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September 22, 2006

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W., Room TWB-204
Washington, D.C. 20554

Re: ***Ex Parte Notification:*** Application Pursuant to Section 214 of the Communications Act of 1934 and Section 63.04 of the Commission's Rules for Consent to the Transfer of Control of BellSouth Corporation to AT&T, Inc. – WC Docket No. 06-74

Dear Ms. Dortch:

On Thursday, September 21, 2006, John Heitmann of Kelley Drye & Warren LLP, met with Scott Deutchman, Legal Advisor for Wireline Issues to Commissioner Copps to discuss ScanSource's opposition to the above-captioned merger. Todd Graham, Director of Telecommunications, ScanSource, Inc., and John Ellsworth, General Counsel and Corporate Secretary, ScanSource, Inc. joined the meeting by conference call.

During the meeting, ScanSource discussed and distributed the attached presentation, as well its July 19, 2006 filing in the above-captioned docket. In explaining the presentation, ScanSource reiterated that the list of potential bidders (carriers claiming or having current capability to serve ScanSource's enterprise-level needs near term in various geographic and product markets) actually was quite limited and that the list of potentially viable bidders (potential bidders that might actually succeed in winning a bid to provide such services) was even smaller. If the proposed merger between AT&T and BellSouth were allowed to proceed, ScanSource explained that the list of potentially viable bidders for ScanSource's local service needs would be reduced from 3 to 2.

ScanSource further discussed conditions necessary to ameliorate, in part, harms that would result from the removal of one of the three potential bidders from the market. In particular, ScanSource explained that imposition of a special access rate cap condition was necessary to provide pricing discipline on carriers and to bolster enterprise customers' reduced negotiating leverage. ScanSource also explained that a "fresh-look" condition was necessary not only to discipline a newly enlarged and empowered incumbent LEC, but also to facilitate the development of competitive alternatives needed to fill the gap left by the removal of the largest competitive LEC in the region from local markets.

Please feel free to contact me, if you have any questions regarding this *ex parte* notification. In accordance with the Commission's rules, this letter, is being filed electronically for inclusion in the public record of each of the above-referenced proceedings.

Respectfully submitted,

John J. Heitmann

John J. Heitmann

JJH:cpa
Enclosure
cc: Scott Deutchman

Proposed Merger of AT&T, Inc. and BellSouth Corporation: Analysis of Competitive Harms to Enterprise Customers

Presented by ScanSource, Inc.

Federal Communications Commission
WC Docket No. 06-74
September 21, 2006

Who is ScanSource?

- ScanSource is a leading value-added distributor of specialty technologies, including automatic data collection, electronic security and point-of-sale products.
- Operations within the United States: ScanSource is headquartered in Greenville, South Carolina and operates from numerous distribution and business centers nationwide, including major offices in Atlanta, Memphis, Miami and Phoenix.
- Worldwide Operations: ScanSource has multiple international offices, including offices in Canada, Mexico, France, Belgium and the United Kingdom.

What Telecommunications Services Does ScanSource Purchase?

- ScanSource's total annual expenditure for telecommunications services exceeds $1.6 million for the following products: MPLS/Data/VoIP; Local; Toll Free and Long Distance; International/VoIP; Disaster Recovery/Metro Ethernet; Internet Services.

- Current vendors:
  - MPLS/Data/VoIP – Verizon Business
  - Local – BellSouth
  - Toll Free and Long Distance – Verizon Business
  - International/VoIP – Sprint
  - Disaster Recovery/Metro Ethernet – Charter
  - Internet Services – Various

Criteria and Process for Acquiring Telecommunications Services

- In acquiring telecommunications services, ScanSource places a premium on (in order of importance):
  - (1) network "up-time," and prefers a redundant/self-healing network;
  - (2) superior customer service; and
  - (3) cost-effectiveness.
- ScanSource prefers to select, through a competitive bidding process, different providers to serve its various telecommunications needs.
  - ScanSource typically prefers to choose from three or more competitive bids for each service that ScanSource seeks to obtain.
  - ScanSource values its competitive bidding process as critical to its operations, and its ability to provide distinguished products and services to its own customers.
- Virtually all of ScanSource's telecommunications needs will be up for bidding in 2008.

Local Telecommunications Service

- ScanSource's purchases of local telecommunications service include SONET rings, T1 circuits and other business lines, as well and DSL and ISDN services.

