TCOD-196

DOCKET NO. TC00-196

TC00-196

In the Matter of

IN THE MATTER OF THE APPLICATION OF Z-TEL COMMUNICATIONS, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
11/20 00	Filed and Docketed;
[illegible] 00	Weekly Filings;
[illegible] 01	Surety Bond;
[illegible] 01	Revised Tariff Pages;
[illegible] 01	Revised Tariff Page;
[illegible] 01	Order Granting COA;
[illegible] 01	Docket Closed.
[illegible] 02	Staff's Petition for Reconsideration of the Terms and Conditions of COA;
[illegible] 02	Order Granting Amended COA;
[illegible] 02	Docket Closed.
[illegible] 02	Surety Bond;
[illegible] 02	Weekly Filings;
[illegible] 02	Order Granting Amended COA;
[illegible] 02	Docket Closed.

TC00-196

November 28, 2000
Overnight Delivery

Mr. William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
500 East Capitol
Pierre, SD 57501

RE: Registration of **Z-Tel Communications, Inc.** to Provide Facilities-based Local Exchange Service within South Dakota

Dear Mr. Bullard:

Enclosed for filing are the original and ten (10) copies of the registration request of Z-Tel Communications, Inc. for authority to provide facilities-based local exchange service within South Dakota.

Also enclosed is our check in the amount of $250.00 to cover the filing fee.

Please acknowledge receipt of this filing by date stamping the extra copy of this cover letter and returning it to me in the self-addressed stamped envelope.

Any questions you may have regarding this filing may be directed to me at (407) 740-8575. Thank you for your assistance.

Sincerely,

Monique Byrnes

Monique Byrnes
Consultant to Z-Tel Communications, Inc.

Enclosures

cc: S. Greenhawt, Z-Tel
file: Z-Tel - SD Local
tms: sdl0000

RECEIVED
NOV 29 2000
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

BEFORE THE SOUTH DAKOTA PUBLIC SERVICE COMMISSION

REGISTRATION OF
Z-Tel Communications, Inc.

Pursuant to Rule 20:10:24:02 of the Commission's Telecommunications Services Rules, Z-Tel Communications, Inc. ("Z-Tel") submits the following registration information:

1. **The applicant's name, address, telephone number, facsimile number , E-mail address and whether the applicant is a sole proprietorship, partnership, corporation, limited liability corporation, or limited liability partnership.**

   Z-Tel Communications, Inc.
   601 South Harbour Island Bouelvard
   Suite 220
   Tampa, Florida 33602
   Telephone: (813) 233-4611
   Facsimile: (813) 233-4620
   E-mail: tseat@.z-tel.com
   Web site: www.z-tel.com

   Z-Tel Communications, Inc. is a Delaware corporation.

2. **If sole proprietorship, the full name and business address of its owner; if a partnership, the full name and business address of each partner; if a corporation, a listing of the full name and business address of each corporate officer and director; if a limited liability corporation, the full name and business address of each partner.**

   Z-Tel Communications, Inc., (Z-Tel) is a wholly owned subsidiary of Z-Tel Technologies, Inc. Corporate officers and directors for Z-Tel Communications, Inc. and its parent company are listed below. All officers and directors may be reached at the company's headquarters address listed above.

Z-Tel Communications, Inc. Officers and Directors:

D. Gregory Smith	President, Chief Executive Officer and Director
John M. Hutchens	Director
Mark H. Johnson	Secretary and Treasurer

Z-Tel Technologies, Inc. Officers and Directors:

D. Gregory Smith	President, Chief Executive Officer, Chairman of the Board and Director
James Corman	President - Consumer Services
John M. Hutchens	Senior Vice President - Chief Financial Officer
Charles W. McDonough	Senior Vice President - Chief Technology Officer
J. Bryan Bunting	Senior Vice President - Engineering and Technical Support
James A. Kitchen	Senior Vice President - Chief Architect
Mark H. Johnson	Secretary and Treasurer
Robert A. Curtis	Senior Vice President - Strategic Planning
Doug W. Jackson	Vice President - Marketing

3. **The name under which the applicant will provide local exchange services if different than in question (1) of this section:**

Not applicable

4. **If a corporation:**

(a) **The location of its principal office, if any, in this state and the name and address of its current registered agent.**

Z-Tel has no principal offices in South Dakota.

Registered Agent:
C T Corporation System
319 South Coteau Street
Pierre, South Dakota 57501

(b) **A list of shareholders owning twenty (20) percent or more of the interest in the business.**

Z-Tel Communications, Inc. is a wholly owned subsidiary of Z-Tel Technologies, Inc. a public company traded on the NASDAQ.

(c) **The state in which the applicant is incorporated, the date of incorporation and a copy of its certificate of incorporation.**

Z-Tel Communications, Inc. is a corporation organized under the laws of the State of Delaware on January 15, 1998 as Olympus Telecommunications Group, Inc. On February 27, 1998 the name was changed to Z-Tel Technologies, Inc. and on April 2, 1998 the name was changed to Z-Tel Communications, Inc. A copy of Applicant's Certificate of Incorporation from the State of Delaware are provided in Attachment I.

(d) **If it is an out-of-state corporation, a copy of its certificate of authority to transact business in South Dakota from the Secretary of State.**

A copy of Z-Tel's Certificate of Authority to transact business in South Dakota is included at Attachment II.

5. **A description of the applicant's experience providing any telecommunications services in South Dakota or in other jurisdictions, including the types of services provided, and the dates and nature of state or federal authorization to provide the services.**

A listing of the states in which Z-Tel has filed for Local Exchange authority and the dates of approval is attached as Attachment III.

6. **Names and addresses of applicant's affiliates, subsidiaries, and parent organizations, if any.**

Communications, Inc. is a wholly owned subsidiary of Z-Tel Technologies, Inc. a public company traded on the NASDAQ. An organization chart of the parent company and all affiliates may be found in Attachment IV.

...specific description of the types of services the applicant seeks to offer and the means by which the services will be provided including:

(a) **Information indicating the class of customers the applicant intends to serve.**

Z-Tel Communications, Inc. proposes primarily to serve residential customers.

(b) **Information indicating the extent to and time-frame by which applicant will provide service through the use of its own facilities, the purchase of unbundled network elements, or resale.**

The company also intends to provide local exchange service in South Dakota as a facilities-based provider using an unbundled network element platform (UNE-P) of the incumbent local exchange company. The company anticipates service availability within 3 months of obtaining its certificate and receiving approval of its interconnection agreement.

(c) **A description of all facilities that the applicant will utilize to furnish the proposed local exchange services, including any facilities of underlying carriers.**

Z-Tel will offer service through UNE-P utilizing the facilities of Qwest, the incumbent local exchange company. Z-Tel will rely on its facilities-based underlying carrier for the operation and maintenance of the local exchange network.

(d) **Information identifying the types of services it seeks authority to provide by reference to the general nature of the service.**

Z-Tel Communications, Inc. seeks authority to provide local exchange service, custom calling and CLASS features, local operator assisted services and other services basic to local exchange service. The company' premiere offering is a bundled telecommunications service which includes local, long distance, specific custom calling/CLASS features and voice mail. Customers will receive a specific number of minutes of long distance with the bundled service offering and are in that way encouraged to select Z-Tel as its long distance carrier. Customers that do not want to presubscribe their interexchange service to Z-Tel will be able to presubscribe to any interexchange carrier that is present in the Customer's specific central office.

8. **A service area map and narrative description indicating with particularity the geographic area proposed to be served by the applicant.**

Z-Tel intends to offer its services initially in the territory now served by Qwest Corporation. As competition is available in other areas of the state, and the company can enter into UNE-P interconnection agreements, the company anticipates expanding its serving geographic area.

9. **Information regarding the technical competence of the applicant to provide its proposed local exchange services including:**

(a) **A description of the education and experience of the applicant's management personnel who will oversee the proposed local exchange services.**

A copy of current resumes of Z-Tel's management personnel is attached at Attachment V.

(b) **Information regarding policies, personnel, or arrangements made by the applicant which demonstrates the applicant's ability to respond to customer complaints and inquiries promptly and to perform facility and equipment maintenance necessary to ensure compliance with any commission quality of service requirements.**

Any questions regarding policies, personnel or the applicant's ability to respond to customer complaints should be directed to:

Timothy Seat
Vice President - Regulatory Affairs
Z-Tel Communications, Inc.
777 South Harbour Island Bouelvard
Suite 990
Tampa, Florida 33602
Telephone: (813) 233-4611
Facsimile: (813) 233-4620
E-mail: tseat@ Z-Tel.com

10. **Information explaining how the applicant will provide customers with access to emergency services such as 911 or enhanced 911, operator services, interexchange services, directory assistance, and telecommunications relay services.**

Z-Tel will enter into an interconnection agreement with Qwest Corporation. Under such an agreement, Z-Tel customers will be able to access emergency services such as 911 or enhanced 911. Such calls will be routed through the underlying carrier to the appropriate emergency agency serving the originating location. Access to local operator services, directory assistance and telecommunications relay services will also be made available. Z-Tel Communications sets the rates for its services and handles its own customer service.

11. **Financial information including:**

(a) **For the most recent 12 month period, financial statements consisting of balance sheets, income statements, and cash flow statements.**

The company requests a waiver of the requirement that it provide financial statements. Z-Tel provided the most current financial statements of its parent company, Z-Tel Technologies, Inc. as Attachment VI.

(b) **If a public corporation, the applicant's latest annual report and report to stockholders.**

Z-Tel is not a public company and does not have an annual report to stockholders. Z-Tel's parent company has not yet issued an annual report to stockholders. In addition to the financial statements, Attachment VI contains press releases with updated financial information. The parent company issued its first public offering 4Q1999.

12. **Information detailing the following matters associated with interconnection to provide proposed local exchange services:**

(a) **The identity of all local exchange carriers with which the applicant plans to interconnect**

Z-Tel plans to sign an interconnection agreement with Qwest Corporation and with other incumbent LECs when a UNE-P offering becomes available.

(b) **The likely timing of initiation of interconnection service and a statement as to when negotiations for interconnection started or when negotiations are likely to start.**

Z-Tel anticipates an interconnection agreement with Qwest by 2nd quarter 2001.

(c) **A Copy of any request for interconnection made by the applicant to any local exchange carrier.**

The company has not yet requested an interconnection agreement.

13. **A tariff or price list indicating the prices, terms and conditions of each contemplated local service offering.**

Please see Attachment VII.

14. **Cost support for rates shown in the company's tariff or price list for rate or price regulated noncompetitive or emerging competitive services.**

The company requests a waiver of ARSD 20:10:32:03(14) requiring cost support. The company has not yet determined final prices for its noncompetitive or emerging competitive services and will be unable to do so until an interconnection agreement is signed.

15. **A description of how the applicant intends to market its local exchange target market, whether the applicant engages in multilevel marketing, and copies of any company brochures that will be used to assist in the sale of the services.**

Z-Tel utilizes telemarketing, direct mail and other mass media methods to contact and market the company's services to new customers. The company does not utilize any form of multilevel marketing in the sale of its services. Attached are sample direct mail pieces prepared for other markets, however, the company's web site serves as its major source of information for customers: www.z-tel.com.

16. **If the applicant is seeking authority to provide local exchange service in the service area of a rural telephone company, the date by which the applicant expects to meet the service obligation imposed pursuant to §20:10:32:15 and applicant's plan for meeting the service obligations.**

Z-Tel is not seeking authority to provide local exchange service in the service area of a rural telephone company.

17. **A list of the states in which the applicant is registered or certified to provide telecommunications services, whether the applicant has ever been denied registration or certification in any state and the reasons for any such denial, a statement as to whether or not the applicant is in good standing with the appropriate regulatory agency in the states where it is registered or certified, and a detailed explanation of why the applicant is not in good standing in a given state, if applicable.**

Z-Tel Communications, Inc. has never been denied registration or certification in any state. Z-Tel is in good standing with all states in which it is presently certified. A listing of the states in which Z-Tel is registered or certified is enclosed as <u>Attachment III</u>.

18. **The names, addresses, telephone numbers, E-mail addresses, and facsimile numbers of the applicant's representatives to whom all inquires must be made regarding customer complaints and other regulatory matters.**

Customer Complaints:	Linda Farr Manager, Regulatory Affairs Z-Tel Communications, Inc. 100 Brookwood Road Atmore, Alabama 36504 334-446-2502 lfarr@z-tel.com
General Regulatory Matters:	Timothy Seat Vice President - Regulatory Affairs Z-Tel Communications, Inc. 777 South Harbour Island Boulevard Suite 990 Tampa, FL 33602 813-233-4611 tseat@z-tel.com

19. **Information concerning how the applicant plans to bill and collect charges from customers who subscribe to its proposed local exchange services.**

Z-Tel bills its customers directly. Concerns regarding billing may be addressed by calling Z-Tel's toll free customer service telephone number (1-800-511-4572). Z-Tel customer service is available with live operator response 24 hours per day, 7 days per week.

20. **Information concerning the applicant's policies relating to solicitation of new customers and a description of the efforts the applicant shall use to prevent the unauthorized switching of local service customers by the applicant, its employees, or agents.**

Z-Tel utilizes telemarketing and direct mail to contact and market the company's services to new customers. The company does not utilize any form of multilevel marketing in the sale of its services. The company uses a written LOA to prevent the unauthorized switching of local service customers wherever possible. Customers choosing the Z-Tel via inbound or outbound telemarketing are verified through an independent third party organization.

21. **The number and nature of complaints filed against the applicant with any state or federal commission regarding the unauthorized switching of a customer's telecommunications provider and the act of charging customers for services that have not been ordered.**

See Attachment VIII.

22. **A written request for waiver of those rules believed to be inapplicable.**

Z-Tel requests a waiver from ARSD 20:10:32:03(14) requiring cost support and from the requirement to provide financial statements. The company has addressed these issues in items 11 and 14.

23. **Federal Tax Identification Number.**

Z-Tel's Federal Tax Identification Number is: 59-3486356

24. **Other information requested by the commission needed to demonstrate that the applicant has sufficient technical, financial, and managerial capabilities to provide the local exchange services it intends to offer consistent with the requirements of this chapter and other applicable rules and laws.**

Z-Tel has experience operating as a local exchange providers in several states. The company has in excess of 256,000 residential local exchange access line subscribers. Please See Attachment IX for a Press Release on this issue. Based on the company's experience and proven track record, Z-Tel is certainly technically qualified to provide local exchange service in Idaho.

Submitted by:

Timothy Seat
Vice President - Regulatory Affairs
Z-Tel Communications, Inc.

Date: ____________________

ATTACHMENT I

Certificate of Incorporation

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "Z-TEL TECHNOLOGIES, INC.", CHANGING ITS NAME FROM "Z-TEL TECHNOLOGIES, INC." TO "Z-TEL COMMUNICATIONS, INC.", FILED IN THIS OFFICE ON THE SECOND DAY OF APRIL, A.D. 1998, AT 4:30 O'CLOCK P.M.

Edward J. Freel, Secretary of State

2846991 8100

[illegible]

AUTHENTICATION: 9010968

DATE: 04-03-98

RESTATED CERTIFICATE OF INCORPORATION
OF
Z-TEL TECHNOLOGIES, INC.

Z-Tel Technologies, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

The name of the corporation is Z-Tel Technologies, Inc. The date of filing of its original Certificate of Incorporation with the Secretary of State was January 15, 1998, under the name Olympus Telecommunications Group, Inc.

The text of the Certificate of Incorporation as amended or supplemented heretofore is further amended hereby to read as herein set forth in full:

1. The name of the corporation is Z-Tel Communications, Inc.

2. The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

4. The total number of shares of stock which the corporation shall have authority to issue is One Thousand (1,000) and the par value of each of such shares is Zero Dollars and One Cent ($.01) amounting in the aggregate to Ten Dollars and No Cents ($10.00).

5. The board of directors is authorized to make, alter or repeal the bylaws of the corporation. Election of directors need not be by written ballot.

6. The name and mailing address of the sole incorporator is:

   Laura Vitalo
   Corporation Trust Center
   1209 Orange Street
   Wilmington, Delaware 19801

7. A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or

a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

8. The corporation shall indemnify its officers, directors, employees and agents to the extent permitted by the General Corporation Law of Delaware.

This Restated Certificate of Incorporation was duly adopted by the Board of Directors in accordance with Sections 241 and 245 of the General Corporation Law of the State of Delaware. The corporation has not received payment for its capital.

This Restated Certificate of Incorporation shall be effective on April 2, 1998.

IN WITNESS WHEREOF, said Z-Tel Technologies, Inc. has caused this Certificate to be signed by D. Gregory Smith, its president, this 2nd day of April, 1998.

D. Gregory Smith, President

ATTACHMENT II

Secretary of State Certificate of Authority

State of South Dakota

OFFICE OF THE SECRETARY OF STATE

CERTIFICATE OF AUTHORITY

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of Z-TEL COMMUNICATIONS, INC. (DE) to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state under the name of Z-TEL COMMUNICATIONS, INC.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this May 28, 1998.

JOYCE HAZELTINE
Secretary of State

SECRETARY OF STATE
STATE CAPITOL
[illegible]

FILE NO.

RECEIPT NO.

RECEIVED

MAY 2 8 199[illegible]

S.D. SEC. OF STATE

APPLICATION FOR CERTIFICATE OF AUTHORITY

Pursuant to the provisions of SDCL 47-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

(1) The name of the corporation is Z-Tel Communications, Inc.

(Exact corporate name)

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is

(3) State where incorporated Delaware Federal Taxpayer ID# 59-3486356

(4) The date of its incorporation is January 15, 1998 and the period of its duration, which may be perpetual, is Perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is

1209 Orange Street, Wilmington, Delaware Zip Code 19801

Mailing address if different from above is: Same

Zip Code

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is c/o C T Corporation System, 319 S. Coteau Street, Pierre, South Dakota Zip 57501 and the name of its proposed registered agent in the State of South Dakota at that address is

C T Corporation System.

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose) provide telecommunications services

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address City State Zip
[illegible] Smith	President/CEO and Director	777 S. Harbour Island Blvd., Ste. 990, Tampa, Florida 33602
[illegible] Alba	Vice President/Secre	777 S. Harbour Island Blvd., Ste. 990, Tampa, Florida 33602
[illegible] A. Bowden	CFO/Treasurer	777 S. Harbour Island Blvd., Ste. 990, Tampa, Florida 33602

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of Shares	Class	Series	Par value per share or statement that shares are without par value
[illegible]	Common	Common Stock	$0.01

[illegible] - 239 - 7/15/97

(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
100	Common	Common Stock	$0.01

(11) The amount of its stated capital is $ 1
Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the secretary of state or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated May 21, 19 98

(Signature) D. Gregory Smith

President
(Title)

State of Florida
County of Hillsborough

On this 21st day of May, 19 98, before me Dolorene M. Sackman personally appeared D. Gregory Smith, known to me, or proved to me, to be the President of the corporation that is described in and that executed the within instrument and acknowledged to me that such corporation executed same.

My Commission Expires: 2/12/02

Dolorene M. Sackman
(Notary Public)

Notarial Seal

DOLORENE M. SACKMAN
MY COMMISSION # CC 715698
EXPIRES: February 12, 2002

****

The Consent of Appointment below must be signed by the registered agent listed in number six.

CONSENT OF APPOINTMENT BY THE REGISTERED AGENT

I, C T Corporation System, hereby give my consent to serve as the
(name of registered agent)

registered agent for Z-Tel Communications, Inc.
(corporate name)

Dated May 27 19 98

C T CORPORATION SYSTEM
(signature of registered agent)
PETER F. SOUZA
ASSISTANT SECRETARY

ATTACHMENT III

Listing of Existing Approved States

Z-Tel Communications, Inc. is approved nationwide to offer interexchange service. The company received authority for interexchange services in South Dakota on September 21, 1998, in an Order Granting Certificate of Authority TC98-139.

The following page provides the filing and approval status of the company's certification for facilities-based competitive local exchange authority.

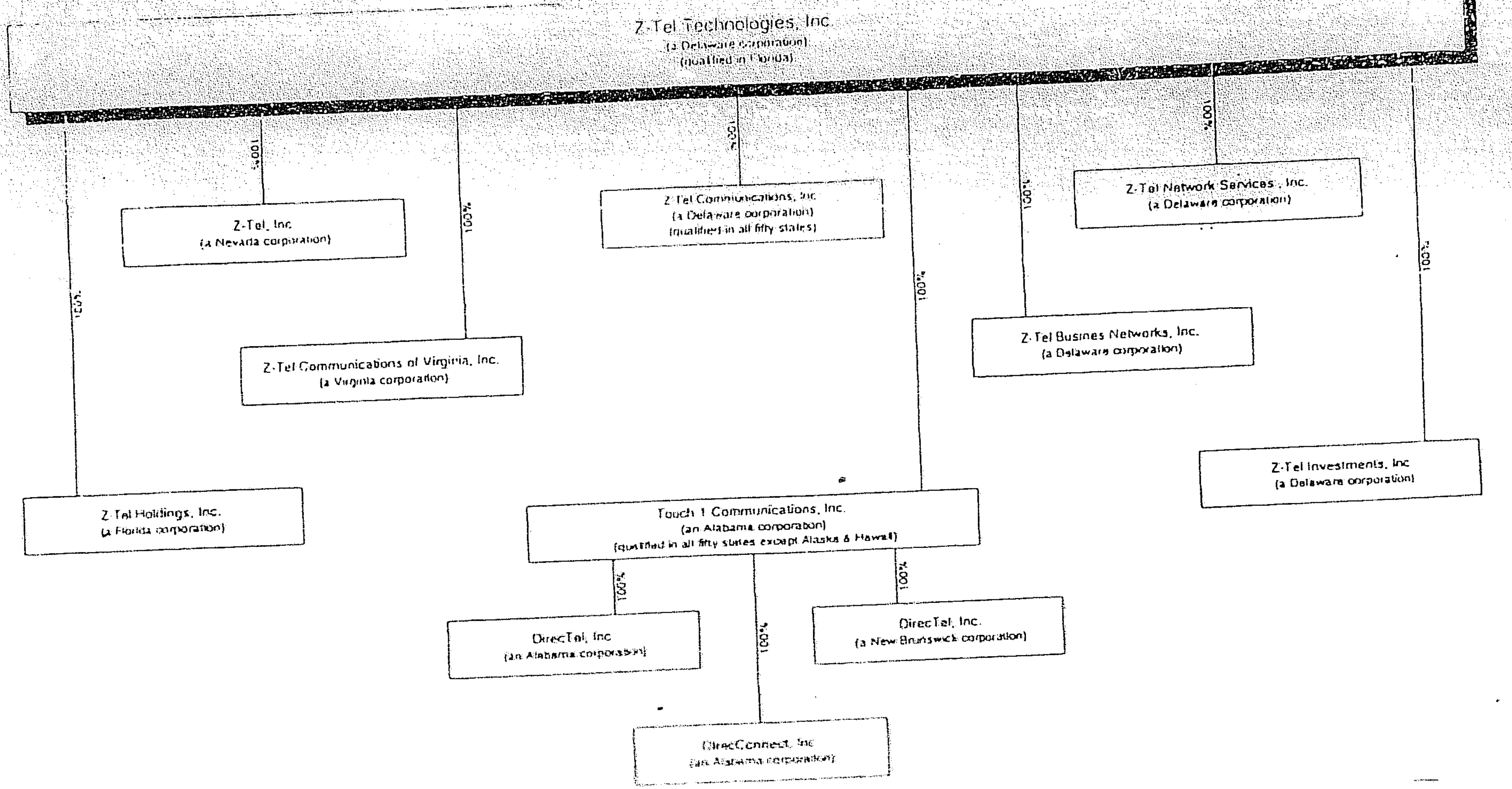
Z-TEL COMMUNICATIONS, INC.

CLEC States

State	Date Filed	Date Approved
Alaska		
Alabama	6/15/98	10/15/98
Arizona	4/21/00	9/18/00
Arkansas	9/28/00	Pending
California	3/22/00	6/8/00
Colorado	4/12/00	5/24/00
Connecticut	4/12/00	Pending
Delaware	10/26/00	Pending
Florida	6/11/98	8/31/98
Georgia	3/9/00	5/30/00
Hawaii		
Idaho		
Illinois	6/19/98	11/5/98
Indiana	5/3/00	7/20/00
Iowa	8/2/00	11/1/00
Kansas	11/1/00	Pending
Maryland	3/21/00	6/7/00
Kentucky	6/19/98	7/19/98
Louisiana	5/3/00	5/18/00
Maine	11/8/00	Pending
Massachusetts	6/8/98	7/10/98
Maryland	3/21/00	6/7/00
Michigan	2/28/00	5/22/00
Minnesota	6/9/00	11/9/00
Missouri	6/19/98	11/27/98
Mississippi	9/28/00	10/16/00
Montana	9/25/00	9/27/00
Nebraska		
Nevada	5/19/00	9/12/00
New Hampshire	10/24/00	Pending
New Jersey	3/28/00	Pending
New Mexico	10/23/00	Pending
New York	5/5/98	7/30/98
North Carolina	9/26/00	Pending
North Dakota		
Ohio	5/26/00	7/29/99
Oklahoma	11/2/00	Pending
Oregon	7/14/98	11/20/98
Pennsylvania	6/11/98	3/4/99
Rhode Island	9/11/00	9/25/00
South Carolina	8/29/00	9/28/00
Tennessee	10/3/00	Pending
Texas	6/19/98	8/13/98
Utah	8/18/00	10/23/00
Vermont	9/25/00	Pending
Virginia	6/19/98	9/23/98
Washington	8/20/98	9/9/98
West Virginia	9/28/00	Pending
Wisconsin	7/1/98	8/18/98
Wyoming		

ATTACHMENT IV

Corporate Organization Chart


Z-Tel Technologies, Inc.
(a Delaware corporation)
(qualified in Florida)
100%
Z-Tel Holdings, Inc.
(a Florida corporation)
100%
Z-Tel, Inc
(a Nevada corporation)
100%
Z-Tel Communications of Virginia, Inc.
(a Virginia corporation)
100%
Z-Tel Communications, Inc
(a Delaware corporation)
(qualified in all fifty states)
100%
Touch 1 Communications, Inc.
(an Alabama corporation)
(qualified in all fifty states except Alaska & Hawaii)
100%
DirecTel, Inc
(an Alabama corporation)
100%
DirecConnect, Inc
(an Alabama corporation)
100%
DirecTel, Inc.
(a New Brunswick corporation)
100%
Z-Tel Busines Networks, Inc.
(a Delaware corporation)
100%
Z-Tel Network Services, Inc.
(a Delaware corporation)
100%
Z-Tel Investments, Inc
(a Delaware corporation)

ATTACHMENT V

Resumes of Management

Z-Tel COMMUNICATIONS, INC.

MANAGEMENT PROFILES

D. Gregory Smith

Mr. Smith is a founder of the Company and has served as a Director, President and Chief Executive Officer since its inception in January 1998. Mr. Smith was a director of Premiere Technologies, Inc. from 1991 to 1997, executive vice president from 1994 to 1997 and vice president from 1991 to 1994. From 1987 to 1991, Mr. Smith was a management and financial consultant with Olympus Telecommunications, Inc. and Olympus Partners, Inc., companies that he founded. Mr. Smith has also held positions with NationsBank of Florida, N.A. and Chase Bank of Florida. Mr. Smith received his B.S. in Commerce from the University of Virginia.

James F. Corman

Mr. Corman is President of the Consumer Services division for Z-Tel Communications, Inc. and has served in this capacity since April, 2000. Prior to accepting this position, and from 1989-April, 2000, Mr. Corman was President of Touch 1 Communications, a nationwide long distance company, now a wholly owned subsidiary of Z-Tel Technologies, Inc. Prior to Touch 1, Mr. Corman was Senior Vice President with Telecom USA, at that time the fourth largest long distance company in the U.S. Mr. Corman began his career in telecommunications in 1969 holding various positions within Southland Communications corporation, including President from 1981-1987. Mr. Corman holds a B.S. from Auburn University and an M.B.A. from the University of Texas.

John M. Hutchens

Mr. Hutchens has served as Senior Vice President - Chief Financial Officer since September 1999. From 1982 through 1999 he was an employee and then a partner at Arthur Anderson LLP. Mr. Hutchens received a B.S. in Accountancy from the University of Illinois, and a Masters of Health Administration from the Ohio State University. Mr. Hutchens is a Certified Public Accountant licensed in Florida.

Charles W. McDonough

Mr. McDonough has served as Senior Vice President - Chief Technology Officer since August 1998. From 1975 through 1998, he was an employee and then a partner at Anderson Consulting LLP. Mr. McDonough received a B.A. in Industrial Engineering and a M.S. in Industrial Administration from Carnegie Mellon University.

J. Bryan Bunting

Mr. Bunting has served as Senior Vice President - Engineering and Technical Services since January 1999. Mr. Bunting served as senior vice president - Z-Tel Business Networks from August 1998 to January 1999. From 1965 through 1998, he was an officer of NationsBank, serving most recently as senior vice president of direct banking. Mr. Bunting attended Old Dominion University.

Mark H. Johnson

Mr. Johnson has served as Secretary and Treasurer of Z-Tel since August 1999. From May 1998 until his arrival at Z-Tel, Mr. Johnson was an employee of Olympus Management, a venture firm. From 1991 until 1998, Mr. Johnson was an employee of First Union National Bank. Mr. Johnson holds a B.A. from the University of Virginia.

Robert A. Curtis

Mr. Curtis has served as Senior Vice President - Strategic Planning since July 1999. From May 1998 to June 1999, Mr. Curtis was Vice President - Business Development and Legal Affairs at Z-Tel. From September 1995 to April 1998, Mr. Curtis was an attorney at the Houston office of Fulbright & Jaworski, LLP, where he specialized in antitrust and complex federal litigation. Mr. Curtis graduated from the Duke University School of Law in 1995; received his B.A. in Philosophy from Trinity University and his Doctor of Philosophy from the University of Oxford, England.

Doug W. Jackson

Mr. Jackson has served as Vice President - Marketing of Z-Tel since June 1999. From 1996 through 1999 he held the position of senior brand manager for the Coca-Cola Company and prior to that from 1992 to 1996 he was an associate product manager for Kraft General Foods Corp. Mr. Jackson received his B.A. from the University of Virginia and his M.B.A. from the University of Michigan.

ATTACHMENT VI

Financial Information

Z-Tel Technologies Inc. (ticker: ZTEL, exchange: NASDAQ) News Release - 2-Nov-2000

Z-Tel Reports Record Operating Results and Sequentially Improved EBITDA for Third Quarter

TAMPA, Fla.--(BUSINESS WIRE)--Nov. 2, 2000--

EBITDA Makes Positive Turn As Higher Volumes, Improved Operating Margins and Efficiencies Begin to Leverage Core Overhead Sharply Increased Revenues, Gross Margin, Normalized EPS and Subscriber Count All Meet or Exceed Consensus Estimates

* Subscriber Count Grows 51% From Second Quarter to 256,000
* Revenues Increased 36% Sequentially Over Second Quarter 2000 to $54 Million
* Fourth Consecutive Quarterly Gross Margin Increase, to 39%
* Five New State Markets, Doubling Addressable Market to 44 Million Potential Subscribers
* $156 Million in New Funding Agreements Announced

Gregg Smith, President and Chief Executive Officer of Z-Tel Technologies, Inc. (Nasdaq/NMS:ZTEL), today announced better-than-expected financial results for the third quarter and nine months ended September 30, 2000.

Mr. Smith commented, "Z-Tel delivered strong financial results in the third quarter as we continued to add record numbers of subscribers and attain greater efficiencies throughout the organization. While Z-Tel is one of the fastest growing consumer communications companies, we have been able to simultaneously improve gross profit margins and other key operating metrics. We believe we are well positioned from a sales and marketing, operations and financial standpoint to continue growing and to reach positive EBITDA during the first half of 2001."

For the third quarter, Z-Tel's revenues were $54,415,000, up 36% sequentially over $40,157,000 for the second quarter of 2000. Z-Tel had negative EBITDA for the third quarter of $15,920,000, a 13% sequential improvement from negative $18,283,000 for the second quarter of 2000. The Company's loss for the third quarter, excluding beneficial conversion and warrant accretion related to the issuance of Series D preferred stock, was $22,978,000, or $0.69 per share, compared with a loss of $23,055,000, or $0.70 per share, for the second quarter of 2000.

Revenues increased to $108,548,000 for the first nine months of 2000 from $7,170,000 for the first nine months of 1999. Excluding the beneficial conversion and warrant accretion charges related to the issuance of Series D preferred stock, the company's loss was $61,509,000, or $1.87 per share, for the first nine months versus a loss of $24,621,000, or $1.71 per share, for the comparable prior-year period.

Mr. Smith continued, "We are very pleased with subscriber and revenue growth, but the real story this quarter is the new efficiency that we are seeing in our operations. We also have continued to expand the market available to Z-Tel by entering five new states since the beginning of the third quarter - Georgia, Maryland, Oregon, California and Illinois - which has doubled our potential market to 44 million subscribers from 22 million. We also continue to improve the functionality of Z-Line's unique bundle of service with the recent addition of Z-Alerts(TM) and our new City of America(TM) service announced today. We are also planning to broaden our market geographically by entering additional states during the fourth quarter and early 2001."

Mr. Smith concluded, "We are also quite pleased with the confidence expressed by the financial community during the past four months as we raised $156 million in new financing or funding commitments in a challenging market. In addition to a $56 million preferred stock round announced in July 2000, we also closed or received commitments on a $50 million receivables funding facility and announced an agreement regarding a $50 million preferred stock investment by a Brown Brothers Harriman managed fund. We believe we are well positioned to continue our growth in the quarters ahead."

Z-Tel Technologies will hold a conference call to discuss this release today at 10:00 a.m. Eastern time. Investors will have the opportunity to listen to the conference call over the Internet by going to www.z-tel.com and clicking Investor Relations or by going to the following web sites - www.streetevents.com or www.vcall.com - at least fifteen minutes early to register, download, and install any necessary audio software. For those who cannot listen to the live broadcast, a replay will be available at these sites shortly after the call through the end of business on December 2, 2000.

About Z-Tel Technologies, Inc.(TM)

Z-Tel Technologies, Inc. provides consumers bundled local and long distance telephone services, combined with enhanced, Internet-based communications features that enable them to manage all of their voice communications needs. Z-Tel currently sells this bundle as "Z-Line Home Edition(TM)" in New York, Texas, Pennsylvania, Massachusetts, Georgia, Maryland, Oregon, California and Illinois, and has over 250,000 active customers. For more information about this innovative new service or about Z-Tel, please visit the Company's web site at www.z-tel.com.

Z-Tel Technologies, Inc., Z-Line, Z-Line Home Edition, Z-Alerts and City of America are trademarks of Z-Tel Technologies, Inc.

This press release contains forward-looking statements that are based upon current expectations and involve a number of risks and uncertainties. In order for Z-Tel to utilize the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, you are hereby cautioned, and Z-Tel hereby notes, that these statements may be affected by the risk that favorable growth and financial trends may not continue, the risk that the Company may not achieve positive EBITDA in the anticipated time frame or at all, the risk that the Company will be unable to efficiently and successfully enter new markets, the risk that the financings and other commitments described in this press release that have not yet closed are subject to closing conditions, and that if any of these conditions is not met, the financings and other commitments may not be completed; the risk that the anticipated efficiencies and reduction in expenses from the use of an electronic gateway will not be achieved in the time frame expected or at all; the risk that unbundled network elements will cease to be available in their present form in states that have adopted favorable pricing rules for such elements and the risk that additional state regulatory commissions will not adopt favorable pricing rules for unbundled network elements, the risk that the Company's existing financing will not be sufficient to fund anticipated growth and that additional financing may not be available on favorable terms or at all, as well as the risk factors described in detail in Z-Tel's 1999 Annual Report on Form 10-K, filed March 28, 2000; and in Z-Tel's other filings with the Securities and Exchange Commission. Z-Tel undertakes no obligation to update or revise any such forward-looking statements.

Z-TEL TECHNOLOGIES, INC.
Unaudited Financial Highlights
(In thousands, except share and per share data)

	Three Months Ended September 30, 2000	Three Months Ended September 30, 1999
Revenues	$ 54,415	$ 745
EBITDA	$ (15,920)	$ (9,764)
Net loss	$ (22,109)	$ (12,097)
Net loss attributable to common stockholders	$ (30,724)	$ (12,465)
Basic and diluted loss per share	$ (0.92)	$ (0.96)
Weighted average common shares outstanding	33,536,724	13,025,563

	Nine Months Ended September 30, 2000	Nine Months Ended September 30, 1999
Revenues	$ 108,548	$ 2,170
EBITDA	$ (48,636)	$ (18,431)
Net loss	$ (60,640)	$ (23,647)
Net loss attributable to common stockholders	$ (69,255)	$ (24,621)
Basic and diluted loss per share	$ (2.11)	$ (1.71)
Weighted average common shares outstanding	32,847,855	14,383,338

Z-Tel Technologies, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30, 2000	Three Months Ended September 30, 1999
Revenues	$ 54,415	$ 745
Operating expenses:		
Network operations	33,032	2,039
Sales and marketing	11,742	2,112

Research and development	2,132	1,154
General and administrative	23,429	5,204
Depreciation and amortization	5,308	1,085
Total operating expenses	75,643	11,594
Operating loss	(21,228)	(10,849)
Nonoperating income (expense):		
Interest and other income	736	87
Interest and other expense	(1,617)	(1,335)
Total nonoperating income (expense)	(881)	(1,248)
Net loss	(22,109)	(12,097)
Less mandatorily convertible redeemable preferred stock dividends and warrant accretion	(1,257)	(368)
Less beneficial conversion feature charge	(7,358)	--
Net loss attributable to common stockholders	(30,724)	$ (12,465)
Weighted average common shares outstanding	33,536,724	13,025,563
Basic and diluted net loss per share	$ (.92)	$ (.96)
EBITDA	(15,920)	(9,764)

	Nine Months Ended September 30,	
	2000	1999
Revenues	$ 108,548	$ 2,170
Operating expenses:		
Network operations	67,999	3,831
Sales and marketing	29,196	3,960
Research and development	5,221	2,619
General and administrative	54,768	10,191
Depreciation and amortization	11,800	2,749
Total operating expenses	168,984	23,350
Operating loss	(60,436)	(21,180)
Nonoperating income (expense):		
Interest and other income	2,477	319
Interest and other expense	(2,681)	(2,786)
Total nonoperating income (expense)	(204)	(2,467)
Net loss	(60,640)	(23,647)
Less mandatorily convertible		

redeemable preferred stock dividends and warrant accretion	(1,257)	(974)
Less beneficial conversion feature charge	(7,358)	--
Net loss attributable to common stockholders	$ (69,255)	$ (24,621)
Weighted average common shares outstanding	32,847,855	14,383,338
Basic and diluted net loss per share	$ (2.11)	$ (1.71)
EBITDA	(48,636)	(18,431)

Z-Tel Technologies, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except share data)

	September 30, 2000 (Unaudited)	December 31, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 23,383	$ 101,657
Accounts receivable	52,719	4,245
Prepaid expenses and other current assets	5,088	2,304
Total current assets	81,190	108,206
Property and equipment, net	55,014	28,549
Investments	5,704	--
Intangible assets, net	64,738	--
Other	3,388	922
Total assets	$ 210,034	$ 137,677
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 31,803	$ 9,165
Current portion of long-term debt and capital lease obligations	7,617	3,726
Total current liabilities	39,420	12,891
Long-term debt and capital lease obligations	13,923	10,408
Total liabilities	53,343	23,299
Mandatorily convertible redeemable preferred stock	40,657	
Mandatorily redeemable common stock warrants	16,475	

Stockholders' equity:		
Common stock	339	322
Notes receivable from stockholders	(789)	(1,683)
Unearned stock compensation	(121)	(2,487)
Additional paid-in capital	205,528	167,637
Accumulated deficit	(109,733)	(49,093)
Accumulated other comprehensive income	4,653	--
Treasury stock	(318)	(318)
Total stockholders' equity	99,559	114,378
Total liabilities and stockholders' equity	$ 210,034	$ 137,677

CONTACT: Z-Tel Technologies Inc., Tampa
Mark H. Johnson, 813/233-4610
mjohnson@z-tel.com

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE YEAR ENDED DECEMBER 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ TO __________

COMMISSION FILE NUMBER: 000-28467

Z-TEL TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**59-3501119**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

601 South Harbour Island Boulevard, Suite 220
Tampa, Florida 33602
(813) 273-6261
(Address, including zip code, and telephone number including area code, of Registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $.01 per share

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant on March 23, 2000 (assuming solely for these purposes that all directors, executive officers and 10% or greater stockholders are affiliates), based on the closing price of the Common Stock on the Nasdaq National Market as of such date, was approximately $777,720,354.

The number of shares of the Registrant's Common Stock outstanding as of March 23, 2000 was approximately 32,006,661.

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PART I

ITEM 1. BUSINESS

GENERAL

Z-Tel Technologies, Inc. was incorporated under the laws of Delaware in [illegible]. We are a provider of advanced, integrated communications services primarily to residential customers. We offer local and long distance telephone services in combination with enhanced communications features accessible through the telephone or the Internet. Through our uniquely designed web interface, our subscribers are able to manage their communications through the power of the Internet and the visual, "point and click" functionality of the personal computer. Our services are designed to make communications easier and more efficient.

Our business strategy takes advantage of recent statutory and regulatory changes that enable us to gain access to the individual components of the traditional local telephone service provider's (incumbent local exchange carrier or ILEC) networks, referred to as the unbundled network element platform. The Federal Communications Commission (the FCC) has recently mandated that the incumbent local exchange carriers provide competing local telephone companies such as us with the unbundled network element platform components at prices based on a forward-looking, long-run incremental cost methodology. Access to these components, in combination with our proprietary technology and advanced communications network, enables us to provide cost-effective local and long distance telephone services with enhanced features.

We currently offer our Z-Line Home Edition(TM) service in areas of New York and, on an initial marketing basis, in areas of Massachusetts served by Bell Atlantic Corporation (Bell Atlantic), and in areas of Texas served by Southwestern Bell Telephone Company (Southwestern Bell). Within these markets, we believe that we are one of few competitive local exchange carriers specifically targeting the needs of residential customers. It is our intent to expand service into additional areas as they become available. In particular, we expect to begin initial marketing of Z-Line Home Edition in Pennsylvania in the second quarter of 2000.

We currently offer three services to individual customers, Z-Line Home Edition, Z-Line Anywhere(TM) and Z-Line Messenger(TM), each centered around Your Personal Communications Center(TM) (the PCC). The PCC includes multiple features that combine the convenience of the telephone with the power of the Internet. Accessible by telephone or the Internet, located at www.myzline.com or www.z-tel.com, the PCC enables our customers to direct, retrieve, deliver, compile and otherwise manage their voice communications. One of the features offered through the PCC is the Z-Line Community(TM) feature, which allows us to provide group messaging features to individual consumers as well as sponsored communities such as colleges, civic organizations and businesses. We intend to begin offering soon an additional service to individual customers, Z-Line Long Distance(TM).

ACQUISITION OF TOUCH 1 COMMUNICATIONS, INC.

On January 24, 2000, we reached an agreement in principle with Touch 1 Communications, Inc. (Touch 1) for the acquisition of Touch 1, a transaction which will bring together our bundled consumer telecommunications services with Touch 1's extensive telemarketing, customer service and provisioning infrastructure. Touch 1 is a leading consumer telecommunications company with approximately 400,000 customers in 48 states. Touch 1 produced revenues for 1999 of approximately $65 million. The transaction, which is subject to, among other things, the signing of a definitive agreement, other regulatory approvals, and customary closing conditions, is expected to close before the end of May 2000.

