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Z TEL TECHNOLOGIES INC
Form PRER14A
October 21, 2004

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

(AMENDMENT NO. 1)

Filed by the Registrant /X/

Filed by a Party Other than the Registrant / /

Check the appropriate box:

/X/ Preliminary Proxy Statement

/ / Confidential, for Use of the Commission Only (as permitted
by Rule 14a-6(e)(2))

/ / Definitive Proxy Statement

/ / Definitive Additional Materials

/ / Soliciting Material Pursuant to ss. 240.14a-12

Z-TEL TECHNOLOGIES, INC.

(Name of Registrant as Specified In Its Charter)

Payment of filing fee (Check the appropriate box):

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(1) Title of each class of securities to which transaction applies:

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(1) Amount previously paid:

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2004

NOTICE OF SPECIAL MEETING

AND

PROXY STATEMENT

Z-TEL TECHNOLOGIES, INC.
601 South Harbour Island Boulevard, Suite 220
Tampa, Florida 33602

October 26, 2004

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Dear Stockholder:

It is my pleasure to invite you to a Special Meeting of Stockholders of Z-Tel Technologies, Inc. The meeting will be held on Tuesday, November 16, 2004 at _____, Eastern time at our offices located at _____, _____. Your board of directors and management look forward to meeting with you at this time.

At the special meeting, you will be asked to approve a number of items that will permit Z-Tel to proceed with an exchange offer for its outstanding convertible preferred stock, and certain related transactions that are aimed at simplifying and improving Z-Tel's capital structure and maintaining its qualification for listing on the Nasdaq SmallCap Market. The transactions have the following components:

- o subject to the impact of any reverse stock split, an offer made to the holders of Z-Tel's outstanding preferred stock to exchange their preferred stock into common stock of Z-Tel,
- o subject to approval and consummation of the exchange offer, an amendment to the terms of the series D preferred stock to eliminate certain restrictive provisions contained therein,
- o subject to approval and consummation of the exchange offer, an amendment to the certificate of incorporation to eliminate the series E preferred stock,
- o subject to approval and consummation of the exchange offer, an amendment to the terms of the series G preferred stock to eliminate certain restrictive provisions contained therein,
- o subject to approval and consummation of the exchange offer, and subject to all of the Series D preferred stock being exchanged in the exchange offer, an amendment of the certificate of incorporation to eliminate the series D preferred stock,
- o subject to approval and consummation of the exchange offer, and subject to all of the Series G preferred stock being exchanged in the exchange offer, an amendment of the certificate of incorporation to eliminate the series G preferred stock,
- o subject to approval and consummation of the exchange offer, an amendment of Z-Tel's certificate of incorporation to effect a 3 for 1, 4 for 1, 5 for 1, 6 for 1, 7 for 1 or 8 for 1 reverse stock split of the common stock, as determined at the discretion of the board of directors, which reverse stock split at any or all of the foregoing ratios may be abandoned at any time prior to effectiveness at the discretion of the board of directors notwithstanding Z-Tel stockholders authorization thereof, and
- o subject to approval and consummation of the exchange offer, adoption of a new management equity incentive plan and reservation of shares for issuance thereunder representing 8% of the fully diluted common stock of Z-Tel (excluding out of the money options and warrants to acquire common stock, but including shares reserved for issuance under the plan), after giving effect to any reverse stock split described above.

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You will also be asked to approve an amendment to Z-Tel's certificate of incorporation changing its name to "Trinsic, Inc." The name change amendment is not related to or contingent upon the exchange offer or any of the other proposals set forth in this proxy statement. We intend to promptly announce, by means of a press release, the results of the votes on the Special Meeting Matters.

Z-Tel commenced the exchange offer which currently expires on November 23, 2004. Consummation of the exchange offer is contingent upon, among other things, the approval of the matters set forth above (other than the name change proposal) and the tender in the exchange offer of all series E and series G preferred stock owned by The 1818 Fund III, L.P. If the matters set forth above are approved at the special meeting, the exchange offer is expected to close within 5 business days following the meeting.

