Department of Justice

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JUSTICE DEPARTMENT SUES TO BLOCK WORLDCOM'S ACQUISITION OF SPRINT

Unless Blocked, Deal Would Result in Higher Prices for Millions of Consumers

WASHINGTON, D.C. -- The Department of Justice today sued to block the merger of WorldCom Inc. and Sprint Corporation because the deal would reduce competition in many of the nation's most important telecommunications services and would result in higher prices for millions of consumers and businesses. The proposed merger, between two of the three largest U.S. telecommunications companies, is the largest merger challenge by the Justice Department.

"This merger threatens to undermine the competitive gains achieved since the Department challenged AT&T's monopoly of the telecommunications industry 25 years ago," said Attorney General Janet Reno. "It is critical to our economy that we preserve competition for services that so many of us rely upon in our everyday lives--long distance calls, data network services and internet connections."

"American consumers, businesses, and internet users have received enormous benefits from the competitive telecommunications and internet markets," said Joel I. Klein, Assistant Attorney General of the Department's Antitrust Division. "If WorldCom were allowed to acquire Sprint, large and small businesses and millions of individual consumers would have to pay higher prices and accept lower service quality and less innovation."

The Department's suit, filed in U.S. District Court in Washington, D.C., seeks a permanent injunction to prohibit the merger.

In the residential long distance telephone markets and several other telecommunications markets, WorldCom and Sprint are the only substantial competitors to AT&T and to each other. Each has both constructed national and international fiber optic networks and developed sophisticated systems for handling millions of customer accounts, hired and trained large workforces capable of providing a variety of high-quality telecommunications services to customers throughout the nation, and invested billions of dollars over many years to establish widely known and trusted brands.

According to the complaint, the proposed merger would violate the antitrust laws by reducing competition in many of the nation's most important telecommunications markets. These markets include:

C**Long distance services sold to residential customers in the U.S.** In this market, WorldCom's share of residential telephone lines is approximately 19 percent, Sprint's market share is approximately 8 percent, and the combined share of the "Big 3" -- WorldCom, Sprint, and AT&T -- is approximately 80 percent.

C**Internet backbone services providing top-level connectivity throughout the U.S.** Firms in this market provide internet backbone connectivity to internet service providers and internet users. WorldCom operates the largest internet backbone network, which carries approximately 37 percent of all internet traffic. Sprint operates the second largest backbone network, which carries approximately 16 percent of internet traffic.

C**International long distance services between the U.S. and more than 50 foreign countries.** In each of these markets, the combined share of WorldCom and Sprint is at least 30 percent, and the combined share of the Big 3 is at least 80 percent.

C**International private line services between the U.S. and more than 60 foreign countries.** Firms in this market provide dedicated circuits between the U.S. and a foreign country exclusively for the use of a particular customer located in the U.S. for point-to-point communications. In each of these markets, the combined share of WorldCom and Sprint is at least 37 percent, and the combined share of the Big 3 is at least 82 percent. The merged company would have a monopoly on private line services between the U.S. and at least 12 countries.

C**Data network services to large business customers in the U.S.** This market includes inter-lata data services for large businesses provided by means of private lines and X.25, asynchronous transfer mode (ATM) and frame relay data network protocols. Each of these markets, and the market for data network services combined, are dominated by the Big 3.

CCustom network services for very large businesses in the U.S. Very large businesses have complex telecommunications needs and usually purchase these services in customized bundles. These customized bundles commonly include both simple telecommunications services (e.g., switched wireline voice service) and the most advanced and complex services (e.g., managed data networks that connect hundreds of locations with exacting quality-of-service guarantees, enhanced toll-free voice services with advanced features). The Big 3 dominate the custom network services market. Other carriers account for only a handful of contracts for such customized bundled services.

"Other carriers have entered the market on a much smaller scale," Klein said. "But none has produced beneficial effects on competition comparable in magnitude to the effects produced by competition between WorldCom and Sprint, and between those companies and AT&T."

WorldCom (formerly MCI WorldCom Inc.), which had revenues of $37 billion in 1999, is a Georgia corporation headquartered in Clinton, Mississippi. It is one of the largest global telecommunications providers, with operations in more than 65 countries and more than 22 million residential and business customers worldwide.

Sprint, which had revenues of approximately $17 billion in 1999, is a Kansas corporation headquartered in Westwood, Kansas. It is one of the largest U.S. telecommunications providers, serving more than 17 million residential and business customers.

The parties cannot consummate the transaction until they obtain regulatory approvals from the Federal Communications Commission and numerous state public utilities commissions in the U.S., as well as from the Commission of the European Communities and Brazilian antitrust authorities.

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