REGULATORY BACKGROUND

The Telecommunications Act of 1996 (the Telecommunications Act) was enacted principally to foster competition in the telecommunications markets. The Telecommunications Act imposes a variety of duties upon the incumbent local exchange carriers, including the duty to provide other communications companies with access to their network elements on an unbundled basis at any feasible point. Such access must be at rates and on terms and conditions that are just, reasonable and nondiscriminatory. A network element is a facility or piece of equipment of the local telephone company's network or the features, functions or capabilities such facility or equipment provides. The Telecommunications Act also establishes procedures under which the Regional Bell Operating Companies (Bell operating companies) will be allowed to handle long distance calls originating from within their telephone service area and terminating outside their area. The Bell operating companies were divested by AT&T in 1984 pursuant to court order under which they were prohibited from providing "in-region" long distance telephone service. With the passage of the Telecommunications Act, a Bell operating company can provide such in-region service if it complies with a 14-point regulatory checklist, including offering interconnection to other communications companies and providing access to its unbundled network elements on terms approved by a state public service commission.

On September 10, 1999, in an effort to comply with the 14-point regulatory checklist in order to be able to offer "in-region" long distance telephone service, Bell Atlantic filed a tariff which establishes favorable rates, terms and conditions under which competitors may purchase unbundled network elements in New York. In its New York tariff, Bell Atlantic committed to provide unbundled network elements, both individually and on a combined basis, for provision of residential telephone service and small business telephone service, with the exclusion of business service from end offices with two or more competitive local telephone service providers (CLECs) collocated in that end office.

On November 5, 1999, the FCC released an order establishing the list of unbundled network elements that incumbent local exchange carriers nationwide must provide. Taken together, these unbundled network elements comprise the most important facilities, features, functions and capabilities of an incumbent local exchange carrier's network. Under the FCC's order, the incumbent local exchange carriers must allow competing local telephone companies such as us to use the unbundled network elements, in an individual or combined fashion, to provide basic local telephone service and must price the elements using a forward-looking, long-run incremental cost methodology. We expect both individual network components and components in combined component service packages to be available at attractive prices nationwide as state regulatory authorities and incumbent local exchange carriers conform to the recent FCC mandates. Pricing and implementation rules for unbundled network elements in

[illegible]

[illegible] services packages or platform offerings that are at least acceptable for [illegible] have been adopted in New York, Pennsylvania, Texas and [illegible]. The prices for the use of individual network components and [illegible] services packages will nevertheless vary from state to state, [illegible] state's oversight of unbundled network element platform [illegible] and operation.

[illegible]

[illegible] the simplicity of standard telephone service with the [illegible] that our Internet applications deliver, we have created an [illegible] for managing communications that is accessible by the telephone or [illegible]. That environment includes the following elements:

[illegible] BUNDLED LOCAL AND LONG DISTANCE TELEPHONE SERVICE. We [illegible] a cost-effective bundled package of local and long distance telephone [illegible], which includes all the enhanced features of the PCC as well as [illegible] services such as call waiting and caller identification, in [illegible] favorable regulatory environments to residential customers in [illegible]. We lease facilities of the existing incumbent local exchange [illegible] as a forward-looking, long-term incremental cost basis, which enables us [illegible] the need to invest significant capital into switching equipment at the [illegible] exchange carrier's central office. As a result, we are able to [illegible] priced, bundled package that includes local and long [illegible] services and enhanced services.

[illegible] INTEGRATION OF PERSONAL ORGANIZATIONAL TOOLS. The PCC has been [illegible] to download their personal directories from a variety of [illegible], including Microsoft Outlook. In addition, other personal [illegible], such as Palm Pilot, can be downloaded into Outlook and then [illegible] the PCC. Once this information has been downloaded, customers [illegible] databases of contacts to create easily sub-directories for special [illegible]. By utilizing the PCC, customers can, with the click of a mouse, [illegible] or forward messages to contacts that have been stored in their [illegible]. We believe the ability to manage personal directories on [illegible] creates a more loyal customer over time because of the difficulty of [illegible] directories to other services.

[illegible] PLATFORM FOR NEW MARKETS. The unbundling of network elements [illegible] the incumbent local exchange carriers' facilities to [illegible] to our customers. As a result, we have the ability to [illegible] quickly, and without a significant investment in equipment, as [illegible] in those markets adopt favorable pricing. In addition, we [illegible] sales staff that receives incoming calls for new service and [illegible] provides service to new customers. Using the PCC, customers can [illegible] their own service requirements, thus minimizing our need [illegible] customer service infrastructure.

[illegible] PROPRIETARY TECHNOLOGY. We have created an integrated and [illegible] software and advanced network architecture that enables the enhanced [illegible] of our service. We have created software applications that can control [illegible] of initiating and completing a telephone call regardless of [illegible], such as a telephone or personal computer. These applications allow our customers to control simultaneously all the basic functions of a telephone call from either the telephone or personal computer. In addition, we, in collaboration with a third party, have created our own proprietary billing system. We are also in the process of developing and enhancing our customer care, billing and provisioning software into one seamlessly integrated package.

Our network is designed to route traffic to our main enterprise management center in Tampa for call management. This reduces our need to collocate network equipment in the central offices of the incumbent local exchange carrier in our target markets and enhances our ability to enter new markets quickly and cost effectively. Our network architecture also is designed to accommodate a number of developing technologies, such as telephone calls over internet protocol, digital subscriber line, asynchronous transfer mode, or coaxial cable systems.

ENHANCED COMMUNICATION SERVICES FOR GROUPS AND INDIVIDUAL USERS NATIONWIDE. We offer our Z-Line Community features to consumers, organizations and business users nationwide through the PCC. Those features may be accessed from any of our services. The PCC capabilities, including specialized features for directories and group messaging, provide value to users within sponsored communities by facilitating communication among dispersed community members.

We intend to pursue Z-Line Home Edition marketing and distribution in new states as state regulatory authorities impose favorable pricing, implementation rules and acceptable operations support systems performance for the unbundled network element platform components. Favorable implementation requirements for providing the unbundled network element platform components were a feature of the SBC Communications, Inc./Ameritech Corporation merger order conditions recently approved by the FCC. Accordingly, as acceptable pricing and operations support systems become available, we intend to evaluate the entry into each state in the combined SBC/Ameritech regions. Similar requirements are currently being discussed by the FCC with regard to conditions likely to be required in association with the approval of the pending Bell Atlantic/GTE merger. Furthermore, U S WEST Corporation and BellSouth Corporation recently announced the general availability of the unbundled network element platform components as part of a general effort to meet FCC requirements.

SERVICES

Z-LINE HOME EDITION

Z-Line Home Edition is our principal service offering and is currently being offered in New York, Texas and, on an initial marketing basis, in Massachusetts, in areas serviced by the Bell operating company operating in those states. Z-Line Home Edition includes low-priced local and long distance (1+) residential telephone services using a customer's existing telephone number, bundled with enhanced features, including caller identification, call forwarding, three-way calling, call waiting and speed calling, dial-up remote access through our Z-Line Anywhere access card service, the full functionality of the PCC and, for an additional fee, Internet access.

We intend to pursue offering Z-Line Home Edition in additional states as soon as favorable pricing and implementation rules are imposed in those states, and to start marketing Z-Line Home Edition in Pennsylvania before the end of the second quarter of 2000.

Z-LINE ANYWHERE

Z-Line Anywhere is our access card service that allows a customer to make long-distance calls using Z-Tel's network from any phone simply by dialing a toll-free 800 number or local access number. No change in phone service is required. Customers of Z-Line Anywhere also receive the full functionality of the PCC and, for an additional fee, Internet access. Z-Line Anywhere is being offered nationwide.

Z-LINE MESSENGER

Z-Line Messenger is a trial service we offer to consumers and members of [illegible] communities free of charge that provides certain limited features of the PCC. Z-Line Messenger customers are limited to sixty minutes of voice mail per month and are not authorized to use certain enhanced services provided by the PCC, such as the ability to complete a call using the web, the "Find-Me" functionality and the ability to create and manage "Communities." Customers may upgrade their service to Z-Line Anywhere or Z-Line Home Edition, provided that that latter service is offered in their markets. Z-Line Messenger is being offered nationwide.

Z-LINE LONG DISTANCE

Z-Line Long Distance is a usage-based service currently in development that will allow customers to use us as their primary long-distance calling provider to complete their residential long distance (1+) calls. Z-Line Long Distance will also provide our customers with dial-up remote access through our Z-Line Anywhere access card product, the full functionality of the PCC and, for an additional fee, Internet access. We intend to offer Z-Line Long Distance nationwide in the near future.

KEY FEATURES OF OUR SERVICES

THE PCC

The PCC is the core feature set of all of our service offerings, although only limited functionality is provided to Z-Line Messenger customers. It is a suite of features subscribers can access via any telephone or at our web site. Subscribers can retrieve, forward, deliver, store, compile and otherwise manage their voice mail and other communication needs. Using the "Find-Me" feature, subscribers can have the PCC attempt to locate them at up to three numbers when they receive incoming calls, and notify them via e-mail, pager or the Internet chat (instant messaging) when a new voice mail message arrives. At our website, subscribers can view a list of their voice mail messages and listen to them through their computer speakers, create an on-line Address Book by inputting information directly or importing it from other services, place calls with the click of a mouse, deliver voice messages to groups of other subscribers, forward voicemails and view historical billing statements on-line.

We expect to provide additional functionality to the PCC in the future, including the ability to use the PCC in conjunction with personal digital assistants (PDAs), voice recognition capability, the ability to use the PCC for conference calling, the ability to manipulate voicemail and Z-Line settings from the user's desktop, and dedicated e-mail accounts and fax receiving capability.

Z-LINE COMMUNITY

Z-Line Community is a set of features embedded within the PCC that allows users or group sponsors to search for, create or join "Communities," which are pre-defined groups of our users usually based on professional or personal affinities. Users can also invite other of our subscribers to join Communities and administrate the user access options of a Community. Once the Communities are created, users can send group messages to specific members of the communities or the entire group.

Z-Line Community enables us to offer sponsored communities such as colleges, civic organizations and businesses with a robust communication solution. Each community member automatically receives our Z-Line Messenger Local product and can thereby gain access to limited features of the PCC, including Z-Line Community, and can upgrade to any of our other service offerings. Community members can then interact with one another, even when the individual community members have subscribed to different services.

Z-Line Community features benefit both the sponsor and members of a community. Sponsors can use group messaging features to deliver voice mail messages to their widely-dispersed members. Colleges, for instance, can use our services to deliver simultaneously voice mail messages, including personalized information such as financial aid and class schedule updates, to their widely dispersed students. Students, faculty and administrators can take advantage of low long distance rates by upgrading their Z-Line Messenger service, or set up their own sub-communities based on student groups or other affiliations, and can use our network to disseminate information to community members.

MARKETING AND DISTRIBUTION

We market our services to our customers through telemarketing, agent programs, strategic business partnerships, direct mail and marketing and traditional advertising campaigns promoting recognition and awareness of our "Z" brand. We also have entered into joint marketing or co-branding arrangements with organizations that have large, well-established relationships or customer bases in our target markets, such as Hofstra University, the Fraternal Order of Police, the Fire Fighters' Association of Texas and Kinkos.com. We intend to explore the formation of alliances or ventures with other companies, including Internet service providers, paging operators, cable television companies, utilities, newspapers, banks, credit card companies and department stores, which we believe will allow us to penetrate efficiently large customer bases with a relatively small capital outlay.

[illegible]

[illegible]

[illegible] methods for billing and collecting from our [illegible] Edition customers, we can either (1) charge their [illegible] a bill to their address for payment by check; or [illegible] withdrawal from the customer's checking account. For our [illegible] currently require all new customers to pay by [illegible] withdrawal. However, we had, in the past, allowed them [illegible] methods. Our billing software can be customized to [illegible] billing programs.

[illegible] AND CUSTOMER SUPPORT

[illegible] in our software platform, which includes [illegible] and provisioning, customer service and billing [illegible]. For our Z-Line Anywhere service, a new [illegible] or our toll free number with service [illegible] allows our Z-Line Home Edition and Z-Line [illegible] billing options and service feature configurations. [illegible] configurations on the telephone.

[illegible] require us to interact with the applicable [illegible]. Currently, after receiving a signed letter of [illegible] request for service, we enter orders using an [illegible] provided by Bell Atlantic for our New York and [illegible] and Southwestern Bell for our Texas customers. Our [illegible] the order in the Z-Tel system.

[illegible] the next year to expand our operations support [illegible] gateways to the major incumbent local exchange [illegible] software, and a standard internal [illegible] that can handle multiple incumbent local exchange carrier [illegible] will include outside integration and [illegible].

[illegible] AND PROPRIETARY RIGHTS

[illegible] proprietary software that manages the integrated [illegible]. Our software allows our network to interface [illegible] of the incumbent local exchange carriers and [illegible]. In addition, our software allows our remote network [illegible] which we call "Z-Nodes," located throughout the United [illegible] other and with our enterprise management center [illegible].

[illegible] reflects the know-how, work product and [illegible] in our research and development team, based [illegible] Atlanta, Georgia, who have substantial experience in [illegible] telecommunications, web-based services, database management [illegible] network development, architecture, operation and [illegible].

[illegible]

For the fiscal years ended December 31, 1999 and 1998, we invested approximately $8,356,000 and $4,728,000, respectively, in company-sponsored research and development activities.

We have entered into, and will continue to enter into, nondisclosure agreements with our employees, independent contractors, business customers and others. We believe these agreements will protect our confidential and proprietary information, whether or not such information is copyrighted or subject to trademark or patent protection. We intend to take all appropriate legal action to protect our ownership and the confidentiality of all our proprietary software, including, as appropriate, the filing of copyrights in the U.S. Copyright Office.

We have filed trademark applications for federal registration of more than fifty trademarks with the United States Patent and Trademark Office including Z-TEL, Z-TEL TECHNOLOGIES, INC., Z-TEL COMMUNICATIONS, INC. AND DESIGN, Z-LINE HOME EDITION, Z-LINE ANYWHERE, Z-NODE, Z-LINE, Z-NOTIFY, Z-SITE, Z-MAILBOX, Z-DIRECTORY, Z-NOW!, Z-NUMBER, Z-BILL PAYMENT SERVICES, Z-NET, GENERATION Z, MYLINE, YOUR PERSONAL TELECOMMUNICATIONS PORTAL and YOUR PERSONAL COMMUNICATIONS CENTER.

COMPETITION

Overview

The telecommunications industry is highly competitive in many market segments. However, at present, we believe few telecommunications carriers provide the type of bundled packages that include the range of services and features we offer, but various competitors offer one or more of the services that make up our service offering. Competition in the local telephone services market is still emerging, but already has attracted many strong competitors. Competition in the long distance and information services markets, which have fewer entry barriers, is already intense and is expected to remain so.

We believe the principal competitive factors affecting our business will be the quality and reliability of our services, innovation, customer service and price. Our ability to compete effectively will depend upon our continued ability to offer innovative, high-quality, market-driven services at prices generally equal to or below those charged by our competitors. Many of our current and potential competitors have greater financial, marketing, personnel and other resources than we do, as well as other competitive advantages.

COMPETITION

LOCAL TELEPHONE SERVICE

INCUMBENT LOCAL EXCHANGE CARRIERS. In each of our target markets, we will compete with the incumbent local exchange carrier serving that area, which may be one of the Bell operating companies. As a recent entrant in the telecommunications services industry, we have not achieved and do not expect to achieve a significant market share for any of our services in our markets in the foreseeable future. In particular, the incumbent local exchange carriers have long-standing relationships with their customers, have financial, technical and marketing resources substantially greater than ours, have the potential to subsidize services that compete with our services with revenue from a variety of other unregulated businesses, and currently benefit from certain existing regulations that favor the incumbent local exchange carriers over us in certain respects.

Recent regulatory initiatives that allow competitive local exchange carriers, such as us, to interconnect with incumbent local exchange carrier facilities and acquire and combine the unbundled network elements of an incumbent local exchange carrier provide increased business opportunities for us. However, such interconnection opportunities have been, and likely will continue to be, accompanied by increased pricing flexibility and relaxation of regulatory oversight for the incumbent local exchange carriers.

COMPETITIVE LOCAL EXCHANGE CARRIERS. The Telecommunications Act radically altered the market opportunity for competitive local exchange carriers. Competitive access providers who entered the market prior to passage of the Telecommunications Act built their own infrastructure to offer exchange access services to large end-users. Since the passage of the Telecommunications Act, many competitive access providers have added switches to become competitive local exchange carriers in order to take advantage of the opening of the local market. With the Telecommunications Act requiring unbundling of the incumbent local exchange carrier's networks, competitive local exchange carriers will now be able to enter the market more rapidly by leasing switches, trunks and loop capacity until traffic volume justifies building facilities. Newer competitive local exchange carriers, like us, will not have to replicate existing facilities and can be more opportunistic in designing and implementing networks, which could have the effect of increasing competition for local exchange services.

INTEREXCHANGE CARRIERS. We also expect to face competition from other current and potential market entrants, including interexchange (long distance) carriers such as AT&T, MCI WorldCom, and Sprint, seeking to enter, reenter or expand entry into the local exchange market. A continuing trend toward consolidation of telecommunications companies and the formation of strategic alliances within the telecommunications industry, as well as the development of new technologies, could give rise to significant new competitors. For example, in September 1998, WorldCom merged with MCI Communications Corp. and, in October 1999, MCI WorldCom and Sprint Communications Company, L.P. announced merger plans. In March 1999, AT&T acquired Tele-Communications, Inc., the largest provider of cable television services in the United States. These types of consolidations and strategic alliances could put us at a competitive disadvantage.

[illegible]

Long Distance Telephone Service

The long distance telecommunications industry has numerous entities competing for the same customers and a high average churn rate because customers frequently change long distance providers in response to the offering of lower rates or promotional incentives by competitors. Our primary competitors in the long distance market include major interexchange carriers such as AT&T, MCI WorldCom, Sprint and Qwest Communications International Inc., certain incumbent local exchange carriers and resellers of long distance services. We believe that pricing levels are a principal competitive factor in providing long distance telephone service. We hope to avoid direct price competition by bundling long distance telephone service with a wide array of value-added services.

Incumbent local exchange carriers that offer a package of local, long distance telephone and information services will be particularly strong competitors. Incumbent local exchange carriers, including Bell Atlantic, are currently providing both long distance and local services as well as certain enhanced telephone services we offer. We believe that the Bell operating companies will attempt to offset market share losses in their local markets by attempting to capture a significant percentage of the long distance market.

Enhanced Services

We compete with a variety of enhanced service companies. Enhanced services markets are highly competitive, and we expect that competition will continue to intensify. Our competitors in these markets will include Internet service providers, web-based communications service providers and other telecommunications companies, including the major interexchange carriers, incumbent local exchange carriers, competitive local exchange carriers and wireless carriers.

Other Market Entrants

We may face competition in local, long distance and information services from other market entrants such as electric utilities, cable television companies, fixed and mobile wireless system operators, and operators of private networks built for large end-users. All of these companies are free to offer bundled services similar to those that we offer. Electric utilities have existing assets and low cost access to capital that could allow them to enter a market rapidly and accelerate network development. Cable television companies are also entering the telecommunications market by upgrading their networks with fiber optics and installing facilities to provide fully interactive transmission of broadband voice, video and data communications. Wireless companies have developed, and are deploying in the United States, wireless technology as a substitute for traditional wireline local telephones. The recent World Trade Organization agreement on basic telecommunications services could increase the level of competition we face. Under this agreement, the United States and 68 other member states of the World Trade Organization committed to open their respective telecommunications markets, including permitting foreign companies to enter into basic telecommunications services markets. This development may increase the number of established foreign-based telecommunications carriers entering the U.S. markets.

Other

The Telecommunications Act includes provisions that impose certain regulatory requirements on all local exchange carriers, including competitive local exchange carriers. At the same time, the Telecommunications Act expands the FCC's authority to reduce the level of regulation applicable to any or all telecommunications carriers, including incumbent local exchange carriers. The manner in which these provisions are implemented and enforced could have a material adverse effect on our ability to compete successfully against incumbent local exchange carriers and other telecommunications service providers.

Government Regulation

Overview

Some of our services are regulated and some are not. In providing our non-common carrier services such as voice mail, "Find-Me," notification and directory services offered through the PCC, we operate as an unregulated provider of information services, as that term is defined in the Communications Act of 1934, as amended by the Telecommunications Act of 1996, and as an enhanced service provider, as that term is defined in the FCC rules. These offerings currently are not regulated by the FCC or the states where we operate. In providing 1-Line Home Edition and our long distance services, we are regulated as a common carrier at the state and federal level and are subject to additional rules and policies not applicable to providers of information services alone. We are certificated as a facilities-based competitive local exchange carrier in a number of states, including New York, Texas, Massachusetts, Pennsylvania, Georgia, Illinois, New Jersey, Florida, Kentucky, Maryland, Oregon, Virginia and Washington. We are currently seeking this certification in additional states, including California and Michigan.

The local and long distance telecommunications services we provide are regulated by federal, state, and, to some extent, local government authorities. The FCC has jurisdiction over all telecommunications common carriers to the extent they provide interstate or international communications services. Each state regulatory commission has jurisdiction over the same carriers with respect to the provision of intrastate communications services within that state. Local governments sometimes seek to impose franchise requirements on telecommunications carriers and regulate construction activities involving public rights-of-way. Changes to the regulations imposed by any of these regulators could have a material adverse effect on our business, operating results and financial condition.

In recent years, the regulation of the telecommunications industry has been in a state of flux as the United States Congress and various state legislatures have passed laws seeking to foster greater competition in telecommunications markets. The FCC and state utility commissions have adopted many new rules to implement this legislation and encourage competition. These changes, which are still incomplete, have created new opportunities and challenges for us and our competitors. The following summary of regulatory developments and legislation is intended to describe the most important, but not all, present and proposed federal, state and local regulations and legislation affecting the telecommunications industry. Some of these and other existing federal and state regulations are the subject of judicial proceedings and legislative and administrative proposals which could change, in varying degrees, the manner in

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which this industry operates. We cannot predict the outcome of any of these proceedings or their impact on the telecommunications industry at this time. Some of these future legislative, regulatory or judicial changes may have a material adverse impact on our business.

Specifically, as states re-evaluate pricing of network elements, it is possible that some states could increase rates over existing levels. Currently, Bell Atlantic and Southwestern Bell have rate cases pending before state regulatory commissions in New York and Illinois that could significantly raise the existing rates for some network elements and network element combinations. Our intent is to be an active participant in these rate cases and any others that might be critical to our operations. We anticipate joining other competitive service providers in arguing that existing rates are overstated and do not reflect the true total element long run incremental costing principles required by the FCC and the Telecommunications Act. While the prevailing trends within the industry would predict the adoption of lower rates in association with the provision of unbundled network elements and network element combinations, we cannot predict the outcome of any pending or potential rate case. Increases or decreases in rate levels charged by incumbent local exchange carriers as a result of regulatory review through rate case or arbitration proceedings could significantly impact our business plans.

FEDERAL REGULATION

FCC POLICY ON ENHANCED AND INFORMATION SERVICES

In 1980, the FCC created a distinction between basic telecommunications services, which it regulates as common carrier services, and enhanced services, which remain unregulated. The FCC exempted enhanced service providers from federal regulations governing common carriers, including the obligation to pay access charges for the origination or termination of calls on carrier networks and the obligation to contribute to universal service. The Telecommunications Act of 1996 established a similar distinction between telecommunications services and information services. Changing technology and changing market conditions, however, sometimes make it difficult to discern the boundary between unregulated and regulated services.

In general, information services are value-added services that use regulated transmission facilities only as part of a services package that also includes network or computer software to change or enhance the information transmitted. We believe that most of the services we provide, including voice mail, "Find-Me" notification, and directory services offered through the PCC are information services under the FCC's definition. Because the regulatory boundaries in this area are somewhat unclear and subject to dispute, however, the FCC could seek to characterize some of our information services as "telecommunications services." If that happens, those services would become subject to FCC regulation, although the impact of that reclassification is difficult to predict.

In general, the FCC does not regulate the rates, services, and market entry and exit of non-dominant telecommunications carriers, but does require them to contribute to universal service and comply with other regulatory requirements. We are currently regulated as non-dominant with respect to both our local and long distance telephone services.

FCC REGULATION OF COMMON CARRIER SERVICES

We currently are not subject to price cap or rate of return regulation at the federal level and are not currently required to obtain FCC authorization for the installation, acquisition or operation of our domestic exchange or interexchange network facilities. However, we must comply with the requirements of common carriage under the Communications Act of 1934. We are subject to the general requirement that our charges and terms for our telecommunications services be "just and reasonable" and that we not make any "unjust or unreasonable discrimination" in our charges or terms. The FCC has jurisdiction to act upon complaints against any common carrier for failure to comply with its statutory obligations.

Comprehensive amendments to the Communications Act of 1934 were made by the Telecommunications Act of 1996, which was signed into law on February 8, 1996. The Telecommunications Act effected changes in regulation at both the federal and state levels that affect virtually every segment of the telecommunications industry. The stated purpose of the Telecommunications Act is to promote competition in all areas of telecommunications. While it may take years for the industry to feel the full impact of the Telecommunications Act, it is already clear that the legislation provides us with new opportunities and challenges.

INTERCONNECTION. The Telecommunications Act greatly expands the interconnection requirements applicable to the incumbent local exchange carriers, i.e., generally, those existing local exchange carriers that, in the past, enjoyed virtual or legal monopoly status. The Telecommunications Act requires the incumbent local exchange carriers to

- provide physical collocation, which allows companies such as us and other competitive local exchange carriers to install and maintain our own network termination equipment in incumbent local exchange carrier central offices or, if requested or if physical collocation is demonstrated to be technically infeasible, virtual collocation;

- offer components of their local service networks on an unbundled basis so that other providers of local service can use these elements in their networks to provide a wide range of local services to customers; and

- establish "wholesale" rates for their services to promote resale by competitive local exchange carriers. We currently do not have plans to enter any markets by reselling incumbent local exchange carrier service.

In addition, all local exchange carriers must

- interconnect with the facilities of other carriers;

- establish number portability, which will allow customers to retain their existing phone numbers if they switch from the local exchange carrier to a competitive local service provider;

- provide nondiscriminatory access to telephone poles, ducts, conduits and rights-of-way; and

- compensate other local exchange carriers on a reciprocal basis for traffic originated by one local exchange carrier and terminated by another local exchange carrier.

The FCC is charged with establishing national guidelines to implement certain portions of the Telecommunications Act. The FCC issued its Interconnection Order on August 8, 1996. Among other rules, the FCC established a list of seven network elements, comprising most of the significant facilities, features, functionalities, or capabilities of the network, that the incumbent local exchange carriers must unbundle. It is possible for competitors to provide competitive local exchange service using only these unbundled network elements. In addition, the FCC mandated a particular forward looking pricing methodology for these network elements that produces relatively low element prices that are favorable to competitors.

On July 18, 1997, however, the United States Court of Appeals for the Eighth Circuit issued a decision vacating the FCC's pricing rules, as well as certain other portions of the FCC's interconnection rules, on the grounds that the FCC had improperly intruded into matters reserved for state jurisdiction. On January 25, 1999, the Supreme Court largely reversed the Eighth Circuit's order, holding that the FCC has general jurisdiction to implement the local competition provisions of the Telecommunications Act. In so doing, the Supreme Court stated that the FCC has authority to set pricing guidelines for unbundled network elements, to prevent incumbent local exchange carriers from disaggregating existing combinations of network elements, and to establish "pick and choose" rules regarding interconnection agreements. "Pick and choose" rules would permit a carrier seeking interconnection to pick and choose among the terms of service from other interconnection agreements between the incumbent local exchange carriers and other competitive local exchange carriers. This action reestablishes the validity of many of the FCC rules vacated by the Eighth Circuit.

Although the Supreme Court affirmed the FCC's authority to develop pricing guidelines, the Supreme Court did not evaluate the specific forward-looking pricing methodology mandated by the FCC and has remanded the case to the Eighth Circuit for further consideration. Some incumbent local exchange carriers have argued that this pricing methodology does not allow adequate compensation for the provision of unbundled network elements. The Eighth Circuit heard oral arguments on this pricing issue on September 16, 1999, but has not yet issued a ruling.

The Supreme Court also remanded the list of unbundled network elements to the FCC for further consideration of the necessity of each one under the statutory standard. On November 5, 1999, the FCC released an order largely retaining the list of unbundled network elements, but eliminating the requirement that incumbent local exchange carriers provide unbundled access to local switching for customers with four or more lines in the densest parts of the top 50 Metropolitan Statistical Areas, and to operator services and directory assistance. The FCC concluded that the market has developed since 1996 such that competitors can and do self-provision these services, or acquire them from alternative sources. The FCC also noted that incumbent local exchange carriers remain obligated under the non-discrimination requirements of the Communications Act of 1934 to comply with the reasonable request of a carrier that purchase these services from the incumbent local exchange carriers to rebrand or unbrand these services, and to provide directory assistance listings and updates in daily electronic batch files. In addition, the competitive checklist contained in Section 271 of the Communications Act of 1934 requires Bell operating companies to provide nondiscriminatory access to these services.

These new FCC rules are likely to be the subject of further appeals. Thus, while the Supreme Court resolved many issues, including the FCC's jurisdictional authority, other issues remain subject to further consideration by the courts and the FCC. We cannot predict the ultimate disposition of those matters. If the Eighth Circuit fails to affirm the FCC's pricing methodology--which is favorable to competitors such as us because it is based on forward-looking costs--then unbundled network element prices, including prices for unbundled network element combinations, may rise. Such increases could have a materially adverse effect on our business.

INTERCONNECTION AGREEMENTS. The Telecommunications Act obligates incumbent local exchange carriers to negotiate with us in good faith to enter into interconnection agreements. Competitive local exchange carriers like us can purchase unbundled network elements under such an agreement or under a tariff or a statement of generally available terms filed with the state regulators. Although we purchase the unbundled network element platform in New York under Bell Atlantic's tariff, we will need interconnection agreements in some states, and have entered into interconnection agreements in Texas, Massachusetts and Pennsylvania, to provide enhanced connectivity to our network and to provide other enhanced services, including Z-Line Home Edition. If we cannot reach agreement, either side may petition the applicable state commission to arbitrate remaining disagreements. These arbitration proceedings can last for a significant period of time. Moreover, state commission approval of any interconnection agreement resulting from negotiation or arbitration is required, and any party may appeal an adverse decision by the state commission to federal district court, although some federal district courts have refused to exercise jurisdiction over such cases. The potential cost in resources and delay from this process could harm our ability to compete in certain markets, and there is no guarantee that a state commission would resolve disputes, including pricing disputes, in our favor.

COLLOCATION AND LINE SHARING. The FCC recently adopted new rules designed to make it easier and less expensive for competitive local exchange carriers to obtain collocation at incumbent local exchange carriers' central offices by, among other things, restricting the incumbent local exchange carriers' ability to prevent certain types of equipment from being collocated and requiring incumbent local exchange carriers to offer alternative collocation arrangements. On November 18, 1999, the FCC also adopted a new order requiring incumbent local exchange carriers to provide line sharing, which will allow competitive local exchange carriers to offer data services over the same line that a consumer uses for voice services without the competitive local exchange carriers' having to provide the voice service. While we expect that the FCC's new rules will be beneficial to competitive local exchange carriers, we cannot be certain that these new rules will be implemented by the incumbent local exchange carrier in a timely or favorable manner. Moreover, incumbent local exchange carriers and other parties have asked the FCC to reconsider portions of these rules. In addition, on March 17, 2000, the United States Court of Appeals for the District of Columbia Circuit vacated portions of the FCC's new collocation rules. Specifically, the court found that the FCC's interpretation of the statutory terms "necessary" and "physical collocation" are impermissibly broad, and remanded those portions of the order to the FCC for reconsideration. We cannot predict the outcome of these actions or the effect they may have on our business.

BELL OPERATING COMPANY ENTRY INTO THE LONG DISTANCE MARKET. The Telecommunications Act permitted the Bell operating companies to provide long distance services outside their local service regions immediately, and will permit them to provide in-region long distance service upon demonstrating to the FCC and state regulatory agencies that they have adhered to the Telecommunications Act's Section 271 14-point competitive checklist. Some Bell operating companies have filed applications with various state public utility commissions and the FCC seeking approval to offer in-region interLATA service. Some states have denied these applications while others have approved them. Prior to December 1999, the FCC had denied each of the Bell operating company applications brought before it because it found that the particular Bell operating company had not sufficiently made its local network available to competitors. On September 29, 1999, Bell Atlantic filed with the FCC an application to provide in-region long distance service originating in New York. The FCC issued an order allowing Bell Atlantic to enter the in-region long distance market in New York in late-December 1999. Bell Atlantic began offering long distance service in New York on a commercial basis in January 2000. On January 10, 2000, Southwestern Bell filed an application with the FCC seeking approval to offer in-region interLATA services in Texas. By statute, the FCC must act on that application by April 10, 2000. While we cannot predict the outcome of any Section 271 applications before the FCC, it is generally expected that long distance competition will increase as the Bell operating companies enter the market. We also expect other Bell operating companies to file similar applications in 2000 and 2001.

UNIVERSAL SERVICE. In May 1997, the FCC released an order establishing a significantly expanded universal service regime to subsidize the cost of telecommunications service to high cost areas, as well as to low-income customers and qualifying schools, libraries and rural health care providers. Providers of interstate telecommunications services, like us, as well as certain other entities, must pay for these programs. We are also eligible to receive funding from these programs if we meet certain requirements, but we do not currently have plans to do so. Our share of the payments into these subsidy funds will be based on our share of certain defined telecommunications end-user revenues. Currently, the FCC is assessing such payments on the basis of a provider's revenue for the previous year. Various states are also in the process of implementing their own universal service programs. We are currently unable to quantify the amount of subsidy payments that we will be required to make to individual states. On July 30, 1999, the United States Court of Appeals for the Fifth Circuit overturned certain of the FCC's rules governing the basis on which the FCC collects subsidy payments from telecommunications carriers and recovery of these payments by incumbent local exchange carriers. In October 1999, on remand, the FCC issued new universal service rules. These or other changes to the universal service program could affect our costs. One or more parties may seek review of the new FCC rules by the Fifth Circuit and subsequently by the Supreme Court. The Fifth Circuit also remanded other rules to the FCC for further consideration.

TARIFFS AND RATES. In 1996, the FCC issued an order that required nondominant interexchange carriers, like us, to cease filing tariffs for our domestic interexchange services. The order required mandatory detariffing and gave carriers nine months to withdraw federal tariffs and move to contractual relationships with their customers. This order subsequently was stayed by a federal appeals court, and it is unclear at this time whether the detariffing order will be

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implemented. In June 1997, the FCC issued another order stating that nondominant local exchange carriers, like us, could withdraw their tariffs for interstate access services provided to long distance carriers. If the FCC's orders become effective, nondominant interstate services providers will no longer be able to rely on the filing of tariffs with the FCC as a means of providing notice to customers of prices, terms and conditions under which they offer their interstate services. If we cancel our FCC tariffs as a result of the FCC's orders, we may need to implement customer contracts, which could result in substantial administrative expenses.

In March 1999, the FCC adopted further rules that, while still maintaining mandatory detariffing, nonetheless require interexchange carriers to make specific public disclosures on their web sites of their rates, terms and conditions for domestic interstate services. The effective date for these rules is also delayed until a court decision on the appeal of the FCC's detariffing order.

JURISDICTIONAL NATURE OF INTERNET TRAFFIC. Recently, the FCC has determined that both continuous access and dial-up calls from a customer to an Internet service provider are interstate, not local, calls, and, therefore, are subject to the FCC's jurisdiction. The FCC has initiated a proceeding to determine the effect that this regulatory classification will have on the obligation of local exchange carriers to pay reciprocal compensation for dial-up calls to Internet service providers that originate on one local exchange carrier network and terminate on another local exchange carrier network. Moreover, several states are considering this issue, and several states have held that local exchange carriers do not need to pay reciprocal compensation for calls terminating at Internet service providers. On March 24, 2000, the Court of Appeals for the District of Columbia remanded for reconsideration the FCC's determination that calls to Internet service providers are interstate rather than local. Specifically, the Court indicated that the FCC has not provided a satisfactory explanation why calls to Internet service providers are not local telecommunications traffic and why such traffic is exchange access rather than telephone exchange service. We cannot predict the effect that the FCC's resolution of these issues will have on our business.

NUMBERING AND NUMBER PORTABILITY. In August 1997, the FCC issued rules transferring responsibility for administering and assigning local telephone numbers from the Bell operating companies and other incumbent local exchange carriers to a neutral entity in each geographic region in the United States. In August 1996, the FCC issued new numbering regulations that prohibit states from creating new area codes that could unfairly hinder competitive local exchange carriers by requiring their customers to use 10 digit dialing while existing incumbent local exchange carrier customers use seven digit dialing. In addition, each carrier is required to contribute to the cost of numbering administration through a formula based on net telecommunications revenues. Beginning in March 2000, contributions for this purpose will be based on end user telecommunications revenues and will be submitted in association with FCC Lifeline, Universal Service and the Schools and Libraries Funds.

In July 1996, the FCC released rules requiring all local exchange carriers to have the capability to permit both residential and business consumers to retain their telephone numbers when switching from one local service provider to another, known as "number portability." Number portability has been implemented in most of the areas in which we provide service, but has not been implemented everywhere in the United States. Some carriers have obtained waivers of the requirement to provide number portability, and others have delayed implementation by obtaining extensions of time before compliance is required. Lack of number portability in a given market could adversely affect our ability to attract customers for our competitive local exchange service offerings, particularly business customers, should we seek to provide services to such customers.

In May 1999, the FCC also initiated a proceeding to address the problem of the declining availability of area codes and phone numbers. Many of these numbering-related issues are subject to further change by the FCC and the courts, and could produce added administrative expenses for us.

RESTRICTIONS ON BUNDLING. Current FCC rules prohibit dominant carriers from bundling their non-competitive, regulated telecommunications services with their unregulated enhanced or information services. The Commission has never enforced this rule with respect to competitive local exchange carriers and has proposed eliminating the rule for all carriers.

SLAMMING. A customer's choice of local or long distance telecommunications company is encoded in a customer record, which is used to route the customer's calls so that the customer is served and billed by the desired company. A user may change service providers at any time, but the FCC and some states regulate this process and require that specific procedures be followed. When these procedures are not followed, particularly if the change is unauthorized or fraudulent, the process is known as "slamming." Slamming is such a significant problem that it has been addressed in detail by Congress in the Telecommunications Act, by some state legislatures, and by the FCC in recent orders. The FCC has levied substantial fines for slamming. The risk of financial damage and to business reputation from slamming is significant. Even one slamming complaint could cause extensive litigation expenses for us. The FCC recently decided to apply its slamming rules (which originally covered only long distance) to local service as well.

NETWORK INFORMATION. The Communications Act of 1934 and FCC rules protect the privacy of certain information about telecommunications customers that a telecommunications carrier such as us acquires by providing telecommunications services to such customers. Such protected information, known as Customer Proprietary Network Information (CPNI), includes information related to the quantity, technological configuration, type, destination and the amount of use of a telecommunications service. Under the FCC's rules, a carrier may not use the Customer Proprietary Network Information acquired through one of its offerings of telecommunications services to market certain other services without the approval of the affected customers. The United States Court of Appeals for the Tenth Circuit recently overturned the FCC's rules regarding the use and protection of Customer Proprietary Network Information. The FCC recently relaxed its customer proprietary network information rules somewhat, but it also has sought reconsideration of the Tenth Circuit decision. Further, FCC rules regarding handling of CPNI could result in significant administrative expense in modifying internal customer systems to meet such requirements.

OTHER ISSUES. There are a number of other issues and proceedings that could have an effect on our business in the future, including the fact that

- The FCC has adopted rules to require telecommunications service providers to make their services accessible to individuals with disabilities, if readily achievable.

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- The FCC has also ordered telecommunications service providers to provide law enforcement personnel with a sufficient number of ports and technical assistance in connection with wiretaps. We cannot predict the cost to us of complying with this order.

- The FCC has adopted new rules designed to make it easier for customers to understand the bills of telecommunications carriers. These new rules establish certain requirements regarding the formatting of bills and the information that must be included on bills. These rules have been appealed in Federal court.

- We are subject to annual regulatory fees assessed by the FCC, and must file an annual employment report to comply with the FCC's Equal Employment Opportunity policies.

- The FCC has adopted an order granting limited pricing flexibility to large incumbent local exchange carriers, and is considering granting additional pricing flexibility and price deregulation options. These actions could increase competition for some of our services.

The foregoing is not an exhaustive list of proceedings or issues that could materially affect our business. We cannot predict the outcome of these or any other proceedings before the courts, the FCC, or state or local governments.

STATE REGULATION

To the extent that we provide telecommunications services which originate and terminate in the same state, we are subject to the jurisdiction of that state's public service commission. As our local service business and product lines expand, we will offer more intrastate service and may become increasingly subject to state regulation. The Telecommunications Act maintains the authority of individual state utility commissions to preside over rate and other proceedings, and to impose their own regulation on local exchange and intrastate interexchange services, so long as such regulation is not inconsistent with the requirements of federal law. For instance, states may require us to obtain a Certificate of Public Convenience and Necessity before commencing service in the state, and may impose tariff and filing requirements, consumer protection measures, and obligations to contribute to universal service and other funds. State commissions also have jurisdiction to approve negotiated rates, or establish rates through arbitration, for interconnection, including rates for unbundled network elements.

We are subject to requirements in some states to obtain prior approval for, or notify the state commission of, any transfers of control, sales of assets, corporate reorganizations, issuances of stock or debt instruments and related transactions. Although we believe such authorizations could be obtained in due course, there can be no assurance that state commissions would grant us authority to complete any of these transactions.

The Telecommunications Act generally preempts state statutes and regulations that restrict the provision of competitive services. As a result of this broad preemption, we will be generally free to provide the full range of local, long distance, and data services in any state. While this action greatly increases our potential for growth, it also increases the amount of competition to which we may be subject. States, however, may still restrict competition in some rural areas.

In particular, we expect to expand our Z-Line Home Edition service by starting to market this service in Pennsylvania by the end of the second quarter of [illegible]. We are currently offering service in New York via Bell Atlantic's tariffed offerings and in Massachusetts via a local interconnection agreement, dated December [illegible], 1999, between us and Bell Atlantic. Our service in Texas is provided via an interconnection agreement effective between us and Southwestern Bell Telephone Company, dated November 5, 1999. To effectuate service in Pennsylvania, we entered into a local interconnection agreement with Bell Atlantic on December [illegible], 1999. Under the terms of the agreements entered into with Bell Atlantic with respect to Massachusetts and Pennsylvania, Bell Atlantic will provide the unbundled network element platform components in a manner similar to that provided by Bell Atlantic in New York.

In order to enter new market areas, we may be required to negotiate interconnection contracts with incumbent local exchange carriers on an individual state basis. While current FCC rules and regulations require the incumbent provider to provide the network elements on an individual and combined basis necessary for us to provision end-user services, no assurance can be made that the individual local exchange providers will provide these components in a manner and at a price that will support competitive operations. If the incumbent providers do not readily provide network functionality in the manner required, we have regulatory and legal alternatives, including arbitration before state public service commissions, to force provision of services in a manner required to support our service offerings. However, if we are forced to litigate in order to obtain the combinations of network elements required to support our service, we are likely to incur significant incremental costs and delays in entering such markets.

LOCAL GOVERNMENT REGULATION

In some of the areas where we provide service, we may be subject to municipal franchise requirements requiring us to pay license or franchise fees either on a percentage of gross revenue, flat fee or other basis. We may be required to obtain street opening and construction permits from municipal authorities to install our facilities in some cities. The Telecommunications Act prohibits municipalities from discriminating among telecommunications service providers in imposing fees or franchise requirements. In some localities, the FCC has preempted fees and other requirements determined to be discriminatory or to effectively preclude entry by competitors, but such proceedings have been lengthy and the outcome of any request for FCC preemption would be uncertain.

EMPLOYEES

As of March [illegible], 2000, we had approximately 450 full-time employees, excluding approximately 31 individuals employed by a temporary employment service, some of whom we expect to offer full-time employment. None of our employees are covered under collective bargaining agreements, and we believe that our relationships with our employees are good.

