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April 7, 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
Frankfurt, 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:

On March 17, 2004, Z-Tel Communications, Inc. ("Z-Tel") and Touch 1 Communications, Inc. ("Touch 1") (together, the "Parties"), by their attorneys, filed the above-captioned Informational Filing ("Informational Filing") with the Kentucky Public Service Commission ("Commission") to incur indebtedness in connection with a Revolving Credit and Security Agreement ("Agreement") consisting of a \$40 million revolving Credit Facility ("Credit Facility"). As negotiations for the initial funding were then ongoing, the Parties' filing with the Commission reflected general estimates of the terms of the expected financing. In negotiating the final arrangements, a different arrangement arose with terms more favorable to the Parties. The Parties believe, however, that the new arrangement is within the parameters of the proposal presented to the Commission in the Informational Filing; nonetheless, the Parties wish to call these changes to the attention of the Commission.

In the Informational Filing, the Parties noted that it is anticipated that Z-Tel and Touch 1 will be Borrowers and that the Credit Facility will be secured by the grant of a security interest in their assets. Under the new Loan and Security Agreement ("New Agreement"), it is likewise expected that Z-Tel and Touch 1 will be Borrowers and grant a security interest in their assets as security for the financing. The amount of the Credit Facility under the Agreement was up to \$40 million. Under the New Agreement, the financing also consists of a revolving credit facility, but the amount of indebtedness is less: up to \$25 million. The maturity date under the

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New Agreement is the same: three (3) years. Thus, the potential financial exposure to Z-Tel and Touch 1 is the same, for the same term, only for an amount less than that originally proposed. The following is a comparison of the anticipated terms of the financing:

Lender:

Agreement: The lender is expected to be CapitalSource Finance LLC.
New Agreement: The lender is expected to be Textron Financial Corporation.

Amount:

Agreement: Up to \$40 million.
New Agreement: Up to \$25 million.

Maturity:

Agreement: 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 (ie, 2007).

New Agreement: The Initial Term of the Agreement is the 36 month (3 year) period commencing on the date of the Agreement (ie, 2007).

Interest:

Agreement: 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 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.

New Agreement: Interest will accrue at the Interest Rate, which is defined as a variable rate, adjusted monthly, equal to the Prime Rate, plus 2%. The Prime Rate is defined as for any month the rate of interest per annum announced or quoted by JPMorgan Chase Bank on the last day of the preceding month as its prime rate for commercial loans.

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Security:

Agreement: 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.

New Agreement: 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:

Agreement: 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.

New Agreement: It is intended that the net proceeds of the financing will be used by the Borrowers for legal and proper business purposes.

This new financing of up to \$25 million is well within the scope of the \$40 million financing proposal permitted by the Commission. Although some of the specific terms maybe be different (ie, Lender, interest rate), the fact remains that the financing will continue to be secured, albeit at a lesser amount, by a security interest in the assets of the Borrowers, including Z-Tel and Touch 1. In light of these facts and the Commission's customary deference to the financing arrangements negotiated by competitive carriers, the Parties do not believe that any further Commission consideration of this financing is required. We are therefore submitting this information into the above-captioned Informational Filing and request that it be retained in the appropriate file. Should the Commission determine that any additional action is required, we request that the Commission contact the undersigned as soon as possible.

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Enclosed please find ten (10) copies and a duplicate copy of this filing. Please also find a self-addressed, postage-paid envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided. Should there be any questions with respect to this filing, please contact Erin Emmott at (202) 955-9766.

Respectfully submitted,

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

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