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SCO stock soars after nod from analyst
Bob Mims

A major brokerage analyst's blessings sent the stock of Utah's SCO Group Inc. skyrocketing Wednesday, with shares closing up 32 percent on the Nasdaq stock market. The Lindon-based software company -- more often making headlines of late for its federal court battles over Unix and Linux operating system (OS) rights -- rose as high as \$21.57 Wednesday before ending a feverish day of trading at \$20.50, up \$4.97 from Tuesday's close.

SCO's meteoric market flight was ignited by Deutsche Bank Securities' Brian Skiba, who started his institution's coverage of the company with a "buy" rating and a 52-week target price of \$45 a share.

"This is the first major financial analyst firm that has provided a recommendation for our company," SCO spokesman Blake Stowell said. "They based their recommendation on a lot of thorough research and digging into the prospects for our company."

Skiba characterized investment in SCO as "a call option," referring to both the company's \$50 billion federal lawsuit against IBM over Big Blue's alleged misuse of SCO-owned Unix code in its versions of Linux -- and SCO's possible long-term opportunities to profit from the now-freely distributed OS seen as a challenger to Microsoft Windows.

Deutsche Bank's recommendation came two months after Skiba had published a research note guardedly supportive of SCO's claims regarding duplication of Unix code in the latest versions of Linux.

Skiba's assessment came after he visited SCO's offices in Lindon for a confidential viewing of the company's purported evidence.

"Our review of source code and documents appears supportive of SCO claims, though we are not legal experts and IP matters are not always transparent," he wrote on Aug. 7. "A direct and near-exact duplicate of source code appears between the Linux 2.4 kernel and [SCO's] Unix System V kernel in routines shown to us."

However, Deutsche Bank's SCO rating on Wednesday also warned investment in the company could be extremely risky, riding on the success or failure of litigation over Unix-Linux rights.

In addition to its case against IBM, SCO faces a countersuit by Big Blue and a separate lawsuit by leading Linux distributor Red Hat Inc. challenging SCO's Linux licensing claims. SCO also has come under fire from the "open source" community, a loose network of programmers and developers who seek to keep Linux free.

Bruce Perens, a Linux developer in Berkeley, Calif., is convinced SCO's claims on Linux will ultimately fail, bringing its investors to ruin.

"SCO will collapse when it becomes clearer that they really have no more evidence to

show," he said. "It will be sad for the stockholders left holding the bag."

Other analysts are split on Deutsche Bank's advice.

"What speculators should also consider is the downside: SCO has suffered such enormous damage to its image, if judgments go against them the ability to pick up and carry on a viable business thereafter will be next to impossible," said George Weiss, vice president and research director at Gartner Inc.

"Effectively, it's a total 'bet the farm' or lose all. An investment firm that would advocate such a position stands to damage its own reputation with such speculation," he added.

Lauro DiDio of Yankee Group, however, said SCO could win its lawsuit against IBM; if so, investors will cash in.

"They could pull off a David versus Goliath here," she said. "This is the type of risk that financial and industry analysts like to see businesses take. It actually could yield some results."

Still, DiDio reiterated Deutsche Bank's warning that, "This remains an extremely risky venture. We don't know how this will all turn out."

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---- INDEX REFERENCES ----

COMPANY: The SCO Group (CALSMS)

NEWS SUBJECT: (Equity Markets (M11); Debt/Bond Markets (M12); Commodity/Financial Market News (MCAT))

INDUSTRY: (Computers/Electronics (I3302); Systems Software (I3302020); Applications Software (I3302021); Software (I330202); Computing (ICOMP))

REGION: (United States (USA); North American Countries (NAMZ))

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