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March 16, 2004

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PUBLIC SERVICE
COMMISSION

VIA UPS

Ms. Stephanie Bell
Secretary of the Commission
Kentucky Public Service Commission
211 Sower Blvd., P.O. Box 615
Frankfort, KY 40602

**Re: Informational Filing of Z-Tel Communications, Inc. and Touch 1
Communications, Inc. Regarding Their Intent to Provide Security in
Connection with Financing**

Dear Ms. Bell:

Z-Tel Communications, Inc. ("Z-Tel")¹ and Touch 1 Communications, Inc. ("Touch 1")², by their attorneys, hereby respectfully advise the Kentucky Public Service Commission ("Commission"), pursuant to the Commission's Administrative Case No. 359 and No. 370, both issued June 21, 1996 (the "Administrative Cases"), of their intent to incur indebtedness in connection with a Revolving Credit and Security Agreement ("Agreement") consisting of a \$40 million revolving Credit Facility ("Credit Facility"). It is anticipated that the Credit Facility will be secured by the grant of a security interest in the assets of the certificated entities in Kentucky, Z-Tel and Touch 1, and their parent corporation, Z-Tel Technologies, Inc., as well as various other subsidiaries of Z-Tel Technologies, Inc. (collectively, the "Company" or "Borrowers"). As explained below, Z-Tel and Touch 1 operate on a nationwide basis and derive only a very small portion of their revenue from intrastate services provided in Kentucky, and

¹ The Commission authorized Z-Tel to provide competitive local exchange, long distance and operator services in Kentucky. Z-Tel's current tariff is available on the Commission's website.

² The Commission authorized Touch 1 to provide long distance telecommunications services in Case No. 96-275, dated August 28, 1996.

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pursuant to the above-cited Administrative Cases, Z-Tel and Touch 1 believe that no prior approval is required by this Commission in connection with this financing. In support of this notification, Z-Tel and Touch 1 provide the following information:

The Company. Z-Tel, a Delaware corporation, is a direct, wholly owned subsidiary of Z-Tel Technologies, Inc., a publicly held corporation. Touch 1, an Alabama corporation, is also a direct, wholly owned subsidiary of Z-Tel Technologies, Inc. Z-Tel is located at 601 South Harbour Island Boulevard, Suite 220, Tampa, Florida 33602, Touch 1 is located at 100 Brookwood Road, Atmore, Alabama 36504. Z-Tel provides advanced, integrated telecommunications services targeted to residential and small business customers, including local and long distance telephone services in combination with enhanced communication features. Z-Tel offers service on both a retail and wholesale basis. Its principal wholesale customer is Sprint. Touch 1 offers long distance telecommunications services to residential customers nationwide; however, the Company does not actively market this service. Z-Tel currently is authorized to provide long distance telecommunications services nationwide, and competitive local exchange services in 48 states. The majority of Z-Tel's customers are located in New York, Illinois and Michigan. In Kentucky, Z-Tel is authorized to provide competitive local exchange, long distance and operator services, and Touch 1 is authorized to provide long distance services. Z-Tel and Touch 1 are also authorized by the Federal Communications Commission to provide both interstate and international telecommunications services.

The Transaction. Z-Tel and Touch 1 intend to incur indebtedness by granting a security interest in their assets for financing of up to \$40 million. The Agreement among Z-Tel, Touch 1, Z-Tel Technologies, Inc., various other subsidiaries of Z-Tel Technologies, Inc., and CapitalSource Financing LLC, a Delaware limited liability company (the "Lender"), contemplates a revolving Credit Facility, the terms of which are expected to be substantially as follows:

Lenders: The lender is expected to be CapitalSource Finance LLC.

Amount: Up to \$40 million.

Maturity: All amounts outstanding under the revolving Credit Facility will be due and payable on the earlier of (i) the occurrence of an Event of Default under the Agreement; and (ii) the last day of the Term which is defined as the date three (3) years after the date of the Agreement (*i.e.*, 2007).

Interest: Interest under the Credit Facility will be payable monthly in arrears at an annual rate of Prime, plus 1.75%, beginning in the first month after the date of the Agreement. Provided, however, that for the purpose of

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calculating the interest, the Prime rate will not be less than 4.00%. The Prime rate would be defined as the base or prime rate charged by a specific major bank for loans of similar size with similar maturities or as an adjusted federal funds rate.

Security: To secure the Credit Facility, each Borrower, including Z-Tel and Touch 1, will grant the Lender a security interest in and collaterally assign all of their personal property assets and the proceeds and products thereof, including a pledge of subsidiary corporation shares.

Use of Proceeds: It is intended that the net proceeds of the financing will be used by the Borrowers to refinance their existing obligations and indebtedness and for working capital needs for the generation of receivables in connection with its communications business.

Public Interest Considerations. This financing transaction will serve the public interest by enhancing the ability of Z-Tel to grow and compete in the highly competitive markets for telecommunications services in Kentucky and nationwide. The financing arrangement will provide Z-Tel with the financial resources needed to continue to produce new products and services and respond to the highly competitive telecommunications environment. Indeed, Z-Tel plans to launch several VOIP-based products in the second quarter 2004 and access to new financing will assist in this innovation and business expansion. This transaction is not expected to affect in any way the current rates and services offered by the Company in Kentucky or elsewhere.

Z-Tel competes in Kentucky and other markets with numerous other interexchange carriers and enhanced service providers as well as the incumbent local exchange carrier and other competitive local exchange carriers. Because Z-Tel is a non-dominant carrier, it is not subject to rate of return regulation and its capital structure should not be a matter of concern to the Commission. In addition, because of the highly competitive environment in which it operates, the rates charged customers are subject to market discipline and the services offered generally are available from other carriers. As a result, the source of funds and capital structure of Z-Tel would have little effect on customers in Kentucky or elsewhere. In the unlikely event that Z-Tel's capital structure becomes too costly and rates rise, customers may simply migrate to other carriers with preferred rates. Thus, any adverse consequences from the Companies' financing decisions impact on shareholders, not on the Companies' customers, and any favorable consequences benefit both shareholders and consumers through higher profits, lower rates and better services. Finally, Z-Tel notes that its parent, Z-Tel Technologies, Inc., as a publicly held corporation, is subject to the jurisdiction of the Securities and Exchange Commission which also serves to protect the interests of investors and consumers in Kentucky.

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As noted above, it is Z-Tel's and Touch 1's understanding that no prior Commission approval is required to consummate the transaction described herein. This information is being submitted, therefore, solely to keep the Commission advised and its records current.

Enclosed please find 10 copies and a duplicate copy of this filing. Also enclosed is a self-addressed, postage-paid envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided. Please do not hesitate to contact Erin Emmott at (202) 955-9766 via email at eemmott@kelleydrye.com should you have any questions.

Respectfully submitted,

Z-TEL COMMUNICATIONS, INC. AND TOUCH 1
COMMUNICATIONS, INC.

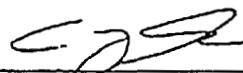
By: Erin W Emmott

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Their Counsel


VERIFICATION

I, Andrew L. Graham, am authorized to represent Z-Tel Communications, Inc. and its affiliates and to make this verification on their behalf. Except as otherwise specifically attributed, the statements in the foregoing document relating to these companies are true of my own knowledge, other than as to matters that are stated therein on information or belief, and as to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.



Andrew L. Graham
Secretary
Z-Tel Communications, Inc.

Subscribed and sworn to before me this 16th day of March 2004.


Notary Public

My Commission expires: 4/16/04

