SCO

Mr. Lucio A. Noto
Audit Committee Chair
International Business Machines Corporation
New Orchard Road
Armonk, NY 10504

Dear Lucio:

SCO holds the rights to the UNIX operating system software originally licensed by AT&T to approximately 6,000 companies and institutions worldwide (the "UNIX Licenses"). The vast majority of UNIX software used in enterprise applications today is a derivative work of the software originally distributed under our UNIX Licenses. Like you, we have an obligation to our shareholders to protect our intellectual property and other valuable rights.

In recent years, a UNIX-like operating system has emerged and has been distributed in the enterprise marketplace by various software vendors. This system is called Linux. We believe that Linux is, in material part, an unauthorized derivative of UNIX.

As you may know, the development process for Linux has differed substantially from the development process for other enterprise operating systems. Commercial software is built by carefully selected and screened teams of programmers working to build proprietary, secure software. This process is designed to monitor the security and ownership of intellectual property rights associated with the code.

By contrast, much of Linux has been built from contributions by numerous unrelated and unknown software developers, each contributing a small section of code. There is no mechanism inherent in the Linux development process to assure that intellectual property rights, confidentiality or security are protected. The Linux process does not prevent inclusion of code that has been stolen outright; or developed by improper use of proprietary methods and concepts.

Many Linux contributors were originally UNIX developers who had access to UNIX source code distributed by AT&T and were subject to confidentiality agreements, including confidentiality of the methods and concepts involved in software design. We have evidence that portions of UNIX System V software code have been copied into Linux and that additional other portions of UNIX System V software code have been modified and copied into Linux. seemingly for the purposes of obfuscating their original source.

As a consequence of Linux's unrestricted authoring process, it is not surprising that Linux distributors do not warrant the legal integrity of the Linux code provided to customers. Therefore legal liability that may arise from the Linux development process may also rest with the end user.

We believe that Linux infringes on our UNIX intellectual property and other rights. We intend to aggressively protect and enforce these rights. Consistent with this effort, on March 7, we initiated legal action against IBM for alleged unfair competition and breach of contract with respect to our UNIX rights. This case is pending in Utah Federal District Court. As you are aware, this case has been widely reported and commented upon in the press. If you would like additional information, a copy of the complaint and response may be viewed at our web site at www.sco.com/scosource.
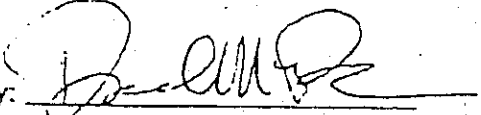
For the reasons explained above, we have also announced the suspension of our own Linux-related activities until the issues surrounding Linux intellectual property and the attendant risks are better understood and properly resolved.

Similar to analogous efforts underway in the music industry, we are prepared to take all actions necessary to stop the ongoing violation of our intellectual property or other rights.

SCO's actions may prove unpopular with those who wish to advance or otherwise benefit from Linux as a free software system for use in enterprise applications. However, our property and contract rights are important and valuable: not only to us, but to every individual and every company whose livelihood depends on the continued viability of intellectual and intangible property rights in a digital age.

Yours truly,

THE SCO GROUP

By: _____

Darl McBride
President and CEO