We will announce, by means of a press release, the amount of each series of Preferred Stock tendered as of the close of business (1) on the second business day preceding the date of the Special Meeting and (2) on the second business day prior to expiration of the Exchange Offer. We will also announce, by means of a press release, when The 1818 Fund has tendered its shares of Preferred Stock. If necessary, we will extend the Exchange Offer to the close of business on the fifth business day following the date upon which The 1818 Fund tenders its shares of Preferred Stock.

A special committee composed of independent directors of Z-Tel's board has determined that the exchange offer is in the best interests of Z-Tel's common stockholders. In making its determination, the special committee retained the services of a financial advisor, Morgan Keegan & Company, Inc. Morgan Keegan delivered a written opinion, dated September 28, 2004, to the effect that, based upon and subject to the factors and assumptions described in the opinion, the exchange offer was fair, from a financial point of view, to Z-Tel's common stockholders. On the basis of the determination of the special committee, the board of directors recommends that Z-Tel's common stockholders vote in favor of the exchange offer. The board of directors is not making any recommendation to Z-Tel's preferred stockholders with respect to the exchange offer.

The board of directors has determined that, subject to approval and consummation of the exchange offer, each of the amendments to the series d and series g preferred stock certificates of designation are in the best interests of common stockholders and recommends that common stockholders vote in favor of such proposals. the board of directors is not making any recommendation to preferred stockholders as to how they should vote on

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the proposal to amend the series d and series g preferred stock certificates of designation.

The board of directors has determined that, subject to approval and consummation of the exchange offer, the several amendments TO THE CERTIFICATE OF INCORPORATION to ELIMINATE EACH preferred stock certificate of designation RELATING TO A SERIES THAT IS NO LONGER OUTSTANDING, the reverse stock split alternatives, and the NEW MANAGEMENT EQUITY INCENTIVE Plan are all in the best interests of stockholders and recommends that Z-Tel's stockholders vote in favor of such proposals.

THE BOARD OF DIRECTORS ALSO HAS DETERMINED THAT THE NAME CHANGE AMENDMENT IS IN THE BEST INTERESTS OF STOCKHOLDERS AND RECOMMENDS THAT STOCKHOLDERS VOTE IN FAVOR OF THE NAME CHANGE AMENDMENT PROPOSAL.

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THE BOARD OF DIRECTORS RESERVES THE RIGHT TO ABANDON ANY OR ALL OF THE SEVERAL AMENDMENTS TO AND ELIMINATIONS OF THE PREFERRED STOCK CERTIFICATES OF DESIGNATION, ANY OR ALL OF THE REVERSE STOCK SPLIT ALTERNATIVES OR THE NAME CHANGE AMENDMENT AT ANY TIME PRIOR TO THEIR EFFECTIVENESS NOTWITHSTANDING AUTHORIZATION THEREOF BY Z-TEL'S STOCKHOLDERS.

Information about the special meeting and the business to be considered and voted upon at the special meeting is included in the accompanying notice of special meeting and proxy statement. Your vote is important regardless of the number of shares you own. I urge you to complete, sign, date and return the enclosed proxy card as soon as possible, even if you currently plan to attend the meeting. Returning the proxy card will not prevent you from attending the meeting and voting in person, but will ensure that your vote is counted if you are unable to attend the meeting. I also urge you to review and consider carefully the matters presented in the attached proxy statement. Thank you for your interest and participation. I look forward to seeing you at the special meeting.

Sincerely,

Horace J. Davis, III
Acting Chief Executive Officer, Treasurer and
Executive Vice President -- Chief Financial
Officer

The proxy statement is dated October 21, 2004 and is
expected to be first mailed to stockholders on
or about October 26, 2004.

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Z-TEL TECHNOLOGIES, INC.
601 South Harbour Island Boulevard
Tampa, Florida 33602

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To the Stockholders of Z-Tel Technologies, Inc.:

Notice is hereby given that a Special Meeting of Stockholders of Z-Tel Technologies, Inc. will be held at our offices located at _____, on Tuesday, November 16, 2004, at _____, Eastern time, for the following purposes:

- I. To approve an offer to exchange, at the election of the holders thereof (subject in each case to the impact of any reverse stock split):
 - o shares of common stock for each outstanding share of Z-Tel's series D convertible preferred stock;
 - o shares of common stock for each outstanding share of Z-Tel's series E convertible preferred stock; and
 - o shares of common stock for each outstanding share of Z-Tel's

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series G convertible preferred stock.

