

The start-up company you are working for is being courted by Microsoft. Your company makes network management software that has two major components: an addition to the TCP/IP stack in the Windows NT operating systems to optimize the performance of all server daemons that reside on the Windows NT machine, and the network management application which helps the network administrator with hard drive backups, congestion analysis, and other useful tools. The potential acquisition makes you very happy because you can exercise your stock options and make a killing with the acquisition. However, Microsoft realizes it is under the scrutiny of the Department of Justice so the probability that the DoJ blocks the acquisition is non-zero.

1. Realizing the politics of the situation is tricky, consider the pros and cons of the following strategies:
  - Include the DoJ in the meetings you have with Microsoft vs. sending them the final agreement to approve.
  - Hire some lobbyists to help you court members of Congress and/or DoJ officials.
  - Meeting with your local Congressperson to explain the benefits to employment in your district.
2. The DoJ is very concerned about Microsoft buying your company and then never implementing your innovations. Because you know this is a concern of theirs, describe ways you can alter the acquisition agreement to satisfy these potential concerns.
3. You consider selling off one of the components of your network management software. Which one would you choose?
4. Assume you chose to sell off the software that adds to the TCP/IP stack. In the remaining market of network management, your company has a 60% market share, Microsoft has 20%, Netscape has 10%, Oracle has 5% and all other companies account for the remaining 5% (assume negligible contributions to the Herfindahl Index). Your friend at the DoJ tells you that they use the general rule of not interfering with industries that have a Herfindahl Index of less than 5,000, can the merger with Microsoft proceed? Is there a potential to merge with companies other than Microsoft?