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Microsoft Licenses Unix From SCO

Microsoft announces it will license the rights to Unix from SCO Group. A spokesman denies Microsoft's timing was an attempt to exploit the controversy surrounding Linux to benefit Microsoft but said the two companies had been working on an agreement for months.

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NEW YORK -- Microsoft, the world's largest software maker, said on Monday it will license the rights to a rival Unix computer operating system from SCO Group, sending SCO's shares soaring 40 percent.

The deal could put pressure on other firms to follow suit and sign license agreements. In addition, it could up the ante in a lawsuit that SCO filed against International Business Machines last March.

SCO sued IBM, alleging the world's biggest computer company abused its intellectual property rights by including some of SCO's Unix software code in a derivative version of Unix called Linux. IBM has denied the charges.

Both Linux and Unix are major rivals of Microsoft's Windows software, the dominant operating system software.

In a statement, Microsoft said the Unix license was intended to ensure that the software maker did not violate any intellectual property rights when developing products that allow computers with differing operating systems to work in tandem with one another.

"This helps to ensure IP (intellectual property) compliance across Microsoft solutions and supports our efforts around existing products, like services for Unix that further Unix interoperability," Brad Smith, Microsoft general counsel and senior vice president, said in a statement.

Microsoft's announcement comes as SCO last week turned up the heat on its intellectual property battle by notifying 1,500 of the world's largest corporations that their use of Linux may be in violation of SCO's software rights.

SCO also said it suspended shipments of its own version of Linux, saying the operating system was an "unauthorized derivative" of Unix. It promised not to sue existing customers but said future companies could be liable if they use the Linux software.

Linux is being distributed by hundreds of companies, which charge little or nothing for the core software, but which make money mostly on modifications, services and maintenance.

In a note last week, Goldman Sachs analyst Rick Sherlund said the growing intellectual property controversy surrounding Linux could create enough confusion and doubt that it would benefit Linux competitors, most notably Microsoft.

"Microsoft once maintained that Linux is 'a cancer that attaches itself in an intellectual property sense to everything it touches' and is eager to exploit the uncertainties around Linux," Sherlund said.

Microsoft spokeswoman Alex Mercer denied Microsoft's timing had anything to do with trying to exploit controversy in the Linux market to benefit Windows. She said the two companies had been working on the license agreement for several months and had finally signed the deal last week.

Unix was developed in the 1960s by AT&T, although the majority of big computer companies

-- including Sun Microsystems, IBM and Hewlett-Packard -- licensed the technology and developed their own version of the software.

The product was sold to Novell in 1992, which in turn sold the technology to SCO in 1995. SCO made the first version of Unix to work on computers that use Intel chips. It also helped IBM develop its own version of Unix, called AIX.

But with the growth of Microsoft's Windows software and the advent of Linux as a popular alternative to Unix, SCO struggled. Microsoft even owned a portion of the company, but sold it in 2000.

SCO then sold the technology to Caldera, a distributor of Linux. Caldera has recently asked its shareholders to change its name to SCO.

Shares of SCO gained 45 percent, or \$2.15, to a \$6.90 in afternoon trade on the Nasdaq.

The specific terms of the deal with Microsoft were not disclosed. However, a SCO spokesman said the company has entered into a license pact with another major technology company, which it would not name.

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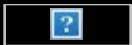
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