- II. To approve, subject to approval and consummation of the exchange offer, an amendment to the terms of the series D preferred stock to eliminate certain restrictive provisions contained therein.
- III. To approve, subject to approval and consummation of the exchange offer, and subject to all of the Series D preferred stock being exchanged in the exchange offer, an amendment of the certificate of incorporation to eliminate the series D preferred stock.
- IV. To approve, subject to approval and consummation of the exchange offer, an amendment to the certificate of incorporation to eliminate the series E preferred stock.
- V. To approve, subject to approval and consummation of the exchange offer, an amendment to the terms of the series G preferred stock to eliminate certain restrictive provisions contained therein.
- VI. To approve, subject to approval and consummation of the exchange offer, and subject to all of the Series G preferred stock being exchanged in the exchange offer, an amendment of the certificate of incorporation to eliminate the series G preferred stock.
- VII. To approve, subject to approval and consummation of the exchange offer, an amendment of Z-Tel's certificate of incorporation to effect a 3 for 1, 4 for 1, 5 for 1, 6 for 1, 7 for 1 or 8 for 1 reverse stock split of the common stock, as determined at the discretion of the board of directors, which reverse stock split at any or all of the foregoing ratios may be abandoned at any time prior to effectiveness at the discretion of the board of directors, notwithstanding Z-Tel stockholders authorization thereof.
- VIII. To approve, subject to approval and consummation of the exchange offer, adoption of the 2004 Stock Incentive Plan and reservation of shares for issuance thereunder representing 8% of the fully diluted common stock of Z-Tel (excluding out of the money options and warrants to acquire common stock, but including shares reserved for issuance under the plan), after giving effect to any reverse stock split described above.
- IX. To approve an amendment of Z-Tel's certificate of incorporation to change its name to "Trinsic, Inc."

These proposals are more fully described in the proxy statement that accompanies this notice. Please read the proxy statement carefully when determining how to vote on these proposals.

These proposals will be submitted for approval to the holders of Z-Tel's common stock, series D preferred stock and series E preferred stock, all voting together as a single class. For such purpose, each share of common stock is entitled to one vote, each share of series D preferred stock is entitled, as of the special meeting date, to approximately votes per share which is the number of votes equal to the series D liquidation value per share divided by the series D conversion price, each as of the record date for the special meeting, and each share of series E preferred stock is entitled, as of the special meeting date, to votes per share which is the number of votes equal to the series E liquidation value per share (together with an amount equal to accrued and unpaid dividends thereon) divided by the series E conversion price, each as of the record date for the special meeting.

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In addition to the approval described in the preceding paragraph, proposals II and III will be submitted for approval to the holders of Z-Tel's series D preferred stock voting as a separate class, proposal IV will be submitted for approval to the holders of Z-Tel's series E preferred stock voting as a separate class, proposals V and VI will be submitted for approval to the holders of Z-Tel's series G preferred stock, voting as a separate class.

After careful consideration and after receiving a written opinion from Morgan Keegan & Company, Inc. as to the fairness, from a financial point of view, to Z-Tel's common stockholders of the exchange offer, a special committee of Z-Tel's board of directors determined that the exchange offer is in the best interests of Z-Tel's common stockholders. On the basis of such determination, the board of directors directed that the exchange offer be submitted to Z-Tel's stockholders for their approval. The board of directors recommends that Z-Tel's common stockholders vote in favor of the exchange offer. The board of directors is not making any recommendation to Z-Tel's preferred stockholders with respect to the exchange offer.

The board of directors also directed that the several amendments to and the elimination of the preferred stock certificates of designation, the reverse stock split alternatives, and the 2004 Stock Incentive Plan be submitted to Z-Tel's stockholders for approval, subject to approval and consummation of the exchange offer and that the name change amendment be submitted to Z-Tel's stockholders for approval.