[illegible]

In connection with the deployment of our network architecture and the [illegible] of our business plan, as well as the addition of Touch 1's personnel, if the acquisition is consummated, we believe that the number of our customer service, information systems installation and sales and marketing personnel will increase significantly.

Item 2. Properties

We currently lease our principal executive offices in Tampa, Florida and our principal engineering offices in Atlanta, Georgia.

Item 3. Legal Proceedings

We are a party to various routine administrative proceedings. For more information, please refer to the section entitled "Item 1. Business--Government Regulation."

In addition, in May 1998 we received a letter from Premiere Technologies, Inc. (Premiere), threatening legal action based on the allegation that our chief executive officer, Mr. Smith, a founder and a former director and executive vice president of Premiere, had, among other things, improperly used trade secrets belonging to Premiere in connection with the development of our technology. Although the parties have subsequently had some discussions and [illegible] correspondence, including letters sent by Premiere to us in December 1998 reiterating prior claims and further discussions during which Premiere alleged the existence of additional intellectual property claims arising from the conduct of Mr. Smith, another one of our directors, one of our other officers and us, Premiere has never commenced any legal proceedings against us or Mr. Smith. While we believe that Premiere's alleged claims are without merit, we cannot assure you that Premiere will not try to pursue its claims through litigation or what the outcome of such litigation would be.

Item 4. Submission of Matters to a Vote of Securities Holders

On or about October 8, 1999, a majority of our Series A and Series B preferred stockholders, respectively, approved, by written consent, an amendment to the Stockholders' Agreement by and among us, certain management personnel, and the Series A and Series B preferred stockholders that had the effect of adding the Series C preferred stockholder to the Stockholders' Agreement and [illegible] certain rights of the Series B preferred stockholders. Series A preferred stockholders representing 1,078,318 shares of our Series A preferred stock and Series B preferred stockholders representing 2,140,477 shares of our Series B preferred stock approved the amendment pursuant to such written consent.

On or about October 10, 1999, a majority of our Series A preferred stockholders, Series B preferred stockholders and common stockholders, respectively, approved, by written consent, our 1998 Equity Participation Plan, [illegible], as amended (the Plan). Common stockholders representing [illegible] shares of our common stock, Series A preferred stockholders representing 1,078,318 shares of our Series A preferred stock and [illegible] shares of the Company's Series B preferred stock approved the Plan pursuant to such written consent.

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On November [illegible], 1999, we held a special meeting of our stockholders, at which our stockholders were requested to (1) approve an amendment to our articles of incorporation increasing the authorized shares to 200,000,000 shares, consisting of [illegible] shares of common stock, par value $0.01 per share, and [illegible] shares of preferred stock, par value $0.01 per share; and (2) approve an amendment to increase the number of shares subject to the Plan to [illegible]. [illegible] votes were cast in favor of each proposal, with no votes cast against either of the proposals and no abstentions.

[illegible]

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the Nasdaq National Market under the symbol "ZTEL."

The following table sets forth, for the periods indicated, the range of high and low closing sale prices for the Common Stock, as reported on the Nasdaq National Market since trading began on December 15, 1999, in connection with the Company's initial public offering, under the symbol ZTEL:

	HIGH	LOW
CALENDAR YEAR 1999:		
Fourth Quarter (from December 15, 1999)	$42.375	$33.125
FISCAL YEAR 2000:	$47.25	$25.8125
First Quarter (through March 23, 2000)		

On March [illegible], 2000, the last reported sales price of the Common Stock on the Nasdaq National Market was $42.25 per share. As of March 23, 2000, there were approximately [illegible] holders of record of the Common Stock.

We have not paid dividends on our common stock since our inception and we do not intend to pay any cash dividends for the foreseeable future but instead intend to retain earnings, if any, for the future operation and expansion of our business. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will be dependent upon our results of operations, financial condition, restrictions imposed by applicable law and other factors deemed relevant by the Board of Directors.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

We filed a registration statement (Commission file no. 333-89063), which became effective on December 14, 1999, with respect to the initial public offering of [illegible] shares of our common stock (including the underwriters' over-allotment option). All 6,900,000 shares were sold, for an aggregate offering price of $117,3[illegible]0,000. The offering was co-lead by joint-book running managers Thomas Weisel Partners LLC and Credit Suisse First Boston, and co-managed by J.C. Bradford & Co. and Stephens Inc.

From December 14, 1999 through December 31, 1999, the expenses incurred in connection with the offering were as follows: $8,211,000 in underwriting discounts and commissions, $1,693,000 in other expenses and $9,904,000 in total expenses. The net offering proceeds after deduction of expenses were [illegible]. No expenses were paid, directly or indirectly, to our directors, officers, 10% shareholders or affiliates. Through December 31, 1999, approximately [illegible]

[illegible]

of the net offering proceeds were used in the following estimated amounts and for the following purposes: $1,398,000 for the purchase and installation of network equipment, $1,041,000 for the purchase of software and support and software development, $1,985,000 for marketing expenses, $1,157,000 for operational expenses, and $242,000 for construction of plant, building and facilities. The remaining $99,234,000 has been placed in temporary investments in cash and cash equivalents. None of the net offering proceeds have been paid, directly or indirectly, to our directors, officers, 10% shareholders or affiliates.

RECENT SALES OF UNREGISTERED SECURITIES

During the period covered by this report, Z-Tel sold shares of its common stock in the amounts, at the times, and for the aggregate amounts of consideration listed below without registration under the Securities Act of 1933. Exemption from registration under the Securities Act for each of the following sales is claimed under Section 4(2) of the Securities Act because such transactions were by an issuer and did not involve a public offering:

On March 15, 1999, Z-Tel issued a warrant to purchase 521,832 shares of common stock to CHR Capital, LLC in connection with a $35.2 million revolving sale-leaseback credit facility.

On September [illegible], 1999, Z-Tel issued, in the aggregate, 2,695,795 shares of Series B Preferred Stock to 53 persons for an aggregate consideration of $10 million.

On October [illegible], 1999, Z-Tel issued 2,794,800 shares of Series C Preferred Stock to Gramercy Z-Tel, LLC for an aggregate consideration of $15 million.

On October [illegible], 1999, Z-Tel issued 11,000 shares of common stock to [illegible] Corporation in exchange for substantially all of its assets.

On October [illegible], 1999, Z-Tel issued 55,000 shares of common stock to [illegible] LLC in connection with our purchase of software and support services.

On October [illegible], 1999, Z-Tel granted a warrant to purchase 115,500 shares of common stock to CHR Capital LLC in connection with an amendment to the existing facility, in which CHR Capital LLC agreed to, among other things, a provision for prepayment of the facility.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected historical consolidated financial data should be read in conjunction with the financial statements, related notes and other financial information contained in this document. You should also read "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained later in this document. The Consolidated Statements of Operations data for the year ended December 31, 1999 and the period from January 15, 1998 (inception) through December 31, 1998, and the consolidated balance sheet data and other financial data as of December 31, 1999 and December 31, 1998, are derived from our financial statements that have been audited by our independent auditors.

	YEAR ENDED DECEMBER 31, 1999	PERIOD JANUARY 15, 1998 (INCEPTION) THROUGH DECEMBER 31, 1998
Revenues	$ 6,615,000	$ 140,000
Operating expenses:		
Network operations	7,942,000	382,000
Sales and marketing	8,588,000	2,201,000
Research and development	3,562,000	4,728,000
General and administrative	15,379,000	4,718,000
Depreciation and amortization	4,372,000	1,283,000
Total operating expenses	39,843,000	13,312,000
Operating loss	(33,228,000)	(13,172,000)
Nonoperating income (expense):		
Interest income	608,000	228,000
Interest expense	(3,351,000)	(178,000)
Total nonoperating income (expense)	(2,743,000)	50,000
Net loss	(35,971,000)	(13,122,000)
Less mandatorily convertible redeemable preferred stock dividends	(1,654,000)	(190,000)
Net loss attributable to common stockholders	$(37,625,000)	$(13,312,000)
Weighted average common shares outstanding	15,099,359	6,554,499
Basic and diluted net loss per share	$ (2.49)	$ (2.03)

should not be deemed to represent our available funds. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of our financial operations and liquidity as determined in accordance with generally accepted accounting principles.

[illegible]

CONSOLIDATED BALANCE SHEET DATA		
Cash and cash equivalents	101,657,000	7,973,000
Working capital	95,315,000	3,328,000
Total assets	137,677,000	20,274,000
Total debt	14,134,000	724,000
Mandatorily convertible redeemable preferred stock	--	15,154,000
Total stockholder's equity (deficit)	114,378,000	(6,000)
OTHER FINANCIAL DATA		
EBITDA (1)	(28,856,000)	(11,889,000)
Net cash used in operating activities	(32,681,000)	(7,769,000)
Net cash used in investing activities	(5,182,000)	(11,393,000)
Net cash provided by financing activities	131,547,000	27,135,000

(1) EBITDA consists of earnings before interest, income taxes, depreciation and amortization. While not a measure under generally accepted accounting principles, EBITDA is a measure commonly used in the telecommunications industry and is presented to assist in understanding our operating results. Although EBITDA should not be construed as a substitute for operating income (loss) determined in accordance with generally accepted accounting principles, it is included herein to provide additional information with respect to our ability to meet future debt service, capital expenditures

[illegible]

[illegible] AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS [illegible]

[illegible] following discussion together with the "Selected [illegible] Data," financial statements and related notes included in [illegible]. This discussion contains forward-looking statements that involve [illegible]. Our actual results may differ materially from those [illegible] in the forward-looking statements as a result of certain factors, [illegible], but not limited to, those discussed in "Item 1. Business," as well as "[illegible] Regarding Forward-Looking Statements," "Risks Related to [illegible] and our Business" and "Risks Related to our Industries," [illegible] factors relating to our business and us that are not historical [illegible]. Factors that may affect our results of operations include, but are not [illegible] limited operating history and cumulative losses, uncertainty of [illegible], rapid expansion, potential software failures and errors, [illegible] and interconnection failure, dependence on local exchange [illegible], dependence on third party vendors, dependence on key personnel, [illegible] of government regulation, legal uncertainties, and competition. We [illegible] to update information contained in any forward-looking [illegible]

[illegible]

[illegible] provider of advanced, integrated telecommunications [illegible] to residential subscribers. For management purposes, [illegible] reportable operating segment. We offer local and long [illegible] in combination with enhanced communication features [illegible] the telephone or the Internet. The nature of our business is [illegible] and we have a limited operating history. As a result, we [illegible] period-to-period comparisons of our revenues and operating results, [illegible] operations and other operating expenses as a percentage of [illegible] meaningful and should not be relied upon as indicators of [illegible] believe that our historical growth rates are [illegible].

[illegible]

[illegible] Z-Line Home Edition service in New York in June 1999, [illegible], and Massachusetts in March 2000. Z-Line Home Edition [illegible]. Z-Line Home Edition includes low-priced local [illegible] residential telephone services using a customer's [illegible], bundled with enhanced features, including caller [illegible], call forwarding, three-way calling, speed dialing, and dial-up [illegible] Z-Line Anywhere access card product, the full [illegible] Personal Communication Center (PCC) and, for an additional [illegible]. We expect sales and marketing expenses to increase [illegible] our Z-Line Home Edition service into new markets. [illegible] Pennsylvania before the end of the second quarter of [illegible] will require us to hire additional sales and marketing [illegible] of our services. We will also need to hire [illegible] to continue to expand our network architecture and enhance [illegible]. In addition to our internal technical staff, we expect to [illegible] third-party vendors and system integration [illegible] and enhance our customer care and

[illegible]

[illegible] software applications. We will continue to expand our network through owned facilities, strategic alliances, and acquisitions.

We began offering an access card service, similar to our current Z-Line Anywhere service, in the quarter ended December 31, 1998. Z-Line Anywhere is our access card product that allows a customer to make long-distance calls using Z-Tel's network from any phone simply by dialing a local access or toll-free access number. No change in phone service is required. Subscribers of Z-Line Anywhere also receive the full functionality of our PCC. Z-Line Anywhere is offered nationwide. Z-Line Anywhere customers are billed monthly in arrears, and the associated revenue is recognized in the month of service.

We began offering Z-Line Home Edition in June 1999. During 1999, we derived most of our revenue from service fees charged to Home Edition customers located in areas of New York served by Bell Atlantic. In addition to New York, we have begun to offer Z-Line Home Edition in Texas and Massachusetts and expect to offer this service in Pennsylvania before the end of the second quarter of 2000. We intend to offer the Z-Line Home Edition product throughout the United States, subject to the establishment, implementation, operation, and favorable pricing of the unbundled network elements by each state in accordance with the Telecommunications Act of 1996 and the more recent November 5, 1999 FCC order.

Charges for our Z-Line Home Edition basic services are billed in advance on a monthly basis. Long distance services in excess of a subscriber's basic package are billed in arrears. Revenue from Z-Line Home Edition is recognized as earned. Our Z-Line Home Edition customer agreements may be canceled on 30 days notice.

OPERATING EXPENSES

Operating expenses are comprised of:

- network operations, which consists primarily of fixed and variable transmission expenditures, and rent expense for space in data centers;
- sales and marketing, which consists primarily of telemarketing, advertising, sales compensation and related expenses;
- research and development, which consists primarily of compensation and consulting fees related to the development of our proprietary technologies;
- general and administrative, which consists primarily of compensation and related expenses, bad debt expense, occupancy costs and various administrative expenses; and
- depreciation and amortization, which consists primarily of the non-cash reduction in carrying value of our long-lived assets.

We expect to expand our operations and workforce, including our network operations, technical support, sales, marketing and administrative resources. In particular, we intend to

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expand our existing sales force and create a locally based sales force in selected metropolitan areas where we intend to initiate service and determine a need for a physical sales presence. As a result, we expect to continue to incur substantial losses for the foreseeable future.

RESULTS OF OPERATIONS

Comparison of the year ended December 31, 1999 and the period January 15, 1998 (Inception) through December 31, 1998:

REVENUE. Revenue increased by $6.5 million to $6.6 million for the year ended December 31, 1999, compared to $0.1 million for the period January 15, 1998 (Inception) through December 31, 1998. The following tables outline the approximate number of subscribers for Z-Line Home Edition and Z-Line Anywhere:

TYPE OF SERVICE	DECEMBER 31, 1999	DECEMBER 31, 1998
Z-LINE HOME EDITION SUBSCRIBERS	40,100	0
Z-LINE ANYWHERE SUBSCRIBERS	26,000	5,800

NETWORK OPERATIONS. Network operations expense increased by $7.5 million to $7.9 million for the year ended December 31, 1999, compared to $0.4 million for the period January 15, 1998 (Inception) through December 31, 1998. The network operations expense primarily consists of transmission expenses for interconnection agreements with incumbent local exchange carriers (ILECs), service level agreements with inter-exchange carriers (IXCs), transmission services based on tariff arrangements, and employee salaries and benefits associated with the maintenance and operations of our networks. These various agreements include both fixed and variable line charges.

The increase in network operations expense was due primarily to growth in the number of subscribers resulting from the introduction of our Z-Line Home Edition services. We expect our network operations expense to increase significantly in future periods due to increases in subscribers.

SALES AND MARKETING. Sales and marketing expense increased $6.4 million to $8.6 million for the year ended December 31, 1999, compared to $2.2 million for the period January 15, 1998 (Inception) to December 31, 1998. The sales and marketing expense primarily consists of telemarketing, development of our brand awareness through promotional and advertising materials, and employee salaries and benefits.

The increase in sales and marketing expense is attributable to our expanded sales and marketing efforts to increase our subscribers. We increased our telemarketing and advertising expenses in 1999 in connection with the introduction of our Z-Line Home Edition service. To meet the demands of our growth we increased our personnel in this department from approximately 10 at December 31, 1998 to approximately 20 at December 31, 1999. This increase is also attributable to the fact that marketing of our services did not begin in earnest until the fourth quarter of 1998. We intend to significantly increase our sales and marketing expenditures during the year 2000.

RESEARCH AND DEVELOPMENT. Research and development expenditures decreased $1.1 million to $3.6 million for the year ended December 31, 1999, compared to $4.7 million, for the period January 15, 1998 (Inception) to December 31, 1998. Our research and development expenses consist primarily of software development costs and employee salaries and benefits. We adopted the provisions of Statement of Position (SOP) 98-1 "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," at the beginning of 1999. As a result, $4.8 million of our research and development costs relating to development of internal use software were capitalized for the year ended December 31, 1999, compared to $0 for the period January 15, 1998 (Inception) through December 31, 1998.

In 1998, we expensed internal software development costs, as we were developing our Z-Line Anywhere and Z-Line Home Edition services and had not fulfilled the requirements for capitalization. The development of our Z-Line Home Edition, and the integration of our customer care and billing software required significant expenditures from employee compensation and outside consulting fees. These efforts were spent adding functionality and making significant enhancements to our technology. A portion of these services and purchases of software were capitalized in 1999 compared to 1998, as a result of the adoption of SOP 98-1 discussed in the prior paragraph, causing research and development expenses to decrease in 1999. We expect research and development costs to increase in the future as we improve and enhance our services.

GENERAL AND ADMINISTRATIVE. General and administrative expense increased $10.7 million to $15.4 million for the year ended December 31, 1999, compared to $4.7 million for the period January 15, 1998 (Inception) to December 31, 1998. The increase in general and administrative expense was primarily due to increases in its primary components of employee salaries, temporary services, bad debt expense, and occupancy costs.

We increased the number of employees in general and administrative functions to 83 employees at December 31, 1999, from 22 employees at December 31, 1998. We increased our provision for bad debts during 1999, primarily because of our increase in subscribers for the year. We have implemented revised credit policies and are closely monitoring collection procedures to help minimize these expenses in the future. We have increased our leased facilities utilized to meet our increased personnel and growing need for infrastructure to support our current and future needs. We anticipate general and administrative expenditures will continue to increase in the future as we increase our services and enter new states to meet the demands of our anticipated growth.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased $3.1 million to $4.4 million for the year ended December 31, 1999, compared to $1.3 million for the period January 15, 1998 (Inception) through December 31, 1998. The increase was due to purchases of equipment, facilities, and the capitalized costs associated with internal software development totaling $21.2 million for the year-ended December 31, 1999, compared to $11.4 million for the period January 15, 1998 (Inception) through December 31, 1998. We expect depreciation and amortization to continue to increase significantly as we increase our capital expenditures.

INTEREST INCOME. Interest income increased $0.4 million to $0.6 million for the year ended December 31, 1999, compared to $0.2 million for the period January 15, 1998 (Inception) through December 31, 1998. Interest income consists of income on our cash balances invested in short-term liquid investments. This increase was due primarily to the closing of two private securities offerings in 1999 and our initial public offering on December 15, 1999, which offering provided net proceeds of $109.1 million after underwriting discount and commissions. These transactions in 1999 provided for larger cash balances compared to 1998. We anticipate that our interest income will continue to increase, as we will benefit from the interest earned from our initial public offering proceeds.

INTEREST EXPENSE. Interest expense increased $3.2 million to $3.4 million for the year ended December 31, 1999, compared to $0.2 million for the period January 15, 1998 (Inception) through December 31, 1998. Our interest expense is a result of the interest charge on our capital lease obligations. The increase in our interest expense is primarily a result of our payments on the CMB Capital, LLC sale-leaseback agreement. We anticipate a reduction in the amount of interest expense in the future due to the extinguishment of our CMB Capital, LLC $35.2 million revolving sale-leaseback credit facility on February 14, 2000.

INCOME TAX EXPENSE. No provision for federal or state income taxes has been recorded due to the full valuation allowance recorded against the deferred tax asset for the year ended December 31, 1999 and the period January 15, 1998 (Inception) through December 31, 1998.

NET LOSS. Our net loss increased $22.9 million to $36.0 million for the year ended December 31, 1999, compared to $13.1 million for the period January 15, 1998 (Inception) through December 31, 1998. This increase was due primarily to the increases in expenses described above.

EBITDA. Many securities analysts use the measure of earnings before deducting interest, taxes, depreciation and amortization, also commonly referred to as "EBITDA," as a way of evaluating a company's financial performance. While EBITDA is not a measure under generally accepted accounting principles, EBITDA is a measure commonly used in the telecommunications industry and is presented to assist in understanding our operating results. Our negative EBITDA increased $17.0 million to $28.9 million for the year ended December 31, 1999, compared to $11.9 million for the period January 15, 1998 (Inception) through December 31, 1998. We expect to experience increasing operating losses and negative EBITDA as result of our network development and the expansion of our markets and growth and expansion of operations.

[illegible]

LIQUIDITY AND CAPITAL RESOURCES

The competitive local telecommunications service business is traditionally considered to be a capital intensive business owing to the significant investments required in fiber optic communication networks and the collocation of switches and transmission equipment in incumbent local exchange carriers' central offices. Our network architecture is designed with remotely located points of presence, or Z-Nodes, that can be interconnected through local and long distance communications networks to the Z-Tel enterprise management center. We do not expect that the growth of our business will require the levels of capital investment in fiber optics and switches that existed in historical models. Instead, we will devote significant amounts of our capital resources to continued software development and to marketing efforts that we have designed to achieve rapid penetration of our target markets.

We have incurred significant accumulated losses since our inception as a result of developing our business, research and development, building and maintaining network infrastructure and technology, sales and promotion of our services, and administrative expenditures. As of December 31, 1999, we had an accumulated deficit of $49.1 million and net operating loss carryforwards of [illegible] million for tax purposes. We have funded these expenditures primarily through operating revenues, private securities offerings, a sale-leaseback credit facility and an initial public offering of 6.9 million shares of common stock (including the underwriters' over-allotment option) that raised net proceeds of $109.1 million after underwriter discount and commissions. We intend to continue building our organization in anticipation of future growth and believe that our operating expenditures will also continue to increase. As of December 31, 1999, we had $101.7 million in cash and cash equivalents.

NET CASH USED IN OPERATING ACTIVITIES. Net cash used in operating activities increased by $24.9 million to $32.7 million for the year ended December 31, 1999, compared to $7.8 million for the period January 15, 1998 (Inception) through December 31, 1998. This net change in cash used in operating activities from year to year primarily was affected by increasing net losses, and was offset partially by non-cash charges associated with bad debt expense, depreciation, and expenses from the granting of stock options.

NET CASH USED IN INVESTING ACTIVITIES. Net cash used in investing activities decreased by $6.2 million to $5.2 million for the year ended December 31, 1999, compared to $11.4 million for the period January 15, 1998 (Inception) through December 31, 1998. For the year ended December 31, 1999, we invested [illegible] million in capital expenditures as compared to $11.4 million in the period January 15, 1998 (Inception) through December 31, 1998. These purchases were primarily for the following items:

- continued enhancement and improvement of our network;
- employee compensation and outside consulting fees associated with the internal development and integration of our customer care and billing software; and
- [illegible] build-out of our headquarters in Tampa, Florida.

[illegible]

The significant increase in capital expenditures is a direct result of our rapid growth in subscribers and the need to build and purchase infrastructure to support our current and future needs. In 1998, we focused on product development and the establishment of our infrastructure, the operation of our technology and a network that primarily involved the purchases of equipment for our Z-Nodes. As stated in the discussion regarding research and development, pursuant to our adoption of Statement of Position 98-1 as of January 1, 1999, we capitalized $[illegible] million of software development costs for the year ended December 31, 1999, compared to $0 during the period January 15, 1998 (Inception) through December 31, 1998. Capitalized software development costs, in conjunction with capital [illegible], contributed to the increased capital expenditures. On March 15, 1999, we entered into a $[illegible].2 million sale-leaseback facility agreement with CMB Capital, LLC to sell and lease back certain equipment, which provided $16.0 million in cash from investment activities for the year ended December 31, 1999.

On February 14, 2000, we made a payment of $14.4 million to extinguish the outstanding CMB Capital, LLC debt. This was the repayment of transactions involving the sale and leaseback of various furniture and equipment payable over four years from the date of the transactions. This transaction resulted in $1.6 million of extraordinary loss, to be recorded in the first quarter of 2000, associated with the loss for the early extinguishment of debt and the expense relating to [illegible] stock warrants associated with the debt that was being expensed over the life of the lease. We expect cash used in investing activities to increase as we maintain and develop our network.

NET CASH PROVIDED BY FINANCING ACTIVITIES. Net cash provided by financing activities increased $104.4 million to $131.5 million for the year ended December 31, 1999, compared to $27.1 million for the period January 15, 1998 (Inception) through December 31, 1999. The overall increase is primarily attributable to our initial public offering on December 15, 1999 of 6.9 million shares of common stock (including the underwriters' over-allotment options) for net proceeds of $[illegible] million after underwriter discount and commissions. Prior to our initial public offering, we raised $10.0 million and $15.0 million, respectively, through the offerings of our Series B and Series C preferred shares, compared with $[illegible] million raised through a Series A preferred stock offering in 1998. The net increase of cash provided by financing activities was reduced by the payments of our long-term debt and payments on our capital lease obligations, in the amounts of $0.5 million and $2.0 million, respectively, in 1999, compared to $[illegible] million and $24,000, respectively, in 1998.

Our ongoing capital requirements will depend on several factors, including market acceptance of our services, the amount of resources we devote to investments in our networks, facilities, build-out of additional enterprise [illegible], services development and brand promotions, the resources we devote to sales and marketing of our services, and other factors. We have experienced a substantial increase in our capital expenditures and operating losses since our inception consistent with the growth in our operations and staffing, and we anticipate that this will continue for the foreseeable future. Additionally, we expect to make additional investments in technologies and our network architecture, and plan to expand our sales and marketing programs and conduct more aggressive brand promotions. Although operating activities may provide cash in certain periods, to the extent we experience growth in the future, we anticipate that our operating and investing activities will use cash. Consequently, any such future growth will require us to obtain additional equity or debt financing which may not be available on attractive terms, or at all, or may be dilutive.

See "Item 1. Business--Acquisition of Touch 1 Communications, Inc." for a discussion of our planned acquisition of Touch 1 Communications, Inc.

IMPACT OF THE YEAR 2000

We did not experience any significant disruptions in its operations during the transition into the Year 2000. We believe we have completed necessary assessments, modifications or replacement and testing of systems critical for the delivery of our services. We believe our Year 2000 readiness objectives have been met. Because of these preparations, we did not experience any significant disruptions in our operations. We also prepared a contingency plan to mitigate potential adverse effects that might have arisen from non-compliant systems or third parties that had not adequately addressed the Year 2000 issue. While we did not experience any significant Year 2000 disruptions during the transition into the Year 2000, we will continue to monitor our operations and systems and address any date-related problems that may arise as the year progresses.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The forward-looking statements in this document are based on the belief of our management, as well as assumptions made by and information currently available to our management. Forward-looking statements also may be included in other written and oral statements made or released by us. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. The words "believe," "anticipate," "intend," "expect," "estimate," "project" and similar expressions are intended to identify forward-looking statements. Forward-looking statements describe our expectations today of what we believe is most likely to occur or may be reasonably achievable in the future, but they do not predict or assure any future occurrence and may turn out to be wrong. Forward-looking statements are subject to both known and unknown risks and uncertainties and can be affected by inaccurate assumptions we might make. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially. We do not undertake any obligation to publicly update any forward-looking statements to reflect new information or future events or occurrences. These statements reflect our current views with respect to future events and are subject to risks and uncertainties about us, including, among other things:

- our ability to market our services successfully to new subscribers;
- our ability to access markets and finance network developments;
- our enhancement and expansion;
- additions or departures of key personnel;

- competition, including the introduction of new products or services by our competitors;

- existing and future regulations affecting our business and our ability to comply with these regulations;

- technological innovations;

- general economic and business conditions, both nationally and in the regions in which we operate; and

- other factors described in this document, including those described in more detail below.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this document.

RISKS RELATED TO OUR FINANCIAL CONDITION AND OUR BUSINESS

LIMITED OPERATING HISTORY. We were formed in January 1998 and began offering telecommunications services to the public in September 1998. In addition, in June 1999, we began marketing our Z-Line Home Edition service in New York City and Long Island. We have had fewer than 17 months of actual marketing, sales and operational results. Our limited operating history and results make it very difficult to evaluate or predict our ability to, among other things, retain customers, generate and sustain a revenue base sufficient to cover our operating expenses, and to achieve profitability. As a result, we believe that our historical financial information is of little or no value in projecting our future results, making it even more difficult to evaluate our business and prospects.

UNCERTAIN DEMAND. We initially began to market our products and services in September 1998. In June 1999, we focused our product offering on sales of our Z-Line Home Edition service. Our products and services represent an emerging sector of the telecommunications industry, and the demand for our services and our ability to retain customers over time are highly uncertain. Consumer acceptance of our products and services could be limited by:

- the willingness of customers to accept Z-Tel as an alternative provider of local and long distance telephone services and of other enhanced, integrated services;

- the presence and attractiveness of other enhanced telecommunications service offerings in our target markets;

- the perception of complexity in using our services;

- the reliability of our technology and network infrastructure;

- o the quality of our customer service; and
- o the prices of our services.

We have determined that substantial marketing effort, time and expense are required to stimulate initial demand for our products and services. In addition, we have incurred and will continue to incur substantial operating expenses, have made, and will continue to make, significant capital investments and have entered or plan to enter into real property leases, equipment supply contracts and service arrangements, in each case based upon our expectations as to the market acceptance of our products and services. We cannot be certain that substantial markets will develop for our products and services, or, if such markets develop, that we will be able to attract and maintain a sufficient revenue-generating customer base to cover our operating expenses. Lack of acceptance of our services in our target markets would materially and adversely affect the commercial viability of our business, and as a consequence, the value of your investment.

In addition, to maintain our competitive posture, we must be in a position to reduce the prices for our services in order to meet reductions in local and long distance rates, if any, offered by others. We cannot be sure that we will be able to match the reductions made by our competitors and, if we do, such reductions could have an adverse effect on our business, operating results and financial condition.

EXPECTATION OF FUTURE LOSSES. Our product and service offerings are at an early stage, and we cannot be sure that sales of our products or services will generate revenues sufficient to cover our operating expenses. Even if our products and services prove to be commercially successful, our operations may not become profitable. Starting up our company and developing our communications technology required substantial capital and other expenditures and further development of our business will require significant additional expenditures.

Since our inception in January 1998 through December 31, 1999, we have incurred accumulated losses of $49.1 million. We expect to continue to have significant operating losses and retained losses and will record significant negative net cash flow before financing for the foreseeable future.

AVAILABILITY AND FAVORABLE PRICING OF UNBUNDLED NETWORK COMPONENTS. Our business strategy depends on a continued availability of unbundled network components and on existing and additional states maintaining and adopting favorable pricing rules for unbundled network components.

The public utilities commissions of certain states have adopted pricing rules for unbundled network components. As a result of these regulatory initiatives, the Bell operating companies operating in those states are required to offer to competitive local exchange carriers such as us, at forward-looking, long-run incremental cost-based prices, the facilities and equipment and the features, functions and capabilities of their local exchange network on an unbundled basis. We have recently commenced operations in New York, Texas and Massachusetts using unbundled network components. However, given that the FCC order regulating unbundled network components is subject to further appeal, we cannot be certain that unbundled network components will continue to be available in their present form in those states or other states or that such other states will ever adopt favorable unbundled network components pricing. Further regulatory changes may adversely affect unbundled network components or our Z-Line Home Edition strategy. Our business model is based, in part, on availability and favorable pricing of the unbundled network components, and any adverse changes in the unbundled network elements platform regulatory or competitive environment could have a material adverse effect on our business, financial condition and results of operations.

RAPID EXPANSION. We have rapidly expanded our operations since we were formed. We expect to grow our business rapidly in terms of the number of services we offer, the number of customers we serve and the regions we serve. We cannot assure you that we will successfully manage our efforts to:

- expand, train, manage and retain our employee base;
- expand and improve our customer service and support systems and improve the performance of billing systems;
- introduce and market new products and services in addition to Z-Line Home Edition and our other service offerings;
- enhance and upgrade the features of our software;
- capitalize on new opportunities in the competitive marketplace; and
- control our expenses.

The strains posed by these demands are magnified by the start-up nature of our operations. If we cannot manage our growth effectively, our results of operations could be adversely affected.

In order to increase our direct sales effort, we will need to significantly increase the size of our internal sales and marketing staff and will be required to obtain personnel who have experience in marketing services like ours. We cannot be certain that we will be able to identify and attract sufficient numbers of qualified personnel or that our sales and marketing organizations will successfully compete against the more extensive and well-funded sales and marketing organizations of many of our current and future competitors. Our inability to attract, recruit and retain sufficient or sufficient qualified personnel could have a material adverse effect on us.

DIFFICULTIES IN EXPANDING NETWORK INFRASTRUCTURE. We must continue to develop, expand and adapt our network infrastructure as the number of our users and the amount of information they wish to access and transfer increases and as our customers' demands change. We cannot be sure that we will be able to develop, expand or adapt the network infrastructure to meet additional demand or our customers' changing requirements on a timely basis, at a commercially reasonable cost, or at all. If we fail to expand our network infrastructure on a timely basis or adapt it to either changing customer requirements or evolving industry standards, these failures could cause our business to perform poorly.

ABILITY TO RESELL LONG DISTANCE SERVICES. We offer long distance telephone services as part of our service packages. We currently have agreements with various long distance carriers to provide transmission and termination services for all of our long distance traffic. These agreements generally provide for the resale of long distance services on a per-minute basis and contain minimum volume commitments. If we incur underutilization charges on rate increases, these charges or rate increases could adversely affect our operating results. In cases in which we have agreed to minimum volume commitments and fail to meet them, we will be obligated to pay underutilization charges.

RISK OF SOFTWARE FAILURES AND ERRORS. The software that we use and the software that we have developed internally and are continuing to develop may contain undetected errors. Although we have extensively tested our software, errors may be discovered in the software during the course of its use. Any errors may result in partial or total failure of our network, loss or diminution in service delivery performance, additional and unexpected expenses to fund further product development or to add programming personnel to complete or correct development, and loss of revenue because of the inability of customers to use our products or services, which could adversely affect our business condition.

PROTECTION OF PROPRIETARY TECHNOLOGY. We currently rely on a combination of copyright, trademark and trade secret laws and contractual confidentiality provisions to protect the proprietary information that we have developed. Our ability to protect our proprietary technology is limited, and we cannot assure you that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology. Also, we cannot be certain that the intellectual property that incumbent local exchange carriers or others claim to hold and that may be necessary for us to provide our services will be available on commercially reasonable terms. If we were found to be infringing upon the intellectual property rights of others, we might be required to enter into royalty or licensing agreements, which may be costly or not available on commercially reasonable terms. If successful, a claim of infringement against us and our inability to license the infringed or similar technology on terms acceptable to us would adversely affect our business.

DEPENDENCE ON INFORMATION SYSTEMS. Our billing, customer service and management information systems are newly developed and we may face unexpected system difficulties which would adversely affect our service levels and, consequently, our business.

Sophisticated information and processing systems are vital to our ability to monitor costs, render monthly invoices for services, process customer orders and achieve operating efficiencies. We rely on internal systems and third party vendors, some of which have a limited operating history, to provide our information and processing systems. If our systems fail to perform in a timely and effective manner and at acceptable costs, or if we fail to adequately identify all of our information and processing needs or if our related processing or information systems fail, these failures could have a material adverse effect on our business.

In addition, our right to use third party systems is dependent upon license agreements. Some of these agreements are cancelable by the vendor, and the cancellation or nonrenewal of these agreements could seriously impair our ability to process orders or bill our customers. As we continue to provide local telephone service, the need for sophisticated billing and information systems will also increase significantly and we will have significant additional requirements for data interface with incumbent local exchange carriers and others. We cannot be certain that we will be able to meet these additional requirements.

NETWORK FAILURE. The successful operation of our network will depend on a continuous supply of electricity at multiple points. Although the system that carries signals has been designed to operate under extreme weather conditions (including heavy rain, wind and snow), like all other telecommunications systems, our network could be adversely affected by such conditions. Our network, however, is equipped with a back-up power supply and our existing network operations center is equipped with both a battery back-up and an on-site emergency generator. If a power failure causes an interruption in our service, the interruption could negatively impact our operations.

Our network also may be subject to physical damage, sabotage, tampering or other breaches of security (by computer virus, break-ins or otherwise) that could impair its functionality. In addition, our network is subject to unknown capacity limitations that may cause interruptions in service or reduced capacity for our customers. Any interruptions in service resulting from physical damage or capacity limitations could cause our systems to fail.

NETWORK INTERCONNECTION. As a competitive provider of local telephone service, we must interconnect our network with the networks of incumbent local exchange carriers. We may not be able to obtain the interconnection we require at rates and on terms and conditions that permit us to offer services that are both competitive and profitable. In the event that we experience difficulties in obtaining high quality, reliable and reasonably priced services from other carriers, the attractiveness of our services is likely to be significantly impaired.

DEPENDENCE ON LOCAL EXCHANGE CARRIERS. We rely on incumbent local exchange carriers to supply key unbundled components of their network infrastructure to us on a timely and accurate basis, and in the quantities and quality demanded by us. We may from time to time experience delays or other problems in receiving unbundled services or facilities which we request, and there can be no assurance that we will able to obtain such unbundled elements on the scale and within the time frames required by us. Any failure to obtain these components, services or additional capacity on a timely and accurate basis could adversely affect us.

ANTICIPATED CAPITAL NEEDS. If we expand more rapidly than currently anticipated or if our working capital needs exceed our current expectations, we may need to raise additional capital from debt or equity sources. If we cannot obtain financing on acceptable terms or at all, we may be required to modify, delay or abandon our current business plan, which is likely to materially and adversely affect our business and, as a result, the value of our common stock.

DEPENDENCE ON THIRD PARTY VENDORS. We currently purchase the majority of our telecommunications equipment as needed from third party vendors, including Excel Switching Corporation, Sonus Networks, Inc., Dialogic Communications Corporation, Compaq Computer Corporation, and Sun Microsystems, Inc. In addition, we currently license our software from third party vendors, including Oracle Corporation, INPRISE Corporation, NOVERA Corp., and Netscape Communications, Inc. We typically do not enter into any long-term agreements with our telecommunications equipment or software suppliers. Any reduction or interruption in supply from our equipment suppliers or failure to obtain suitable software licensing terms could have a disruptive effect on our business and could adversely affect our results of operations.

DEPENDENCE ON MANAGEMENT AND KEY PERSONNEL. We depend on a limited number of key personnel who would be difficult to replace. If we lose the services of some of our key personnel, our business could suffer. We currently maintain a $5,000,000 key man life insurance policy on the life of Mr. D. Gregory Smith, our president, chief executive officer and chairman of the board. We also depend on a limited number of key management, sales, marketing and product development personnel to manage and operate our business. In particular, we believe that our success depends to a significant degree upon our ability to attract and retain highly skilled personnel, including our engineering and technical staff. If we are unable to attract and retain our key employees, the value of our common stock could suffer.

RISKS RELATED TO OUR INDUSTRY

GOVERNMENT REGULATION AND LEGAL UNCERTAINTIES. We are subject to varying degrees of federal, state, and local regulation. In states where we will provide intrastate services, we generally will be subject to state certification or registration and tariff-filing requirements. Delays in obtaining the required state regulatory approvals may have a material adverse effect on our business. Challenges to our tariffs by third parties could cause us to incur substantial legal and administrative expenses.

We must also comply with various state and federal obligations that are subject to change, such as the duty to contribute to universal service subsidies, the impact of which we cannot yet fully assess. While we do not believe that compliance with federal and state reporting and regulatory requirements will be burdensome, our failure to do so may result in fines or other penalties being imposed on us, including loss of certification to provide services.

Decisions of the FCC and state regulatory commissions providing incumbent local exchange carriers with increased flexibility in how they price their services and with other regulatory relief, could have a material adverse effect on our business and that of other competitive local exchange carriers. Future regulatory provisions may be less favorable to competitive local exchange carriers and more favorable to their competitors. If incumbent local exchange carriers are allowed by regulators to lower their rates, engage in substantial volume and term discount pricing practices for their customers, or charge competitive local exchange carriers higher fees for interconnection to the incumbent local exchange carriers' networks, our business, operating results and financial condition could be materially adversely affected. Incumbent local exchange carriers may also seek to delay competitors through legal or regulatory challenges, or by recalcitrant responses to requirements that they open their markets through interconnection and unbundling of network elements. Our legal and administrative expenses may be increased because of our having to actively participate in rate cases filed by incumbent local exchange carriers, in which they seek to increase the rates they can charge for the unbundled network element platform components. Our profitability may be adversely affected if those carriers prevail in those cases. Pending court cases, in which certain provisions of the Telecommunications Act of 1996 will be conclusively interpreted, may increase the cost of unbundled network elements to us.

COMPETITION. The telecommunications and information services markets are intensely competitive and rapidly evolving. We expect competition to increase in the future. Many of our potential competitors have longer operating histories, greater name recognition, larger customer bases and substantially greater financial, personnel, marketing, engineering, technical and other resources than us. The principal competitive factors affecting our business operations will be price, the desirability of our service offering, quality and reliability of our services, innovation and customer service. Our ability to compete effectively will depend upon our ability to maintain high quality, market-driven services at prices generally equal to or below those charged by our competitors. This competition could materially adversely affect our business, financial condition and results of operations.

We face competition from a variety of participants in the telecommunications market. The largest competitor for local service in each market in which we compete is the incumbent local exchange carrier serving that market. Incumbent local exchange carriers have established networks, long-standing relationships with their customers, strong political and regulatory influence, and the benefit of state and federal regulations that, until recently, favored incumbent local exchange carriers. In the local exchange market, the incumbent local exchange carriers continue to hold near-monopoly positions. The long distance telecommunications market in which we compete has numerous entities competing for the same customers and a high average churn rate as customers frequently change long distance providers in response to the offering of lower rates or promotional incentives.

Prices in the long distance market have declined significantly in recent years and are expected to continue to decline. We will face competition from large interexchange carriers. Other competitors are likely to include incumbent local exchange carriers providing out-of-region (and, with the removal of regulatory barriers, in-region) long distance services, other incumbent local exchange carriers, other competitive local exchange carriers, cable television companies, electric utilities, wireless telephone system operators, microwave and satellite carriers and private networks owned by large end users.

The Telecommunications Act of 1996 facilitates such entry by requiring incumbent local exchange carriers to allow competing providers to acquire local services at wholesale prices for resale and to purchase unbundled network elements at cost-based prices. A continuing trend toward combinations and strategic alliances in the telecommunications industry, including potential consolidation among incumbent local exchange carriers or competitive local exchange carriers, or transactions between telephone companies and cable companies outside of the telephone company's service area, or between interexchange carriers and competitive local exchange carriers, could give rise to significant new competitors.

[illegible]

The enhanced and information services markets are also highly competitive and we expect that competition will continue to intensify. Our competitors in these markets will include information service providers, telecommunications companies, on-line services providers and Internet service providers.

UNAUTHORIZED TRANSACTIONS; THEFT OF SERVICES. We may be the victim of fraud or theft of service. From time to time, callers have obtained our services without rendering payment by unlawfully using our access numbers and personal identification numbers. We attempt to manage these theft and fraud risks through our internal controls and our monitoring and blocking systems. If these efforts are not successful, the theft of our services may cause our revenue to decline significantly.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We currently have instruments sensitive to market risk relating to exposure to changing interest rates and market prices. We do not enter into financial instruments for trading or speculative purposes and do not currently utilize derivative financial instruments. Our operations are conducted primarily in the United States and as such are not subject to material foreign currency exchange rate risk.

