group, Inc. v. Novell, Inc.*, Case No. 040900936. In the lawsuit, we requested preliminary and permanent injunctive relief as well as damages. Through these claims we seek to require Novell to assign to us all copyrights that we believe Novell has wrongfully registered, prevent Novell from representing any ownership interest in those copyrights and require Novell to retract or withdraw all representations it has made regarding its purported ownership of those copyrights.

Novell also filed a motion to dismiss our complaint claiming it never transferred the copyrights to The Santa Cruz Operation (now Tarantella, Inc.). We have filed a response to Novell's motion to dismiss and have also filed a motion to remand the case back to the state court. On June 10, 2004, the court issued a memorandum decision and order which denied our motion to remand the case to state court. The memorandum decision also denied Novell's motion to dismiss in part on claims of falsity. However, the court granted Novell's motion to dismiss regarding our allegations of special damages, but granted us 30 days leave to amend our complaint to plead special damages with more specificity. We have filed our amended complaint and Novell has responded with another motion to dismiss claiming that Novell's alleged slanderous statements are privileged under the law. We plan to continue to vigorously pursue our claims against Novell.

DaimlerChrysler Corporation

On or about March 3, 2004, we brought suit against DaimlerChrysler Corporation for its alleged violations of its UNIX software agreement with us. Specifically, the lawsuit alleges that DaimlerChrysler breached its UNIX software agreement with us by failing to certify by January 31, 2004 its compliance with the UNIX software agreement as required by us. The lawsuit, filed in Oakland County Circuit Court in the State of Michigan, requests the court to declare that DaimlerChrysler has violated the certification requirements of its UNIX software agreement, permanently enjoin DaimlerChrysler from further violations of the UNIX software agreement, issue a mandatory injunction requiring DaimlerChrysler to remedy the effects of its past violations of the UNIX software agreement and award us damages in an amount to be determined at trial together with costs, attorneys' fees and any such other or different relief that the Court may deem to be equitable and just. On April 15, 2004, DaimlerChrysler filed a motion to dismiss our claims. DaimlerChrysler's motion was heard on July 21, 2004 and the court granted DaimlerChrysler's motion as to the substance of DaimlerChrysler's certification but denied the motion as to whether the certification was timely. We are currently evaluating the matter and any further actions we may take.

AutoZone, Inc.

On or about March 2, 2004, we brought suit against AutoZone, Inc. for its alleged violations of our UNIX copyrights through its use of Linux. Specifically, the lawsuit alleges that AutoZone is infringing our UNIX copyrights by, among other things, running versions of the Linux operating system that contain code, structure, sequence and/or organization from our proprietary UNIX System V code in violation of our copyrights. The lawsuit filed in U.S. District Court in Nevada requests injunctive relief against AutoZone's further use or copying of any part of our copyrighted materials and also requests damages as a result of AutoZone's infringement in an amount to be proven at trial. On April 23, 2004, AutoZone filed a motion to transfer the case to Tennessee or to stay the case. On August 6, 2004, the federal court in Nevada entered an order granting AutoZone's motion to stay the case with 90-day status reports to the court. The court denied without prejudice AutoZone's motion for a more definite statement and its motion to transfer the case to Tennessee. The court also is allowing the parties to take limited expedited discovery relating to the issue of preliminary injunctive relief requested by us. We are undertaking this discovery process.

IPO Class Action Matter

We are an issuer defendant in a series of class action lawsuits, involving over 300 issuers that have been consolidated under *In re Initial Public Offering Securities Litigation*, 21 MC 92 (SAS). The plaintiffs, the issuers and the insurance companies have negotiated an agreement to settle the dispute between the plaintiffs and the issuers. All parties, including the plaintiffs, issuers and insurance companies, have executed this settlement agreement and the settlement agreement has been submitted to the court for approval. If the settlement agreement is approved by the court,

and if no cross-claims, counterclaims or third party claims are later asserted, this action will be dismissed with respect to our directors and us.

We have notified our underwriters and insurance companies of the existence of the claims. We believe, after consultation with legal counsel, that the ultimate outcome of this matter will not have a material adverse effect on our results of operations or financial position. As of July 31, 2004, we have paid or accrued the full retention amount of \$200,000 under our insurance coverage.

Other Matters

In April 2003, a former Indian distributor of ours filed a claim in India, requesting summary judgment for payment of \$1,428,000, and an order that we trade in India only through the distributor and/or to give a security until the claim is paid. The distributor claims that we are responsible to repurchase certain software products and to reimburse the distributor for certain other operating costs. We do not believe that we are responsible to reimburse the distributor for any operating costs and also believe that the return rights related to any remaining inventory have lapsed. We have engaged local counsel who has advised us that such claims will likely fail, but that the distributor will continue to pursue its claims either in the Indian courts or in the U.S. courts. Discovery has commenced and hearings have been held and are ongoing. We intend to vigorously defend this action.