The board of directors has determined that, subject to approval and consummation of the exchange offer, each of the amendments to the series D and series G preferred stock certificates of designation are in the best interests of common stockholders and recommends that common stockholders vote in favor of such proposals. The board of directors is not making any recommendation to preferred stockholders as to how they should vote on the proposal to amend the series D and series G preferred stock certificates of designation.

The board of directors determined that, subject to approval and consummation of the exchange offer, the several amendments to the certificate of incorporation to eliminate each preferred stock certificates of designation relating to a series that is no longer outstanding, the reverse stock split alternatives, and the 2004 Stock Incentive Plan are all in the best interests of stockholders and recommends that Z-Tel's stockholders vote in favor of such proposals.

The Board of Directors also has determined that the name change amendment is in the best interests of stockholders and recommends that stockholders vote in favor of the name change amendment proposal.

THE BOARD OF DIRECTORS RESERVES THE RIGHT TO ABANDON ANY OR ALL OF THE SEVERAL AMENDMENTS TO AND ELIMINATIONS OF THE PREFERRED STOCK CERTIFICATES OF DESIGNATION, ANY OR ALL OF THE REVERSE STOCK SPLIT ALTERNATIVES OR THE NAME CHANGE AMENDMENT AT ANY TIME PRIOR TO THEIR EFFECTIVENESS NOTWITHSTANDING AUTHORIZATION THEREOF BY Z-TEL'S STOCKHOLDERS.

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The board of directors has fixed the close of business on October 25, 2004 as the record date for the determination of stockholders entitled to notice of and to vote at the special meeting and at any adjournment or postponement thereof.

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Accompanying this notice of special meeting and the proxy statement is a proxy. Whether or not you expect to attend the special meeting, please complete, sign and date the enclosed proxy and return it promptly. If you plan to attend the special meeting and wish to vote your shares personally, you may do so at any time before the proxy is voted.

All stockholders are cordially invited to attend the meeting.

By Order of the Board of Directors

Horace J. Davis, III
Acting Chief Executive Officer, Treasurer and
Executive Vice President -- Chief Financial
Officer

Tampa, Florida

, 2004

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SUMMARY TERM SHEET

This summary term sheet highlights selected material information from this proxy statement, but may not contain all of the information that is important to you. Z-Tel urges you to carefully review the entire proxy statement before you decide how to vote.

Summary of Exchange Offer and Related Transactions (Pages 29-45)

At the special meeting, Z-Tel's Common Stockholders ("Common Stockholders"), holders of series D preferred stock ("Series D Preferred Stockholders") and holders of series E preferred stock ("Series E Preferred Stockholders") will be asked to approve the exchange offer and related transactions (subject in each case to the impact of any reverse stock split). Holders of series G preferred stock ("Series G Preferred Stockholders" and together with Series D Preferred Stockholders and Series E Preferred Stockholders, "Preferred Stockholders" and further together with Common Stockholders, "Stockholders") will be asked to approve related transactions affecting the series G preferred stock and its certificate of designation. The exchange offer and related transactions consist of:

- o an offer made to Preferred Stockholders to exchange Z-Tel's series D preferred stock ("Series D Preferred Stock"), series E preferred stock ("Series E Preferred Stock") and series G preferred stock ("Series G Preferred Stock" and together with the Series D Preferred Stock and Series E Preferred Stock, the "Preferred Stock") stock for common stock, par value \$.01 per share ("Common Stock") of Z-Tel (the "Exchange Offer"),
- o an amendment to the terms of the Series D Preferred Stock to eliminate certain restrictive provisions contained therein, subject to approval and consummation of the Exchange Offer,
- o an amendment to the certificate of incorporation to eliminate the Series D Preferred Stock, subject to approval and consummation of the

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Exchange Offer, and subject to all of the Series D Preferred Stock being exchanged in the Exchange Offer,