The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of the major portion of our investment portfolio.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
I-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
Z-Tel Technologies, Inc. and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Z-Tel Technologies, Inc. and its Subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for the year ended December 31, 1999 and the period from January 15, 1998 (Inception) through December 31, 1998, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Tampa, Florida
February 15, 2000

<TABLE>

[illegible] TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

<CAPTION>

	1999	1998
ASSETS		
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 101,657,000	$ 7,973,000
Accounts receivable, net of allowance for doubtful accounts of approximately $408,000 at December 31, [illegible] and [illegible] at December 31, 1999	4,245,000	15,000
Prepaid expenses and other current assets	2,304,000	423,000
Total current assets	108,206,000	8,411,000
Property and equipment, net	28,549,000	11,710,000
Other	922,000	153,000
Total assets	$ 137,677,000	$ 20,274,000
LIABILITIES, MANDATORILY CONVERTIBLE REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 9,165,000	$ 4,402,000
Current portion of long-term debt and capital lease obligations	3,726,000	681,000
Total current liabilities	12,891,000	5,083,000
Long-term debt and capital lease obligations	10,408,000	43,000
Total liabilities	23,299,000	5,126,000
Mandatorily convertible redeemable preferred stock, $.01 par value; 50,000,000 shares authorized; [illegible] issued and outstanding (aggregate liquidation value of approximately $15,154,000 at December 31, 1998)	--	15,154,000
Commitments and contingencies (Notes 6, 7 and 14)		
Stockholders' equity (deficit):		
Common stock, $.01 par value; 150,000,000 shares authorized; [illegible] and 14,411,100 shares issued; 31,880,236 and [illegible] outstanding, respectively	322,000	144,000
Notes receivable from stockholders	(1,683,000)	(3,329,000)
Deferred stock compensation	(2,487,000)	(192,000)
Additional paid-in capital	167,637,000	16,493,000
Accumulated deficit	(49,093,000)	(13,122,000)
Treasury stock, [illegible] shares at cost	(318,000)	--
Total stockholders' equity (deficit)	114,378,000	(6,000)
Total liabilities, mandatorily convertible redeemable preferred stock and stockholders' equity (deficit)	$ 137,677,000	$ 20,274,000

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<PAGE>
Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

<S>	YEAR ENDED DECEMBER 31, 1999 <C>	PERIOD JANUARY 15, 1998 (INCEPTION) THROUGH DECEMBER 31, 1998 <C>
Revenues	$ 6,615,000	$ 140,000
Operating expenses:		
Network operations	7,942,000	382,000
Sales and marketing	8,588,000	2,201,000
Research and development	3,562,000	4,728,000
General and administrative	15,379,000	4,718,000
Depreciation and amortization	4,372,000	1,283,000
Total operating expenses	39,843,000	13,312,000
Operating loss	(33,228,000)	(13,172,000)
Nonoperating income (expense):		
Interest income	608,000	228,000
Interest expense	(3,351,000)	(178,000)
Total nonoperating income (expense)	(2,743,000)	50,000
Net loss	(35,971,000)	(13,122,000)
Less mandatorily convertible redeemable preferred stock dividends	(1,654,000)	(190,000)
Net loss attributable to common stockholders	$(37,625,000)	$(13,312,000)
Weighted average common shares outstanding	15,099,359	6,554,499
Basic and diluted net loss per share	$ (2.49)	$ (2.03)

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<PAGE>
Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

<TABLE>
<CAPTION>

	COMMON STOCK		NOTES RECEIVABLE FROM STOCKHOLDERS	UNEARNED STOCK COMPENSATION
	SHARES	PAR VALUE		
<S>	<C>	<C>	<C>	<C>
Balances, January 15, 1998 (Inception)	--	$ --	$ --	$ --
Issuance of common stock	9,703,100	97,000	(3,329,000)	
Conversion of note payable and accrued interest to common stock	4,708,000	47,000		
Grant of stock options below intrinsic value				(281,000)
Vesting of stock options granted below intrinsic value				89,000
Accrued dividend on preferred stock				
Net loss				
Balances, December 31, 1998	14,411,100	144,000	(3,329,000)	(192,000)
Issuance of common stock in Initial Public Offering, net of underwriter discount and commissions	6,900,000	69,000		
Cost of issuance of common stock in Initial Public Offering				
Issuance of common stock for exercise of stock options	306,555	3,000		
Issuance of common stock in exchange for services rendered	55,000	1,000		
Issuance of common stock to purchase assets	11,000			
Conversion of preferred stock to common stock	10,476,256	105,000		
Grant of stock options below intrinsic value				(3,225,000)
Vesting of stock options granted below intrinsic value				930,000
Treasury stock received upon cancellation of notes receivable from stockholder	(279,675)		318,000	
Repayment of stockholders' notes			1,222,000	
Forgiveness of stockholder's note			106,000	
Accrued dividend on preferred stock				
Net loss				
Balances, December 31, 1999	31,880,236	$ 322,000	$ (1,683,000)	$ (2,487,000)

	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
<S>	<C>	<C>	<C>	<C>
Balances, January 15, 1998 (Inception)	$ --	$ --	$ --	$ --
Issuance of common stock	10,929,000			7,697,000
Conversion of note payable and accrued interest to common stock	5,473,000			5,520,000
Grant of stock options below intrinsic value	281,000			
Vesting of stock options granted below intrinsic value				89,000
Accrued dividend on preferred stock	(190,000)			(190,000)
Net loss		(13,122,000)		(13,122,000)
Balances, December 31, 1998	16,493,000	(13,122,000)	--	(6,000)
Issuance of common stock in Initial Public Offering, net of underwriter discount and commissions	109,020,000			109,089,000
Cost of issuance of common stock in Initial Public Offering	(1,693,000)			(1,693,000)
Issuance of common stock for exercise of stock options	535,000			538,000
Issuance of common stock in exchange for services rendered	299,000			300,000
Issuance of common stock to				

purchase assets	60,000			60,000
Conversion of preferred stock to common stock	39,809,000			39,914,000
Grant of stock options below intrinsic value	4,768,000			1,543,000
Vesting of stock options granted below intrinsic value				930,000
Treasury stock received upon cancellation of notes receivable from stockholder			(318,000)	--
Repayment of stockholders' notes				1,222,000
Forgiveness of stockholder's note				106,000
Accrued dividend on preferred stock	(1,654,000)			(1,654,000)
Net loss		(35,971,000)		(35,971,000)
Balances, December 31, 1999	$ 167,637,000	$ (49,093,000)	$ (318,000)	$ 114,378,000

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<PAGE>
Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

<S>	YEAR ENDED DECEMBER 31, 1999 <C>	PERIOD JANUARY 15, 1998 (INCEPTION) THROUGH DECEMBER 31, 1998 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (35,971,000)	$ (13,122,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of fixed assets	4,372,000	1,283,000
Interest expense on capital lease obligation discount	2,192,000	--
Provision for bad debts	958,000	54,000
Expense charged for granting of stock options	387,000	89,000
Expense charged for granting of stock for services	300,000	--
Interest expense converted to common stock	--	170,000
Change in operating assets and liabilities:		
Increase in accounts receivable	(5,188,000)	(69,000)
Increase in prepaid expenses and other current assets	(1,881,000)	(423,000)
Increase in other assets	(769,000)	(153,000)
Increase in accounts payable and accrued liabilities	2,919,000	4,402,000
Total adjustments	3,290,000	5,353,000
Net cash used in operating activities	(32,681,000)	(7,769,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(21,151,000)	(11,393,000)
Proceeds from sale and leaseback transaction	15,969,000	--
Net cash used in investing activities	(5,182,000)	(11,393,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of notes payable	--	5,350,000
Proceeds from issuance of mandatorily convertible redeemable preferred stock	24,950,000	14,964,000
Proceeds from issuance of initial public offering, net underwriter discount and commissions	109,089,000	--
Payment of issuance cost of initial public offering	(1,693,000)	--
Proceeds from exercise of stock options	538,000	7,697,000
Proceeds from notes receivable	1,222,000	--
Payments on long-term debt obligations	(565,000)	(852,000)
Payments on capital lease obligations	(1,994,000)	(24,000)
Net cash provided by financing activities	131,547,000	27,135,000
Net increase in cash and cash equivalents	93,684,000	7,973,000
Cash and cash equivalents, beginning of period	7,973,000	--
Cash and cash equivalents, end of period	$ 101,657,000	$ 7,973,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 1,130,000	$ 8,000
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment acquired under capital lease obligations	$ 15,944,000	$ 95,000
Property and equipment acquired with long-term debt	$ --	$ 1,505,000
Conversion of note payable and accrued interest to common stock	$ --	$ 5,520,000
Increase in additional paid-in capital for stock options granted	$ 5,064,000	$ 281,000
Net increase in unearned stock compensation for stock options granted	$ 2,295,000	$ 192,000
Accrued dividends on preferred stock	$ 1,654,000	$ 190,000
Notes receivable issued for common stock	$ --	$ 3,329,000
Forgiveness of note receivable issued for common stock	$ (106,000)	$ --
Common stock issued for purchase of assets	$ 60,000	$ --
Treasury stock received upon cancellation of note receivable for common stock	$ (318,000)	$ --
Conversion of preferred stock to common stock	$ 39,914,000	$ --

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF BUSINESS

DESCRIPTION OF BUSINESS

Z-Tel Technologies, Inc. and subsidiaries ("Z-Tel" or the "Company") incorporated in Delaware on January 15, 1998 as Olympus Telecommunications Group, Inc. In March 1998, Olympus Telecommunications Group, Inc. changed its name to Z-Tel Technologies, Inc. The Company has seven wholly owned subsidiaries: Z-Tel Communications, Inc., Z-Tel Business Networks, Inc., Z-Tel Holdings, Inc., Z-Tel Communications of Virginia, Inc., Z-Tel, Inc., Z-Tel Network Services, Inc. and Tiger Acquisition Corporation. Z-Tel Technologies, Inc. is the parent company, and has no other operations. Z-Tel Communications, Inc. is the operating entity. The remaining subsidiaries have no significant operations.

Z-Tel is an emerging provider of advanced, integrated telecommunications services targeted primarily to residential subscribers. The Company offers local and long distance telephone services in combination with enhanced communication features accessible through the telephone or the Internet. The Company began offering an access card service in 1998, similar to the Company's current Z-Line Anywhere service. In addition, the Company began offering Z-Line Home Edition service in New York in June 1999, and Texas in December of 1999.

STOCK SPLIT

The Company's Board of Directors authorized an 11 for 10 stock split on November 19, 1999, which was effected in the form of a 10% stock dividend. All common share amounts have been adjusted to give effect to this split.

INITIAL PUBLIC OFFERING

On December 15, 1999, the Company filed its initial public offering (IPO) of 6,900,000 shares (including the underwriters' over-allotment option) of its common stock at $17.00 per share. Net proceeds to the Company aggregated approximately $109,089,000 after underwriter discount and commissions. All of the mandatorily convertible redeemable preferred stock outstanding at the date of the IPO was converted into 10,476,256 shares of common stock as of the closing date of the offering.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist primarily of prepaid maintenance and support contracts and advances to suppliers.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at historical cost. Maintenance and repairs are expensed as incurred, while renewals and betterments are capitalized. Upon the sale or other disposition of property, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized in operations. Depreciation and amortization is provided on a straight-line basis over the following estimated useful lives:

	YEARS
Switching equipment	5
Computer equipment	5
Software	3
Furniture and office equipment	5-10
Leasehold improvements	3-10

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1999, the Company adopted Statement of Position (SOP) 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires computer software costs related to internal software that is incurred in the preliminary project stage to be expensed as incurred. When the capitalization criteria of SOP 98-1 have been met, costs of developing or obtaining internal-use computer software are capitalized. The Company capitalized approximately $4,794,000 of internally developed software for the year ended December 31, 1999. Internal use software is included as a component of property and equipment on the consolidated balance sheet.

LONG-LIVED ASSETS

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the discounted cash flows. The Company has recognized no impairment losses.

INCOME TAXES

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reported amounts at each year-end based on enacted laws and statutory rates applicable to the periods in which

---

[illegible] expected to affect taxable income. A valuation allowance is [illegible] the future benefits of deferred tax assets if it is [illegible] that it is more likely than not that the future tax benefits [illegible] the deferred tax asset will not be realized.

[illegible]

The [illegible] Standards Board issued SFAS No. 123, "Accounting for [illegible] Compensation." Under SFAS No. 123, entities recognize as [illegible] over the vesting period, the fair value of all stock-based awards on the date of the grant. The Company continues to apply the provisions of [illegible] Board (APB) Opinion No. 25, "Accounting for Stock [illegible] to Employees," and provide pro forma net income and earnings per [illegible] for grants made as if the fair value method defined in [illegible] 123 had been applied. The Corporation has elected to apply the [illegible] APB Opinion No. 25 and consequently recognizes compensation [illegible] over the vesting period for grants made to employees and directors [illegible], on the date of grant, the market price of the underlying stock [illegible] the exercise price. For stock options granted to [illegible], SFAS No. 123 requires entities to recognize as an expense, over the vesting period, the fair value of the options.

[illegible]

[illegible] when earned. Revenues related to long distance [illegible] are billed monthly in arrears and the associated revenues [illegible] in the month of service. In June 1999, the Company began [illegible] its local service, Z-Line Home Edition, to consumers. Charges for [illegible] are billed monthly in advance and the Company recognizes [illegible] for this service ratably over the service period, which management [illegible] the actual provision of services.

[illegible]

[illegible] are expensed as incurred. Included in sales and marketing [illegible] are advertising costs of approximately $7,122,000 and $592,000 for [illegible] December 31, 1999 and the period January 15, 1998 [illegible] December 31, 1998, respectively.

[illegible] START-UP ACTIVITIES

The Company expenses the costs of start-up activities as incurred.

[illegible] OF CREDIT RISK

[illegible] that potentially subject the Company to [illegible] of credit risk consist principally of cash and cash [illegible] receivable. The Company places its cash and cash [illegible] in financial institutions considered by management to be high [illegible]. The Company maintains cash balances at financial institutions in [illegible] of the $100,000 insured by the Federal Deposit Insurance Corporation [illegible]. The Company has approximately $99 million invested in interest [illegible] market and short-term fixed income investments that are not [illegible] by the FDIC. The Company has not experienced any losses in these [illegible] and believes it is not exposed to any significant credit risk on [illegible]. During the normal course of business, the Company extends [illegible] to customers residing in the United States.

SEGMENT REPORTING

Statement of Financial Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires that the Company report financial and descriptive information about reportable segments, and how these segments were determined. The Company operated during fiscal year 1999 and the period January 15, 1998 (Inception) through December 31, 1998 in a single segment. The Company determines the allocation and performance of resources based on total operations. Based on these factors, management has determined that the Company operates as one segment as defined by SFAS No. 131.

FINANCIAL INSTRUMENTS

The recorded amounts of cash and cash equivalents approximate fair value due to the short-term nature of these instruments. The Company has determined that due to the interest rates and short-term nature of the capital lease obligation, the fair value approximates the value recorded.

MANAGEMENT'S USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS

On November 24, 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 100 ("SAB 100"), "Restructuring and Impairment Charges." SAB 100 provides the SEC staff's views regarding the accounting for and disclosure of certain expenses commonly reported in connection with exit activities and business combinations. The Company does not anticipate that SAB 100 will have a material impact on the consolidated financial statements.

On December 3, 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." While not intended to change current literature related to revenue recognition, SAB 101 provides additional guidance on revenue recognition policies and procedures. The Company believes that its current accounting policies and procedures related to revenue recognition comply with SAB 101.

RECLASSIFICATION

Certain amounts in the December 31, 1998 financial statements have been reclassified to conform with the December 31, 1999 presentation.

3. PROPERTY AND EQUIPMENT

At the respective dates, property and equipment consist of the following:

<TABLE>
<CAPTION>

<S>	1999 <C>	1998 <C>
Switching equipment	$11,018,000	$ 6,672,000
Computer equipment	9,237,000	2,898,000
Software	10,820,000	2,984,000
Furniture and office equipment	1,078,000	254,000
Leasehold improvements	235,000	185,000
Construction-in-progress	1,815,000	
	34,203,000	12,993,000
Less accumulated depreciation and amortization	5,654,000	1,283,000
	$28,549,000	$11,710,000

</TABLE>

Depreciation and amortization expense related to property and equipment amounted to approximately $1,999,000 and $2,373,000, respectively, for the year ended December 31, 1999 and approximately $586,000 and $697,000, respectively, for the period January 15, 1998 (Inception) through December 31, 1998.

At the respective dates, assets acquired under capital leases, included in property and equipment, consist of the following:

<TABLE>
<CAPTION>

<S>	1999 <C>	1998 <C>
Switching equipment	$10,778,000	$ --
Computer equipment	4,868,000	--
Furniture and office equipment	298,000	95,000
	15,944,000	95,000
Less accumulated depreciation and amortization	3,070,000	8,000
	$12,874,000	$ 87,000

</TABLE>

In March 1999, the Company entered into an agreement with CMB Capital, LLC (a wholly owned entity of a shareholder of the Company) to sell and lease-back certain equipment. This agreement allowed for a sale and lease-back of up to $35.2 million of certain equipment with revolving terms of 48 months and approximate effective interest rates ranging from 10.0% to 19.5%. Included in this agreement was a stock warrant to purchase 521,832 shares of common stock at $3.37 per share. The Company accounted for the warrant granted in accordance with SFAS No. 123, recognizing costs associated with the grant equal to the fair value of the warrant. The Company has recorded the fair value of the warrant as a commitment fee associated with the capital lease obligation and included it as part of minimum lease payments.

The warrant expires on March 2009. For the year ended December 31, 1999, the Company sold and leased-back certain equipment, receiving proceeds under this agreement of approximately $16.0 million. No gain or loss was recognized on the sale of these assets. At December 31, 1999, the Company had approximately $19.2 million available under this agreement for future sale and leaseback transactions. The assets of the Company collateralize these leases.

In November 1999, the Company entered into an agreement with CMB Capital, LLC to restructure the terms of the leasing facility to allow for the early payment of the facility. The

Company granted warrants for 115,500 shares of common stock at $7.27 per share. The Company repaid the entire facility subsequent to December 31, 1999, as described in Note 14.

[illegible]. OTHER ASSETS

At the respective dates, other assets consist of the following:

	1999	1998
Certificate of deposit, restricted	$500,000	$ --
Interest receivable from stockholders	205,000	85,000
Deposits	217,000	68,000
	$922,000	$153,000

The certificate of deposit is pledged as collateral on an outstanding letter of credit in the amount of $500,000 related to lease obligations on one of the Company's office spaces.

[illegible]. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At the respective dates, accounts payable and accrued liabilities consist of the following:

	1999	1998
Trade accounts payable	$5,177,000	$4,263,000
Deferred revenue	517,000	--
Accrued payroll and related liabilities	744,000	106,000
Dividend payable to preferred shareholders	1,844,000	--
Accrued rent	441,000	--
Other accrued liabilities	442,000	33,000
	$9,165,000	$4,402,000

[illegible]. LONG-TERM DEBT AND LEASES

LONG-TERM DEBT

During 1998, the Company financed the purchase of certain assets with a note payable. At December 31, 1999 and December 31, 1998, the balance of this note was approximately $88,000 and $653,000, respectively. The note bears interest at approximately 10.0% and is payable in the year 2000. The assets purchased collateralize the note.

OPERATING LEASES

The Company has entered into various non-cancelable operating leases for equipment and office space with monthly payments through the year 2009. Included in general and administrative expense is rental expense relating to operating leases of approximately $1,606,000 and $198,000 for the year ended December 31, 1999 and the period January 15, 1998 (Inception) through December 31, 1998, respectively.

[illegible]

[illegible] entered into various capital lease obligations, with [illegible] rates ranging from 10.0% to 19.5%, with monthly payments [illegible].

[illegible] lease payments under non-cancelable operating and capital [illegible] debt as of December 31, 1999 are as follows:

[illegible]	OPERATING LEASES	CAPITAL LEASE OBLIGATIONS	LONG-TERM DEBT
[illegible]	<C>	<C>	<C>
[illegible]	$ 1,004,000	$ 5,285,000	$ 88,000
[illegible]	1,320,000	5,266,000	--
[illegible]	1,183,000	5,247,000	--
[illegible]	1,214,000	2,309,000	--
[illegible]	1,256,000	--	--
	5,977,000	18,107,000	88,000
[illegible] executory [illegible], including profit thereon, [illegible] lease payments	--	1,206,000	--
[illegible]	$ 5,977,000	16,901,000	$ 88,000
[illegible] interest on obligations under capital lease		2,855,000	
[illegible] lease payments (including approximately [illegible] year)		$ 14,046,000	

[illegible]

[illegible] On February 14, 2000 the Company paid $14,365,000 [illegible] capital lease obligations outstanding.

[illegible] [illegible] AND CONTINGENCIES

[illegible] billings and access charges from certain [illegible] (IXCs) and incumbent local exchange carriers [illegible] contends the invoicing of billings and access charges [illegible] with the interconnection, service level, or tariff [illegible] between the Company and certain IXCs and ILECs. The [illegible] for a portion of these disputes and management [illegible] Company will prevail in these disputes. At December 31, [illegible] amounts recognized were approximately $2,300,000.

[illegible] in certain legal actions and claims arising in the [illegible] business. It is the opinion of management that such [illegible] will be resolved without material adverse effect on [illegible] position, results of operations, or cash flows. The [illegible] of a threatened claim from a third party primarily [illegible] of improper use of trade secrets. No legal action has [illegible] this alleged claim, which the Company believes is [illegible] Should any legal action result, the Company intends to [illegible] its position.

[illegible]. INCOME TAXES

For the year ended December 31, 1999 and the period January 15, 1998 (inception) through December 31, 1998, no benefit for federal or state income taxes has been recorded due to the full valuation allowance recorded against the deferred tax asset.

As of December 31, 1999 and 1998, the Company had a net operating loss of approximately $49,320,000 and $12,700,000, respectively, available to reduce future federal income taxes. This net operating loss carryforward will begin to expire in 2018 and is subject to limitation in any given year in the event of certain changes in ownership, as set forth in the Internal Revenue Code Section 382 and related Treasury Regulations.

The tax effect of the temporary differences that gave rise to the deferred tax balances at the respective dates were the following:

	1999	1998
Current deferred tax assets:		
Accounts receivable	$ 155,000	$ 20,000
Noncurrent deferred tax assets:		
Net operating loss	18,742,000	4,827,000
Fixed assets	(876,000)	70,000
Deferred compensation	295,000	34,000
Other	292,000	22,000
	18,453,000	4,953,000
Deferred tax assets	18,608,000	4,973,000
Valuation allowance	(18,608,000)	(4,973,000)
	$ --	$ --

The Company provides a valuation allowance against net deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The net deferred tax asset at December 31, 1999 and 1998 has been offset by the establishment of a valuation allowance for the full amount of the deferred tax asset.

The following table summarizes, at the respective dates, the approximate differences between the actual tax provision and amounts obtained by applying the statutory U.S. federal income tax rate of 35% to the income (loss) before income taxes.

	1999	1998
Statutory provision/(benefit)	$(12,590,000)	$ (4,592,000)
State taxes net of federal provision/(benefit)	(1,045,000)	(381,000)
	(13,635,000)	(4,973,000)
Change in valuation allowance	13,635,000	4,973,000
	$ --	$ --

---

9. COMMON STOCK

In connection with the closing of the IPO, the Company amended its Articles of Incorporation to provide the authority to issue 150,000,000 shares of common stock and 50,000,000 shares of preferred stock, both with a $.01 par value.

No dividends on common stock have been declared by the board of directors since January 15, 1998 (Inception).

10. MANDATORILY CONVERTIBLE REDEEMABLE PREFERRED STOCK

During 1998, the Company amended its articles of incorporation to authorize the issuance of up to 5,930,749 shares of Series A mandatorily convertible redeemable preferred stock (Series A Preferred) and 1,338,208 shares of Series B mandatorily convertible redeemable preferred stock (Series B Preferred), both with a $.01 par value.

In November 1998, the Company closed a private placement of 2,695,795 shares of Series A Preferred and 1,338,208 shares of Series B Preferred, receiving aggregate net proceeds of approximately $15 million.

During 1999, the Company amended its articles of incorporation to reduce the authorized shares of its Series A Preferred from 5,930,749 to 2,695,795 and increase the authorized shares of its Series B Preferred from 1,338,208 to 4,034,003. In September 1999, the Company closed a private placement of 2,695,795 shares of Series B mandatorily convertible redeemable preferred stock. The Company received aggregate net proceeds of approximately $10 million from this placement.

In October 1999, the Company amended its articles of incorporation to authorize the issuance of up to 2,794,800 shares of its Series C mandatorily convertible redeemable stock (Series C Preferred). The Company closed a private placement of 2,794,800 shares of Series C Preferred stock. The Company received aggregate net proceeds of approximately $15 million from this placement.

The preferred stock issues yielded 8% cumulative dividends, which amounted to approximately $1,654,000 and $190,000 at December 31, 1999 and 1998, respectively. In January of 2000, the Company paid approximately $1,844,000 to the preferred shareholders in satisfaction of the 8% cumulative dividend as all shares were converted to common stock.

In December 1999, in connection with the closing of the Company's IPO, all of the mandatorily convertible redeemable preferred stock outstanding was converted into 10,476,256 shares of common stock.

In 1998 and 1999, the Company did not comply with certain provisions of the Series A Preferred private placement agreement relating to the issuance of financial statements to the stockholders within a certain time frame. The Company obtained a waiver from the stockholders relating to these provisions in 1998. In December 1999, these provisions and a put agreement expired as a result of the conversion of the Series A and B Preferred to common stock.

[illegible] RELATED PARTY TRANSACTIONS

During 1998, various executives of the Company issued full recourse promissory notes, totaling approximately $3.3 million, to the Company in connection with the purchase of 2,929,575 shares of common stock. The accompanying consolidated financial statements include the notes as a decrease in stockholders' equity. The outstanding notes receivable at December 31, 1999 and 1998 are approximately $1,683,000 and $3,329,000, respectively. The principal balance of the notes and the related accrued interest (8% per annum) are due December 31, 2001. The notes are collateralized by the shares of common stock acquired with the notes, and these shares are held in escrow by the Company. Interest income on these notes receivable was $251,000 and $85,000 in 1999 and 1998, respectively.

During 1998, an executive loaned the Company approximately $5.35 million with interest at a rate of 8% per year until paid. In August 1998, the Company issued 4,708,000 shares of common stock to the executive in satisfaction of the debt and accrued interest payable of $170,000.

In September 1999, the Company cancelled approximately $318,000 of notes receivable and reacquired 279,675 shares of common stock at $1.14 per share from an employee. At December 31, 1999, these shares are presented as treasury shares, at cost.

[illegible] STOCK-BASED COMPENSATION

Effective October 30, 1998, the Company adopted the 1998 Equity Participation Plan (the Plan) available for grant to eligible employees and eligible participants to purchase up to 1,261,000 shares of the Company's common stock. During September and November 1999, the board of directors (the Board) increased the shares available for grant under the Plan to [illegible] and 7,500,000, respectively. The Plan is administered by a committee appointed by the Board, or by the Board. The Board or the appointed committee shall administer the Plan, select the eligible employees and eligible participants to whom options will be granted, the price to be paid, the exercise period and the number of shares subject to any such options and interpret, construe and implement the provisions of the Plan.

During the year ended December 31, 1999 and the period January 15, 1998 (Inception) through December 31, 1998, respectively, the Company awarded options under the Plan totaling 3,829,557 and 201,850 shares of common stock, respectively, at a weighted average option price per share of $5.49 and $1.54. Stock option grants approximate the fair market value at the date of grant. The vesting periods on these options range from immediately to four years and have a maximum contractual life of ten years.

Prior to the adoption of the Plan, the Board issued stock options (the Initial Plan) totaling 3,878,050 shares to various parties at a weighted average option price per share of $2.83. The vesting periods on these options range from immediately to three years, and have a maximum contractual life of ten years.

A summary of the stock option activity for the year ended December 31, 1999 and the period January 15, 1998 (Inception) through December 31, 1998 is presented below:

<TABLE>
<CAPTION>

	INITIAL PLAN		1998 EQUITY PARTICIPATION PLAN		TOTAL	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding, January 15, 1998 (inception)	--	$ --	--	$ --	--	$ --
Granted	3,878,050	2.83	201,850	3.64	4,079,900	2.87
Forfeited	(58,850)	2.46	--	--	(58,850)	2.46
Outstanding, December 31, 1998	3,819,200	2.79	201,850	3.64	4,021,050	2.83
Granted			3,829,557	5.49	3,829,557	5.49
Exercised	(305,088)	1.73	(1,467)	3.64	(306,555)	1.74
Forfeited	(331,973)	3.49	(55,795)	3.69	(387,768)	3.52
Outstanding, December 31, 1999	3,182,139	$ 2.87	3,974,145	$ 5.42	7,156,284	$ 4.29

</TABLE>

Had compensation cost for the Company's stock options granted been determined based on the fair value at the date of grant, consistent with the provisions of SFAS No. 123, the Company's net loss and loss per share of common stock for the year ended December 31, 1999 and the period January 15, 1998 (inception) through December 31, 1998, respectively, would have been increased to the pro forma amounts shown below.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1999	PERIOD JANUARY 15, 1998 (INCEPTION) THROUGH DECEMBER 31, 1998
<S>	<C>	<C>
Net loss		
As reported	$(35,971,000)	$(13,122,000)
As adjusted	(36,477,000)	(13,161,000)
Basic and diluted net loss per common share		
As reported	$ (2.49)	$ (2.00)
As adjusted	(2.42)	(2.01)

</TABLE>

These adjusted amounts were determined using the Black-Scholes valuation model with the following key assumptions: (a) a discount rate ranging from approximately 5% to 6%; (b) a volatility factor of 81%; (c) an average expected option life of 5 years; (d) there have been no options that have expired; and (e) no payment of dividends on common stock.

[illegible] respectively, included in the options and warrants [illegible] and 113,100 options granted to [illegible] expense for the same periods, [illegible] $89,000 related to these [illegible] with the provisions of SFAS No. 123.

[illegible] information about stock options and warrants [illegible]

[illegible]	[illegible]	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	NUMBER EXERCISABLE
[illegible]	[illegible]	8.7	2,583,795
[illegible]	1,149,720	9.8	148,500
[illegible]	267,150	9.8	--
[illegible]	124,000	10.0	--
	[illegible]		2,732,295

[illegible]

[illegible] by dividing net loss attributable to [illegible] number of common shares [illegible] Diluted net loss per share assumes the [illegible] for which market price exceeds [illegible] purchased by the Company with related [illegible] shares of common stock equivalents are not included [illegible] per share as the inclusion of such [illegible]

[illegible] as follows:

	YEAR ENDED DECEMBER 31, 1999	PERIOD JANUARY 15, 1998 (INCEPTION) THROUGH DECEMBER 31, 1998
	<C>	<C>
[illegible]		
[illegible]	$(35,971,000)	$(13,122,000)
[illegible] preferred [illegible]	(1,654,000)	(190,000)
[illegible]	$(37,625,000)	$(13,312,000)
[illegible]	15,099,359	6,554,499
[illegible]	$ (2.49)	$ (2.03)

For each of the periods presented, basic and diluted net loss per share are the same. Unexercised options to purchase 7,156,284 and 4,021,051 shares of common stock and mandatorily convertible redeemable preferred stock convertible into 0 and 4,437,403 shares of common stock for the year ended December 31, 1999 and the period January 15, 1998 (Inception) through December 31, 1998, respectively, which could potentially dilute basic earnings per share in the future were not included in the computation of diluted net loss per share for these periods because to do so would have been antidilutive in each case.

14 SUBSEQUENT EVENTS

On January 24, 2000, the Company entered into an agreement in principle to acquire Touch 1 Communications, Inc. (Touch 1), a provider of long-distance and telemarketing services. In addition to entering this agreement, the Company formed a new subsidiary, Tiger Acquisition Corporation, for the purposes of executing this pending acquisition. The acquisition of Touch 1 will be accounted for using the purchase method of accounting. The purchase price and acquisition are subject to, among other things, the signing of a definitive agreement, regulatory approvals, and customary closing conditions. The acquisition of Touch 1 is expected to be completed by the end of May 2000.

On February 14, 2000, the Company paid CMB Capital, LLC approximately $14,166,000 to extinguish the outstanding debt relating to the sale and leaseback of its $15.2 million revolving credit facility. As a part of this transaction, the Company will recognize an extraordinary loss of approximately $1,600,000. The extraordinary loss consists of the expense to extinguish the debt and the unamortized portion of 115,500 stock warrants issued pursuant to the agreement that were being amortized over the life of the debt.

15 QUARTERLY OPERATING RESULTS (UNAUDITED)

The following table presents unaudited quarterly operating results for each of the last seven quarters, as this table includes all full quarters of operations since inception on January 15, 1998. This information has been prepared by the Company on a basis consistent with the Company's consolidated financial statement statements and includes all adjustments, consisting only of normal recurring accruals, in accordance with generally accepted accounting principles. Such quarterly results are not necessarily indicative of future operating results.

	QUARTER ENDED		
	JUNE 30, 1998	SEPTEMBER 30, 1998	DECEMBER 31, 1998
Sales	$ --	$ --	$ 140,000
Operating loss	2,641,000	3,833,000	6,437,000
Net loss	(2,716,000)	(3,850,000)	(6,161,000)
Loss per share (1)	$ (1.13)	$ (0.63)	$ (0.44)
Weighted average shares outstanding	2,403,500	6,230,098	14,411,100

	QUARTER ENDED			
	MARCH 31, 1999	JUNE 30, 1999	SEPTEMBER 30, 1999	DECEMBER 31, 1999
Sales	$ 884,000	$ 761,000	$ 745,000	$ 4,445,000
Operating loss	5,843,000	4,488,000	10,849,000	16,493,000
Net loss	(5,939,000)	(5,611,000)	(12,097,000)	(12,324,000)
Loss per share (1)	$ (0.43)	$ (0.41)	$ (0.96)	$ (0.75)
Weighted average shares outstanding	14,411,000	14,411,000	13,025,563	17,257,893

(1) Earnings per share were calculated for each three month and twelve month period on a stand-alone basis.

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ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

[illegible]

PART III

[illegible] OFFICERS OF THE REGISTRANT

[illegible] OFFICERS

[illegible] certain information regarding our directors [illegible] as of March 23, 2000:

[illegible]	AGE	POSITION
[illegible]	40	President, Chief Executive Officer and Chairman of the Board and Director
[illegible]	45	President, Z-Tel Network Services, Inc.
[illegible]	52	Senior Vice President--Chief Financial Officer
[illegible]	48	Senior Vice President--Chief Technology Officer
[illegible]	53	Senior Vice President--Engineering and Technical Support
[illegible]	40	Senior Vice President--Chief Architect
[illegible]	39	Senior Vice President--Business Development
[illegible]	43	Secretary and Treasurer
[illegible]	31	General Counsel
[illegible]	42	Chief Legal Officer
[illegible]	32	Senior Vice President--Strategic Planning
[illegible]	34	Vice President--Marketing
[illegible]	47	Director and Vice President--Strategic Alliances
[illegible]	48	Director
[illegible]	55	Director
[illegible]	38	Director
[illegible]	39	Director

[illegible], a founder of Z-Tel, has served as chairman of the [illegible] officer of Z-Tel since inception. Mr. Smith was a [illegible] Technologies, Inc. from 1991 to 1997, executive vice [illegible] and vice president from 1991 to 1994. From 1987 to [illegible] a management and financial consultant with Olympus [illegible] and Olympus Partners, Inc., companies that he founded. [illegible] positions with NationsBank of Florida, N.A. and Chase [illegible] Mr. Smith received his B.S. in Commerce from the University of [illegible]

[illegible] has served as president of Z-Tel Network [illegible] 1999. Mr. Malfara has over twenty-four years of [illegible] experience. He founded and sold Pace Long Distance Service [illegible] He has previously served as vice president of [illegible] Corporation, as technical [illegible] at Honeywell Information Systems and as senior [illegible]

[illegible] has served as senior vice president--chief financial [illegible] 1999. From 1982 through 1999 he was an employee and then [illegible] LLP. Mr. Hutchens received a B.S. in Accountancy [illegible] of Illinois, and a Masters of Health Administration from the Ohio State University. Mr. Hutchens is a Certified Public Accountant licensed in Florida.

Charles W. McDonough has served as senior vice president--chief technology officer since August 1998. From 1975 through 1998, he was an employee and then a partner at Andersen Consulting LLP. Mr. McDonough received a B.A. in Industrial Engineering and a M.S. in Industrial Administration from Carnegie Mellon University.

J. Bryan Bunting has served as senior vice president--engineering and technical services since January 1999. Mr. Bunting served as senior vice president--Z-Tel Business Networks from August 1998 to January 1999. From 1968 through 1998, he was an officer of NationsBank, serving most recently as senior vice president of direct banking. Mr. Bunting attended Old Dominion University.

James A. Kitchen, a founder of Z-Tel, has served as senior vice president--chief architect of Z-Tel since January 1999. He served as vice president, engineering from January 1998 to December 1998 and was a chief architect and developer of Premiere Communications, Inc. from 1992 to 1997. Mr. Kitchen received his B.S. in Engineering from Georgia Institute of Technology.

W. Dumas Garrett has served as senior vice president--business development of Z-Tel since December 1999. From 1987 through 1999, he was an officer of Stephens, Inc., serving most recently as managing director and senior vice president and head of the technology and telecomunications group. Mr. Garrett has a B.S. in Industrial Engineering from the University of Arkansas and an M.B.A. from the University of Virginia.

Mark H. Johnson has served as secretary and treasurer of Z-Tel since August 1999. From May 1998 until his arrival at Z-Tel, Mr. Johnson was an employee of Olympus Management, a venture firm. From November 1991 until May 1998, Mr. Johnson was a credit policy executive of First Union National Bank. Mr. Johnson holds a B.A. from the University of Virginia.

Jeffrey H. Kupor has served as general counsel of Z-Tel since November 1999. From September 1993 until January 1998, Mr. Kupor was an attorney with the Houston office of Fulbright & Jaworski LLP, specializing in complex commercial and securities litigation. From January 1998 until November 1999 Mr. Kupor was a Staff Attorney and later Counsel at A I M Management Group, Inc., an investment adviser to a group of registered investment companies, where his responsibilities included securities registration, corporate and fund litigation, and labor and employment-related legal issues. Mr. Kupor has a B.S. in Economics from the University of Pennsylvania and a J.D. from the Boalt Hall School of Law at the University of California at Berkeley.

Andrew L. Graham has served as chief legal officer of Z-Tel since September 1999. He has practiced corporate and tax law in Tampa, Florida since 1988, most recently with the firm of Cass & Graham. He earned his Bachelor's in accounting from Florida State University and his law degree, with honors, from the University of Florida College of law in 1987 and went on to earn a Master of Laws in Taxation there in 1988.

Robert A. Curtis has served as senior vice president--strategic planning since July 1999. From May 1998 to June 1999, Mr. Curtis was vice president--business development and legal affairs at Z-Tel. From September 1995 to April 1998, Mr. Curtis was an attorney at the Houston office of Fulbright & Jaworski LLP, where he specialized in antitrust and complex federal litigation. Mr. Curtis graduated from the Duke University School of Law in 1995. Mr. Curtis received his B.A. in Philosophy from Trinity University and his Doctor of Philosophy (D. Phil) from the University of Oxford (England).

[illegible] W. Jackson has served as vice president--marketing of Z-Tel since June 1999. From 1996 through 1999 he held the position of senior brand manager for the Coca-Cola Company and prior to that from 1992 to 1996 he was an associate product manager for Kraft General Foods Corp. Mr. Jackson received his B.A. from University of Virginia and his M.B.A. from University of Michigan.

Edward J. Mayer has been a director of Z-Tel since July 1998 and vice president--strategic alliances since July 1999. Mr. Mayer is the president of [illegible] Ventures, Inc., a venture investment company. Mr. Mayer holds a Bachelor of Commerce from the University of Windsor and a M.B.A. from New York University.

Douglas C. Williamson has been a director of Z-Tel since December 1998. Mr. Williamson has been senior vice president and managing director of Bank of America Capital Investors (formerly NationsBank Capital Corporation) since 1989. He is a member of the board of directors of CallWare Technologies, Inc., [illegible] Software, Inc., GX Technology Corporation, HAHT Software, Inc., Med Solutions, Inc., Memorial Operations Company, North American Technologies Group, Inc. and [illegible] Taxi Holdings, Inc. Mr. Williamson received a B.A. from Denison University and a M.B.A. from Columbia University.

Jeffrey A. Bowden, a founder of Z-Tel, has served as a director of Z-Tel since July 1998. Mr. Bowden is currently a director of the Boston Consulting Group. Mr. Bowden was vice president of Bell Atlantic Corporation from [illegible] to [illegible]. Mr. Bowden was a vice president of The Nynex Corporation from [illegible] to [illegible] and vice president and a director of The Boston Consulting Group from [illegible] to [illegible]. Mr. Bowden received his B.S. from the University of Michigan and his M.B.A. from the Harvard Graduate School of Business.

Buford H. Ortale has been a director of Z-Tel since July 1998. Since [illegible] Mr. Ortale has been the president of Sewanee Ventures, LLC, a private investment firm. From 1993 to 1996 Mr. Ortale was a director and then a managing director of NationsBanc Capital Markets Inc. He is a member of the board of directors of Digital Medical Systems. Mr. Ortale received his B.A. degree from the University of the South and a M.B.A. from Vanderbilt University.

Lawrence C. Grafstein has been a director of Z-Tel since October 1999. Mr. Grafstein is a co-founder of Gramercy Communications Partners, a private equity fund based in New York specializing in telecommunications investments. Previously, he was head of the global telecommunications practice at Credit Suisse First Boston. He is currently a member of the

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Executive Committee of the Wall Street Division of the United Jewish Appeal and a member of the boards of the Arts Connection and the Jerusalem Foundation. Mr. Grafstein received his B.A. from Harvard University, his M. Phil from Balliol College of Oxford University and an LL.B from the University of Toronto Law.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

All Section 16(a) filing requirements have been complied with since our initial public offering on December 14, 1999, except that for each of the following directors and officers, one form was not timely filed relating to the indicated number of transactions: Messrs. Bowden, Ortale, Grafstein, and Williamson, one transaction; Mr. Garrett, two transactions and his initial report upon becoming a Section 16(a) reporting person. In addition, the initial beneficial ownership report of Mr. Curtis did not accurately reflect the character of certain of his holdings.

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ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table provides summary information concerning compensation paid or accrued by us to, or on behalf of, our "Named Executive Officers," which are (1) our Chief Executive Officer, (2) our four most highly compensated executive officers serving as executive officers at December 31, 1999 and (3) one additional individual who was an executive officer during 1999 but was not serving in that capacity on December 31, 1999. The aggregate amount of perquisites and other personal benefits, securities or property received by each of the Named Executive Officers was less than either $50,000 or 10% of the total annual salary and bonus reported for that Named Executive Officer:

<TABLE>
<CAPTION>

	ANNUAL COMPENSATION		LONG TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	SALARY ($)	BONUS ($)	SHARES UNDERLYING OPTIONS	ALL OTHER COMPENSATION ($)
<S>	<C>	<C>	<C>	
G. Gregory Smith President, Chief Executive Officer and Chairman	162,000	---	1,100	--
Russell T. Alba (1) Senior Vice President--Business Development and Chief Legal Officer	131,625	---	--	40,500
James A. Kitchen Senior Vice President--Chief Architect	162,000	---	27,500	--
J. Bryan Bunting Senior Vice President--Engineering and Technical Services	162,000	---	27,500	--
Charles W. McDonough Senior Vice President--Chief Technology Officer	162,000	---	27,500	--
David J. Malfara, Sr. President--Z-Tel Network Services, Inc.	137,500	---	357,500	12,000 (2)

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(1) Effective September 1999, Mr. Alba was no longer employed by us. "All Other Compensation" for Mr. Alba reflects amounts paid to him pursuant to a severance agreement.

(2) Represents compensation for consulting services provided by Malfara Associates, an assumed name of Mr. Malfara.

OPTION GRANTS IN LAST FISCAL YEAR

The following table contains information concerning the stock option grants made to each of the Named Executive Officers during the fiscal year ended December 31, 1999, subject to the following:

Under our 1998 Equity Participation Plan, stock options are generally granted as of the employee's start date. The options generally vest over a three year period commencing on the start date and expire ten years thereafter (unless the employee at the time of grant owned more

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than 10% of the total combined voting power of all classes of stock, in which case they expire over five years).