- Potential bidders include: BellSouth, AT&T, Verizon Business (fka MCI), Sprint

  - ScanSource currently utilizes BellSouth to serve all of its local telecommunications needs within BellSouth's traditional operating territory. ScanSource's business centers in Greenville and Memphis are served by BellSouth-provided self-healing SONET rings, offering ScanSource protection from fiber cuts.

  - ScanSource's Greenville headquarters also is served by Charter Communications, as a safeguard against a global service outage. Service provider redundancy is critical to ScanSource's disaster recovery preparedness.

  - Before the announced merger, AT&T sought to bid for ScanSource's local business. AT&T could have bid to provide the same services provided by BellSouth, particularly in Atlanta and Miami, where AT&T has deployed metro fiber rings and extensive switching facilities, and in Greenville and Memphis, where AT&T has "lit" buildings.

- The merger of AT&T and BellSouth would eliminate one of the few competitors capable of serving ScanSource's local telecommunications needs.

Long Distance and Toll-Free Telecommunications Services

- Potential bidders include: BellSouth, AT&T, Verizon Business (fka MCI), Sprint
  - ScanSource currently utilizes Verizon Business (formerly, MCI) to serve its long distance telecommunications needs, including in-bound 800 service.
  - At one point, BellSouth provided toll-free services to ScanSource. BellSouth had won the business from AT&T. AT&T provided both long distance and toll-free services to ScanSource at one time.
  - Before the announcement of the AT&T/BellSouth merger, BellSouth represented that it was willing and able to compete both in-region and out-of-region to provide long distance service to enterprise customers, such as ScanSource.
- The merger of AT&T and BellSouth would eliminate one of the few competitors capable of serving ScanSource's long distance and toll-free telecommunications needs.

Competition for Future New Telecommunications Services

- ScanSource is planning to enhance its current communications platform to include the following new services: metro Ethernet services; audio and video conferencing services; comprehensive network monitoring capabilities, including network security testing; and business continuity and disaster recovery planning.

- Potential bidders include: BellSouth, AT&T, Verizon Business (fka MCI), Sprint

- The merger of AT&T and BellSouth would eliminate one of the few competitors capable of serving ScanSource's new telecommunications services needs.

The Merger of AT&T and BellSouth Will Eliminate Actual and Potential Competition

- The elimination of BellSouth from the existing markets for local and long distance telecommunications service will result in fewer competitors offering such services to enterprise customers.
    - As a direct result of the AT&T/BellSouth merger, pricing pressure on AT&T will be diminished, and in turn, AT&T (and others) will have ample opportunity to raise rates.
- The merger of AT&T and BellSouth will result in fewer independent, unaffiliated service provider options, which are necessary to support continuity of services in disaster and other outage scenarios. Continuity of service is critical to the operations of large enterprises, such as ScanSource.
- The existence of smaller CLECs and intermodal service providers, including wireless, cable and VoIP service providers, does not offset the loss of AT&T and BellSouth as independent suppliers of network capabilities.
- The merger of AT&T and BellSouth will adversely affect the quality of customer service that ScanSource currently enjoys.
    - Quality of service support offered by BellSouth is vastly superior than that offered by AT&T.
- As a result of the AT&T/BellSouth merger, AT&T and BellSouth will not compete to provide new products and services that ScanSource will require to enhance its current communications platform, including metro Ethernet services, audio and video conferencing services, comprehensive network monitoring capabilities, including network security testing, and business continuity and disaster recovery planning. The list of potential providers for each of these services is already small. The merger will eliminate a key competitor from the list.

If The FCC Is Disinclined to Deny the Merger, It Should Impose Conditions that Will Minimize Competitive Harms

- Special Access Rate Cap: For a period of thirty (30) months after the Merger Closing Date, the merged AT&T/BellSouth entity shall not increase the rates in their tariffs, including contract tariffs for special access and private line services that the merged AT&T/BellSouth entity provides in its 22-state operating territory and that are set forth in such tariffs of March 31, 2006.

- Fresh Look: The merged AT&T/BellSouth entity shall permit customers with term or negotiated service arrangements to terminate their agreements and pay no termination liability for a period of twelve (12) months from the Merger Closing Date. The merged AT&T/BellSouth entity also shall provide terminating customers with a six (6) month post-termination transition period to migrate off the AT&T/BellSouth networks during which they will pay no shortfall charges.