- o an amendment to the certificate of incorporation to eliminate the Series E Preferred Stock, subject to approval and consummation of the Exchange Offer,
- o an amendment to the terms of the Series G Preferred Stock to eliminate certain restrictive provisions contained therein, subject to approval and consummation of the Exchange Offer,
- o an amendment to the certificate of incorporation to eliminate the Series G Preferred Stock, subject to approval and consummation of the Exchange Offer, and subject to all of the Series G Preferred Stock being exchanged in the Exchange Offer,
- o an amendment of Z-Tel's certificate of incorporation to effect a 3 for 1, 4 for 1, 5 for 1, 6 for 1, 7 for 1 or 8 for 1 reverse stock split of the Common Stock, as determined at the direction of the board of directors and subject to approval and consummation of the Exchange Offer, which reverse stock split at any or all of the foregoing ratios may be abandoned at any time prior to effectiveness at the discretion of the board of directors notwithstanding Z-Tel Stockholder authorization thereof, and
- o adoption of the 2004 Stock Incentive Plan (the "Plan") and reservation of shares for issuance thereunder representing 8% of the Common Stock on a fully diluted basis (excluding out of the money options and warrants to acquire common stock, but including shares reserved for issuance under the Plan), after giving effect to any reverse stock split described above ("Fully Diluted Common Stock"), subject to approval and consummation of the Exchange Offer.

You will also be asked to approve an amendment to Z-Tel's certificate of incorporation changing its name to "Trinsic, Inc." The name change amendment is not related to or contingent upon the Exchange Offer or any of the other proposals set forth in this proxy statement.

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In this proxy statement, whenever we refer to the "related transactions" or the "related proposals," we are only referring to the Exchange Offer, the Preferred Stock amendments and certificate of designation eliminations, the reverse stock split authorization and the Plan and reservation of shares for issuance thereunder and not to the name change amendment. The Exchange Offer and related transactions will be implemented only if they are all approved at the special meeting by the Stockholders entitled to vote thereon. If the Exchange Offer is not approved and consummated, none of the series of Preferred Stock will be amended, the reverse stock split will not be implemented and the Plan will not be adopted. However, if the name change amendment is approved, it will be implemented (subject to the right of the board of directors to abandon it in its discretion) regardless of whether the Exchange Offer and related transactions are implemented.

Terms of the Exchange Offer (Pages 29-34)

In the proposed Exchange Offer, Z-Tel is offering to exchange any or all of the shares of its outstanding Preferred Stock as follows (subject in each case to the impact of any reverse stock split):

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- o to exchange 25.69030 shares of its Common Stock for each share of its Series D Preferred Stock, which as of September 27, 2004 has a liquidation value of \$16.55 per share and conversion price of \$8.47 per share (representing an exchange price of approximately \$0.644 per share);
- o to exchange 25.24216 shares of its Common Stock for each share of its Series E Preferred Stock, which as of September 27, 2004 has a liquidation value of \$16.26 per share and conversion price of \$8.08 per share (representing an exchange price of approximately \$0.644 per share); and
- o to exchange 161,469.4 shares of its Common Stock for each share of its Series G Preferred Stock, which as of September 27, 2004 has a liquidation value of \$144,975.90 per share and conversion price of \$1.28 per share (representing an exchange price of approximately \$0.898 per share).

Reasons for the Exchange Offer and Related Transactions (Page 24)

Z-Tel is proposing the Exchange Offer at this time:

- o to improve and simplify our capital structure by eliminating all or substantially all of the approximately \$158.4 million aggregate liquidation value of Preferred Stock, as of September 27, 2004, in exchange for Common Stock, thereby enabling us to potentially attract necessary additional financing for our business plan;
- o to eliminate all or substantially all of the dividends payable to holders of Preferred Stock and the related dilutive effect on Common Stockholders (and increase the equity and earnings attributable to Common Stock);
- o to reduce or eliminate the mandatory redemption payments on our Preferred Stock, which will be due in 2006 on the Series G Preferred Stock and in 2008 on the Series D Preferred Stock and Series E Preferred Stock;
- o to increase the aggregate market value of our Common Stock, which is currently below the \$35 million minimum amount required to maintain listing on the Nasdaq SmallCap Market, to an amount substantially in excess of the minimum amount required to maintain listing of the Common Stock on the Nasdaq SmallCap Market;
- o to increase our net book value by eliminating or reducing from our balance sheet the long-term liability associated with the Preferred Stock;
- o because failure to convert the Preferred Stock to Common Stock would prevent Z-Tel from being able to execute its business plan and most likely result in Z-Tel's need to downsize significantly or liquidate; and

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- o because the effective conversion prices for the Preferred Stock are significantly higher than the trading prices of the Common Stock prior to the commencement of the Exchange Offer.