The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by the rules of the Securities and Exchange Commission. We cannot be certain that the actual stock price appreciation over the ten-year option term will be at the assumed 5% and 10% levels or at any other defined level. Unless the market price of the common stock appreciates over the option term, no value will be realized from the option grants. The potential realizable value is calculated by assuming that the fair market value of the common stock as determined by the Board of Directors on the date of grant of the options appreciates at the indicated rate of the entire term of the option and that the option is exercised at the exercise price and sold on the last day at the appreciated price.

<TABLE>
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INDIVIDUAL GRANTS

NAME	NUMBER OF SHARES OF COMMON STOCK UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1999	WEIGHTED AVERAGE EXERCISE PRICE ($/SH)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
					(5%) ($)	10% ($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
D. Gregory Smith	1,100	<1%	3.64	08/01/04	1,106	2,444
*Russell T. Alba	--	--	--	--	--	--
James A. Kitchen	27,500	<1%	5.45	10/09/09	94,256	238,862
J. Bryan Bunting	27,500	<1%	5.45	10/09/09	94,256	238,862
Charles W. McDonough	27,500	<1%	5.45	10/09/09	94,256	238,862
David J. Malfara, Sr.	40,700	<1%	3.64	01/26/09	93,169	236,110
	103,400	3%	3.64	02/01/09	236,701	599,846
	185,900	5%	3.64	07/26/09	425,558	1,078,447
	27,500	<1%	5.45	10/09/09	94,256	238,862

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* Effective September 1999, Mr. Alba was no longer employed by us.

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AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND YEAR-END OPTION VALUE TABLE

The following table shows information concerning stock option exercises during 1999 and stock option values as of the year ending December 31, 1999 by each of the Named Executive Officers. The value of unexercised in-the-money options is determined by subtracting the exercise price from the fair market value of the common stock based on $40.375, the closing price of Z-Tel common stock as of December 31, 1999, multiplied by the number of shares underlying the options.

<TABLE>
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NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#)		VALUE OF UNEXERCISED IN-THE MONEY OPTIONS AT FISCAL YEAR-END ($)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
D. Gregory Smith	--	--	336,111	214,989	12,347,042	$7,897,617
*Russell T. Alba	--	--	129,800	--	4,768,203	0
James A. Kitchen	--	--	351,389	226,111	12,908,271	8,256,416
J. Bryan Bunting	10,000	133,600	119,861	172,639	4,403,098	6,292,115
Charles W. McDonough	197,490	3,008,951	0	270,010	0	10,323,557
David J. Malfara, Sr.	--	--	0	357,500	0	13,082,988

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* Effective September 1999, Mr. Alba was no longer employed by us.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The compensation committee of the Board of Directors consisted of Messrs. Ortale and Williamson during the year ended December 31, 1999, both of whom are non-employee directors. The compensation committee is responsible for all decisions concerning executive officer compensation, including decisions regarding grants of incentive stock options.

DIRECTOR COMPENSATION

Directors do not currently receive any cash compensation for services rendered to Z-Tel in their capacities as directors. Pursuant to the terms of The 1998 Equity Participation Plan of Z-Tel Technologies, Inc., each outside director who served as such as of the date of Z-Tel's initial public offering received options to purchase 1,100 shares of Z-Tel's common stock, and will receive options to purchase an additional 1,100 shares of Z-Tel's common stock on the date of each annual meeting of shareholders following such initial public offering.

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EXECUTIVE EMPLOYMENT AGREEMENTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

We have entered into the following employment agreements:

<TABLE>
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OFFICER	TERM	ANNUAL SALARY	POSITION
<S>	<C>	<C>	<C>
D. Gregory Smith	July 1998 - July 2001	$162,000	President, Chief Executive Officer and Chairman
Charles W. McDonough	August 1998 - August 2001	$162,000	Senior Vice President - Chief Technology Officer
J. Bryan Bunting	August 1998 - August 2001	$162,000	Senior Vice President - Engineering and Technical Services
James A. Kitchen	July 1998 - July 2001	$162,000	Senior Vice President - Chief Architect

</TABLE>

The employment agreements with Messrs. Smith, McDonough, Bunting and Kitchen also provide for:

- automatic renewal for subsequent one year terms unless either party elects not to renew prior to 90 days from the end of the then current term of the agreement;
- a bonus or other incentive compensation in an amount to be determined by our compensation committee;
- the payment of his base salary and any other benefits to which he would have been entitled for the term of the agreement if he is terminated without cause (as defined in the agreements);
- generally, if a change of control occurs, the payment of two and nine-tenths (2.9) times his base salary and any incentive or bonus paid in the prior year if, within three years of the occurrence of a change of control, specified events occur;
- his obligation to keep our nonpublic information confidential; and
- his obligation not to compete with us in the United States and not to solicit our employees.

SEVERANCE AGREEMENT

We and Mr. Russell T. Alba are parties to an agreement, dated September 3, 1999, where we, among other things, agreed to pay a total severance amount of $324,000, which amount is payable monthly for a period of two years, provide health benefits and provide for the extension of the exercise period of stock options for Mr. Alba. Mr. Alba and we also provided each other with a mutual release of any prior legal claims.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 24, 2000 (unless otherwise stated), the number of shares of our common stock beneficially owned by:

- each person who we know to be a beneficial owner of 5% or more of our outstanding common stock;
- each of our directors;
- each of our Named Executive Officers; and
- all executive officers and directors as a group.

<TABLE>
<CAPTION>

BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS (1)
<S>	<C>	<C>
D. Gregory Smith (2)(3)	7,743,022	23.90
Carol Jane Smith (2)(3)	7,743,022	23.90
G/CS Investments, L.P. (3)	5,500,000	17.18
Russell T. Alba (2)(4)	425,425	1.32
David J. Malfara, Sr. (2)(5)	60,042	*
James A. Kitchen (2)(6)	1,803,278	5.56
Charles W. McDonough (2)(7)	806,667	2.52
J. Bryan Bunting (2)(8)	380,417	1.18
Edward J. Mayer (2)(9)	-0-	*
Buford H. Ortale (2)(10)	1,829,061	5.71
Douglas C. Williamson (2)(11)	-0-	*
Jeffrey Bowden (2)(12)	339,167	1.05
Laurence S. Grafstein (13)	-0-	*
Fulmead Ventures Limited (14)	2,348,520	7.34
BA Capital Company, L.P. (15)	1,780,325	5.56
Gramercy Z-Tel, L.P. (16)	3,074,280	9.61
All directors and officers as a group (18 persons)	13,599,079	40.57

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* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the aggregate number of shares beneficially owned by the individual stockholders and groups of stockholders described above and the percentage ownership of such individuals and groups, shares of common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of the date of this report are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of the other stockholders or groups of stockholders.

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(2) The address for each of Messrs. Smith, Alba, Malfara, Kitchen, McDonough, Bunting, Mayer, Ortale, Williamson and Bowden and Mrs. Smith is c/o Z-Tel Technologies, Inc., 601 South Harbour Island Boulevard, Suite 220, Tampa, Florida 33602

(3) D. Gregory Smith and Carol Jane Smith are husband and wife. The number of shares shown for D. Gregory Smith and for Carol Jane Smith each includes all of the shares held by G/CJ Investments, L.P., a Delaware limited partnership. G/CJ Investments, Inc., a Delaware corporation established and controlled by Mr. and Mrs. Smith, is the sole general partner of G/CJ Investments, L.P. The share amount also includes 397,222 shares for Mr. Smith and Mrs. Smith which are deemed to be beneficially owned by them by virtue of certain stock options that are currently exercisable or become exercisable within 60 days. The address of G/CJ Investments, L.P. is 300 Delaware Avenue, Suite 900, Wilmington, DE 19801.

(4) Includes 129,800 shares deemed to be beneficially owned by Mr. Alba by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days. Effective September 1999, Mr. Alba was no longer employed by us.

(5) Includes 60,042 shares deemed to be beneficially owned by Mr. Malfara by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(6) Includes 427,778 shares deemed to be beneficially owned by Mr. Kitchen by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(7) Includes 59,177 shares deemed to be beneficially owned by Mr. McDonough by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(8) Includes 150,417 shares deemed to be beneficially owned by Mr. Bunting by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(9) Does not include 2,348,520 shares owned directly by Fulmead Ventures Limited, which is beneficially owned by The Mayer Trust. Mr. Mayer is a principal beneficiary of The Mayer Trust. Mr. Mayer disclaims beneficial ownership of these shares as he does not have voting or dispositive power with respect to these shares.

(10) Includes 158,036 shares held by a general partnership with which Mr. Ortale is affiliated and 68,622 shares held by a trust of which Mr. Ortale is a trustee.

(11) Excludes 1,780,325 shares owned by BA Capital Company, L.P., of which Mr. Williamson is a senior officer. Mr. Williamson disclaims beneficial ownership of the shares owned by BA Capital Company, L.P.

(12) Includes 229,167 shares deemed to be beneficially owned by Mr. Bowden by virtue of certain stock options that are currently exercisable or which become exercisable within 60 days.

(13) Excludes 3,074,280 shares owned by Gramercy Z-Tel L.P., of which Mr. Grafstein is a senior officer. Mr. Grafstein disclaims beneficial ownership of the shares owned by Gramercy Z-Tel L.P.

(14) This information is derived from a Schedule 13G dated February 4, 2000 filed jointly by The Mayer Trust, Eduard J. Mayer, Mutual Risk Management Ltd., Mutual Risk Management (Holdings) Limited, Hemisphere Trust (Jersey) Limited, Hemisphere Trustees Limited, Hemisphere Nominees Limited, Hemisphere Investments Limited, and Fulmead Ventures Limited. Each of these parties is shown to have shared voting and dispositive power with respect to all of the shares shown. Eduard J. Mayer disclaims beneficial ownership of the shares shown. The address of Fulmead Ventures Limited is Akara Bldg., 24 Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands.

(15) This information is derived from a Schedule 13G dated February 14, 2000 filed jointly by BA Capital Company, L.P., BA SBIC Management, LLC, BA Equity Management, L.P., BA Equity Management GP, LLC, Walter W. Walker, Jr., and Bank of America Corporation. Each of these parties is shown to have sole voting and

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dispositive power with respect to all of the shares shown. The address of BA Capital Company, L.P., is 901 Main Street, 22nd Floor, Dallas, TX 75202-3714.

(18) This information is derived from a Schedule 13G filed February 14, 2000 and dated February 2000 filed jointly by Gramercy Z-Tel L.P., Gramercy Z-Tel LLC and Communicapital Partners (Cayman), L.P. Each of these parties is shown to have shared voting and dispositive power with respect to all of the shares shown. The address of Gramercy Z-Tel L.P. is 712 Fifth Avenue, New York, NY 10019.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

PURCHASES OF COMMON STOCK

On January 15, 1998, Rob Curtis purchased 110,000 shares of our common stock for a purchase price of $125,000. Mr. Curtis' note to us in the principal amount of $93,750, bears interest at a rate of 8% per annum, matures on December 31, 2001 and is secured by a pledge of his common stock. The largest amount of indebtedness under the note during 1999 was $93,750, and the outstanding balance as of March 23, 2000 was $0.

In agreements dated September 1, 1998, each of D. Gregory Smith, James A. Kitchen, Charles W. McDonough and J. Bryan Bunting, together referred to as the officer investors, purchased, in the aggregate, 9,570,000 shares of our common stock for an aggregate purchase price of $10.88 million. In connection with the purchase of these shares, we loaned: (1) $750,000 to Mr. Smith for the purchase price of 660,000 of his shares, (2) $750,000 to Mr. Kitchen for the purchase price of 660,000 of his shares; (3) $468,750 to Mr. McDonough for the purchase price of 550,000 of his shares and (4) $187,500 to Mr. Bunting for the purchase price of 220,000 of his shares. These loans, which bear interest at an 8% annual rate and mature on December 31, 2001, are secured by a pledge to us of the common stock The largest amount of indebtedness under the notes during 1999 was $750,000, $750,000, $468,750, and $187,500, respectively, and the outstanding note balances as of March 23, 2000 were $0, $500,000, $468,750 and $187,500, respectively.

These agreements permit Messrs. Smith and Kitchen, first, and us, second, to purchase from the officer investors a portion of their shares in the event of a termination (as defined in the agreements) of the officer's employment with us. This purchase option must be exercised within 30 days after the termination of the respective officer's employment with us. In addition, the purchase option lapses automatically if we are involved in a corporate transaction (as defined in the agreements).

After March 1, 2000, the officer investors have a right, subject to quantity limitations we determine, or determined by underwriters, if applicable, to request that we register their common stock that is no longer subject to the purchase option.

On September 1, 1999, Mr. Smith purchased an additional 85,800 shares of our common stock for $97,500 as a result of his exercise of his purchase option to buy shares from an individual who left the company. Mr. Smith paid for this purchase with a note under which the largest amount of indebtedness during 1999 was $97,500. The principal balance of the note on March 23, 2000 was $0, and was on substantially the same terms as Mr. Smith's other note to the company.

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PURCHASE OF SERIES B PREFERRED STOCK

On September 22, 1999, we sold an additional 2,964,500 shares of Series B Preferred Stock for an aggregate consideration of approximately $10 million. Included in that offering were 148,519 shares purchased for $3.37 per share by Fulmead Ventures Limited, which is beneficially owned by a trust of which Eduard J. Mayer is a beneficiary, and 148,267 shares purchased for $3.37 per share by Buford H. Ortale.

PURCHASE OF SERIES C PREFERRED STOCK

On October 8, 1999, Gramercy Z-Tel L.P. purchased 3,074,280 shares of Series C Preferred Stock for a purchase price of $15 million.

STOCK PURCHASE AGREEMENT AND STOCKHOLDERS' AGREEMENT

REGISTRATION RIGHTS. The terms of the Series A Preferred Stock and Series C Preferred Stock provide that the holders of common stock issued upon conversion of, or as a dividend on, Series A Preferred Stock or Series C Preferred Stock, as the case may be, may require us to register that common stock under the Securities Act beginning no earlier than 180 days after the effective date of a registration statement for an initial public offering of our common stock. Holders of common stock issued upon conversion of, or as a dividend on, Series A Preferred Stock and Series C Preferred Stock also have the right to cause us to register that common stock on Form S-3 when it becomes available to us if they propose to register securities having a value of at least $10 million. We will bear all registration expenses incurred in connection with the first three of these demands for registration. In addition, if we propose to register securities under the Securities Act, other than registrations on Form S-4 or Form S-8, then, the holders of common stock issued upon conversion of, or as a dividend on, Series A Preferred Stock, Series B Preferred Stock or Series C Preferred Stock have a right, subject to quantity limitations determined by underwriters if the offering involves an underwriting, to request that we register such holders' common stock. If holders of common stock issued upon conversion of, or as a dividend on, Series A Preferred Stock, Series B Preferred Stock or Series C Preferred Stock participate in that registration, holders of common stock issued upon conversion of, or as a dividend on, Series A Preferred Stock and Series C Preferred Stock will have priority over all other holders of common stock (other than Z-Tel).

TRANSACTIONS WITH OLYMPUS MANAGEMENT GROUP, INC.

Since January 1, 2000, Z-Tel Communications, Inc., one of our wholly owned subsidiaries, has sub-sub leased, on a month-to-month basis, two pieces of real property from Olympus Management Group, Inc., an entity of which Mr. Smith is a 100% shareholder. The rental obligation under these sub-sub leases is $6,800 per month. The sub-sub leases are terminable by either party at any time.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1 The following financial statements of Z-Tel Technologies, Inc. and the report thereon of PricewaterhouseCoopers LLP dated February [illegible] are filed as part of this report:

Report of Independent Certified Public Accountants.

Consolidated Balance Sheets, December 31, 1999 and December 31, 1998.

Consolidated Statements of Operations for the year ended December 31, 1999 and the period from January 15, 1998 (Inception) through December 31, 1998.

Consolidated Statement of Changes in Stockholders' Equity (Deficit) for the year ended December 31, 1999 and the period from January 15, 1998 (Inception) through December 31, 1998.

Consolidated Statements of Cash Flows for the year ended December 31, 1999 and the period from January 15, 1998 (Inception) through December 31, 1998.

Notes to Financial Statements.

2 The following Financial Statement Schedules are included herein:

Schedules are not submitted because they are not applicable or not required or because the required information is included in the financial statements or the notes thereto.

3 The following exhibits are filed as part of this report (exhibits marked with an asterisk have been previously filed with the Commission as indicated, as a correspondingly numbered Exhibit to Z-Tel Registration Statement on Form S-1 (Commission File No. 333-89063) originally filed on October 14, 1999, as subsequently amended, and are incorporated herein by this reference):

3.1* Amended and Restated Certificate of Incorporation of Z-Tel

3.2* Amended and Restated Bylaws of Z-Tel

4.1* Form of Common Stock Certificate

4.2	See Exhibits 3.1 and 3.2 of this Registration Statement for provisions of the Amended and Restated Certificate of Incorporation and the Bylaws of Z-Tel defining rights of security holders
10.1.1*	Stockholders' Agreement dated October 8, 1999, between and among the company, BA Capital Corporation, Sewanee Partners II, L.P., Gramercy Z-Tel LLC and the other parties set forth therein
10.1.2*	Employment Agreement dated July 1998 between the Company and D. Gregory Smith
10.1.3*	Employment Agreement dated September 1999 between the Company and John Hutchens
10.1.4*	Employment Agreement dated August 1998 between the Company and Charles W. McDonough
10.1.5*	Employment Agreement dated August 1998 between the Company and J. Bryan Bunting
10.1.6*	Employment Agreement dated July 1998 between the Company and James A. Kitchen
10.1.7*	Investment Agreement dated March 15, 1999 between the Company and CMB Capital LLC
10.2*	1998 Equity Participation Plan
21*	List of subsidiaries
27	Financial Data Schedules

(b) The Company did not file any reports on Form 8-K during the year ended December 31, 1999

<PAGE>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, as of the 23rd day of March, 2000

Z-TEL TECHNOLOGIES, INC.

By: /s/ D. GREGORY SMITH

D. Gregory Smith, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ D. GREGORY SMITH D. Gregory Smith	President, CEO, Chairman of the Board and Director (Principal Executive Officer)	March 23, 2000
/s/ JOHN K. HUTCHENS John K. Hutchens	Chief Financial Officer (Principal Financial and Accounting Officer)	March 23, 2000
/s/ DOUGLAS C. WILLIAMSON Douglas C. Williamson	Director	March 23, 2000
/s/ JEFFREY A. BOWDEN Jeffrey A. Bowden	Director	March 23, 2000
/s/ EDWARD J. MAYER Edward J. Mayer	Director	March 23, 2000
/s/ BUFORD H. ORTALE Buford H. Ortale	Director	March 23, 2000

<PAGE>

/s/ LAURENCE S. GRAFSTEIN   Director   March 23, 2000

Laurence S. Grafstein

EXHIBIT LIST

(Exhibits marked with an asterisk have been previously filed with the Commission as Exhibits and are incorporated herein by this reference)

3.1*	Amended and Restated Certificate of Incorporation of Z-Tel
3.2*	Amended and Restated Bylaws of Z-Tel
4.1*	Form of Common Stock Certificate
4.2	See Exhibits 3.1 and 3.2 of this Registration Statement for provisions of the Amended and Restated Certificate of Incorporation and the Bylaws of Z-Tel defining rights of security holders
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21*	List of subsidiaries
27	Financial Data Schedules

[illegible]

Exhibit 27

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1

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, [illegible]

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission File Number [illegible]

Z-TEL TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	[illegible]
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

601 South Harbour Island Boulevard, Suite 220
Tampa, Florida 33602

(Address of Principal Executive Offices)

(813) [illegible]

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

At August [illegible], [illegible] the Registrant had outstanding [illegible] shares of $.01 par value common stock.

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Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES

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PAGE

Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	JUNE 30,	DECEMBER 31,

	2000	1999
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,656	$ 101,657
Accounts receivable, net of allowance for doubtful accounts of approximately $1,451 at June 30, 2000 and $[illegible] at December 31, 1999	36,476	4,245
Prepaid expenses and other current assets	5,074	2,304
Total current assets	52,206	108,206
Property and equipment, net	52,018	28,549
Investments	7,088	--
Intangible assets, net	65,918	--
Other	3,220	922
Total assets	$ 180,450	$ 137,677
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 34,586	$ 9,165
Current portion of long-term debt and capital lease obligations	4,835	3,726
Total current liabilities	39,421	12,891
Long-term debt and capital lease obligations	17,216	10,408
Total liabilities	56,637	23,299
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, $.01 par value; 150,000,000 shares authorized; [illegible] and 32,159,911 shares issued; [illegible] and [illegible] outstanding, respectively	337	322
Notes receivable from stockholders	(539)	(1,683)
Deferred stock compensation	(494)	(2,487)
Additional paid-in capital	206,414	167,637
Accumulated deficit	(87,624)	(49,093)
Accumulated other comprehensive income	6,037	--
Treasury stock, [illegible] shares at cost	(318)	(318)
Total stockholders' equity	123,813	114,378
Total liabilities and stockholders' equity	$ 180,450	$ 137,677

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
2000	1999	2000	1999

Revenues	$ 40,157	$ 761	$ 54,133	$ 1,425
Operating expenses:				
Network operations	25,137	978	34,967	1,792
Sales and marketing	10,635	666	17,454	1,848
Research and development	1,790	352	3,089	1,465
General and administrative	20,878	2,390	31,339	4,987
Depreciation and amortization	4,404	863	6,492	1,664
Total operating expenses	62,844	5,249	93,341	11,756
Operating loss	(22,687)	(4,488)	(39,208)	(10,331)
Nonoperating income (expense):				
Interest income	455	114	1,741	232
Interest expense	(823)	(1,237)	(1,064)	(1,451)
Total nonoperating income (expense)	(368)	(1,123)	677	(1,219)
Net loss	(23,055)	(5,611)	(38,531)	(11,550)
Less mandatorily convertible redeemable preferred stock dividends		(414)		(606)
Net loss attributable to common stockholders	$ (23,055)	$ (6,025)	$ (38,531)	$ (12,156)
Weighted average common shares outstanding	33,042,008	14,411,100	32,499,640	14,411,100
Basic and diluted net loss per share	$ (0.70)	$ (0.42)	$ (1.19)	$ (0.84)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT FOR SHARE DATA)
(UNAUDITED)

	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	NOTES RECEIVABLE FROM STOCKHOLDERS	UNEARNED STOCK COMPENSATION	ADDITIONAL PAID-IN CAPITAL
Balance, December 31, 1999	31,880,236	$ 322	$ (1,683)	$ (2,487)	$167,637
Issuance of common stock for acquisition of Touch 1	1,100,000	11			39,275
Issuance of common stock for exercise of stock options	421,261	4			1,314
Repayment of stockholders' note			1,144		
Vesting of stock options granted below estimated value				1,993	(2,467)
Warrants associated with debt					655
Net loss					
Foreign currency translation adjustment					
Unrealized gain on investments					
Comprehensive income					
Balance, June 30, 2000	33,401,497	$ 337	$ (539)	$ (494)	$206,414

	ACCUMULATED [illegible]	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
Balance, December 31, 1999	$ (149,053)	$ --	$ (318)	$ 114,378
Issuance of common stock for acquisition of Touch 1				39,286
Issuance of common stock for exercise of stock options				1,318
Repayment of stockholders' note				1,144
Vesting of stock options granted below estimated value				(474)
Warrants associated with debt				655

[illegible]	(38,531)			(38,531)
[illegible]		(1)		(1)
[illegible]		6,038		6,038

[illegible]				(32,494)
	---------	-------	------	---------
[illegible]	$ (87,624)	$ 6,037	$ (118)	$ 123,813
	=========	=======	======	=========

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Six Months Ended June 30	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (38,531)	$ (11,551)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,492	1,664
Provision for bad debts	2,380	242
Change in operating assets and liabilities:		
Increase in accounts receivable	(25,762)	(671)
Increase in prepaid expenses and other current assets	(3,552)	(860)
Increase in accounts payable and accrued liabilities	13,363	49
Increase in deferred revenue	3,376	
Other	181	42
Total adjustments	(3,522)	466
Net cash used in operating activities	(42,053)	(11,085)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and leaseback transaction		9,943
Purchases of property and equipment	(20,154)	(6,242)
Investment in securities available for sale	(1,050)	
Purchase of Touch 1, net of cash acquired	(8,955)	
Net cash provided by (used in) investing activities	(30,159)	3,701
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,317	
Proceeds from issuance of mandatorily convertible redeemable preferred stock		3,548
Proceeds from notes receivable	1,144	
Payments on long-term debt and capital lease obligations	(21,250)	(1,886)
Net cash provided by (used in) financing activities	(18,789)	1,662
Net decrease in cash and cash equivalents	(91,001)	(5,722)
Cash and cash equivalents, beginning of period	101,657	7,973
Cash and cash equivalents, end of period	$ 10,656	$ 2,251
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment acquired under capital lease obligations	$ --	$ 9,943
ACQUISITION OF TOUCH 1		
Fair value of assets acquired	$ 85,967	$ --
Liabilities assumed	(37,979)	--
Common stock issued	(40,201)	--
Net cash paid for acquisition	7,787	--
Cash acquired in acquisition	1,168	--

Cash paid for acquisition	$ 8,955	$ --

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF BUSINESS

DESCRIPTION OF BUSINESS

Z-Tel Technologies, Inc. and subsidiaries ("Z-Tel" or the "Company") incorporated in Delaware on January 15, 1998 as Olympus Telecommunications Group, Inc. In March 1998, Olympus Telecommunications Group, Inc. changed its name to Z-Tel Technologies, Inc. Z-Tel Technologies, Inc. is the parent company, and has no other operations. The Company has eight wholly owned subsidiaries: Z-Tel Communications, Inc., Z-Tel Business Networks, Inc., Z-Tel Holdings, Inc., Z-Tel Communications of Virginia, Inc., Z-Tel, Inc., Z-Tel Network Services, Inc., Z-Tel Investments, Inc. and Touch 1 Communications, Inc.

Z-Tel is an emerging provider of advanced, integrated telecommunications services targeted to residential subscribers. Z-Tel offers local and long distance telephone services in combination with enhanced communication features accessible through the telephone or the Internet. Z-Tel offers its Z-Line Home Edition service in New York, Texas, Massachusetts, Pennsylvania, and Georgia. Z-Tel also provides long-distance services to customers nationally.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles for interim financial information and are in the form prescribed by the Securities and Exchange Commission in instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The interim unaudited financial statements should be read in conjunction with the audited financial statements of the Company as of and for the year ended December 31, 1999, included in the Company's Annual Report on Form 10-K. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current period presentation.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

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Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS(UNAUDITED)(CONTINUED)

INVESTMENTS

Included in investments are available for sale securities and investments accounted for utilizing the cost method of accounting for those investments without a readily identifiable market. In accordance with Statement of Financial Accounting Standards Board No. 115, "Accounting for Certain Investments in Debt and Equity Securities," securities that are available for sale are reported at fair value. At June 30, 2000, the Company had approximately $[illegible] and $0.4 million in available for sale securities and investments accounted for at cost, respectively. There was an increase of approximately $[illegible] million in fair value, using the specific identification method for calculating the unrealized gain, for the three months ended June 30, 2000 recorded as a separate component of comprehensive income in equity.

NEW ACCOUNTING PRONOUNCEMENTS

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." While not intended to change current literature related to revenue recognition, SAB 101 provides additional guidance on revenue recognition policies and procedures. The Company believes that its current accounting policies and procedures related to revenue recognition comply with SAB 101.

3. ACQUISITION OF TOUCH 1

The Company completed the acquisition of Touch 1 Communications, Inc. ("Touch 1"), a reseller of long distance service to subscribers throughout the United States, on April 14, 2000. Touch 1 is the parent company to its two wholly owned subsidiaries, direcTel, Inc, and direcCONNECT, Inc. The purchase price for Touch 1 consisted of 1.1 million shares of the Company's common stock at a price of $35.71 per share, approximately $9.0 million in cash, and approximately $1.0 million in transaction and related fees. The acquisition of Touch 1 was accounted for using the purchase method of accounting and, accordingly, the results of operation of Touch 1 for the period beginning April 10, 2000 (the closing date for accounting purposes) are included in the accompanying condensed consolidated financial statements. The acquisition of Touch 1 resulted in approximately $67.0 million of intangible assets, preliminarily allocated to customer lists and goodwill, which are being amortized, on the straight line basis, over periods of five and twenty years, respectively.

The following unaudited pro forma information presents a summary of our consolidated results of operations as if the acquisition had occurred at the beginning of the periods presented.

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Z-TEL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

In thousands, except per share data	SIX MONTHS ENDED June 30, 2000	SIX MONTHS ENDED June 30, 1999
Revenues	$ 85,064	$ 31,531
Net loss	(46,556)	(17,115)
Loss per share	(1.14)	(1.10)

The pro forma condensed consolidated financial information is not necessarily indicative of what Z-Tel's results of operations would have been had the acquisition been completed at the beginning of the period presented or the future results of the Company's operations.

7. COMMITMENTS AND CONTINGENCIES

The Company has disputed billings and access charges from certain inter-exchange carriers (IXCs) and incumbent local exchange carriers (ILECs). The Company contends these billings and access charges are not in accordance with the interconnection, service level, or tariff agreements entered between the Company and certain IXCs and ILECs. The Company has paid for a portion of these disputes and management believes that the Company will prevail in these disputes. At June 30, 2000 and December 31, 1999, the disputed amounts were approximately $4.9 and $2.3 million, respectively.

The Company has entered into an agreement with a service firm to provide various content and new service offerings through the telephone. Under this agreement Z-Tel has invested $3.0 million and is committed to an additional $4.0 million in cash payments for future services. This contract provides for early termination under certain circumstances with adjustments to the commitments.

8. COMPUTATION OF NET LOSS PER SHARE

Basic and diluted net loss per share are computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Incremental shares of common stock equivalents are not included in the calculation of diluted net loss per share as the inclusion of such equivalents would be anti-dilutive.

Net loss per share is calculated as follows:

	THREE MONTHS ENDED JUNE 30, 2000	THREE MONTHS ENDED JUNE 30, 1999	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 1999
	(In thousands, except share and per share data)			
Basic and diluted net loss per share:				
Loss attributable to common stockholders:				
Net loss	$ (23,055)	$ (5,611)	$ (38,531)	$ (11,550)
Less mandatorily convertible redeemable preferred stock dividends	--	(414)	--	(606)
Loss attributable to common stockholders	$ (23,055)	$ (6,025)	$ (38,531)	$ (12,156)
Weighted average common shares outstanding	33,042,006	14,411,100	32,499,640	14,411,100
Basic and diluted net loss per share	$ (0.70)	$ (0.42)	$ (1.19)	$ (0.84)

For each of the periods presented, basic and diluted net loss per share are the same. Unexercised options to purchase 9,421,912 and 7,156,284 shares of common stock at June 30, 2000 and December 31, 1999, respectively, which could potentially dilute basic earnings per share in the future, were not included in the computation of diluted net loss per share for these periods because to do so would have been anti-dilutive in each case.

9. LEGAL AND REGULATORY PROCEEDINGS

On June 9, 2000, PTEK Holdings, Inc. and Premiere Communications, Inc.

(collectively, "PTEK") filed a lawsuit against the Company, Z-Tel Communications, Inc., David Gregory Smith, Z-Tel's Chairman, Chief Executive Officer and President, Eduard Mayer, one of Z-Tel's directors and James Kitchen, a Senior Vice President of Z-Tel. In the lawsuit, PTEK asserts claims for patent infringement, misappropriation of trade secrets, breach of contract, conversion, misappropriation of and conspiracy to misappropriate corporate opportunities and tortious interference with contractual relations between PTEK and its employees and with PTEK's actual and prospective business relationships. PTEK seeks preliminary and permanent injunctive relief against the defendants, an equitable trust of an unspecified amount of common stock of Z-Tel, return of proceeds, with interest, of moneys realized by Mr. Smith from the exercise and sale of PTEK options, disgorgement of economic benefits wrongfully obtained, an unspecified amount of actual and punitive damages arising out of the common law claims, treble damages for willful infringement of the PTEK patent and costs. The defendants believe the claims asserted in the lawsuit are without merit, intend to defend it vigorously and have asserted counterclaims against PTEK and Mr. Jones. It is the opinion of management that the lawsuit will be resolved without material adverse effect on the Company's financial position, results of operations, or cash flows.

In the ordinary course of business, the Company is involved in legal proceedings that are generally incidental to its operations. In addition, from time to time the Company is the

subject of customer complaints filed with the state utility commissions of the states in which it operates or the FCC. Most complaints are handled informally and at this time there are no formal proceedings pending. While there can be no assurance of the ultimate disposition of incidental legal proceedings or customer complaints, the Company does not believe their disposition will have a material adverse effect on the Company's consolidated results of operations or financial position.

7. SUBSEQUENT EVENTS

In July 2000, the Company filed a Certificate of Designation authorizing the issuance of 5.0 million shares of Series D convertible preferred stock ("Series D Preferred"). The Company has received commitments to purchase 4,688,247 shares of the Series D Preferred at a price of $12.00 for aggregate proceeds of $56.3 million, $43.1 million of which have been received by the Company. The Series D Preferred is convertible at a conversion price of $12.00, which price is subject to adjustment, into common stock at the option of the holder (i.e., initially convertible on a one-for-one basis); however, there are certain circumstances that provide for a forced conversion of the stock by the Company. The Series D Preferred is mandatorily redeemable 8 years from the original issue date, has an 8% cumulative dividend payable at times in cash and at times with in-kind contributions of additional Series D Preferred and has certain liquidation preferences and voting rights. Each purchaser of Series D Preferred received a warrant to purchase a number of shares of Z-Tel common stock equal to one-half of the amount of Series D Preferred purchased by each investor. Each warrant is exercisable at a price of $13.80 per share subject to certain adjustments.

In July 2000, the Company entered into an accounts receivable facility with RFC Capital Corporation ("RFC") providing for the sale of certain of the Company's accounts receivable to RFC. RFC has agreed to purchase up to $25 million of the Company's accounts receivable, $10 million of which is subject to the Company's meeting certain conditions, with provisions for a commitment of up to $50 million, subject to successful syndication of the receivables sales program by RFC. The Company has not utilized any of this facility to date.

In August 2000, the Company entered into an agreement with a service firm to outsource customer provisioning through electronic bonding with incumbent local exchange carriers. Under this agreement, Z-Tel is committed to approximately $0.5 million cash payment for set-up fees and minimum commitment fees for the next three years subject to the successful completion by the service firm of certain obligations in the future. The minimum commitments under the contract, subject to certain adjustments, are approximately $4.0, $7.0, and $9.0 million over the next three years. This contract provides for various termination arrangements with related severance fees.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This Management's Discussion and Analysis of Financial Condition and Results of

Operations and other sections of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those projected in the forward-looking statements as a result of certain factors. Factors that may affect our results of operations include, but are not limited to, our limited operating history and cumulative losses, uncertainty of customer demand, rapid expansion, potential software failures and errors, potential network and interconnection failure, dependence on local exchange carriers, dependence on third party vendors, dependence on key personnel, uncertainty of government regulation, legal and regulatory uncertainties, and competition. Specifically, Verizon Communications, Inc., a local exchange carrier on which we rely to accomplish certain steps in customer provisioning, service and billing for customers in certain locales in New York, Massachusetts and Pennsylvania, is experiencing a strike involving its principal labor force. We do not currently believe that the strike will significantly impact our operations in these states. We disclaim any obligation to update information contained in any forward-looking statement. In addition to the factors noted above, other risks, uncertainties, assumptions, and factors that could affect the Company's financial results are described in the Company's 1999 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 28, 2000.

The forward-looking statements are based on the belief of our management, as well as assumptions made by and information currently available to our management. Forward-looking statements also may be included in other written and oral statements made or released by us. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. The words "believe," "anticipate," "intend," "expect," "estimate," "project" and similar expressions are intended to identify forward-looking statements. Forward-looking statements describe our expectations today of what we believe is most likely to occur or reasonably achievable in the future, but they do not predict or assure any future occurrence and may turn out to be wrong.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this document.

OVERVIEW

We are an emerging provider of advanced, integrated telecommunications services targeted primarily to residential subscribers. For management purposes, we are organized into one reportable operating segment. We offer local and long distance telephone services in combination with enhanced communication features accessible through the telephone or the Internet. The nature of our business is rapidly evolving and we have a limited operating history. As a result, we believe that period-to-period comparisons of our revenues and operating results, including our network operations and other operating expenses as a percentage of total revenues, are not meaningful and should not be relied upon as indicators of future performance. We do not believe that our historical growth rates are indicative of future results.

Z-Line Home Edition is our principal service offering. Z-Line Home Edition includes [illegible] local and long-distance (1+) residential telephone services using a customer's existing telephone number, bundled with enhanced features, including caller identification, call forwarding, three-way calling, speed dialing, and dial-up remote access through our Z-Line Anywhere access card product, the full functionality of the Personal Communication Center ("PCC") and, for an additional fee, Internet access. We offer Z-Line Home Edition service in New York, Texas, Massachusetts and Pennsylvania, and began offering service in Georgia during July 2000. We anticipate entering additional states before the end of the third quarter of 2000.

We began offering an access card service, similar to our current Z-Line Anywhere service, in the quarter ended December 31, 1998. Z-Line Anywhere is our access card product that allows a customer to make long-distance calls using Z-Tel's network from any phone simply by dialing a local access or toll-free 1-800 number. No change in phone service is required. Subscribers of Z-Line Anywhere also receive the full functionality of our PCC. Z-Line Anywhere is offered nationwide. Z-Line Anywhere customers are billed monthly in arrears, and the associated revenue is recognized in the month of service.

We completed the acquisition of Touch 1 Communications, Inc. ("Touch 1"), on April [illegible], 2000, with a closing date of April 10, 2000 for accounting purposes. The purchase price of Touch 1 consisted of 1.1 million shares of our common stock and $[illegible] million in cash. Touch 1 provides employees in sales, provisioning, and customer service. We anticipate that this acquisition will provide operating efficiencies and lower customer acquisition costs. We believe that Touch 1 also has provided us with the opportunity to further grow our back-office operations to provide capacity for market entry into new states.

We used the purchase accounting method for our acquisition of Touch 1. Therefore, in accordance with the purchase accounting method, the below discussions of the results of operations and liquidity and capital resources do not include any discussions regarding Touch 1 prior to our acquisition of Touch 1 on April 10, 2000. This treatment is in accordance with the adoption of the purchase method of accounting. A pro forma discussion and schedule is included as Footnote [illegible] to the financial statements that display the pro forma statement of operations of us and Touch 1 for the six months ended June 30, 2000.

RESULTS OF OPERATIONS

REVENUE. Revenue increased by $39.4 million to $40.2 million for the three months ended June 30, 2000, compared to $0.8 million for the same period in the prior year. The increase in revenue is primarily the result of the average Home Edition customer count of [illegible],000 for the three months ended June 30, 2000, compared to 0 for the same period in the prior year. The purchase of Touch 1 in the second quarter of 2000 provided an increase in revenue of $12.0 million from the existing 1+ long-distance offering for the three months ended June 30, 2000 and 1999.

Revenue increased by $52.7 million to $54.1 million for the six months ended June 30, 2000, compared to $1.4 million for the same period in the prior year. The increase in revenue is primarily the result of the average Home Edition customer count of [illegible],000 for the six months ended June 30, 2000, compared to 0 for the same period in the prior year. The revenue from Touch 1 contributed $[illegible] million to the increase. The following tables outline the approximate number of subscribers for Z-Line Home Edition, Z-Line Anywhere and Touch 1 (1+) long distance services as of the end of the period:

TYPE OF SERVICE	June 30, 2000	June 30, 1999
Z-Line Home Edition Subscribers Z-Line Anywhere and Touch 1 (1+)	170,000	0

Long Distance Services Subscribers	301,500	80,000

NETWORK OPERATIONS. Network operations expense increased by $24.1 million to [illegible] million for the three months ended June 30, 2000, compared to $1.0 million for the same period in the prior year. Network operations expense increased by [illegible] million to $35.0 million for the six months ended June 30, 2000, compared to [illegible] million for the same period in the prior year. The network operations expense primarily consists of fixed and variable transmission expenses for interconnection agreements with incumbent local exchange carriers (ILECs), service level agreements with inter-exchange carriers (IXCs), and transmission services based on tariff arrangements. The increase in network operation expense in both the three months and six months ended June 30, 2000 is the result of our subscriber growth.

SALES AND MARKETING. Sales and marketing expense increased $9.9 million to [illegible] million for the three months ended June 30, 2000, compared to $0.7 million for the same period in the prior year. Sales and marketing expense increased [illegible] million to $17.5 million for the six months ended June 30, 2000, compared to [illegible] million for the same period in the prior year. The sales and marketing expense primarily consists of telemarketing, direct mail, brand awareness advertising, and employee salaries and benefits paid to employees engaged in sales and marketing activities.

The increase in sales and marketing expense is attributable to our increased telemarketing hours and direct mail efforts. A large increase occurred in the second quarter as a result of our purchase of Touch 1 in April 2000, and the hiring of additional employees in their existing locations and the opening of a new call center in Canada. Our direct mail campaign was continued through the second quarter of 2000 after its successful introduction in first quarter 2000. We intend to significantly increase our sales and marketing expenditures during the remainder of the year 2000 as we increase our telemarketing and direct mail campaigns and develop other marketing channels.

RESEARCH AND DEVELOPMENT. Research and development expenses increased $1.4 million to [illegible] million for the three months ended June 30, 2000, compared to [illegible] million for the same period in the prior year. Research and development expenses increased [illegible] million to $3.1 million for the six months ended June 30, 2000, compared to $1.5 million for the same period in the prior year. Our research and development expenses consist primarily of salaries and benefits paid to employees engaged in research and development activities and outside third party development costs.

The enhancement of our current product offerings, development of new services, and the integration of our customer care and billing software contributed to increased research and development cost for both the three and six months ended June 30, 2000. We adopted the provisions of Statement of Position (SOP) 98-1 "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," at the beginning of 1999. As a result, $1.7 and $3.7 million of research and development costs relating to development of internal use software were capitalized for the three and six months ended June 30, 2000, compared to [illegible] and [illegible] million for the same periods in the prior year. We expect research and development costs to increase in the future as we enhance and develop new services.

GENERAL AND ADMINISTRATIVE. General and administrative expense increased [illegible] million to [illegible] million for the three months ended June 30, 2000, compared to $2.4 million for the same period in the prior year. General and administrative expense increased $26.3 million to $31.3 million for the six months ended June 30, 2000, compared to $5.0 million for the same period in the prior year. General and administrative expenses consist primarily of employee salaries, temporary services, bad debt expense, billing and collection expense, occupancy costs, and provisioning costs for Z-Line Home Edition Customers.

The acquisition of Touch 1 and the increase in subscribers has caused an increase in expenses for general and administrative purposes for both the three and six months ended June 30, 2000 compared to the same periods in the prior year. We increased our capacity for back office operations to provide for our anticipated growth and introduction of Z-Line Home Edition to new states. We anticipate general and administrative expenditures will continue to increase in the future as we increase our subscribers, expand our services and enter new states.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased $3.5 million to $4.4 million for the three months ended June 30, 2000, compared to $0.9 million for the same period in the prior year. Depreciation and amortization expense increased $4.8 million to $6.5 million for the six months ended June 30, 2000, compared to $1.7 million for the same period in the prior year.

The increase in depreciation and amortization is a result of the acquisition of Touch 1 and purchases of equipment. The amortization of the $67.0 million of intangible assets, constituting the amount of consideration in excess of the fair market value of the net assets purchased from Touch 1, which has been preliminarily allocated to assets with 5 and 20 year lives, resulted in amortization of $1.2 million in the second quarter of 2000. In addition, the purchase of computer equipment, switching equipment, furniture and leasehold improvements required to maintain our growth and expand our operations has also contributed to the increased depreciation and amortization expense for both the three and six months ended June 30, 2000. We expect depreciation and amortization to continue to increase as we increase our capital expenditures.