We are a party to certain other legal proceedings arising in the ordinary course of business including legal proceedings arising from our SCOSource initiatives. We believe, after consultation with legal counsel, that the ultimate outcome of such legal proceedings will not have a material adverse effect on our results of operations or financial position.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuance of common shares upon repurchase of Series A-1 shares.

On May 31, 2004, we entered into an agreement with BayStar to repurchase and retire BayStar's 40,000 Series A-1 shares. Terms of the agreement required us to pay to BayStar \$13,000,000 in cash and issue 2,105,263 shares of our common stock. The repurchase price was payable and issuable upon the effectiveness of a shelf registration statement covering the resale of the shares of common stock that would be issued to BayStar upon the completion of the repurchase. On July 21, 2004, the SEC declared the registration statement on Form S-3 effective, and as of that date, the transaction closed, all Series A-1 shares were cancelled, and we issued to BayStar 2,105,263 shares of common stock.

We issued the unregistered, restricted shares of common stock (with respect to which the resale was registered as of the closing of the repurchase) in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

On August 27, 2004, following the completion of the Series A-1 repurchase transaction, after which no Series A-1 shares remained outstanding, we filed a Certificate of Elimination with the Secretary of State of the State of Delaware. The filing terminated the Certificate of Designation, Preferences and Rights of our Series A-1 shares, eliminating the previously designated Series A-1 shares.

Repurchases of our common stock.

On March 10, 2004, our Board of Directors authorized the repurchase of up to 1,500,000 shares of our common stock in open-market or private transactions. The plan will remain in

effect for a period of 24 months from the date announced. There were no repurchases of common stock during the three months ended July 31, 2004.

ITEM 6. EXHIBITS

- 3.1 Amended and Restated Certificate of Incorporation of Caldera International, Inc. (incorporated by reference to Exhibit 3.1 to SCO's Registration Statement on Form 8-A12G/A (File No. 000-29911)).
- 3.2 Certificate of Amendment to Amended and Restated Certificate of Incorporation regarding consolidation of outstanding shares (incorporated by reference to Exhibit 3.2 to SCO's Registration Statement on Form 8-A12G/A (File No. 000-29911)).
- 3.3 Certificate of Amendment to Amended and Restated Certificate of Incorporation regarding change of name to The SCO Group, Inc. (incorporated by reference to Exhibit 3.3 to SCO's Registration Statement on Form 8A12G/A (File No. 000-29911)).
- 3.4 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 to SCO's Registration Statement on Form 8-A12G/A (File No. 000-29911)).
- 3.5 Certificate of Designation for Series A-1 Convertible Preferred Stock (incorporated by reference to Exhibit 4.1 to SCO's Current Report on Form 8-K filed on February 9, 2004 (File No. 000-29911)).
- 3.6 Certificate of Correction correcting the Certificate of Designation for Series A-1 Convertible Preferred Stock (incorporated by reference to Exhibit 4.2 to SCO's Current Report on Form 8-K filed on February 9, 2004 (File No. 000-29911)).
- 10.1 Stock Repurchase Agreement dated as of May 31, 2004 between SCO and BayStar (incorporated by reference to Exhibit 99.1 to SCO's Current Report on Form 8-K filed on June 2, 2004 (File No. 000-29911)).
- 31.1 Certification of Darl C. McBride, President and Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Bert B. Young, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Darl C. McBride, President and Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Bert B. Young, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

ITEM 7. SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: September 14, 2004

THE SCO GROUP, INC.

By: /s/ Bert B. Young
Bert B. Young
Duly Authorized Officer and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description
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**CERTIFICATION PURSUANT TO RULE 13A-14
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Darl C. McBride, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The SCO Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based

on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 14, 2004

/s/ Darl C. McBride
Darl C. McBride
President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO RULE 13A-14
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bert Young, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The SCO Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 14, 2004

/s/ Bert B. Young
Bert B. Young
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of The SCO Group, Inc. (the "Company") on Form 10-Q, for the three months ended July 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Darl C. McBride, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Darl C. McBride
Darl C. McBride
President and Chief Executive Officer

Date: September 14, 2004

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of The SCO Group, Inc. (the "Company") on Form 10-Q, for the three months ended July 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bert Young, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Bert B. Young
Bert B. Young
Chief Financial Officer

Date: September 14, 2004

End of Filing

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