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Z-Tel is proposing the amendments to the Preferred Stock certificates of designation at this time because it believes the amendments will reduce the impact of restrictive certificate of incorporation provisions imposed by any small amount of Series D Preferred Stock or Series G Preferred Stock not participating in the Exchange Offer and will otherwise eliminate certificate of incorporation provisions relating to Preferred Stock that is no longer outstanding.

Z-Tel is proposing the reverse stock split at this time because it believes:

- o the reverse stock split will facilitate the Exchange Offer by ensuring that enough Common Stock is available to consummate the Exchange Offer; and
- o the reverse stock split will increase the bid price per share of Common Stock, which is currently below the \$1.00 minimum amount required to maintain listing on the Nasdaq SmallCap Market, to an amount substantially in excess of the minimum amount required to maintain listing of the Common Stock on the Nasdaq SmallCap Market.

Z-Tel is proposing the Plan and reservation of shares for issuance thereunder to provide incentives to attract, retain and motivate employees, consultants and directors and to provide for competitive compensation opportunities, to encourage long term service, to recognize individual contributions and reward achievement of performance goals, and to promote the creation of long term value for stockholders by aligning the interests of such persons with those of stockholders.

Notwithstanding the fact that the Exchange Offer and related transactions are conditioned upon approval by stockholders, we commenced the Exchange Offer because under applicable law the Exchange Offer is required to be kept open for a minimum of 20 business days and we believe we should attempt to synchronize the Exchange Offer period and the notice period for the special meeting so that they run concurrently, with an overall view towards most expeditiously and efficiently consummating the Exchange Offer and related transactions.

Impact of the Exchange Offer and Related Transactions
on the Holders of Z-Tel's Capital Stock (Page 27)

If the Exchange Offer and related transactions are approved by Z-Tel's Stockholders at the special meeting, Z-Tel intends to complete such transactions within 10 business days following the special meeting. If the Exchange Offer was completed, following the Exchange Offer and related transactions:

- o Z-Tel's Common Stock will remain outstanding. However, each share of Common Stock will be converted into 1/3, 1/4, 1/5, 1/6, 1/7 or 1/8 of a share of Common Stock, as a result of the reverse stock split, and will vote with any remaining holders of Series D Preferred Stock (to the extent any shares of Series D Preferred Stock remain outstanding following the Exchange Offer) to elect directors to Z-Tel's board of directors;
- o shares of Series D Preferred Stock and Series G Preferred Stock tendered in the Exchange Offer will be retired, shares of Series D Preferred Stock and Series G Preferred Stock not tendered in the Exchange Offer will remain outstanding, and the remaining holders of Series D Preferred Stock and Series G Preferred Stock will no longer have the benefit of certain restrictive provisions contained in the certificates of designation relating to the Series D Preferred Stock and Series G Preferred Stock, respectively;

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- o if all of the Series D Preferred Stock or Series G Preferred Stock is tendered in the Exchange Offer, such series will be retired, the former Stockholders of such retired series will receive, in exchange for that Preferred Stock outstanding immediately prior to the Exchange Offer, shares of

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Common Stock, and Z-Tel's certificate of incorporation will be amended to eliminate the certificate of designation relating to such series;