INTEREST INCOME. Interest income increased $0.4 million to $0.5 million for the three months ended June 30, 2000, compared to $0.1 million for same period in the prior year. Interest income increased $1.5 million to $1.7 million for the six months ended June 30, 2000, compared to $0.2 million for same period in the prior year. Interest income consists of income on our cash balances invested in short-term liquid investments. The increase was primarily due to larger cash reserves, resulting from funds raised in our initial public offering on December 15, 1999. We raised net proceeds of $109.1 million after underwriting discounts and commissions. Our cash and cash equivalents were $10.7 million and $2.3 million at June 30, 2000 and 1999, respectively.

INTEREST EXPENSE. Interest expense decreased $0.4 million to $0.8 million for the three months ended June 30, 2000, compared to $1.2 million for the same period in the prior year. Interest expense decreased $0.4 million to $1.1 million for the six months ended June 30, 2000, compared to $1.5 million for the same period in the prior year. Our interest expense is a result of the interest charged on our capital lease and other debt obligations. On February 14, 2000, we paid $14.4 million to extinguish our sale-leaseback credit facility. We anticipate interest expense to increase in the future as a result of our assumption of debt from the Touch 1

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acquisition and the borrowing of money to support operations through our accounts receivable credit facility and possible additional funding prior to the end of fiscal year 2000.

INCOME TAX EXPENSE. No provision for federal or state income taxes has been recorded due to the full valuation allowance recorded against the deferred tax asset for the three and six month periods ended June 30, 2000 and for the same periods in the prior year.

NET LOSS. Our net loss increased $17.1 million to $23.1 million for the three months ended June 30, 2000, compared to $6.0 million for the same period in the prior year. Our net loss increased $26.3 million to $38.5 million for the six months ended June 30, 2000, compared to $12.2 million for the same period in the prior year. This increase was due primarily to the increases in expenses described above.

EBITDA. Many securities analysts use the measure of earnings before deducting interest, taxes, depreciation and amortization, also commonly referred to as "EBITDA," as a way of evaluating a company's financial performance. While EBITDA is not a measure under generally accepted accounting principles, EBITDA is a measure commonly used in the telecommunications industry and is presented to assist in understanding our operating results. Our negative EBITDA increased $14.7 million to $18.3 million for the three months ended June 30, 2000, compared to $3.6 million for the same period in the prior year. Our negative EBITDA increased $24.0 million to $32.7 million for the six months ended June 30, 2000, compared to $8.7 million for the same period in the prior year. We expect to experience a reduction in negative EBITDA during the remainder of fiscal year 2000 as a result of our increases in subscribers.

LIQUIDITY AND CAPITAL RESOURCES

The competitive local telecommunications service business is traditionally considered to be a capital intensive business owing to the significant investments required in fiber optic communication networks and the co-location of switches and transmission equipment in incumbent local exchange carriers' central offices. Our network architecture is designed with remotely located points of presence, or Z-Nodes, that can be interconnected through local and long distance communications networks to the Z-Tel enterprise management center. We do not expect that the growth of our business will require the levels of capital investment in fiber optics and switches that existed in historical telecommunications models. Instead, we will devote significant amounts of our capital resources to continued operations, software development and marketing efforts that we have designed to achieve rapid penetration of our target markets.

We have incurred accumulated losses since our inception as a result of developing our business, research and development, building and maintaining network infrastructure and technology, sales and promotion of our services, and administrative expenditures. As of June 30, 2000, we had an accumulated deficit of $87.6 million. We have funded these expenditures primarily through operating revenues, private securities offerings, a sale-leaseback credit facility and an initial public offering of 6.9 million shares of common stock (including the underwriters' over-allotment option) that raised net proceeds of $109.1 million after underwriting discounts and commissions. We intend to continue building our organization in anticipation of future growth and believe that our operating expenditures will also continue to increase.

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On April 14, 2000, we completed the acquisition of Touch 1 for approximately $9.0 million in cash and 1.1 million shares of our common stock. The Touch 1 acquisition was accounted for using the purchase method of accounting. The acquisition of Touch 1 resulted in $67.0 million of intangible assets preliminarily being allocated to assets being amortized over 5 and 20 years.

The Company also has entered into an agreement with a service firm to provide various content and new service offerings through the telephone. Under this agreement Z-Tel has invested $3.0 million and is committed to an additional $4.0 million in cash payments for future services. This contract provides for early termination under certain circumstances with adjustments to the commitments.

In August 2000, the Company entered into an agreement with a service firm to outsource customer provisioning through electronic bonding with incumbent local exchange carriers. Under this agreement Z-Tel is committed to $0.5 million cash payment for set-up fees and minimum commitment fees for the next three years, subject to the service firm attaining certain milestones in the future. The minimum commitments under the contract, subject to certain adjustments, are $6.0, $7.0, and $9.0 million over the next three years. This contract provides for various termination arrangements with related severance fees.

NET CASH USED IN OPERATING ACTIVITIES. Net cash used in operating activities increased by $31.0 million to $42.1 million for the six months ended June 30, 2000, compared to $11.1 million for the same period in the prior year. Our increase in cash used in operating activities increased was primarily because of increasing net losses.

NET CASH USED IN INVESTING ACTIVITIES. Net cash used in investing activities was $30.2 million for the six months ended June 30, 2000, compared to $3.7 million provided by investing activities for the same period in the prior year, a change of $33.9 million. For the six months ended June 30, 2000, we invested $9.0 million in cash to acquire Touch 1 and purchased property and equipment of $20.2 million. For the six months ended June 30, 1999, we received $9.9 million in a sale and leaseback transaction and purchased property and equipment of $6.2 million.

The increase in net cash used in investing activities is a direct result of our continued preparation for rapid growth and our plans to lower network and infrastructure costs. In 2000, we are focused on product development and the establishment of our infrastructure, the operation of our technology and a network that primarily involves the purchases of equipment for our Z-Nodes. As discussed earlier, the purchase of Touch 1 has greatly increased our back office operations. We have increased our employees at all locations including our newest call center in Canada. The increase in employees coupled with our increase in subscribers has required us to make capital investments in switching equipment, computer equipment, software, leasehold improvements, and office equipment to provide for our growing employee and subscriber base.

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NET CASH USED IN FINANCING ACTIVITIES. Net cash used in financing activities was $18.8 million for the six months ended June 30, 2000, compared to net cash provided by financing activities of $1.6 million for the same period in the prior year, a change of $20.4 million. The overall change is primarily attributable to our payment of $23.1 million during the second quarter of 2000 for the extinguishment of debt. We extinguished our sale-leaseback credit facility, assumed debt from the Touch 1 acquisition relating to a line of credit and paid off a lease obligation in the amounts of $14.4, $1.0 and $3.5 million, respectively. The remaining payments on long-term debt and capital lease obligations are the debt service for the debt assumed from the Touch 1 acquisition. On February 14, 2000, we paid $14.4 million to extinguish the outstanding CSB Capital, LLC capital lease obligation and purchase the related assets. This was the repayment of transactions involving the sale and leaseback of various furniture and equipment payable over four years from the date of the transactions. This transaction accounted for a $1.6 million increase in the carrying value of our assets, resulting from the payments made to terminate the lease and the carrying value of our capital lease obligation. This $1.6 million was added to the value of the assets purchased and is depreciated over the estimated remaining lives in accordance with FASB Interpretation No. 26 -Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease, an interpretation of FASB Statement No. 13. The cash used in financing activities was offset by the receipt of payments of cash for notes receivable from stockholders for common stock and cash received for

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the exercise of stock options, in the amounts of $1.1 and $1.3 million, respectively, for the six months ended June 30, 2000.

In July 2000, we filed a Certificate of Designation authorizing the issuance of [illegible] million shares of Series D convertible preferred stock ("Series D Preferred"). We have received commitments to purchase 4,688,247 shares of the Series D Preferred at a price of $12.00 for aggregate proceeds of $56.3 million, [illegible] million of which have been received by us. The Series D Preferred is convertible at a conversion price of $12.00, which price is subject to adjustment, into common stock at the option of the holder (i.e., initially convertible on a one-for-one basis); however, there are certain circumstances that provide for a forced conversion of the stock by us. The Series D Preferred is mandatorily redeemable 8 years from the original issue date, has an 8% cumulative dividend payable at times in cash and at times with in-kind distributions of additional Series D Preferred and has certain liquidation preferences and voting rights. Each purchaser of Series D Preferred received a warrant to purchase a number of shares of our common stock equal to one-half of the amount of Series D Preferred purchased by each investor. Each warrant is exercisable at a price of $13.80 per share subject to certain adjustments.

In July 2000, we entered into an accounts receivable facility with RFC Capital Corporation ("RFC") providing for the sale of certain of our accounts receivable to RFC. RFC has agreed to purchase up to $25 million of our accounts receivable, $10 million of which is subject to our meeting certain conditions, with provisions for a commitment of up to $50 million, subject to successful syndication of the receivables sales program by RFC. We have not utilized any of this facility to date. In connection with this agreement, we have granted RFC a security interest in our accounts, lists, agreements, letter of authorizations, contract rights, instruments, documents, chattel paper, general intangibles, and all proceeds of the foregoing. The annual interest rate equivalent charged to us under this agreement floats at prime rate plus 2.0% to 2.5%, depending upon the volume of receivables sold.

Our ongoing capital requirements will depend on several factors, including market acceptance of our services, the amount of resources we devote to investments in our networks, facilities, build-out of additional enterprise management centers, services development and brand promotions, the resources we devote to sales and marketing of our services, and other factors. We have experienced a substantial increase in our capital expenditures and operating losses since our inception consistent with the growth in our operations and staffing, and we anticipate that this will continue for the foreseeable future. Additionally, we expect to make additional investments in technologies and our network architecture, and plan to expand our sales and marketing programs and conduct more brand promotions. Although operating activities may provide cash in certain periods, to the extent we experience growth in the future, we anticipate that our operating and investing activities will use cash. As of June 30, 2000, we had [illegible] million in cash and cash equivalents. We believe that cash on hand combined with our recent offering of Series D Convertible Preferred Stock for a total committed amount of $56.3 million and the up to $50 million potentially available under the RFC Capital Corporation accounts receivable facility will be sufficient to meet our projected capital requirements through the end of fiscal year 2000. Nevertheless, to address new opportunities that the Company has identified internally and other opportunities that have been presented to Z-Tel, it is possible that additional funding will be necessary. Consequently, we may need to obtain additional equity or debt financing which may not be available on attractive terms, or at all, or may be dilutive. If we are not able to obtain such financing or obtain it on terms that are not attractive, we may be required to modify, delay or abandon our current business plan, which is likely to materially and adversely affect our business.

YEAR 2000 COMPLIANCE

We did not experience any significant disruptions in our operations during the transition into the Year 2000. We believe we have completed necessary assessments, modifications or replacement and testing of systems critical for the delivery of our services. We believe our Year 2000 readiness objectives have been met. We also prepared a contingency plan to mitigate potential adverse effects that might have arisen from non-compliant systems or third parties that had not adequately addressed the Year 2000 issue. While we did not experience any significant Year 2000 disruptions during the transition into the Year 2000, we will continue to monitor our operations and systems and address any date-related problems that may arise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We currently have instruments sensitive to market risk relating to exposure to changing interest rates and market prices. We do not enter into financial instruments for trading or speculative purposes and do not currently utilize derivative financial instruments. Our operations are conducted primarily in the United States and as such are not subject to material foreign currency exchange rate risk.

The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of the major portion of our investment portfolio.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

1. Civil Action File No. 8:00 CV-1148-T-24B; PTEK HOLDINGS, INC., F/K/A PREMIERE TECHNOLOGIES, INC., AND PREMIERE COMMUNICATIONS, INC. V. Z-TEL TECHNOLOGIES, INC., Z-TEL COMMUNICATIONS, INC., DAVID GREGORY SMITH, JAMES KITCHEN AND EDUARD MAYER; in the United States District Court for the Middle District of Florida, Tampa Division.

On June 9, 2000, PTEK Holdings, Inc. and Premiere Communications, Inc. (collectively, "PTEK") filed a lawsuit against Z-Tel Technologies, Inc. ("Z-Tel"), Z-Tel Communications, Inc., David Gregory Smith, Z-Tel's Chairman, Chief Executive Officer and President, Eduard Mayer, one of Z-Tel's directors and James Kitchen, a Senior Vice President of Z-Tel. In the lawsuit, PTEK claims that the defendants have infringed and are continuing to infringe a patent that purports to, among other things, describe a method for enabling a user to manipulate data underlying a web site using a telephone, and have misappropriated and are continuing to misappropriate trade secrets belonging to PTEK, particularly those relating to a unified messaging platform, that Messrs. Smith and Kitchen breached contractual obligations owed to PTEK by, among other things, misappropriating PTEK's trade secrets and improperly soliciting PTEK's customers and employees, that the defendants have engaged in unfair competition, that the defendants have converted PTEK's physical and intellectual property, that Messrs. Smith, Kitchen and Mayer misappropriated corporate opportunities of PTEK, that the defendants conspired to misappropriate corporate opportunities of PTEK, and that the defendants tortiously interfered with contractual relations between PTEK and its employees and with PTEK's actual and prospective business relationships. PTEK seeks preliminary and permanent injunctive relief against the defendants, an equitable trust of an unspecified amount of common stock of Z-Tel, return of proceeds, with interest, of moneys realized by Mr. Smith from the exercise and sale of PTEK options, disgorgement of economic benefits wrongfully obtained, an unspecified amount of actual and punitive damages arising out of the common law claims, treble damages for willful infringement of the PTEK patent and costs. The defendants believe the claims asserted in the lawsuit are without merit and intend to defend it vigorously.

The corporate defendants have answered the complaint and have filed counterclaims against PTEK and Boland Jones ("Jones"), its Chairman and Chief Executive Officer. The counterclaims allege that PTEK and Jones tortiously interfered with actual and prospective business relationships between Z-Tel and certain investment bankers, defamed Z-Tel and made false and defamatory statements to Z-Tel while knowing or having a reason to know that they would be disclosed to third parties. PTEK and Jones have moved to dismiss Z-Tel's counterclaims, and Z-Tel has filed a response. The Court has not ruled on PTEK's and Jones' motion.

PTEK also has filed motions for a preliminary injunction and for expedited discovery. Z-Tel has responded to each of those motions, and the Court has denied PTEK's motion for expedited discovery without prejudice on the ground that it failed to comply with certain of the Court's local rules. PTEK has submitted further briefing on these issues, but the Court has not issued any further rulings or set any hearing on PTEK's motion for preliminary injunction.

2. Case No. 98-12260; IN RE TOUCH 1 COMMUNICATIONS, INC.; in the United States Bankruptcy Court for the Southern District of Alabama

Case No. 98-12402; IN RE DIRECTEL; in the United States Bankruptcy Court for the Southern District of Alabama

Touch 1 Communications, Inc. ("Touch 1") and its wholly owned subsidiary, direcTEL, Inc. ("direcTEL") (collectively, the "Debtors"), filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code on June 29, 1999 and July 9, 1999, respectively, in the United States

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Bankruptcy Court for the Southern District of Alabama (the "Bankruptcy Court"). The Debtors proposed their Joint Plan of Reorganization of Touch 1 Communications, Inc. and direcTEL, Inc. under Chapter 11 of the United States Bankruptcy Code (the "Plan"), which received overwhelming acceptance by the Debtors' creditors. On August 6, 1999, the Bankruptcy Court entered an Order Confirming Amended Joint Plan of Reorganization of Touch 1 Communications, Inc. and direcTEL, Inc. Under Chapter 11 of the United States Bankruptcy Code (the "Confirmation Order"). As a result, the Debtors were discharged of certain obligations except as provided for in the Plan.

Since the entry of the Confirmation Order, the Debtors' activities in the Bankruptcy Court have been limited to resolving contested claims. On or about August 3, 2000, direcTEL filed a pleading with the Bankruptcy Court to close its bankruptcy case, and it is anticipated that Touch 1's bankruptcy case will be closed during the third quarter of 2000.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

RECENT SALES OF UNREGISTERED SECURITIES

During the period covered by this report, Z-Tel sold, in connection with the closing of its acquisition of Touch 1 Communications, Inc., in the aggregate, 1,100,000 shares of its common stock to the holders of the outstanding common and preferred stock of Touch 1 Communications, Inc. who executed the definitive agreement relating to the acquisition. Z-Tel claims an exemption from registration under Section 4(2) of the Securities Act of 1933 because such transactions were by an issuer and did not involve a public offering.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

Z-Tel filed a registration statement (Commission file no. 333-89063), which became effective on December 14, 1999, with respect to the initial public offering of 6,900,000 shares of its common stock (including the underwriters' over-allotment option). For the six months ended June 30, 2000, approximately $67.4 million of the net offering proceeds were used in the following estimated amounts and for the following purposes: $6.4 million for the purchase and installation of network equipment, $7.0 million for the purchase of software and support and software development, $4.3 million for marketing expenses, $19.9 million for the repayment of indebtedness, $26.6 million for operational expenses, $2.1 million for construction of plant, building and facilities and $1.1 million for the purchase of investments. The remaining offering proceeds have been placed in temporary investments in cash and cash equivalents. Except for dividend payments made to entities affiliated with our directors based on their pro rata ownership of our convertible preferred stock, none of the net offering proceeds have been paid, directly or indirectly, to our directors, officers, 10% shareholders or affiliates.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Shareholders held on May 30, 2000, the following proposals were adopted by the margins indicated:

1. To elect a Board of Directors to hold office until their successors are elected and qualified:

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	Number of Shares	
	For	Withheld
Laurence S. Grafstein	24,730,914	120,473
Edward J. Mayer	24,730,914	120,473
Wafford H. Ortale	24,730,914	120,473
Jeffrey A. Bowden	24,730,914	120,473
D. Gregory Smith	24,730,914	120,473

2. To approve the second amendment to Z-Tel's Amended and Restated Certificate of Incorporation classifying the Board of Directors of Z-Tel:

For:	20,453,916
Against:	3,282,631
Abstain:	374

3. To approve the 2000 Equity Participation Plan of Z-Tel:

For:	20,034,388
Against:	3,636,054
Abstain:	66,479

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(A) EXHIBITS.

The following exhibits are filed as part of this report:

Exhibit Number	Description
2.1(**)	Agreement and Plan of Merger dated April 10, 2000 by and among Z-Tel Technologies, Inc., Tiger Acquisition Subsidiary, Inc., Touch 1 Communications, Inc., and certain shareholders of Touch 1 Communications, Inc.
3.1(***)	Amended and Restated Certificate of Incorporation of Z-Tel, as amended
3.2(*)	Amended and Restated Bylaws of Z-Tel
4.1(*)	Form of Common Stock Certificate
4.2	See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation, as amended, and the amended and restated Bylaws of Z-Tel defining rights of security holders

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4.3	Stock Purchase Agreement, dated July 6, 2000, by and between the Registrant and the various purchasers of the Registrant's Series D Convertible Preferred Stock
4.4	Certificate of Designations, Preferences and Relative Rights, Qualifications, Limitations and Restrictions relating to the Registrant's Series D Convertible Preferred Stock.
4.5	Registration Rights Agreement by and between the Registrant and each of the purchasers of the Registrant's Series D Convertible Preferred Stock.
4.6	Form of Warrant for the purchase of shares of common stock of Z-Tel Technologies, Inc. by each of the purchasers of the Registrant's Series D Convertible Preferred Stock.
10.1.1(*)	Stockholders' Agreement dated October 8, 1999, between and among the company, BA Capital Corporation, Sewanee Partners II, L.P., Gramercy Z-Tel LLC and the other parties set forth therein
10.1.2(*)	Employment Agreement dated July 1998 between the Company and D. Gregory Smith
10.1.3(*)	Employment Agreement dated September 1999 between the Company and John Hutchens
10.1.4(*)	Employment Agreement dated August 1998 between the Company and Charles W. McDonough
10.1.5(*)	Employment Agreement dated August 1998 between the Company and J. Bryan Bunting
10.1.6(*)	Employment Agreement dated July 1998 between the Company and James A. Kitchen
10.1.7(*)	Investment Agreement dated March 15, 1999 between the Company and CMB Capital LLC
10.2.1(*)	1998 Equity Participation Plan
10.2.2(****)	2000 Equity Participation Plan
10.3(**)	Form of Employment Agreement for certain key Touch 1

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employees, including James F. Corman, President of Touch 1

Proposed Tariff

SOUTH DAKOTA

LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES TARIFF

OF

Z-Tel Communications, Inc.

This tariff contains the descriptions, regulations, and rates applicable to the provision of local exchange telecommunications services provided by Z-Tel Communications, Inc. with principal offices at 601 South Harbour Island Boulevard, Suite 220, Tampa, Florida 33602 for services furnished within the State of South Dakota. This tariff is on file with the South Dakota Public Utilities Commission.

In accordance with SDCL 20:10:06:02, this tariff is available for public inspection during normal business hours at the main office of copies may be inspected, during normal business hours, at the Company's principal place of business located at 601 South Harbour Island Boulevard, Suite 220, Tampa, Florida 33602.

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CHECK SHEET

Pages of this tariff are effective as of the date shown at the bottom of the respective page(s). Original and revised pages as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

SECTION	PAGE	REVISION	SECTION	PAGE	REVISION	SECTION	PAGE	REVISION
	Title	Original *	2	24	Original *	5	13	Original *
Preface	1	Original *	2	25	Original *	5	14	Original *
Preface	2	Original *	2	26	Original *	5	15	Original *
Preface	3	Original *	2	27	Original *	5	16	Original *
Preface	4	Original *	2	28	Original *	5	17	Original *
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2	5	Original *	4	1	Original *	8	1	Original *
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2	10	Original *	5	2	Original *			
2	11	Original *	5	3	Original *			
2	12	Original *	5	4	Original *			
2	13	Original *	5	5	Original *			
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2	17	Original *	5	9	Original *			
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2	19	Original *	5	11	Original *			
2	20	Original *	5	12	Original *			
2	22	Original *						
2	23	Original *						

* Included in this filing.

EXPLANATION OF SYMBOLS, REFERENCE MARKS, AND ABBREVIATIONS OF TECHNICAL TERMS USED IN THIS TARIFF

The following symbols shall be used in this tariff for the purpose indicated below:

(C) To signify changed regulation.

(D) To signify discontinued rate or regulation.

(I) To signify increased rate.

(M) To signify a move in the location of text.

(N) To signify new rate or regulation.

(R) To signify reduced rate.

(T) To signify a change in text but no change in rate or regulation.

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate end-user local exchange communications services by Z-Tel Communications, Inc., hereinafter referred to as the Company, to Customers within the state of South Dakota. Z-Tel's services are furnished subject to the availability of facilities and subject to the terms and conditions set forth herein.

This tariff is on file with the South Dakota Public Utilities Commission. In addition, this tariff is available for review at the main office of Z-Tel Communications, Inc. at 601 South Harbour Island Boulevard, Suite 200, Tampa, Florida 33602.

TARIFF FORMAT

A. Page Numbering - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between pages already in effect, a decimal is added. For example, a new page added between pages 14 and 15 would be 14.1.

B. Page Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the Commission. For example, the 4th revised Page 14 cancels the 3rd revised Page 14. Because of various suspension periods, deferrals, etc., the most current page number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet for the page currently in effect.

C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1.
2.1.1.
2.1.1.A.
2.1.1.A.1.
2.1.1.A.1.(a).
2.1.1.A.1.(a).I.
2.1.1.A.1.(a).I.(i).
2.1.1.A.1.(a).I.(i).(1).

D. Check Sheets - When a tariff filing is made with the Commission, an updated Check Sheet accompanies the tariff filing. The Check Sheet lists the pages contained in the tariff, with a cross reference to the current revision number. When new pages are added, the Check Sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this page if these are the only changes made to it (i.e., the format, etc. remain the same, just revised revision levels on some pages.) The tariff user should refer to the latest Check Sheet to find out if a particular page is the most current on file with the Commission.

SECTION 1.0 - DEFINITIONS

Access Line - An arrangement from a local exchange telephone company or other common carrier, using either dedicated or switched access, which connects a Customer's location to Carrier's location or switching center.

Account Codes - Permits Centrex Stations and attendants to dial an account code number of up to eight digits. For use when placing calls over facilities arranged for Automatic Message Accounting (AMA) recording. The account or project number must be input prior to dialing the called number.

Advance Payment - Part or all of a payment required before the start of service.

Authorization Code - A numerical code, one or more of which may be assigned to a Customer, to enable Carrier to identify the origin of service of the Customer so it may rate and bill the call. All authorization codes shall be the sole property of Carrier and no Customer shall have any property or other right or interest in the use of any particular authorization code. Automatic numbering identification (ANI) may be used as or in connection with the authorization code.

Authorized User - A person, firm or corporation authorized by the Customer to be an end-user of the service of the Customer.

Automatic Numbering Identification (ANI) - A type of signaling provided by a local exchange telephone company which automatically identifies the local exchange line from which a call originates.

Commission - Refers to the South Dakota Public Utilities Commission, unless otherwise indicated.

Common Carrier - An authorized company or entity providing telecommunications services to the public.

Company - Z-Tel Communications, Inc., the issuer of this tariff.

Customer - The person, firm or corporation that orders service and is responsible for the payment of charges and compliance with the terms and conditions of this tariff.

Customer Premises - A location designated by the Customer for the purposes of connecting to the Company's services.

Customer Terminal Equipment - Terminal equipment provided by the Customer.

SECTION 1.0 - DEFINITIONS, (CONT'D.)

Deposit - Refers to a cash or equivalent of cash security held as a guarantee for payment of the charges.

End Office - The LEC switching system office or serving wire center where Customer station loops are terminated for purposes of interconnection to each other and/or to trunks.

Equal Access - A form of dialed access provided by local exchange companies whereby interexchange calls dialed by the Customer are automatically routed to the Company's network. Presubscribed Customers may also route interexchange calls to the Company's network by dialing an access code supplied by the Company.

Exchange Telephone Company or Telephone Company - Denotes any individual, partnership, association, joint-stock company, trust, or corporation authorized by the appropriate regulatory bodies to engage in providing public switched communication service throughout an exchange area, and between exchange areas within the LATA.

ICB - Individual Case Basis.

IXC or Interexchange Carrier- A long distance telecommunications services provider.

Interruption - The inability to complete calls due to equipment malfunctions or human errors. Interruption shall not include, and no allowance shall be given for service difficulties such as slow dial tone, circuits busy or other network and/or switching capability shortages. Nor shall Interruption include the failure of any service or facilities provided by a common carrier or other entity other than the Carrier. Any Interruption allowance provided within this Tariff by Carrier shall not apply where service is interrupted by the negligence or willful act of the Customer, or where the Carrier, pursuant to the terms of this Tariff, terminates service because of non-payment of bills, unlawful or improper use of the Carrier's facilities or service, or any other reason covered by this Tariff or by applicable law.

LATA - A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4, or its successor tariff(s).

LEC - Local Exchange Company refers to the dominant, monopoly local telephone company in the area also served by the Company.

SECTION 1.0 - DEFINITIONS, (CONT'D.)

Monthly Recurring Charges - The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

MOU - Minutes of Use.

NECA - National Exchange Carriers Association.

Non-Recurring Charge ("NRC") - The initial charge, usually assessed on a one-time basis, to initiate and establish service.

PBX - Private Branch Exchange

PIN - Personal Identification Number. See Authorization Code.

Point of Presence ("POP") - Point of Presence

Recurring Charges - Monthly charges to the Customer for services, and equipment, which continues for the agreed upon duration of the service.

Service - Any means of service offered herein or any combination thereof.

Service Order - The written request for Company services executed by the Customer and the Company in the format devised by the Company. The signing of a Service Order Form by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff.

Serving Wire Center - A specified geographic point from which the vertical and horizontal coordinate is used in calculation of airline mileage.

Shared Inbound Calls - Refers to calls that are terminated via the Customer's Company-provided local exchange line.

Shared Outbound Calls - Refers to calls in Feature Group (FGD) exchanges whereby the Customer's local telephone lines are presubscribed by the Company to the Company's outbound service such that "1 + 10-digit number" calls are automatically routed to the Company's or an IXC's network. Calls to stations within the Customer's LATA may be placed by dialing "10XXX" or "101XXXX" with 1 + 10-digit number."

SECTION 1.0 - DEFINITIONS, (CONT'D.)

Station - The network control signaling unit and any other equipment provided at the Customer's premises which enables the Customer to establish communications connections and to effect communications through such connections.

Subscriber - The person, firm, partnership, corporation, or other entity who orders telecommunications service from Z-Tel. Service may be ordered by, or on behalf of, those who own, lease or otherwise manage the pay telephone, PBX, or other switch vehicle from which an End User places a call utilizing the services of the Company.

Switched Access Origination/Termination - Where access between the Customer and the interexchange carrier is provided on local exchange company Feature Group circuits and the connection to the Customer is a LEC-provided business or residential access line. The cost of switched Feature Group access is billed to the interexchange carrier.

Terminal Equipment - Any telecommunications equipment other than the transmission or receiving equipment installed at a Company location.

Usage Charges - Charges for minutes or messages traversing over local exchange facilities.

User or End User - A Customer, Joint User, or any other person authorized by a Customer to use service provided under this tariff.

Z-Tel - Z-Tel Communications, Inc., issuer of this tariff.

SECTION 2.0 - REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service pursuant to the terms of this tariff in connection with one-way and/or two-way information transmission between points within the state of South Dakota.

The Company is responsible under this tariff only for the services and facilities provided hereunder, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own customers.

2.1.2 Shortage of Equipment or Facilities

A. The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.

B. The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.3 Terms and Conditions

A. Service is provided on the basis of a minimum period of at least thirty (30) days, 24-hours per day. For the purpose of computing charges in this tariff, a month is considered to have 30 days.

B. Except as otherwise stated in this tariff, Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.

C. At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month-to-month basis at the then current rates unless terminated by either party upon notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.

D. In any action between the parties to enforce any provision of this tariff, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.

E. Service may be terminated upon written notice to the Customer if:

.1 the Customer is using the service in violation of this tariff; or

.2 the Customer is using the service in violation of the law.

F. This tariff shall be interpreted and governed by the laws of the state of South Dakota regardless of its choice of laws provision.

Timothy Seat
Vice President - Regulatory Affairs
601 South Harbour Island Boulevard, Suite 220
Tampa, Florida 33602

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.3 Terms and Conditions, (Cont'd.)

G. Any other Telephone Company may not interfere with the right of any person or entity to obtain service directly from the Company. No person or entity shall be required to make any payment, incur any penalty, monetary or otherwise, or purchase any services in order to have the right to obtain service directly from the Company.

H. To the extent that either the Company or any other telephone company exercises control over available cable pairs, conduit, duct space, raceways, or other facilities needed by the other to reach a person or entity, the party exercising such control shall make them available to the other on terms equivalent to those under which the Company makes similar facilities under its control available to its customers. At the reasonable request of either party, the Company and the other telephone company shall join the attempt to obtain from the owner of the property access for the other party to serve a person or entity.

Timothy Seat
Vice President - Regulatory Affairs
601 South Harbour Island Boulevard, Suite 220
Tampa, Florida 33602

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability

A. The Company's liability for damages arising out of mistakes, interruptions, omissions, delays, errors, or defects in transmission which occur in the course of furnishing service or facilities, shall be determined in accordance with SDCL 49-13-1 and 49-13-1.1 and any other applicable law.

B. Except for the extension of allowances to the Customer for interruptions in service as set forth in Section 2.6, the Company shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages, including, but not limited to, loss of revenue or profits, for any reason whatsoever, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service or any failure in or breakdown of facilities associated with the service.

C. The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability, (Cont'd.)

D. The Company shall be indemnified and saved harmless by the Customer from and against all loss, liability, damage and expense, including reasonable counsel fees, due to:

.1 Any act or omission of: (a) the Customer, (b) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by the Company; or (c) common carriers or warehousemen, except as contracted by the Company;

.2 Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties; and any law, order, regulation or other action of any governing authority or agency thereof;

.3 Any unlawful or unauthorized use of the Company's facilities and services;

.4 Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the material transmitted by means of Company-provided facilities or services; or by means of the combination of Company-provided facilities or services;

.5 Breach in the privacy or security of communications transmitted over the Company's facilities;

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability, (Cont'd.)

D. (Cont'd.)

.6 Changes in any of the facilities, operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in paragraph A. of this Subsection 2.1.4.

.7 Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof;

.8 Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to the Company's facilities;

.9 Any noncompletion of calls due to network busy conditions;

.10 Any calls not actually attempted to be completed during any period that service is unavailable;

.11 And any other claim resulting from any act or omission of the Customer or patron(s) of the Customer relating to the use of the Company's services or facilities.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability, (Cont'd.)

E. The Company does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere.

F. The Company makes no warranties or representations, EXPRESS OR IMPLIED, either in fact or by operation of law, statutory or otherwise, including warranties of merchantability or fitness for a particular use, except those expressly set forth herein.

G. Failure by the Company to assert its rights pursuant to one provision of this tariff does not preclude the Company from asserting its rights under other provisions.

H. **Directory Errors** - In the absence of gross negligence or willful misconduct, no liability for damages arising from errors or mistakes in or omissions of directory listings, or errors or mistakes in or omissions of listing obtainable from the directory assistance operator, including errors in the reporting thereof, shall attach to the Company. An allowance for errors or mistakes in or omissions of published directory listings or for errors or mistakes in or omissions of listing obtainable from the directory assistance operator shall be at the monthly tariff rate for each listing, or in the case of a free or no-charge directory listing, credit shall equal two times the monthly tariff rate for an additional listing, for the life of the directory or the charge period during which the error, mistake or omission occurs.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company. (Cont'd.)

2.1.4 Limitations on Liability. (Cont'd.)

I. With respect to Emergency Number 911 Service:

.1 This service is offered solely as an aid in handling assistance calls in connection with fire, police and other emergencies. The Company is not responsible for any losses, claims, demands, suits or any liability whatsoever, whether suffered, made instituted or asserted by the Customer or by any other party or person for any personal injury or death of any person or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused by: (1) mistakes, omissions, interruptions, delays, errors or other defects in the provision of service, or (2) installation, operation, failure to operate, maintenance, removal, presence, condition, local or use of any equipment and facilities furnishing this service.

.2 Neither is the Company responsible for any infringement, nor invasion of the right of privacy of any person or persons, caused or claimed to have been caused directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of emergency 911 service features and the equipment associated therewith, or by any services furnished by the Company, including, but not limited to the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing emergency 911 service, and which arise out of the negligence or other wrongful act of the Company, the Customer, its users, agencies or municipalities, or the employees or agents of any one of them.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability, (Cont'd.)

I. With respect to Emergency Number 911 Service, (Cont'd.)

.3 When a Customer with a nonpublished telephone number, as defined herein, places a call to the emergency 911 service, the Company will release the name and address of the calling party, where such information can be determined, to the appropriate local governmental authority responsible for emergency 911 service upon request of such governmental authority. By subscribing to service under this tariff, the Customer acknowledges and agrees with the release of information as described above.

2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.6 Provision of Equipment and Facilities

A. The Company shall use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.

B. The Company shall use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer may not, nor may the Customer permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.

C. The Company may substitute, change or rearrange any equipment or facility at any time and from time to time, but shall not thereby alter the technical parameters of the service provided the Customer.

D. Equipment the Company provides or installs at the Customer Premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which it was provided.

E. The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the Premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.6 Provision of Equipment and Facilities, (Cont'd.)

F. The Company shall not be responsible for the installation, operation, or maintenance of any Customer-provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for:

(1) the transmission of signals by Customer-provided equipment or for the quality of, or defects in, such transmission; or

(2) the reception of signals by Customer-provided equipment.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.7 Non-routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.1.8 Special Construction

Subject to the agreement of the Company and to all of the regulations contained in this tariff, special construction of facilities may be undertaken on a reasonable efforts basis at the request of the Customer. Special construction is that construction undertaken:

A. where facilities are not presently available, and there is no other requirement for the facilities so constructed;

A. of a type other than that which the Company would normally utilize in the furnishing of its services;

C. over a route other than that which the Company would normally utilize in the furnishing of its services;

D. in a quantity greater than that which the Company would normally construct;

E. on an expedited basis;

F. on a temporary basis until permanent facilities are available;

G. involving abnormal costs; or

H. in advance of its normal construction.

2.1.9 Ownership of Facilities

Title to all facilities provided in accordance with this tariff remains in the Company, its partners, agents, contractors or suppliers.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.2 Prohibited Uses

2.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.

2.2.2 The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and Commission regulations, policies, orders, and decisions.

2.2.3 The Company may block any signals being transmitted over its Network by Customers which cause interference to the Company or other users. Customer shall be relieved of all obligations to make payments for charges relating to any blocked Service and shall indemnify the Company for any claim, judgment or liability resulting from such blockage.

2.2.4 A customer, joint user, or authorized user may not assign, or transfer in any manner, the service or any rights associated with the service without the written consent of the Company. The Company will permit a Customer to transfer its existing service to another entity if the existing Customer has paid all charges owed to the Company for regulated communications services. Such a transfer will be treated as a disconnection of existing service and installation of new service, and non-recurring installation charges as stated in this tariff will apply.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.3 Obligations of the Customer

2.3.1 General

The Customer is responsible for making proper application for service; placing any necessary order, complying with tariff regulations; payment of charges for services provided. Specific Customer responsibilities include, but are not limited to the following:

A. the payment of all applicable charges pursuant to this tariff;

B. damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;

C. providing at no charge, as specified from time to time by the Company, any needed personnel, equipment space and power to operate Company facilities and equipment installed on the premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;

D. obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduits necessary for installation of fiber optic cable and associated equipment used to provide Communication Services to the Customer from the cable building entrance or property line to the location of the equipment space described in 2.3.1(C.) Any and all costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.3 Obligations of the Customer, (Cont'd.)

2.3.1 General, (Cont'd.)

E. providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. asbestos) prior to any construction or installation work;

F. complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company facilities and equipment in any Customer premises or the rights-of-way for which Customer is responsible under Section 2.3.1D.; and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;

G. not creating, or allowing to be placed, any liens or other encumbrances on the Company's equipment or facilities; and

H. making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.3 Obligations of the Customer, (Cont'd.)

2.3.2 Liability of the Customer

A. The Customer will be liable for damages to the facilities of the Company and for all incidental and consequential damages caused by the negligent or intentional acts or omissions of the Customer, its officers, employees, agents, invites, or contractors where such acts or omissions are not the direct result of the Company's negligence or intentional misconduct.

B. To the extent caused by any negligent or intentional act of the Customer as described in A., preceding, the Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees, for (1) any loss, destruction or damage to property of any third party, and (2) any liability incurred by the Company to any third party pursuant to this or any other tariff of the Company, or otherwise, for any interruption of, interference to, or other defect in any service provided by the Company to such third party.

C. The Customer shall not assert any claim against any other Customer or user of the Company's services for damages resulting in whole or in part from or arising in connection with the furnishing of service under this tariff including but not limited to mistakes, omissions, interruptions, delays, errors or other defects or misrepresentations, whether or not such other Customer or user contributed in any way to the occurrence of the damages, unless such damages were caused solely by the negligent or intentional act or omission of the other Customer or user and not by any act or omission of the Company. The Company's liability shall be determined in accordance with SDCL 49-13-1 and 49-13-1.1 and any other applicable law. Nothing in this tariff is intended either to limit or to expand Customer's right to assert any claims against third parties for damages of any nature other than those described in the preceding sentence.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.4 Customer Equipment and Channels

2.4.1 General

A User may transmit or receive information or signals via the facilities of the Company. The Company's services are designed primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in this tariff. A User may transmit any form of signal that is compatible with the Company's equipment, but the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication except as specifically stated in this tariff.

2.4.2 Station Equipment

A. Terminal equipment on the User's Premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the User. The User is responsible for the provision of wiring or cable to connect its terminal equipment to the Company Point of Connection.

B. The Customer is responsible for ensuring that Customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense, subject to prior Customer approval of the equipment expense.

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.4 Customer Equipment and Channels, (Cont'd.)

2.4.3 Interconnection of Facilities

A. Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Communication Services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

B. Communication Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers that are applicable to such connections.

C. Facilities furnished under this tariff may be connected to Customer-provided terminal equipment in accordance with the provisions of this tariff. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all User-provided wiring shall be installed and maintained in compliance with those regulations.

D. Users may interconnect communications facilities that are used in whole or in part for interstate communications to services provided under this tariff only to the extent that the user is an is "End User", as defined in Section 69.2(m), Title 47, Code of Federal Regulations (1992 edition).

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.4 Customer Equipment and Channels, (Cont'd.)

2.4.4 Inspections

A. Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in Section 2.4.2A. for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.

B. If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements

2.5.1 Payment for Service

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer and to all Authorized Users by the Customer, regardless of whether those services are used by the Customer itself or are resold to or shared with other persons.

The Customer is responsible for payment of any sales, use, gross receipts, excise, access or other local, state, federal and 911 taxes, charges or surcharges (however designated) (excluding taxes on Company's net income) imposed on or based upon the provision, sale or use of Network Services.

The security of the Customer's PIN is the responsibility of the Customer. All calls placed using a PIN shall be billed to and shall be the obligation of the Customer. The Customer shall not be responsible for charges in connection with the unauthorized use of PINs arising after the Customer notifies the Company of the loss, theft, or other breach of security of such PINs.

Customers will only be charged once, on either an interstate or intrastate basis, for any nonrecurring or usage based charges.

2.5.2 Billing and Collection of Charges

The Customer is responsible for payment of all charges incurred by the Customer or other Authorized Users for services and facilities furnished to the Customer by the Company.

A. Nonrecurring charges are due and payable within thirty (30) days after the invoice date, unless otherwise agreed to in advance.

B. All recurring charges, as well as Usage charges, if applicable, are billed monthly in arrears.

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.2 Billing and Collection of Charges, (Cont'd.)

C. When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have thirty (30) days.

D. Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in this tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

E. A late payment charge of 1.5% per month shall be due to the Company for any billed amount for which payment has not been received by the Company within fifteen (15) days of the mailing date of the Company's invoice for service or by the due date printed on the invoice, whichever is later, or if any portion of the payment is received by the Company in funds which are not immediately available upon presentment. If the last calendar day for remittance falls on a Sunday, legal holiday or other day when the offices of the Company are closed, the date for acceptance of payments prior to assessment of any late payment fees shall be extended through to the next business day.

F. A service charge equal to $25.00 will be assessed under South Dakota law for all checks returned by a bank or other financial institution for: insufficient or uncollected funds, closed account, apparent tampering, missing signature or endorsement, or any other insufficiency or discrepancy necessitating return of the instrument at the discretion of the drawee bank or other financial institution.

G. If service is disconnected by the Company in accordance with Section 2.5.6 following and later restored, restoration of service will be subject to all applicable installation charges.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.3 Disputed Bills

A. In the event that a billing dispute occurs concerning any charges billed to the Customer by the Company, the Company may require the Customer to pay the undisputed portion of the bill to avoid discontinuance of service for non-payment. The Customer must submit a documented claim for the disputed amount. The Customer will submit all documentation as may reasonably be required to support the claim. All claims must be submitted to the Company within 90 days of receipt of billing for those services. If the Customer does not submit a claim as stated above, the Customer waives all rights to filing a claim thereafter.

B. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the South Dakota Public Utilities Commission in accordance with the Commission's rules of procedure. The address of the Commission is as follows:

South Dakota Public Utilities Commission
500 East Capitol
Pierre, South Dakota 57501-5070
Toll-Free: (800) 332-1782
TTY Through Relay South Dakota: (800) 877-1113

C. If the dispute is resolved in favor of the Customer and the Customer has withheld the disputed amount, no interest, credits or penalties will apply.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.4 Advance Payments

The Company does not presently request advance payments from its Customers.

2.5.5 Deposits

The Company does not presently request deposits from its Customers.

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 **Payment Arrangements, (Cont'd.)**

2.5.6 **Discontinuance of Service**

A. Upon nonpayment of any amounts owing to the Company, the Company may, by giving five (5) days written notice to the Customer, discontinue or suspend service without incurring any liability.