- o Z-Tel's Series E Preferred Stock will be retired, the Series E Preferred Stockholders will receive, in exchange for the Series E Preferred Stock outstanding immediately prior to the Exchange Offer, shares of Common Stock, and Z-Tel's certificate of incorporation will be amended to eliminate the Series E Preferred Stock certificate of designation; and
- o assuming all outstanding shares of Preferred Stock are exchanged for Common Stock, immediately following the Exchange Offer and related transactions:
- o Z-Tel's pre-existing Common Stockholders and in-the-money warrant holders will own or have the right to acquire an aggregate of 13.8% of the Fully Diluted Common Stock,
- o Z-Tel's former Series D Preferred Stockholders will own an aggregate of 34.0% of the Fully Diluted Common Stock,
- o Z-Tel's former Series E Preferred Stockholders will own an aggregate of 35.0% of the Fully Diluted Common Stock, and
- o Z-Tel's former Series G Preferred Stockholders will own an aggregate of 9.2% of the Fully Diluted Common Stock.

Conditions to the Exchange Offer and Related Transactions (Page 29)

Z-Tel will not consummate the Exchange Offer or any of the related transactions unless (1) the Exchange Offer and related transactions are approved by the stockholders entitled to vote thereon and (2) all of the Preferred Stock owned by The 1818 Fund III, L.P. ("The 1818 Fund") is tendered for exchange in the Exchange Offer. In addition, because The 1818 Fund owns all of the Series E Preferred Stock and more than a majority of the Series G Preferred Stock, the Exchange Offer and related transactions cannot be approved unless The 1818 Fund votes in favor of such proposals at the special meeting. We will announce, by means of a press release, the number of shares of each series of Preferred Stock tendered as of the close of business (1) on the second business day preceding the date of the special meeting and (2) on the second business day prior to expiration of the Exchange Offer. We will also announce, by means of a press release, when The 1818 Fund has tendered its shares of Preferred Stock. If necessary, we will extend the Exchange Offer to the close of business on the fifth business day following the date upon which The 1818 Fund tenders its shares of Preferred Stock.

In addition, Z-Tel may terminate, amend or postpone consummation of the Exchange Offer if at any time prior to its expiration:

- o any action or proceeding is instituted or threatened in any court or

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by or before any governmental agency with respect to the Exchange Offer, or any material adverse development has occurred in any existing action or proceeding with respect to us or any of our subsidiaries, which, in Z-Tel's reasonable judgment, might materially impair our ability to proceed with the Exchange Offer;

- o any law, statute, rule or regulation is proposed, adopted or enacted which, in Z-Tel's reasonable judgment, might materially impair its ability to proceed with the Exchange Offer; or
- o any governmental approval has not been obtained, which approval Z-Tel, in its reasonable judgment, shall deem necessary for the consummation of the Exchange Offer as contemplated hereby.

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Recommendation of the Board of Directors (Page 33)

After careful consideration and after receiving a written opinion from Morgan Keegan & Company, Inc. as to the fairness, from a financial point of view, to Common Stockholders of the Exchange Offer, a special committee of Z-Tel's board of directors determined that the Exchange Offer is in the best interests of Common Stockholders. On the basis of such determination, the board of directors directed that the Exchange Offer be submitted to Stockholders for their approval. The board of directors recommends that Common Stockholders vote in favor of the Exchange Offer. The board of directors is not making any recommendation to Preferred Stockholders with respect to the Exchange Offer.

The board of directors also directed that the several amendments to the certificate of incorporation, the amendments to eliminate the Preferred Stock certificates of designation, the reverse stock split alternatives, and the Plan be submitted to Stockholders for approval, subject to approval and consummation of the Exchange Offer and that the name change amendment be submitted to Stockholders for approval.

The board of directors has determined that, subject to approval and consummation of the Exchange Offer, each of the amendments to the Series D Preferred Stock and Series G Preferred Stock certificates of designation are in the best interests of Common Stockholders and recommends that Common Stockholders vote in favor of such proposals. The board of directors is not making any recommendation to Preferred Stockholders as to how they should vote on the proposal to amend the Series D Preferred Stock and Series G Preferred Stock certificates of designation.

The board of directors determined that, subject to approval and consummation of the Exchange Offer, the several amendments to the certificate of incorporation to eliminate each Preferred Stock certificate of designation relating to a series that is no longer outstanding, the reverse stock split alternatives, and the Plan are all in the best interests of Stockholders and recommends that Stockholders vote in favor of such proposals.