B. Upon violation of any of the other material terms or conditions for furnishing service the Company may, by giving five (5) days written notice to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.

C. Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.6 Discontinuance of Service, (Cont'd.)

D. Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may immediately discontinue or suspend service without incurring any liability.

E. Upon any governmental prohibition or required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.

F. In the event of fraudulent use of the Company's network, the Company will discontinue service without notice and/or seek legal recourse to recover all costs involved in enforcement of this provision.

G. Upon the Company's discontinuance of service to the Customer under Section 2.5.6 A. or 2.5.6 B., the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff, may declare all future monthly and other charges that would have been payable by the Customer during the remainder of the term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent).

H. Without notice in the event of Customer use of equipment or services in such a manner as to adversely affect the Company's service to others.

I. Without notice in the event of tampering with the equipment or services furnished by the Company.

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.7 Cancellation of Application for Service

A. Applications for service cannot be canceled without the Company's agreement. Where the Company permits a Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.

B. Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs incurred by the Company, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service commenced (all discounted to present value at six percent).

C. Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred by the Company, less net salvage, applies. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.

D. The special charges described in 2.5.7 A. through 2.5.7 C. will be calculated and applied on a case-by-case basis.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.8 Changes in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.6 Allowances for Interruptions In Service

Interruptions in service that are not due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth in 2.6.1 for the part of the service that the interruption affects.

2.6.1 General

A. A credit allowance will be given when service is interrupted, except as specified below. A service is interrupted when it becomes inoperative to the Customer, e.g., the Customer is unable to transmit or receive, because of a failure of a component furnished by the Company under this tariff.

B. An interruption period begins when the Customer reports a service, facility or circuit to be inoperative and, if necessary, releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative.

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.6 Allowances for Interruptions in Service, (Cont'd.)

2.6.1 General, (Cont'd.)

C. If the Customer reports a service, facility or circuit to be interrupted but declines to release it for testing and repair, or refuses access to its premises for test and repair by the Company, the service, facility or circuit is considered to be impaired but not interrupted. No credit allowances will be made for a service, facility or circuit considered by the Company to be impaired.

D. The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.

2.6.2 Limitations of Allowances

No credit allowance will be made for any interruption in service:

A. Due to the negligence of or noncompliance with the provisions of this tariff by any person or entity other than the Company, including but not limited to the Customer;

B. Due to the failure of power, equipment, systems, connections or services not provided by the Company;

C. Due to circumstances or causes beyond the reasonable control of the Company;

D. During any period in which the Company is not given full and free access to its facilities and equipment for the purposes of investigating and correcting interruptions;

E. A service will not be deemed to be interrupted if a Customer continues to voluntarily make use of the such service. If the service is interrupted, the Customer can get a service credit, use another means of communications provided by the Company (pursuant to Section 2.6.3), or utilize another service provider;

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.6 Allowances for Interruptions in Service, (Cont'd.)

2.6.2 Limitations of Allowances, (Cont'd.)

F. During any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;

G. That occurs or continues due to the Customer's failure to authorize replacement of any element of special construction; and

H. That was not reported to the Company within thirty (30) days of the date that service was affected.

2.6.3 Use of Another Means of Communications

If the Customer elects to use another means of communications during the period of interruption, the Customer must pay the charges for the alternative service used.

2.6.4 Application of Credits for Interruptions in Service

A. Credits for interruptions in service that is provided and billed on a flat rate basis for a minimum period of at least one month, beginning on the date that billing becomes effective, shall in no event exceed an amount equivalent to the proportionate charge to the Customer for the period of service during which the event that gave rise to the claim for a credit occurred. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.

B. For calculating credit allowances, every month is considered to have thirty (30) days.

C. A credit allowance will be given for interruptions of thirty (30) minutes or more. Two or more interruptions of fifteen (15) minutes or more during any one 24-hour period shall be combined into one cumulative interruption.

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SECTION 2.0 - REGULATIONS, (CONT'D.)

2.6 Allowances for Interruptions in Service, (Cont'd.)

2.6.4 Application of Credits for Interruptions in Service, (Cont'd.)

D. Interruptions of 24 Hours or Less

Length of Interruption	Amount of Service To Be Credited
Less than 30 minutes	None
30 minutes up to but not including 3 hours	1/10 Day
3 hours up to but not including 6 hours	1/5 Day
6 hours up to but not including 9 hours	2/5 Day
9 hours up to but not including 12 hours	3/5 Day
12 hours up to but not including 15 hours	4/5 Day
15 hours up to but not including 24 hours	One Day

E. Interruptions Over 24 Hours and Less Than 72 Hours

Interruptions over 24 hours and less than 72 hours will be credited 1/5 day for each 3-hour period or fraction thereof. No more than one full day's credit will be allowed for any period of 24 hours.

F. Interruptions Over 72 Hours

Interruptions over 72 hours will be credited 2 days for each full 24-hour period. No more than thirty (30) days credit will be allowed for any one month period.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.6 Allowances for Interruptions in Service, (Cont'd.)

2.6.5 Cancellation For Service Interruption

Cancellation or termination for service interruption is permitted only if any circuit experiences a single continuous outage of 8 hours or more or cumulative service credits equaling 16 hours in a continuous 12-month period. The right to cancel service under this provision applies only to the single circuit that has been subject to the outage or cumulative service credits.

2.7 Use of Customer's Service by Others

2.7.1 Joint Use Arrangements

Joint use arrangements will be permitted for all services provided under this tariff. From each joint use arrangement, one member will be designated as the Customer responsible for the manner in which the joint use of the service will be allocated. The Company will accept orders to start, rearrange, relocate, or discontinue service only from the designated Customer. Without affecting the Customer's ultimate responsibility for payment of all charges for the service, each joint user shall be responsible for the payment of the charges billed to it.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.8 Cancellation of Service/Termination Liability

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a service interruption (as defined in Section 2.6.1 above), the Customer agrees to pay to the Company termination liability charges, as defined below. These charges shall become due as of the effective date of the cancellation or termination and be payable within the period, set forth in Section 2.5.2.

2.8.1 Termination Liability

The Customer's termination liability for cancellation of service shall be equal to:

A. all unpaid Non-Recurring charges reasonably expended by the Company to establish service to the Customer; plus

B. any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of the Customer; plus

C. all Recurring Charges specified in the applicable Service Order Tariff for the balance of the then current term discounted at the prime rate announced in the Wall Street Journal on the third business day following the date of cancellation;

D. minus a reasonable allowance for costs avoided by the Company as a direct result of the Customer's cancellation.

2.9 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties:

2.9.1 to any subsidiary, parent company or affiliate of the Company; or

2.9.2 pursuant to any sale or transfer of substantially all the assets of the Company with the state; or

2.9.3 pursuant to any financing, merger or reorganization of the Company.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.10 Customer Liability for Unauthorized Use of the Network

Unauthorized use of the network occurs when a person or entity that does not have actual, apparent, or implied authority to use the network, obtains the Company's services provided under this tariff.

2.10.1 Customer Liability for Fraud and Unauthorized Use of the Network

A. The Customer is liable for the unauthorized use of the network obtained through the fraudulent use of a Company calling card, if such a card is offered by the Company, or an accepted credit card, provided that the unauthorized use occurs before the Company has been notified.

B. A Company calling card is a telephone calling card issued by the Company at the Customer's request, which enables the Customer or user(s) authorized by the Customer to place calls over the Network and to have the charges for such calls billed to the Customer's account.

An accepted credit card is any credit card that a cardholder has requested or applied for and received, or has signed, used, or authorized another person to use to obtain credit. Any credit card issued as an renewal or substitute in accordance with this paragraph is an accepted credit card when received by the cardholder.

C. The Customer must give the Company written or oral notice that an unauthorized use of a Company calling card or an accepted credit card has occurred or may occur as a result of loss, and/or theft.

D. The Customer is responsible for payment of all charges for calling card services furnished to the Customer or to users authorized by the Customer to use service provided under this tariff, unless due to the negligence of the Company. This responsibility is not changed due to any use, misuse, or abuse of the Customer's service or Customer-provided equipment by third parties, the Customer's employees, or the public.

The liability of the Customer for unauthorized use of the Network by credit card fraud will not exceed the lesser of fifty dollars ($50.00) or the amount of money, property, labor, or services obtained by the unauthorized user before notification to the Company.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.11 Notices and Communications

2.11.1 The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that the Customer may also designate a separate address to which the Company's bills for service shall be mailed.

2.11.2 The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.

2.11.3 Except as otherwise stated in this tariff, all notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.

2.11.4 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

2.12 Taxes, Fees and Surcharges

The Company reserves the right to bill any and all applicable taxes, fees and surcharges in addition to normal rates and charges for services provided to the Customer. Taxes and fees include, but are not limited to: Federal Excise Tax, State Sales Tax, Municipal Tax, and Gross Receipts Tax. Unless otherwise specified in this tariff, such taxes, fees and surcharges are in addition to rates as quoted in this tariff and will be itemized separately on Customer invoices.

A. E911 Service Surcharge

All Customers will be assessed a per line surcharge to support local E911 Service Program. The E911 Surcharge will be based on a monthly snapshot of lines associated with each Customer's account. No fractional debits or credits will be given. This surcharge will appear as a separate line item on the Customer's bill. The amount of the surcharge will be equal to the per line assessment paid by the Company as determined by local jurisdictional assessments rounded up to the nearest whole cent, and may vary from time to time as required by South Dakota law, Commission rules or local jurisdiction requirements.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.12 Taxes, Fees and Surcharges, (Cont'd.)

H. South Dakota Telecommunications Relay Service Surcharge

All Customers will be assessed a per line surcharge to support the South Dakota Telecommunications Relay Service ("SDTRS") program. The SDTRS Surcharge will be based on a monthly snapshot of lines associated with each Customer's account. No fractional debits or credits will be given. This surcharge will appear as a separate line item on the Customer's bill. The amount of the surcharge will be equal to the per line assessment paid by the Company as determined by South Dakota law or Commission rules rounded up to the nearest whole cent, and may vary from time to time as required by South Dakota law or Commission rules.

2.13 Miscellaneous Provisions

2.13.1 Telephone Number Changes

Whenever any Customer's telephone number is changed after a directory is published, the Company shall intercept all calls to the former number for at least one hundred and twenty (120) days and give the calling party the new number provided existing central office equipment will permit, and the Customer so desires.

When service in an existing location is continued for a new Customer, the existing telephone number may be retained by the new Customer only if the former Customer consents in writing, and if all charges against the account are paid or assumed by the new Customer.

2.13.2 Maintenance and Operations Records

Records of various tests and inspections, to include non-routine corrective maintenance actions or monthly traffic analysis summaries for network administration, necessary for the purposes of the Company or to fulfill the requirements of Commission rules shall be kept on file in the office of the Company as required under Commission rules.

SECTION 3.0 - SERVICE AREAS

3.1 Exchange Service Areas

Local exchange services are provided, subject to availability of facilities and equipment, in areas currently served by the following Incumbent LECs: 1) Qwest.

3.2 Rate Groups

Charges for local services provided by the Company may be based, in part, on the Rate Group associated with the Customer's Central Office. The Rate Group is determined by the total access lines and PBX trunks in the local calling area which can be reached from each Central Office as listed in the following table:

Rate Group	Exchange Access Lines and PBX Trunks In Local Calling Area - Upper Limit
A/B	1 to 1,000
C/D	1,001 to 5,000
E	5,001 to 20,000
G	20,001 to 45,000
I	45,001 and over

3.3 Local Calling Areas

Local Calling Areas and exchanges are equivalent to those specified by Qwest in its Exchange and Network Services Tariff, Section 5.

SECTION 4.0 - BASIC SERVICES AND RATES

4.1 Call Timing for Usage Sensitive Services

Where charges for a service are specified based on the duration of use, such as the duration of a telephone call, the following rules apply:

4.1.1 Calls are measured in durational increments identified for each service. All calls which are fractions of a measurement increment are rounded-up to the next whole unit.

4.1.2 Timing on completed calls begins when the call is answered by the called party. Answering is determined by hardware answer supervision in all cases where this signaling is provided by the terminating local carrier and any intermediate carrier(s).

4.1.3 Timing terminates on all calls when the calling party hangs up or the Company's network receives an off-hook signal from the terminating carrier.

4.2 Z-Tel Referral Program

Any existing Z-Tel Customer who refers a potential customer to the Z-Tel services listed below will receive a one-time credit should the referred customer subscribe to and remain a Z-Tel customer for at least 30 days. The referred customer must provide the name of the existing Z-Tel Customer who made the referral upon ordering the new Z-Tel service. The credit is applied only once to a Customer's bill and does not apply separately for interstate or intrastate service.

If the referred customer subscribes to:	The referring customer credit is:
South Dakota Home Edition Service	$20.00

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)

4.3 Network Exchange Bundled Service

4.3.1 General

Z-Tel offers basic local exchange service only as part of a bundle or package of telecommunications services. All packages include local service, long distance service (interstate and intrastate toll), selected custom calling features, voice mail and optional Internet access[1]. Toll calls are billed in six (6) second increments. The aforementioned services are only available as part of the bundled service offering and are not available on an individual service basis.

Customers will be billed directly by the Company. Customers may choose to handle payment through a commercial credit card arrangement. Customers opting for credit card payment arrangement will receive a $1.00 discount of total monthly Company charges, excluding taxes and fees. Customers will be able to access call detail and billing records on-line via the myzline.com web site.

Network Exchange Bundled Service includes the calling features listed below:

Call Forwarding - Call Forwarding, when activated, redirects attempted terminating calls to another Customer-specific line. The Customer may have to activate and deactivate the forwarding function and specify the desired terminating telephone number during each activation procedure. Call originating ability is not affected by Call Forwarding. The calling party is billed for the call to the called number. If the forwarded leg of the call is chargeable, the Customer with the Call Forwarding is billed for the forwarded leg of the call. Calls cannot be transferred to an International Direct Distance Dialing number.

Caller ID with Name - Allows a Customer to see a caller's name and number previewed on a display screen before the call is answered allowing a Customer to prioritize and or screen incoming calls. Caller ID records the name, number, date and time of each incoming call - including calls that aren't answered by the Customer. Caller ID service requires the use of specialized CPE not provided by the company. It is the responsibility of the Customer to provide the necessary CPE. In areas where Caller ID with Name is not available, Caller ID, which only displays the incoming telephone number, will be substituted.

[1] Voice mail and Internet access are not regulated by the Commission.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)

4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.1 General, (Cont'd.)

Call Waiting with Caller ID with Name - Call Waiting with Caller ID with Name provides a tone signal to indicate to a Customer already engaged in a telephone call that a second caller is attempting to dial in and allows a Customer to see a caller's name and number previewed on a display screen allowing a Customer to prioritize and or screen incoming calls. This feature permits the Customer to place the first call on hold, answer the second call and then alternate between both callers. Cancel Call Waiting (CCW) allows a Call Waiting (CW) Customer to disable CW for the duration of an outgoing telephone call. CCW is activated (i.e., CW is disabled) by dialing a special code prior to placing a call, and is automatically deactivated when the Customer disconnects from the call. In areas where Caller ID with Name is not available, Caller ID, which only displays the callers telephone number, will be substituted.

Speed Calling - This feature allows a user to dial selected numbers by means of an abbreviated code. This feature is available in either an 8 number or a 30 number capacity. The Speed Calling list can only accommodate a number consisting of 15 digits or less.

Three Way Calling - Permits the Customer to add a third party to an established connection. When the third party answers, a two-way conversation can be held before adding the original party for a three-way conference. The Customer initiating the conference controls the call and may disconnect the third party to reestablish the original connection or establish a connection to a different third party. The feature may be used on both outgoing and incoming.

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)

4.3 Network Exchange Bundled Service, (Cont'd.)

4.3.2 South Dakota Home Edition Service

Package Price for South Dakota Home Edition Service

Primary Line, per month	$59.99
Secondary Line, per month	$25.00
Service Connection Fee, one time charge per line #	
Primary Line	$69.99
Secondary Line	$39.99

South Dakota Home Edition Service includes the following:

1. A monthly allowance of 200 free minutes of interstate and intrastate toll calling.

   Toll calls placed via toll free access within the 200 minute allowance will be billed as noted below.

   Toll calls within 200 minute allowance

	Per minute rate
Direct Dial Access	$0.00
Travel Access	$0.03

   Toll calls above 200 minute allowance

	Per minute rate
Direct Dial Access	$0.14
Travel Access	$0.17

2. A monthly allowance of 50 free hours of local calling.

   Local calls above 50 hours

Per minute rate
$0.015

3. Custom Calling Features: Call Forwarding, Caller ID with Name, Call Waiting with Caller ID with Name, Three -Way Calling and Speed Calling.

Service Connection fee waived for those customers who retain their existing telephone number when switching their service to Z-Tel.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES

5.1 Service Order and Change Charges

Non-recurring charges apply to processing Service Orders for new service and for changes in service.

	Residence	Business
Installation of Individual Access Line*	$25.00	$47.00
Change in type, grade or class of service	$ 9.55	$10.00
Change of telephone number, per number	$ 9.55	$10.00
Billing name change	$ 9.55	$10.00
Trouble Isolation Charge	$85.00	$85.00

* This charge not applicable to connection of Network Bundled Service. See Section 4.2.2 for Network Bundled Service nonrecurring charges.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES,(CONT'D.)

5.2 Premise Work Charges

Premises Work Charges are in addition to other applicable rates and charges, and apply to all Customer-requested installations, moves, changes, removals, rearrangements and replacements of premises wire, per premises visit; maintenance; repair visits for replacement or repair of Customer inside wire; replacement of wire not installed in accordance with technical standards; prewiring.

5.2.1 **Time and Material Charges:** Charges applicable for repair work, prewiring and installations of complex wiring. Chargeable time is labor which includes, but is not limited to, work preparation, actual work and cleanup. Material charges are the items required to fulfill the job requirements.

5.2.2 **Premise Visit Charge:** A charge per premises visit or series of visits by a Company technician to the Customer's premises for the purpose of performing billable premises work requested by the Customer or Customer representative. A Premises Visit Charge is in addition to all applicable Premises Work Charges or Flat Charge, except as specified elsewhere..

5.2.3 **Trouble Isolation Charge:** A nonrecurring charge which applies to residence and business customers for each repair visit made to a premises to test the central office line, up to the demarcation point, when the line tests clear and the trouble is not found in the Company facilities

5.2.4 **Flat Installation Charge:** Applies for the installation of noncomplex wire and jacks. Included within this charge is the Premises Visit Charge (travel time) and simple materials.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.2 Premise Work Charges, (Cont'd.)

Time and Materials Charge	Residence	Business
Work performed during regularly scheduled business hours		
First 30 minutes, or fraction thereof	$60.00	$60.00
Each add'l. 15 minutes, or fraction thereof	$25.00	$25.00
Work performed at hours other than regularly scheduled business hours, excluding Sunday and holidays		
First 30 minutes, or fraction thereof	$63.00	$63.00 [1]
Each add'l. 15 minutes, or fraction thereof	$25.00	$25.00
Work performed on Sundays and holidays [3]		
First 30 minutes, or fraction thereof	$74.00	$74.00 [1]
Each add'l. 15 minutes, or fraction thereof	$30.00	$30.00
Premises Visit Charge [2]		
Per visit	$25.00	$25.00
Flat Installation Charge		
Per order, per premises		
First Jack	$85.00	$95.00
Each add'l. Jack	$50.00	$55.00
Trouble Isolation Charge		
Per visit	$80.00	$80.00

[1] Subject to a minimum charge of two (2) hours.
[2] A Premises Visit Charge applies to all Time and Material Charge Schedules excepted as specified elsewhere.
[3] Holidays subject to this charge are New Years's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.3 Restoration of Service

A restoration charge applies to the restoration of suspended service and facilities because of nonpayment of bills and is payable at the time that the restoration of the suspended service and facilities is arranged. The restoration charge does not apply when, after disconnection of service, service is later re-installed.

	Residence	Business
Per occasion, per line	$25.00	$50.00

5.4 Temporary Suspension/Restoration of Service

Upon the request of the customer, service may be temporarily suspended. Suspension of service may begin or terminate on any day of the month provided notice is given sufficiently in advance for arrangements to be made. Service will be disconnected to the extent necessary to assure than no inward or outward service will be available during the period of suspension.

	Residence	Business
Nonrecurring charge, per line suspended	$10.00	$27.50
Recurring charge, per line suspended	50% of regular service rates	
Nonrecurring charge, per line restored	$25.00	$50.00

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.5 Public Telephone Surcharge

In order to recover the Company's expenses to comply with the FCC's pay telephone compensation plan effective on October 7, 1997 (FCC 97-371), an undiscountable per call charge is applicable to all intrastate calls that originate from any pay telephone, not presubscribed to the Company, used to access Company provided services. This surcharge, which is in addition to standard tariffed usage charges and any applicable service charges and surcharges associated with service, applies for the use of the instrument used to access Company provided service and is unrelated to the service accessed from the pay telephone.

Pay telephones include coin-operated and coinless phones owned by local telephone companies, independent companies and interexchange carriers. The Public Pay Telephone Surcharge applies to the initial completed call and any reoriginated call (e.g., using the "#" symbol). The Public Pay Telephone Surcharge does not apply to calls placed from pay telephones at which the Customer pays for service by inserting coins during the progress of the call.

Whenever possible, the Public Pay Telephone Surcharge will appear on the same invoice containing the usage charges for the surcharged call. In cases where proper pay telephone coding digits are not transmitted to the Company prior to completion of a call, the Public Pay Telephone Surcharge may be billed on a subsequent invoice after the Company has obtained information from a carrier that the originating station is an eligible pay telephone.

Rate Per Call $0.30

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.6 Optional Calling Features

The features in this section are made available to Residential and Business Customers on a per use basis. All features are provided subject to availability. Customers may utilize each feature by dialing the appropriate access code. The Customer will be billed the per feature activation charge shown in the table below each time a feature is used by the Customer. Transmission levels for calls forwarded or calls placed or received using optional calling features may not be acceptable for all some uses in some cases.

5.6.1 Feature Descriptions

Return Call: Allows a Customer to return the most recent incoming call and, after dialing a code, hear an announcement of the last telephone number that called. If the Customer wishes to return the call right away, voice prompts will instruct the Customer to dial a certain digit and the call will automatically be returned.

Continuous Redial Permits the Customer to redial automatically the last number dialed.

Call Trace: Allows a Customer to initiate an automatic trace of the last call received. After receiving the call which is to be traced, the Customer dials a code and the traced telephone number is automatically sent to the Company. The Customer using Call Trace is required to contact the Company for further action. The Customer originating the trace will not receive the traced telephone number. The results of a trace will be furnished only to legally constituted authorities upon proper request by them.

Caller Identification Blocking: Allows the name and number of the calling party to be blocked from being transmitted when placing outbound calls.

Per Call Blocking: To activate per-call blocking, a Customer dials a special code prior to placing a call. Blocking will be activated for that outgoing call only. There is no charge for using per call blocking, and it is provided on an unlimited basis.

Per Line Blocking: When blocking is established on the line, it can be deactivated by dialing a code before each call. This one call unblock allows the name and/or number to be sent for that one call only. Customers who choose per line blocking for the first time will not be charged the nonrecurring charge. After the first time, customers requesting per line blocking will pay a nonrecurring charge for each line equipped with per line blocking. Per line blocking will be provided free to law enforcement and domestic violence agencies and individual victims of domestic violence upon request.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.6 Optional Calling Features, (Cont'd.)

5.6.2 Rates

FEATURE	Per Use	Monthly Cap
Continuous Redial	$0.75	$6.00
Call Return	$0.75	$6.00
Call Trace	$1.55	-
Caller Identification Blocking, per call	No charge	No charge
Caller Identification Blocking, per line	**Residential Nonrecurring**	**Business Nonrecurring**
First Time request	$0.00	$0.00
Subsequent request	$6.00	$16.00

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.7 Directory Assistance Services

A Customer may obtain assistance, for a charge, in determining a telephone number by dialing Directory Assistance Service. A Customer can also receive assistance by writing the Company with a list of names and addresses for which telephone numbers are desired.

5.7.1 Basic Directory Assistance

The rates specified following apply when Customers request company assistance in determining telephone numbers of Customers who are located in the same local service area or who are not located in the same local service area but who are located within the same NPA.

A maximum of two(2) requested telephone numbers are allowed per call.

Charges will not apply for calls placed from hospital services or calls placed from telephones where the Customer or, in the case of residence service, a member of the Customer's household, has been affirmed in writing as unable to use a Company provided directory because of a visual, physical or reading handicap.

5.7.2 Rates

A. Basic Directory Assistance

	Per query
Directory Assistance	
Direct Dialed	$0.85
Operator Dialed Local	$2.55
Operator Dialed IntraLATA	$4.25

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.8 Operator Services

The Company's operator services, available to presubscribed Customers, are accessible on a twenty-four (24) hour per day seven (7) days per week basis. In addition to the per call service charge, usage rates apply. The types of calls handled are as follows:

Customer Dialed Calling/Credit Card Call - This charge applies in addition to usage charges for station to station calls billed to an authorized Calling Card or Commercial Credit Card. The Customer must dial the destination telephone number where the capability exists for the Customer to do so. A separate rate applies in the event operator assistance is requested for entering the Customer's card number for billing purposes.

Operator Dialed Calling/Credit Card Call - This charge applies in addition to usage charges for station to station calls billed to an authorized telephone Calling Card or Commercial Credit Card and the operator dials the destination telephone number at the request of the Customer.

Operator Station - These charges apply in addition to usage charges for non-Person-to-Person calls placed using the assistance of a Company operator and billed Collect, to a Third Party, by deposit of coins in Pay Telephones, or via some method other than a Calling Card or Commercial Credit Card.

Person-to-Person - This charge applies in addition to usage charges for calls placed with the assistance of a Company operator to a particular party at the destination number. This charge applies regardless of billing method, including but not limited to billing to a Calling Card, Commercial Credit Card, Collect, by deposit of coins in Pay Telephones, or to a Third Party. Charges do not apply unless the specified party or an acceptable substitute is available.

5.8.1 Local and IntraLATA Usage Rates

Usage charges will be billed at the rate in effect for the presubscribed service purchased by the Customer (Section 4.3).

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.8 Operator Services, (Cont'd.)

5.8.1 Local and IntraLATA Per Call Service Charges:

Customer Dialed Calling Card (Mechanized)	$0.55
Operator Assisted Station-to-Station	
Partially Assisted	$2.10
Fully Assisted	$3.10
Operator Assisted Person-to-Person	
Partially Assisted	$4.50
Fully Assisted	$5.50

5.8.2 InterLATA Per Call Service Charges:

Customer Dialed Calling Card (Mechanized)	$1.05
Operator Assisted Station-to-Station	
Partially Assisted	$2.25
Fully Assisted	$3.40
Operator Assisted Person-to-Person	
Partially Assisted	$4.90
Fully Assisted	$6.05

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.9 Busy Line Verification and Line Interrupt Service

Upon request of a calling party the Company will verify a busy condition on a designated local service line. The operator will determine if the line is clear or in use and report to the calling party. At the request of the Customer, the operator will interrupt the call on the busy line. Busy Line Interruption is only permitted in cases where the calling party indicates an emergency exists and requests interruption.

No charge will apply when the calling party advises that the call is to or from an official public emergency agency. Busy Verification and Interrupt Service is furnished where and to the extent that facilities permit.

The Customer shall identify and save the Company harmless against all claims that may arise from either party to the interrupted call or any person.

	Per call
Busy Line Verification, per request	$1.25
Verification with Line Interruption	$2.00

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.10 Directory Listing Service

5.10.1 General

The following rates and regulations apply to standard listings in light face type in the white pages (alphabetical section) of the telephone directory and to the Directory Assistance records of the Company.

Directory listings are limited to such information as is essential to the identification of the listed party. The listing of a service, commodity, or trade name is not permitted unless it is the name, or an integral part of the name, under which the Customer does business.

A listing is limited to one line in the directory, except where in the judgement of the Company, more than one line is required to identify the Customer properly. In such cases, the additional lines required are provided at no extra charge.

Listing services are available with all classes of main telephone exchange service.

5.10.2 Listings

A. Primary Listing

One listing, termed the primary listing, is included with each exchange access line or each joint user service.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.10 Directory Listing Service, (Cont'd.)

5.10.2 Listings, (Cont'd.)

B. Additional Listings

Additional listings may be the listings of individual names of those entitle to use the customer's service or , for business, Departments, Divisions, Tradenames, etc.

In connection with business and residence service, regular additional listings are available only in the names of Authorized Users of the Customer's service.

Ordinarily, all additional listings are of the same address and telephone number as the primary listings, except as provided for joint user and alternate number listings. However, when it appears necessary as an aid to the use of the directory and provided satisfactory service can be furnished, a listing will be permitted under the address of a branch exchange, Centrex or extension of an exchange service line installed on the premises of the Customer, but at an address different from that of the attendant position of main service.

Business additional listings are not permitted in connection with residence service. Residence additional listings are also permitted in connection with business service which is located in a residence and for permanent or season guests residing in a hotel or club.

A residence dual name additional listing is comprised of a surname, two first names, address and telephone number. A residence dual name additional listing may be provided for two persons who share the same surname and reside at the same address, or for a person known by two first names.

Special types of additional listings, such as Alternate, Alpha and Informational, Duplicate and Reference Listings, Foreign Listings, etc. take the same business or residence classification as the service with which such listings are furnished.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.10 Directory Listing Service, (Cont'd.)

5.10.2 Listings, (Cont'd.)

C. Nonpublished Service

The telephone numbers of nonpublished service are not listed in either the Company's alphabetical directory or Directory Assistance records available to the general public.

Non published information may be released to emergency service providers, to customers who subscribe to Company offerings which require the information to provide service and/ or bill their clients, or, to telephone customers who are billed for calls placed to or from nonpublished numbers and to entities which collect for the billed services. Nonpublished names and/or telephone numbers may also be delivered to customers on a call-by-call basis.

Incoming calls to nonpublished service will be completed by the Company only when the calling party places the call by number. The Company will adhere to this practice not withstanding any claim the calling party may present, except claims of emergencies involving life and death. In such cases, the Company will call the non-published number and request permission to make an immediate connection to the calling party.

When the Company agrees to keep a number unlisted, it does so without any obligation. Except for cases of gross negligence or willful misconduct, the Company is not liable for any damages that might arise from publishing a non-published number in the directory or disclosing it to some. If, in error, the telephone number is published in the directory, the Company's only obligation is to credit or refund any monthly charges the Customer paid for non-published service.

The Subscriber indemnifies (i.e.,promises to reimburse the Company for any amount the Company must pay as a result of) and save the Company harmless against any and all claims for damages caused or claimed to have been caused, directly or indirectly, by the publication of a non-published service or the disclosing of said number to any person.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.10 Directory Listing Service, (Cont'd.)

5.10.2 Listings, (Cont'd.)

D. Nonlisted Service

Non-listed service means that the Customer's telephone number is not listed in the directory, but does it appear in the Company's Directory Assistance Records.

This service is subject to the rules and regulations for E911 service, where applicable.

The Company will only complete calls to a nonlisted number, if requested by a caller, during the course of a directory assistance call completion service.

When the Company agrees to keep a number unlisted, it does so without any obligation. Except for cases of gross negligence or willful misconduct, the Company is not liable for any damages that might arise from publishing a non-listed number in the directory or disclosing it to some. If, in error, the telephone number is listed in the directory, the Company's only obligation is to credit or refund any monthly charges the Customer paid for nonlisted service.

The subscriber indemnifies (i.e., promises to reimburse the Company for any amount the Company must pay as a result of) and save the Company harmless against any and all claims for damages caused or claimed to have been caused, directly or indirectly, by the publication of a non-listed service or the disclosing of said number to any person.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.10 Directory Listing Service, (Cont'd.)

5.10.3 Rates and Charges

	Nonrecurring Charge	Per Month
Primary Listings	$0.00	$0.00
Change in Primary Listing		
Business, each	$10.00	-----
Residence, each	$ 5.00	-----
Additional Listings		
Business, each	$10.00	$6.00
Residence, each	$ 5.00	$1.50
Nonlisted Service		
Business, each	$10.00	$2.00
Residence, each	$8.00	$2.00
Nonpublished Service		
Business, each	$15.00	$3.00
Residence, each	$ 8.00	$3.00

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.11 Carrier Presubscription

5.11.1 General

Carrier Presubscription is a procedure whereby a Customer designates to the Company the carrier which the Customer wishes to be the carrier of choice for intraLATA and interLATA toll calls. Such calls are automatically directed to the designated carrier, without the need to use carrier access codes or additional dialing to direct the call to the designated carrier. Presubscription does not prevent a Customer who has presubscribed to an IntraLATA or interLATA toll carrier from using carrier access codes or additional dialing to direct calls to an alternative long distance carrier on a per call basis.

5.11.2 Presubscription Options

Presubscription Options - Customers may select the same carrier or separate carriers for intraLATA and interLATA long distance. The following options for long distance Presubscription are available:

Option A: Customer selects the Company as the presubscribed carrier for IntraLATA and InterLATA toll calls subject to presubscription.

Option B: Customer may select the Company as the presubscribed carrier for IntraLATA calls subject to presubscription and some other carrier as the presubscribed carrier for interLATA toll calls subject to presubscription.

Option C: Customer may select a carrier other than the Company for intraLATA toll calls subject to presubscription and the Company for interLATA toll calls subject to presubscription.

Option D: Customer may select the carrier other than the Company for both intraLATA and interLATA toll calls subject to presubscription

Option E: Customer may select two different carriers, neither being the Company for intraLATA and interLATA toll calls. One carrier to be the Customer's primary intraLATA interexchange carrier. The other carrier to be the Customer's primary interLATA interexchange carrier.

Option F: Customer may select a carrier other than the Company for no presubscribed carrier for intraLATA toll calls subject to presubscription which will require the Customer to dial a carrier access code to route all intraLATA toll calls to the carrier of choice for each call.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.11 Carrier Presubscription, (Cont'd.)

5.11.3 Rules and Regulations

Customers of record will retain their primary interexchange carrier(s) until they request that their dialing arrangements be changed.

Customers of record or new Customers may select either Options A, B, C, D, E or F for intraLATA Presubscription.

Customers may change their selected Option and/or presubscribed toll carrier at any time subject to charges specified in 5.11.5 below:

5.11.4 Presubscription Procedures

A new Customer will be asked to select intraLATA and interLATA toll carriers at the time the Customer places an order to establish local exchange service with the Company. The Company will process the Customer's order for service. All new Customers' initial requests for intraLATA toll service presubscription shall be provided free of charge.

If a new Customer is unable to make selection at the time the new Customer places an order to establish local exchange service, the Company will read a random listing of all available intraLATA and interLATA carriers to aid the Customer in selection. If selection is still not possible, the Company will inform the Customer that he/she will be given 90 calendar days in which to inform the Company of his/her choice for primary toll carrier(s) free of charge. Until the Customer informs the Company of his/her choice of primary toll carrier, the Customer will not have access to long distance services on a presubscribed basis, but rather will be required to dial a carrier access code to route all toll calls to the carrier(s) of choice. Customers who inform the Company of a choice for toll carrier presubscription within the 90 day period will not be assessed a service charge for the initial Customer request.

Customers of record may initiate a intraLATA or interLATA presubscription change at any time, subject to the charges specified in 5.11.5 below. If a Customer of record inquires of the Company of the carriers available for toll presubscription, the Company will read a random listing of all available intraLATA carriers to aid the Customer in selection.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.11 Carrier Presubscription, (Cont'd.)

5.11.5 Presubscription Charges

A. Application of Charges

After a Customer's initial selection for a presubscribed toll carrier and as detailed in above, for any change thereafter, an Presubscription Change Charge, as set for the below will apply. Customers who request a change in intraLATA and interLATA carriers with the same order will be assessed a single charge per line.

B. Nonrecurring Charges

Per business or residence line, trunk, or port:	$5.00

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.12 Intercept Referral Service

5.12.1 General

Intercept Referral Service is a service used when a Customer disconnects service or changes telephone numbers. Calls to the intercepted telephone number are referred to an operator or a recorded message. Intercept services are offered for periods up to three (3) months for residential Customers and up to twelve (12) months for business Customers. Service is available subject to the availability of facilities and the disconnected number. The following Intercept services are available.

Basic Intercept Referral Service - Basic Intercept Service includes all intercept recordings that do not provide the new telephone number information.

New Number Referral Service - New Number Referral Service includes all intercept recordings that provide the new telephone number information.

Split Referral Intercept Service - Split Referral Intercept Service provides for calls to the disconnected number to be routed to the operator who will challenge the incoming call and provide the new number information dependent on the caller's response. The minimum billing period for this service is three months.

5.12.2 Rates

Basic Intercept Service is provided at no charge.

New Number Referral Service is available, at no charge, for the primary listed number and up to one additional line number per residential or business customer. A charge will apply for the second additional line and all subsequent additional line and all subsequent additional lines. A charge will also apply, for all intercepted numbers, if the customer extends the intercept service over the 3 and 12 month period.

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.12 Intercept Referral Service, (Cont'd.)

5.12.2 Rates, (cont'd.)

New Number Referral Service	Monthly Charge
Primary Lines:	
Residence, per primary line, and one additional line - 3 months	n/a
Business, per primary line, and one additional line - 12 months	n/a
Second and subsequent additional lines:	
Residence, per line	$15.00
Business, per line	$20.00
Extended Duration	
Residence, per line after 3 months, per month	$ 5.00
Business, per line after 12 months, per month	$15.00

Split Referral Intercept Service	Monthly Charge
Residence, per line, per month	$15.00
Business, per line, per month	$50.00

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SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.13 Toll Restriction Service

Provides for Exchange Access lines or trunks to be restricted from dialing billable toll calls. Local directory assistance calls are allowed. This service is offered subject to the availability of facilities to individual line residence, individual line business and dial switching type customers. Provision of toll restriction does not alleviate customer responsibility for completed toll calls.

Toll Restriction may include Billed Number Screening (BNS) for residential customers. BNS prohibits collect and/or third number billed calls from being charged to BNS equipped numbers. Some calls, originating from locations that do not have screening capabilities, may not be capable of being intercepted and denied. These calls will be billed to the customer if completed.

5.13.1 Rates

	Residence	Business
Nonrecurring charge, per line	$25.00	$25.00
Monthly, per line	$3.00	$3.00

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.14 900 Service Access Restriction

900 Service Access Restriction enables residence or business exchange access line customers to prohibit dialing of calls with the 900 prefix. Customers who choose this service will also be restricted from calling calls with the prefix of 976 and 676. This service is offered only where facilities permit and is only available on direct dialed calls.

5.14.1 Rates

	Residence	Business
Nonrecurring charge, per line	$12.50	$12.50
Monthly rate, per line	$0.00	$0.00

SECTION 5.0 - MISCELLANEOUS SERVICES AND RATES, (CONT'D.)

5.15 Blocking for 10XXX1+/10XXX011+

This service prevents 10XXX1+ and 10XXX011+ calls from being completed and is offered subject to the availability of facilities. Provision of this service does not alleviate customer responsibility for completed toll calls.

5.15.1 Rates

	Nonrecurring Charge	Monthly Rate
Per line or trunk arranged	$12.50	$0.10

SECTION 6.0 - LONG DISTANCE SERVICES

6.1 General

Rates and regulations for the Company's Long Distance Services may be found in the Company's South Dakota Tariff No. 1.

SECTION 7.0 - ACCESS SERVICES

7.1 General

Rates and regulations for the Company's Access Services may be found in the Company's South Dakota Tariff No. 3.

SECTION 8.0 - SPECIAL ARRANGEMENTS

8.1 Individual Case Basis (ICB) Arrangements

Arrangements will be developed on a case-by-case basis in response to a bona fide special request from a Customer or prospective Customer to develop a competitive bid for a service not generally offered under this tariff. Rates quoted in response to such competitive requests may be different than those specified for such services in this tariff. ICB rates will be offered to the Customer in writing and on a nondiscriminatory basis.

ICB will be filed with the Communications Division of the Commission.

SECTION 9.0 - PROMOTIONAL OFFERINGS

9.1 Special Promotions

From time to time, the Company shall, at its option, promote subscription or stimulate network usage by offering to waive some or all of the nonrecurring, recurring and usage charges for the Customer (if eligible) of target services for a limited duration. Such promotions shall be made available to all similarly situated Customers in the target market area and will comply with all applicable Commission regulations. The Company will file notice of with the Commission prior to offering any promotions.

ATTACHMENT VIII

Customer Complaint Information

Z-Tel attaches a comprehensive list of customer complaints and provides the following history and explanation.

As the first exclusively residential UNE-P provider, Z-Tel experienced a number of problems in provisioning and processing customer orders. These problems included mistakes and/or delays in order processing because of issues surrounding the interface with the incumbent LEC systems. Mistakes and delays in provisioning customer orders led to customer complaints.

Further, when Z-Tel first rolled out its product, it relied exclusively on telemarketing to offer its services to the general public. Before its acquisition of Touch 1 Communications, Z-Tel was forced to rely solely on outside telemarketing companies. One of the benefits of Z-Tel's acquisition of Touch 1 in April of this year is that Z-Tel now can utilize the services of Directel, a wholly owned subsidiary of Touch 1 and thus completely owned by Z-Tel. As a result of this acquisition, Z-Tel terminated all relationships with outside telemarketing firms and now relies exclusively on its wholly owned subsidiary for all telemarketing activities.

In addition, whereas in the beginning Z-tel's sales from telemarketing were over 90% of total sales, telemarketing sales now constitute approximately 20-25% of total sales. Z-Tel is successfully using direct mail campaigns to reach customers. Additionally, as Z-Tel grows, word of mouth regarding Z-Tel's consumer friendly products at extremely competitive prices provides a great source of new business. The number of unsolicited sales that simply call the company and request service is increasing at a very rapid pace. The company expects the percentage of sales attributed to telemarketing to drop even further in the future.

Z-Tel has proactively initiated a group that independently verifies 100% of all third party verification recordings. Thus, for a telemarketing sale to go through, the sale channel must first determine that it is a valid sale, the independent third party verifier must confirm that it is a valid sale, and finally the independent auditing group within Z-Tel must determine the sale to be valid. The management of the third party verification relationship is now performed by an experienced manager who has no ties with Z-tel's sales organization. In this way, Z-Tel has worked diligently to significantly reduce the number of complaints and guarantee the validity of a change in service provider in a method unprecedented in the industry.

Z-Tel is installing state-of-the-art OSS (Operation Support Systems) through an EDI (Electronic Data Interface) infrastructure. In addition, Z-tel has learned from past experiences and is now negotiating appropriate terms to handle past problems in its interconnection agreements with the incumbent local exchange companies.

ATTACHMENT IX

Press Release

Z-Tel Technologies Inc. (ticker: ZTEL, exchange: NASDAQ) News Release - 18-Oct-2000

Z-Tel Subscriber Base Grows to 256,000 At End of the Third Quarter, Up 51% Sequentially From Second Quarter

TAMPA, Fla.--(BUSINESS WIRE)--Oct. 18, 2000--

Company Hits Upwardly Revised Estimate Despite Widespread

Verizon Strike During Quarter

Gregg Smith, Chief Executive Officer of Z-Tel Technologies, Inc. (Nasdaq/NMS:ZTEL), today announced that the Company's base of Z-Line Home Edition subscribers has increased 51% during the last three months to end the third quarter of 2000 at 256,000, compared with 170,000 at the end of the second quarter. As a result of Z-Tel's continued substantial growth in subscribers, the Company expects to post strong financial results for the third quarter of 2000.

Mr. Smith remarked, "Z-Tel has continued its extraordinary growth for the latest quarter, adding more than 80,000 new subscribers for the second consecutive quarter. We accomplished this performance in spite of the unanticipated provisioning delays resulting from the strike against Verizon Communications in New York, our single largest market. We believe our results for the quarter continue to demonstrate the strong demand for our Z-Line, which is an innovative, internet-enhanced alternative to traditional phone service.

"Significantly, the great majority of our new subscribers came from the four states in which we were already operating at the beginning of the quarter - New York, Texas, Massachusetts and Pennsylvania - and which also represent an aggregate market of approximately 22 million potential subscribers. We have doubled the size of our potential market since the start of the third quarter to approximately 44 million potential subscribers by entering Georgia, Maryland, Oregon, California and Illinois. We continue to expect to open additional territory during the fourth quarter."

John Goeres, Senior Vice President for Business Operations, added "Our consistent ability to meet or exceed our business objectives throughout this fiscal year has been dependent on the continuing growth of our back-office operations, which have tripled in capacity in the past year. In passing the quarter-million subscriber milestone, we have once again made a strong statement about the appeal of Z-Line and Z-Tel's ability to provision and service its subscribers. Despite a difficult industry environment, Z-Tel has accomplished its operational and financial goals, solidified its entry into new markets and validated its systems design and operation."

About Z-Tel Technologies, Inc.(TM)

Z-Tel Technologies, Inc. provides consumers bundled local and long distance telephone services, combined with enhanced, Internet-based communications features that enable them to manage all of their voice communications needs. Z-Tel currently sells this bundle as "Z-Line Home Edition(TM)" in nine states, including New York, Texas, Massachusetts, Pennsylvania, Georgia, Oregon, Maryland, California and Illinois, and had 256,000 active customers at the end of the third quarter. For more information about this innovative new service or about Z-Tel, please visit the Company's web site at www.z-tel.com.

Z-Tel Technologies, Inc., Z-Line and Z-Line Home Edition are trademarks of Z-Tel Technologies, Inc.

This press release contains forward-looking statements that are based upon current expectations and involve a number of risks and uncertainties. In order for Z-Tel to utilize the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, you are hereby cautioned, and Z-Tel hereby notes, that these statements may be affected by the risk that favorable growth and financial trends may not continue; the risk that the Company will be unable to efficiently and successfully enter new markets, including those set forth in this release, in the specified time frame or at all, the risk that the Company's existing financing will not be sufficient to fund anticipated growth and that additional financing may not be available on favorable terms or at all, and the risk that further state market and financial expansion may not be achieved, as well as the risk factors described in detail in Z-Tel's 1999 Annual Report on Form 10-K, filed March 28, 2000; and in Z-Tel's other filings with the Securities and Exchange Commission. Z-Tel undertakes no obligation to update or revise any such forward-looking statements.

CONTACT: Z-Tel Technologies Inc., Tampa
Mark H. Johnson, 813/233-4610
mjohnson@z-tel.com

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of November 23, 2000 through November 29, 2000

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this filing.
Phone: 605-773-3705 Fax: 605-773-3809

CONSUMER COMPLAINTS

CT00-109 **In the Matter of the Complaint filed by David Hersrud on behalf of The Hersrud Company, Sturgis, South Dakota, against AT&T Communications of the Midwest, Inc. Regarding Billing Issues.**

The Complainant states that Hersrud's of Sturgis entered into a two-year contract in which rates would be frozen but could be renegotiated if lower rates were available. The Complainant claims he tried to renegotiate the contract several times without success. For relief, the Complainant is requesting credit for the difference in lower toll charges and various fees.

Staff Analyst: Leni Healy
Staff Attorney: Kelly Frazier
Date Docketed: 11/28/00
Intervention Deadline: N/A

CT00-110 **In the Matter of the Complaint filed by Gerald and Evelyn Holdhusen, Aberdeen, South Dakota, against Talk.Com Holding Corp. d/b/a The Phone Company Regarding Unauthorized Switching of Services.**

The complainants allege that their long distance phone services were switched after they received a telemarketing call. During the telemarketing call they did not agree to switch services. Talk.Com d/b/a The Phone Co., has not been able to provide proof of verification authorizing the switch in providers. The complainants have received a switching fee and a phone bill from Talk.Com d/b/a The Phone Co. The complainants request that the company be punished to the full extent of the law.

Staff Analyst: Charlene Lund
Staff Attorney: Kelly Frazier
Date Docketed: 11/29/00
Intervention Deadline: N/A

TELECOMMUNICATIONS

TC00-192 **In the Matter of the Filing for Approval of an Opt-In Interconnection Agreement between Qwest Corporation and New-Cell, Inc.**

An Opt-In Interconnection Agreement between Qwest Corporation (Qwest) and New-Cell, Inc. (New-Cell) was filed with the Commission for approval. The agreement is a negotiated agreement which sets forth the terms, conditions and prices under which Qwest will provide services for resale to New-Cell for the provision of local exchange services. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than December 18, 2000. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 11/27/00
Initial Comments Due: 12/18/00

TC00-193 **In the Matter of the Filing for Approval of a Resale Agreement between Qwest Corporation and New Access Communications, LLC.**

A Resale Interconnection Agreement between Qwest Corporation (Qwest) and New Access Communications, LLC. (New Access) was filed with the Commission for approval. The agreement is a negotiated agreement which sets forth the terms, conditions and prices under which Qwest will provide services for resale to New Access for the provision of local exchange services. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than December 18, 2000. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 11/27/00
Initial Comments Due: 12/18/00

TC00-194 **In the Matter of the Filing for Approval of a Resale Agreement between Qwest Corporation and 1-800-Reconex, Inc.**

A Resale Agreement between Qwest Corporation (Qwest) and 1-800-Reconex, Inc. (Reconex) was filed with the Commission for approval. The agreement is a negotiated agreement which sets forth the terms, conditions and prices under which Qwest will provide services for resale to Reconex for the provision of local exchange services. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than December 18, 2000. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 11/27/00
Initial Comments Due: 12/18/00

TC00-195 **In the Matter of the Filing for Approval of an Interconnection Agreement between Qwest Corporation and USA Digital, Inc.**

An Agreement for Terms and Conditions for Interconnection, Unbundled Network Elements, Ancillary Services, and Resale of Telecommunications Services between Qwest Corporation (Qwest) and USA Digital, Inc. (USA) was filed with the Commission for approval. The agreement sets forth the terms, conditions and prices under which Qwest will provide (a) services for resale and (b) certain unbundled network elements, ancillary functions and additional features for USA's offering and provisioning of telecommunications services. to Reconex for the provision of local exchange services. The agreement also sets forth the terms, conditions and prices under which the parties agree to interconnect and pay reciprocal compensation for the exchange of local traffic. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than December 19, 2000. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 11/28/00
Initial Comments Due: 12/19/00

TC00-196 **In the Matter of the Application of Z-Tel Communications, Inc. for a Certificate of Authority to Provide Local Exchange Services in South Dakota.**

Z-Tel Communications, Inc. has filed a request for a Certificate of Authority to provide facilities based local exchange service using an unbundled network element platform of the incumbent local exchange company. Z-Tel intends to provide local exchange service, custom calling and CLASS features, local operator assisted services and other services basic to local exchange service. Z-Tel intends to offer its services initially in the territory now served by Qwest Corporation.

Staff Analyst: Michele Farris
Staff Attorney: Kelly Frazier
Date Docketed: 11/29/00
Intervention Date: 12/15/00

You may receive this listing and other PUC publications via our website or via internet e-mail. You may subscribe or unsubscribe to the PUC mailing lists at http://www.state.sd.us/puc/

TECHNOLOGIES MANAGEMENT INC.

[illegible] N. Park Ave
Winter Park, FL
[illegible]

P.O. Drawer 200
Winter Park, FL
[illegible]

Tel: 407-740-8575
Fax: [illegible]
[illegible]@tminc.com

RECEIVED
FEB 15 2001
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

February 14, 2001
Overnight Delivery

Mr. William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
500 East Capitol
Pierre, SD 57501

RE: Docket TC00-196
In the matter of the Application of Z-Tel Communications, L.L.C for a Certificate of Authority to Provide Facilities-based Local Exchange Service within South Dakota

Dear Mr. Bullard:

Enclosed for filing are the original and one (1) copy of the responses to interrogatories issued by Michele Farris, Utility Analyst in the above mentioned docket.

In addition, the company respectfully requests modification of the docket caption. The company is not a Limited Liability Company (L.L.C.) as stated in correspondence from Ms. Farris. The company's full name is Z-Tel Communications, Inc. It is a Delaware corporation as noted in item 1, page 1 of the company's Application.

Please acknowledge receipt of this filing by date stamping the extra copy of this cover letter and returning it to me in the self-addressed stamped envelope.

Any questions you may have regarding this filing may be directed to me at (407) 740-8575. Thank you for your assistance.

Sincerely,

Monique Byrnes
Monique Byrnes
Consultant to Z-Tel Communications, Inc.

Enclosures

cc: S. Byrne, Z-Tel
file: Z-Tel - SD Local
tms: sdl0000a

Z-Tel Communications, Inc.
TC00-196

1. Z-Tel Communications, Inc. does not maintain its own financial statements. All financial statements are consolidated into that of the parent company, Z-Tel Technologies, Inc. The company respectfully submits a $25,000.00 surety bond. The company's proposed tariff clearly states that the company does not accept deposits or advance payments. The company does not offer any prepaid services.

2. Attached please find a summary of the company's policies regarding customer complaint procedures and quality of service.

3. The company submits replacement tariff pages.

4. The company submits a replacement tariff page.

5. The proposed tariff makes reference to Tariff No. 1, an access tariff, which has not yet been submitted to the Commission.

Z-Tel Customer Service

Z-Tel manages Customer Service from its Atmore, Alabama offices. All customers are assured of reaching a Customer Service Representative 24 hours a day, 7 days a week. Customer service may be reached via 1-800-511-4572. In addition, the company maintains a web site (www.z-tel.com) which explains the company, its services as well as how to read a customer bill.

Z-Tel internal objectives require that 90% of customer complaints be handled while the customer is on the phone. Supervisors are available to assist if necessary. The remaining 10% may require research and are resolved as quickly as possible.

Anti-Slamming measures

In addition to following all FCC and state rules, Z-Tel has proactively initiated a group that independently verifies 100% of all third party verification (tpv) recordings. Although the percentage of sales made via telemarketing continue to decrease (due to other sales channels such as customer referrals increasing) for a telemarketing sale to go through, the sales channel must first determine that it is a valid sale, the independent third party verifier must confirm that it is a valid sale, and finally the independent auditing group within Z-Tel must determine the sale to be valid. The management of the tpv relationship is performed by an experienced manager who has no ties with Z-Tel's sales organization. Z-Tel's proactive measures guarantee the validity of a change in service provider and is unprecedented in the industry.

In addition to the proactive measures to control telemarketing described above, Z-Tel is expending a large amount of capital to install state-of-the-art OSS (Operation Support Systems) through an EDI (Electronic Data Interface) infrastructure.

INDEMNITY BOND
to the
PEOPLE OF THE STATE OF SOUTH DAKOTA

Bond No. 610-230623-4

We, Z-Tel Communications, Inc., the principal and applicant for a CERTIFICATE OF AUTHORITY, to provide facilities-based local exchange and interexchange telecommunications services within the State of South Dakota, and U.S. Fire Insurance Co., as an admitted surety insurer, bind ourselves unto the Public Utilities Commission of the State of South Dakota and the consumers of South Dakota as Obligee, in the sum of $25,000.

The conditions of the obligation are such that the principal, having been granted such CERTIFICATE OF AUTHORITY subject to the provision that said principal purchase this Indemnity Bond, and if said principal shall in all respects fully and faithfully comply with all applicable provision of South Dakota State Law, and reimburse customers of Essex Communications, Inc. for any prepayment or deposits they have made which may be unable or unwilling to return to said customers as a result of insolvency or other business failure, then this obligation shall be void, discharges and forever exonerated, otherwise to remain in full force and effect.

This bond shall take effect as of the date hereon and shall remain in force and effect until the surety is released from liability by the written order of the Public Utilities Commission, provided that the surety may cancel this Bond and be relieved of further liability hereunder by delivering thirty (30) days written notice to the Public Utilities Commission. Such cancellation shall not affect any liability incurred or accrued hereunder prior to the termination of said thirty (30) day period.

Dated this 29th day of January, 2001

To be effective this 29th day of January, 2001

Original bond is in Delaine's bottom desk drawer.

Z-Tel Communications, Inc.

[signature]
Timothy Seat
Vice President - Regulatory Affairs

United States Fire Insurance Company
(Insurance Company)

By: Sharon E. Griffith
Name, Title) Sharon E. Griffith
Atty.-in-fact

Countersigned this 30th day of JANUARY, 2001

Countersigned for South Dakota

By: [signature]
Resident Agent

POWER OF ATTORNEY
UNITED STATES FIRE INSURANCE COMPANY
PRINCIPAL OFFICE, NEW YORK, N.Y.

125062

KNOW ALL MEN BY THESE PRESENTS: That the UNITED STATES FIRE INSURANCE COMPANY ("Company"), a corporation duly organized and existing under the laws of the State of New York, and having its administrative offices in the Township of Morris, State of New Jersey, has made, constituted and appointed, and does by these presents make, constitute and appoint **Sharon Griffith of Lake Mary, Florida**

its true and lawful Agent(s) and Attorney(s)-in-Fact, with full power and authority hereby conferred in its name, place and stead, to execute, seal, acknowledge and deliver: Any and all bonds and undertakings---

and to bind the Company thereby as fully and to the same extent as if such bonds had been duly executed and acknowledged by the regularly elected officers of the Company at its principal or administrative offices in their own proper persons.

This Power of Attorney limits the act of those named therein to the bonds and undertakings specifically named therein, and they have no authority to bind the Company except in the manner and to the extent therein stated.

This Power of Attorney revokes all previous powers issued in behalf of the attorney(s)-in-fact named above.

IN WITNESS WHEREOF United States Fire Insurance Company has caused these presents to be signed and attested by its appropriate officers and its corporate seal hereunto affixed this 1st day of October, 1999.

Attest:

Herbert H. Linder
Assistant Secretary
Herbert H. Linder

UNITED STATES FIRE INSURANCE COMPANY

Thomas A. Knapp
Vice President
Thomas A. Knapp

STATE OF NEW JERSEY)
ss.:
COUNTY OF MORRIS)

On this 1st day of October, 1999, before the subscriber, a duly qualified Notary Public of the State of New Jersey, came the above-mentioned Vice President and Assistant Secretary of United States Fire Insurance Company, to me personally known to be the officers described in, and who executed the preceding instrument, and they acknowledged the execution of the same, and being by me duly sworn, deposed and said, that they are the officers of said Company aforesaid, and that the seal affixed to the preceding instrument is the Corporate Seal of said Company, and the said Corporate Seal and their signatures as officers were duly affixed and subscribed to the said instrument by the authority and direction of the said Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my seal at the Township of Morris, the day and year first above written.

(Signed)
(Seal)

Catherine A. Sincavage
Notary Public

Catherine A Sincavage
Notary Public of New Jersey
My Commission Expires July 12, 2006

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability

A. The Company's liability for damages arising out of mistakes, interruptions, omissions, delays, errors, or defects in transmission which occur in the course of furnishing service or facilities, shall be determined in accordance with SDCL 49-13-1 and 49-13-1.1 and any other applicable law.

B. The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

Timothy Seat
Vice President - Regulatory Affairs
601 South Harbour Island Boulevard, Suite 220
Tampa, Florida 33602

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability, (Cont'd.)

C. The Company shall be indemnified and saved harmless by the Customer from and against all loss, liability, damage and expense, including reasonable counsel fees, due to:

.1 Any act or omission of: (a) the Customer, or (b) common carriers or warehousemen, except as contracted by the Company;

.2 Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties; and any law, order, regulation or other action of any governing authority or agency thereof;

.3 Any unlawful or unauthorized use of the Company's facilities and services;

.4 Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the material transmitted by means of Company-provided facilities or services; or by means of the combination of Company-provided facilities or services;

.5 Breach in the privacy or security of communications transmitted over the Company's facilities;

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability, (Cont'd.)

C. (Cont'd.)

.6 Changes in any of the facilities, operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in paragraph A. of this Subsection 2.1.4.

.7 Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof which is not the result of negligence;

.8 Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to the Company's facilities;

.9 Any calls not actually attempted to be completed during any period that service is unavailable;

.10 And any other claim resulting from any act or omission of the Customer or patron(s) of the Customer relating to the use of the Company's services or facilities.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability, (Cont'd.)

D. The Company does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere.

E. Failure by the Company to assert its rights pursuant to one provision of this tariff does not preclude the Company from asserting its rights under other provisions.

F. **Directory Errors** - In the absence of negligence or willful misconduct, no liability for damages arising from errors or mistakes in or omissions of directory listings, or errors or mistakes in or omissions of listing obtainable from the directory assistance operator, including errors in the reporting thereof, shall attach to the Company. An allowance for errors or mistakes in or omissions of published directory listings or for errors or mistakes in or omissions of listing obtainable from the directory assistance operator shall be at the monthly tariff rate for each listing, or in the case of a free or no-charge directory listing, credit shall equal two times the monthly tariff rate for an additional listing, for the life of the directory or the charge period during which the error, mistake or omission occurs.

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.1 **Undertaking of the Company, (Cont'd.)**

2.1.4 **Limitations on Liability, (Cont'd.)**

G. **With respect to Emergency Number 911 Service:**

.1 This service is offered solely as an aid in handling assistance calls in connection with fire, police and other emergencies.

.2 Neither is the Company responsible for any infringement, nor invasion of the right of privacy of any person or persons, caused or claimed to have been caused directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of emergency 911 service features and the equipment associated therewith, or by any services furnished by the Company, including, but not limited to the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing emergency 911 service, and which arise out of the negligence or other wrongful act of the Company, the Customer, its users, agencies or municipalities, or the employees or agents of any one of them.

.3 When a Customer with a nonpublished telephone number, as defined herein, places a call to the emergency 911 service, the Company will release the name and address of the calling party, where such information can be determined, to the appropriate local governmental authority responsible for emergency 911 service upon request of such governmental authority. By subscribing to service under this tariff, the Customer acknowledges and agrees with the release of information as described above.

TECHNOLOGIES MANAGEMENT INC

[illegible]
[illegible]
[illegible]

[illegible]
[illegible]
[illegible]

Tel 407-740-8575
Fax 407-740-0613
[illegible]

February 15, 2001
Overnight Delivery

Michele Farris
South Dakota Public Utilities Commission
500 East Capitol
Pierre, SD 57501

RE: Docket TC00-196
In the Matter of the Application of Z-Tel Communications, L.L.C for a Certificate of Authority to Provide Facilities-based Local Exchange Service within South Dakota

Dear Mr. Bullard:

Enclosed for filing are the original and one (1) copy of a replacement tariff page, as requested.

Please acknowledge receipt of this filing by date stamping the extra copy of this cover letter and returning it to me in the self-addressed stamped envelope.

Any questions you may have regarding this filing may be directed to me at (407) 740-8575. Thank you for your assistance.

Sincerely,

Monique Byrnes

Monique Byrnes
Consultant to Z-Tel Communications, Inc.

Enclosure

cc: S. Byrne, Z-Tel
file: Z-Tel - SD Local
tms: sdl0000b

RECEIVED
FEB 20 2001
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

SECTION 2.0 - REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.3 Disputed Bills

A. In the event that a billing dispute occurs concerning any charges billed to the Customer by the Company, the Company may require the Customer to pay the undisputed portion of the bill to avoid discontinuance of service for non-payment. The Customer must submit a documented claim for the disputed amount. The Customer will submit all documentation as may reasonably be required to support the claim. All claims must be submitted to the Company within 180 days of receipt of billing for those services. If the Customer does not submit a claim as stated above, the Customer waives all rights to filing a claim thereafter.

B. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the South Dakota Public Utilities Commission in accordance with the Commission's rules of procedure. The address of the Commission is as follows:

South Dakota Public Utilities Commission
500 East Capitol
Pierre, South Dakota 57501-5070
Toll-Free: (800) 332-1782
TTY Through Relay South Dakota: (800) 877-1113

C. If the dispute is resolved in favor of the Customer and the Customer has withheld the disputed amount, no interest, credits or penalties will apply.

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF Z-TEL COMMUNICATIONS, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA	)))))	ORDER GRANTING CERTIFICATE OF AUTHORITY TC00-196

On November 29, 2000, the Public Utilities Commission (Commission) received an application for a certificate of authority from Z-Tel Communications, Inc. (Z-Tel).

Z-Tel proposes to offer local exchange service, custom calling and CLASS features, local operator assisted services and other services basic to local exchange service. Z-Tel intends to offer its services initially in the territory now served by Qwest Corporation. A proposed tariff was filed by Z-Tel.

On November 30, 2000, the Commission electronically transmitted notice of the filing and the intervention deadline of December 15, 2000, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled March 6, 2001, meeting, the Commission considered Z-Tel's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to a continuous $25,000 surety bond, and subject to rural safeguards. Commission Staff further recommended a waiver of ARSD 20:10:32:03(11).

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-69 and ARSD 20:10:32:03. The Commission finds that Z-Tel has met the legal requirements established for the granting of a certificate of authority. Z-Tel has, in accordance with SDCL 49-31-71, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive subparagraph (11) of ARSD 20:10:32:03.

The Commission approves Z-Tel's application for a certificate of authority, subject to a continuous $25,000 surety bond, and subject to rural safeguards. The certificate of authority for Z-Tel shall authorize it to offer local exchange services in South Dakota, except in those areas served by a rural telephone company. In the future, should Z-Tel choose to provide local exchange services statewide, with respect to rural telephone companies, Z-Tel will have to come before the Commission in another proceeding before being able to provide local service in that rural service area pursuant to 47 U.S.C. § 253(f) which allows the Commission to require a company that seeks to provide service in a rural service area to meet the requirements in 47 U.S.C. § 214(e)(1) for designation as an eligible telecommunications carrier. In addition, the granting of statewide certification will not affect the exemptions, suspensions, and modifications for rural telephone companies found in 47 U.S.C. § 251(f). It is therefore

ORDERED, that Z-Tel's application for a certificate of authority to provide local exchange services is granted, subject to a continuous $25,000 surety bond; and it is

FURTHER ORDERED, that Z-Tel shall file informational copies of tariff changes with the Commission as the changes occur; and it is

FURTHER ORDERED, that the Commission shall authorize Z-Tel to offer its local exchange services in South Dakota, except in those areas served by a rural telephone company; and it is

FURTHER ORDERED, that the Commission finds good cause to waive subparagraph (11) of ARSD 20:10:32:03.

Dated at Pierre, South Dakota, this 9th day of March, 2001.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 3/13/01

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg

JAMES A. BURG, Chairman

Pam Nelson

PAM NELSON, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted as of the date of the
Order Granting Certificate of Authority
Docket No. TC00-196

This is to certify that

Z-TEL COMMUNICATIONS, INC.

is authorized to provide local exchange services in nonrural areas in South Dakota.

This certificate is issued in accordance with SDCL 49-31-69 and ARSD 20:10:32:03, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 9th day of March, 2001.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

JAMES A. BURG, Chairman

PAM NELSON, Commissioner

TC 00-196

Crum&Forster Insurance

RECEIVED
FEB 04 2002
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

NOTICE OF CANCELLATION OF BOND BY SURETY

January 29, 2002

To: South Dakota Public Services Commission
500 East Capitol Avenue
Capitol Bldg., 1st Floor
Pierre, SD 57501-5070

United States Fire Insurance Company, as Surety, hereby notifies you

that its Bond No. 610 230623 4 dated on or about **January 29, 2001**, on behalf of

Z-Tel Communications, Inc., as Principal,

in favor of **South Dakota Public Services Commission**, as Obligee,

described as **Indemnity Bond for Telecommunications Services**

is hereby cancelled 30 days after receipt by you of this notice which is in accordance with the provisions of the bond and that said Surety shall not be responsible thereunder for any Acts or Defaults committed or Loss occurring after said date of cancellation.

United States Fire Insurance Company

By Rhonda C. Barnes
Rhonda C. Barnes Attorney-in-fact

OBLIGEE PLEASE ACKNOWLEDGE RECEIPT OF DUPLICATE ORIGINAL WHICH IS ENCLOSED AND RETURN T0:

7000 Central Parkway, Suite 1330
Atlanta, GA 30328

The foregoing Notice of Cancellation was received on 2/5/02.
Liability under your bond terminates effective __________.

____
Obligee

By __________

____
Title

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF Z-TEL COMMUNICATIONS, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA	))))))))	STAFF'S MOTION FOR RECONSIDERATION OF THE TERMS AND CONDITIONS OF CERTIFICATE OF AUTHORITY TC00-196

On November 29, 2000, the Public Utilities Commission (Commission) received an application for a certificate of authority from Z-Tel Communications, Inc. (Z-Tel).

Z-Tel proposes to offer local exchange service, custom calling and CLASS features, local operator assisted services and other services basic to local exchange service. Z-Tel intends to offer its services initially in the territory now served by Qwest Corporation. A proposed tariff was filed by Z-Tel.

On November 30, 2000, the Commission electronically transmitted notice of the filing and the intervention deadline of December 15, 2000, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled March 6, 2001, meeting, the Commission considered Z-Tel's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to a continuous $25,000 surety bond, and subject to rural safeguards. Commission Staff further recommended a waiver of ARSD 20:10:32:03(11).

On March 9, 2001 the Commission approved Z-Tel's application for a certificate of authority, subject to a continuous $25,000 surety bond, and subject to rural safeguards. The certificate authorized Z-Tel shall authorize it to offer local exchange services in South Dakota, except in those areas served by a rural telephone company.

On February 4, 2002 the Commission received a 30 day "Notice of Cancellation of Bond by Surety" for Z-tel by Crum And Forster Insurance, indicating that the $25,000 bond required under the certificate of authority would be cancelled on or about March 1, 2002. Staff contacted the company and the company indicated that it's bond had been cancelled as a result of industry reaction to the Enron collapse. The company requested more time to resubmit financials for an analysis of whether they could do business without a bond or in the alternative more time to find a bonding company. Staff recommended that the company motion the Commission for reconsideration of the terms of the certificate of authority and then resubmit their financial statements for further review. To date the company has not filed such a motion or submitted any financial statements.

Staff hereby Motions the Commission to reconsider the terms and conditions of Z-Tel's certificate of authority and impose the condition that Z-Tel not offer prepaid calling cards or require deposits or advance payments without prior approval of the Commission.

Respectfully submitted this 19th day of February, 2002.

RECEIVED

FEB 19 2002

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

Kelly D. Frazier
Staff Attorney

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF Z-TEL COMMUNICATIONS, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA	)))))	**ORDER GRANTING AMENDED CERTIFICATE OF AUTHORITY** **TC00-196**

On November 29, 2000, the Public Utilities Commission (Commission) received an application for a certificate of authority from Z-Tel Communications, Inc. (Z-Tel).

Z-Tel proposed to offer local exchange service, custom calling and CLASS features, local operator assisted services and other services basic to local exchange service. Z-Tel intends to offer its services initially in the territory now served by Qwest Corporation. A proposed tariff was filed by Z-Tel.

On November 30, 2000, the Commission electronically transmitted notice of the filing and the intervention deadline of December 15, 2000, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled March 6, 2001, meeting, the Commission considered Z-Tel's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to a continuous $25,000 surety bond, and subject to rural safeguards. Commission Staff further recommended a waiver of ARSD 20:10:32:03(11).

At its regularly scheduled March 6, 2001, meeting, the Commission found that it had jurisdiction over Z-Tel's application pursuant to SDCL Chapter 49-31, specifically 49-31-69 and ARSD 20:10:32:03. The Commission found that Z-Tel had met the legal requirements established for the granting of a certificate of authority. Z-Tel had, in accordance with SDCL 49-31-71, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission found that there was good cause to waive subparagraph (11) of ARSD 20:10:32:03. The Commission granted Z-Tel's application for a certificate of authority to provide local exchange services subject, inter alia, to a continuous $25,000 bond.

On February 4, 2002, Commission Staff received a NOTICE OF CANCELLATION OF BOND BY SURETY from Crum & Forster Insurance indicating that the surety, United States Fire Insurance Company, would cancel Bond. No. 610 230623 4, issued on or about January 29, 2001, on behalf of the Principal, Z-Tel Communications, Inc. On February 19, 2002, Staff filed a Motion For Reconsideration of the Terms and Conditions of Certificate of Authority and the Commission electronically transmitted notice of the filing and the meeting date of February 26, 2002, to Ztel.

At its regularly scheduled February 26, 2002, meeting, Staff recommended that the Commission reconsider the terms and conditions of Z-Tel's certificate of authority to remove the requirement that the certificate of authority be subject to a continuous $25,000 bond and impose a new restriction that Z-Tel not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. No representative of Z-Tel appeared at the meeting.

The Commission amends Z-Tel's certificate of authority, subject to the condition that Z-Tel not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. It is therefore

ORDERED, that Z-Tel's certificate of authority to provide local exchange services is amended to remove the requirement that Z-Tel post a continuous $25,000 bond, subject to the condition that Z-Tel not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission.

Dated at Pierre, South Dakota, this 6th day of March, 2002.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon

By Delaine Kolbo

Date 3/6/02

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg

JAMES A. BURG, Chairman

Pam Nelson

PAM NELSON, Commissioner

Robert K. Sahr

ROBERT K. SAHR, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

AMENDED CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted as of the date of the
Original Order Granting Certificate of Authority
Docket No. TC00-196

This is to certify that

Z-TEL COMMUNICATIONS, INC.

is authorized to provide local exchange services in nonrural areas in South Dakota, subject to the condition that it not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission.

This certificate is issued in accordance with SDCL 49-31-69 and ARSD 20:10:32:03, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 6th day of March, 2002.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

JAMES A. BURG, Chairman

PAM NELSON, Commissioner

ROBERT K. SAHR, Commissioner

TC00-196

RECEIVED

APR 2 2 2002

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

April 19, 2002
Via Overnight

Ms. Michelle Farris
Telecommunications Division
South Dakota Public Utilities Commission
500 East Capitol
Pierre, SD 57501

Re: Bond for **Z-Tel Communications, Inc. ("Z-Tel")**
Bond No.: 60013964

Dear Ms. Farris:

As requested by the State of South Dakota, enclosed please find a bond in the amount of $25,000.00 dated April 11, 2002, submitted by the Principal, Z-Tel Communications, Inc., issued by the Surety, Capitol Indemnity Corporation.

This bond is filed by Z-Tel Communications, Inc. The company's authority was amended in Order TC00-196 restricting the company from obtaining advance payments from customers. The company respectfully requests that its ability to obtain advance payments be reinstated as a result of this filing.

Please acknowledge receipt of this filing by date-stamping the extra copy of this cover letter and returning it to me in the self-addressed, stamped envelope provided for this purpose.

Questions regarding this filing may be directed to me at (407) 740-8575.

Sincerely,

Monique Byrnes

Monique Byrnes
Consultant to
Z-Tel Communications, Inc.

MB/lk
cc: P. Nicholson - Z-Tel
file: Z-Tel - SD Local
tms: SDL0200x

RECEIVED

APR 2 2 2002

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

INDEMNITY BOND
To the
PEOPLE OF THE STATE OF SOUTH DAKOTA

Bond No. 60013964

We, Z Tel Technologies, Inc. the principal and applicant for a CERTIFICATE OF AUTHORITY to resell long distance telecommunications services within the State of South Dakota, and Capitol Indemnity Corporation, as an admitted surety insurer, bind ourselves unto the Public Utilities Commission of the State of South Dakota and the consumers of South Dakota as Obligee, in the sum of $25,000.00.

The conditions of the obligation are such that the principal, having been granted such CERTIFICATE OF AUTHORITY subject to the provision that said principal purchases this Indemnity Bond, and if said principal shall in all respects fully and faithfully comply with all applicable provisions of South Dakota State Law, and reimburse customers of Z Tel Technologies, Inc. for any prepayment or deposits they have made which may be unable or unwilling to return to said customers as a result of insolvency or other business failure, then this obligation shall be void, discharged and forever exonerated, otherwise to remain in full force and effect.

The total aggregate liability under this bond is limited to $25,000.00.

This bond shall take effect as of the date hereon and shall remain in force and effect until the surety is released from liability by the written order of the Public Utilities Commission provided that the surety may cancel this Bond and be relieved of further liability hereunder by delivering thirty (30) days written notice to the Public Utilities Commission. Such cancellation shall not affect any liability incurred or accrued hereunder prior to the termination of said thirty (30) day period.

Dated this 11th day of April, 2002.

To be effective this 11th day of April, 2002.

By [signature]

Original bond is in Deluna's bottom desk drawer.

Z Tel Technologies, Inc.
Principal

Countersigned this 15th day of April, 2002

By [signature]
Resident Agent

Capitol Indemnity Corporation
Surety

By [signature]
David B. Shick, Attorney In Fact

60013964

CAPITOL INDEMNITY CORPORATION
POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, That the CAPITOL INDEMNITY CORPORATION, a corporation of the State of Wisconsin, having its principal offices in the City of Madison, Wisconsin, does make, constitute and appoint

DAVID R. SHICK * MARK J. CLEMENTS OF TAMPA, FLORIDA

its true and lawful Attorneys-in-Fact, to make, execute, seal and deliver for and on its behalf, as surety, and as its act and deed, any and all bonds, undertakings and contracts of suretyship, provided that no bond or undertaking or contract of suretyship executed under this authority shall exceed in amount the sum of

ALL WRITTEN INSTRUMENTS IN AN AMOUNT NOT TO EXCEED $2,500,000.00

This Power of Attorney is granted and is signed and sealed by facsimile under and by the authority of the following Resolution adopted by the Board of Directors of CAPITOL INDEMNITY CORPORATION on the 1st day of June, 1999.

"RESOLVED, that the President and Vice President, the Secretary or Treasurer, acting individually or otherwise, be and they hereby are granted the power and authorization to appoint by a Power of Attorney for the purposes only of executing and attesting bonds and undertakings and other writings obligatory in the nature thereof, one or more vice-presidents, assistant secretaries and attorney(s)-in-fact, each appointee to have the powers and duties usual to such offices to the business of this company; the signature of such officers and the seal of the Company may be affixed to such power of attorney or to any certificate relating thereto by facsimile, and any such power of attorney or certificate bearing such facsimile signatures or facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking or other writing obligatory in the nature thereof to which it is attached. Any such appointment may be revoked, for cause, or without cause, by any of said officers, at any time."

IN WITNESS WHEREOF, the CAPITOL INDEMNITY CORPORATION has caused its official seal to be hereunto affixed, and these presents to be signed by its President this 1st day of June, 1999.

Attest

Virginia M. Schulte

Virginia M. Schulte
Secretary

CAPITOL INDEMNITY CORPORATION

George A. Fait

George A. Fait
President

CAPITOL INDEMNITY CORPORATION CORPORATE SEAL WISCONSIN

STATE OF WISCONSIN }
} s.s. Madison
COUNTY OF DANE }

On the 1st day of June, A.D., 1999 before me personally came George A. Fait, to me known, who being by me duly sworn, did depose and say: that he resides in the County of Dane, State of Wisconsin; that he is the President of **CAPITOL INDEMNITY CORPORATION**, the corporation described in and which executed the above instrument; that he knows the seal of the said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation and that he signed his name thereto by like order.

STATE OF WISCONSIN }
} s.s. Madison
COUNTY OF DANE }

CAPITOL INDEMNITY CORPORATION CORPORATE SEAL WISCONSIN

CAPITOL INDEMNITY CORPORATION

Jane F. Endres

Jane F. Endres
Notary Public, Dane Co., WI
My Commission Expires March 23, 2003

I, the undersigned, duly elected to the office stated below, now the incumbent in CAPITOL INDEMNITY CORPORATION a Wisconsin corporation authorized to make this certificate, **DO HEREBY CERTIFY** that the foregoing and attached Power of Attorney remains in full force and has not been revoked, and furthermore that the Resolution of the Board of Directors, set forth in the said Power of Attorney, is now in force.

Signed and sealed at the city of Madison, in the State of Wisconsin, dated the 11th day of April 2002

Richard W. Allen III

Richard W. Allen, III
Vice President

THIS CERTIFICATE IS NOT VALID UNLESS PRINTED ON GREY SHADED BACKGROUND WITH A RED SERIAL NUMBER IN THE UPPER RIGHT HAND CORNER. THE BACK OF THIS DOCUMENT CONTAINS AN ARTIFICIAL WATERMARK-HOLD AT AN ANGLE TO VIEW. IF YOU HAVE ANY QUESTIONS CONCERNING THE AUTHENTICITY OF THIS DOCUMENT, YOU ARE URGED TO CONTACT OUR POWER OF ATTORNEY CUSTODIAN AT 1-800-394-7806.

South Dakota Public Utilities Commission

WEEKLY FILINGS

For the Period of April 18, 2002 through April 24, 2002

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this report. Phone: 605-773-3705 Fax: 605-773-3809

ELECTRIC

EL02-006 In the Matter of the Filing by Otter Tail Power Company for Approval of a Contract with Deviations with the City of New Effington.

On April 22, 2002, Otter Tail Power Company filed with the Commission a municipal contract with the City of New Effington effective May 1, 2002, and Otter Tail Power Company's summary List of Contracts with Deviations. The municipal contract for the City of New Effington was updated because the old contract will expire on May 1, 2002. The new contract does not include any new rates that would be considered a deviation.

Staff Analyst: Heather Forney
Staff Attorney: Kelly Frazier
Date Docketed: 04/22/02
Intervention Deadline: 05/03/02

EL02-007 In the Matter of the Application of Xcel Energy for Approval to Renew the Customer Buyback Program.

Northern States Power Company d/b/a Xcel Energy (Xcel) is requesting the Commission renew its Customer Buyback Program. The original program tariff was approved by the Commission on July 20, 2000 and expired December 31, 2001. This renewal would allow Xcel to purchase energy from its large customers who curtail their load.

Staff Analyst: Keith Senger
Staff Attorney: Kelly Frazier
Date Docketed: 04/22/02
Intervention Deadline: 05/10/02

TELECOMMUNICATIONS

TC00-196 In the Matter of the Application of Z-Tel Communications, Inc. for a Certificate of Authority to Provide Local Exchange Services in South Dakota.

On April 22, 2002, the Commission received a filing from Z-Tel Communications (Z-Tel) whereby Z-Tel, to amend its certificate of authority, posted a $25,000 bond in order to receive Commission approval to provide prepaid services. Z-Tel requested that the Commission reinstate the company's ability to obtain advance payments from customers.

Staff Analyst: Michele Farris
Staff Attorney: Kelly Frazier
Date Docketed: 04/22/02
Intervention Deadline: 05/03/02

TC02-039 In the Matter of the Application of North By NortheastCom LLC for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

North By NortheastCom LLC is seeking a Certificate of Authority to provide interexchange telecommunication services in South Dakota. The Applicant plans to offer nationwide directory assistance with call completion, long distance transport and enhanced directory services.

Staff Analyst: Keith Senger
Staff Attorney: Karen Cremer
Date Docketed: 04/18/02
Intervention Deadline: 05/10/02

TC02-040 In the Matter of the Filing by Ionex Communications North, Inc. for Approval of its Intrastate Switched Access Tariff and for an Exemption from Developing Company Specific Cost-Based Switched Access Rates.

Ionex Communications North, Inc. has filed a request for an exemption from developing Company-specific cost-based switched access rates contained in ARSD 20:10:27:07. The Company indicates that it does not have the available resources to determine company-specific cost-based intrastate switched access rates. Ionex is also requesting a waiver from the process to determine switched access rates under ARSD 20:10:27:12.

Staff Analyst: Heather Forney
Staff Attorney: Karen Cremer
Date Docketed: 04/18/02
Intervention Deadline: 05/10/02

TC02-041 In the Matter of the Application of ePHONE Telecom, Inc. for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

On April 22, 2002, ePHONE Telecom, Inc. filed an application for a Certificate of Authority to provide resold interexchange telecommunications service throughout South Dakota. ePHONE intends to utilize traditional telephony connections, as well as the internet, to provide intrastate interexchange service. They intend to offer a variety of prepaid IP telephony services through either a monthly calling plan, where customers are billed in advance for service, or through prepaid calling cards.

Staff Analyst: Michele Farris
Staff Attorney: Kelly Frazier
Date Docketed: 04/22/02
Intervention Deadline: 05/10/02

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF Z-TEL COMMUNICATIONS, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA	)))))	**ORDER GRANTING AMENDED CERTIFICATE OF AUTHORITY** **TC00-196**

On November 29, 2000, the Public Utilities Commission (Commission) received an application for a certificate of authority from Z-Tel Communications, Inc. (Z-Tel).

Z-Tel proposed to offer local exchange service, custom calling and CLASS features, local operator assisted services and other services basic to local exchange service. Z-Tel intends to offer its services initially in the territory now served by Qwest Corporation. A proposed tariff was filed by Z-Tel.

On November 30, 2000, the Commission electronically transmitted notice of the filing and the intervention deadline of December 15, 2000, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled March 6, 2001, meeting, the Commission considered Z-Tel's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to a continuous $25,000 surety bond, and subject to rural safeguards. Commission Staff further recommended a waiver of ARSD 20:10:32:03(11).

At its regularly scheduled March 6, 2001, meeting, the Commission found that it had jurisdiction over Z-Tel's application pursuant to SDCL Chapter 49-31, specifically 49-31-69 and ARSD 20:10:32:03. The Commission found that Z-Tel had met the legal requirements established for the granting of a certificate of authority. Z-Tel had, in accordance with SDCL 49-31-71, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission found that there was good cause to waive subparagraph (11) of ARSD 20:10:32:03. The Commission granted Z-Tel's application for a certificate of authority to provide local exchange services subject, inter alia, to a continuous $25,000 bond.

On February 4, 2002, Commission Staff received a Notice of Cancellation of Bond by Surety from Crum & Forster Insurance indicating that the surety, United States Fire Insurance Company, would cancel Bond. No. 610 230623 4, issued on or about January 29, 2001, on behalf of the Principal, Z-Tel Communications, Inc. On February 19, 2002, Staff filed a Motion For Reconsideration of the Terms and Conditions of Certificate of Authority and the Commission electronically transmitted notice of the filing and the meeting date of February 26, 2002, to Z-Tel.

At its regularly scheduled February 26, 2002, meeting, Staff recommended that the Commission reconsider the terms and conditions of Z-Tel's certificate of authority to remove the requirement that the certificate of authority be subject to a continuous $25,000 bond and impose a new restriction that Z-Tel not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. No representative of Z-Tel appeared at the meeting.

On April 22, 2002, Commission Staff received a $25,000 surety bond from Z-Tel and a letter requesting that its ability to obtain advance payments be reinstated.

At its regularly scheduled May 9, 2002, meeting, Staff recommended that the Commission reconsider the terms and conditions of Z-Tel's certificate of authority to permit Z-Tel to post a $25,000 surety bond, and remove the restrictions with reference to Z-Tel not offering a prepaid calling card or requiring deposits or advance payments without prior approval of the Commission.

The Commission amends Z-Tel's certificate of authority, subject to a $25,000 surety bond, and removes the restrictions with reference to Z-Tel not offering a prepaid calling card or requiring deposits or advance payments without prior approval of the Commission. It is therefore

ORDERED, that Z-Tel's certificate of authority to provide local exchange services is amended, subject to a $25,000 surety bond, and without restrictions with reference to Z-Tel not offering a prepaid calling card or requiring deposits or advance payments without prior approval of the Commission.

Dated at Pierre, South Dakota, this 16th day of May, 2002.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By Delaine Kolbo

Date 5/17/02

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg

JAMES A. BURG, Chairman

Pam Nelson

PAM NELSON, Commissioner

Robert K. Sahr

ROBERT K. SAHR, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

AMENDED CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted as of the date of the
Original Order Granting Certificate of Authority
Docket No. TC00-196

This is to certify that

Z-TEL COMMUNICATIONS, INC.

is authorized to provide local exchange services in nonrural areas in South Dakota.

This certificate is issued in accordance with SDCL 49-31-69 and ARSD 20:10:32:03, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 16th day of May, 2002.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

JAMES A. BURG, Chairman

PAM NELSON, Commissioner

ROBERT K. SAHR, Commissioner