The board of directors also has determined that the name change amendment is in the best interests of Stockholders and recommends that Stockholders vote in favor of the name change amendment proposal.

The board of directors reserves the right to abandon any or all of the several amendments to and eliminations of the Preferred Stock certificates of designation, any or all of the reverse stock split alternatives or the name change amendment at any time prior to their effectiveness notwithstanding

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authorization thereof by Stockholders.

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PROXY STATEMENT

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Proxy

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Z-TEL TECHNOLOGIES, INC.
601 South Harbour Island Boulevard, Suite 220
Tampa, Florida 33602

PROXY STATEMENT

This proxy statement is being furnished to the stockholders of Z-Tel Technologies, Inc. (collectively, "Stockholders"), a Delaware corporation, in connection with the solicitation of proxies by Z-Tel's board of directors from the holders of outstanding shares of Common Stock ("Common Stockholders"), Series D Preferred Stock ("Series D Preferred Stockholders"), Series E Preferred Stock ("Series E Preferred Stockholders") and Series G Preferred Stock ("Series G Preferred Stockholders") for use at the special meeting of Stockholders of Z-Tel to be held on Tuesday, November 16, 2004, and any adjournments or postponements thereof.

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All Stockholders who find it convenient to do so are cordially invited to attend the meeting in person. In any event, please complete, sign, date and return the proxy in the enclosed envelope.

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS, THE EXCHANGE OFFER AND THE RELATED PROPOSED TRANSACTIONS

Why am I receiving this proxy statement?

You have received this proxy statement and the enclosed proxy from Z-Tel because you hold shares of Common Stock, Series D Preferred Stock, Series E Preferred Stock and/or Series G Preferred Stock. The board of directors of Z-Tel is soliciting your proxy to vote on the Exchange Offer and related proposed transactions and the name change amendment to be considered at the special meeting, as applicable. As a stockholder, you are invited to attend the special meeting and are entitled to and requested to vote on the proposals described in this proxy statement.

What information is contained in this proxy statement?

The information included in this proxy statement relates to the proposals to be voted on at the special meeting, the board of directors' recommendations regarding the proposals, procedures for voting at the special meeting and other information required by federal securities laws.

What are the proposed Exchange Offer and related transactions?

The proposals to be voted on at the special meeting include proposals relating to an Exchange Offer being made to holders of Z-Tel's several series of outstanding Preferred Stock. In the proposed Exchange Offer, Z-Tel has offered to exchange any or all of shares of its outstanding Preferred Stock as follows (subject in each case to the impact of any reverse stock split):

- o to exchange 25.69030 shares of its Common Stock for each share of its Series D Preferred Stock, which as of September 27, 2004 has a liquidation value (representing original investment plus accrued and unpaid dividends) of \$16.55 per share and conversion price of \$8.47 per share (representing an exchange price of approximately \$0.644 per share);
- o to exchange 25.24216 shares of its Common Stock for each share of its Series E Preferred Stock, which as of September 27, 2004 has a liquidation value of \$16.26 per share and conversion price of \$8.08 per share (representing an exchange price of approximately \$0.644 per share); and
- o to exchange 161,469.4 shares of its Common Stock for each share of its Series G Preferred Stock, which as of September 27, 2004 has a liquidation value of \$144,975.90 per share and conversion price of \$1.28 per share (representing an exchange price of approximately \$0.898 per share).

Subject to approval and consummation of the Exchange Offer, Z-Tel proposes to

- o amend the terms of the several series of Preferred Stock to eliminate certain restrictive provisions contained therein, unless all of any particular series of Preferred Stock is exchanged in the Exchange

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Offer, in which case the certificate of incorporation also will be amended to eliminate each fully exchanged series of Preferred Stock,

- o amend Z-Tel's certificate of incorporation to effect a 3 for 1, 4 for 1, 5 for 1, 6 for 1, 7 for 1 or 8 for 1 reverse stock split of the Common Stock, as determined at the direction of the board of directors, which reverse stock split at any or all of the foregoing ratios may be abandoned at any time prior to effectiveness at the discretion of the board of directors, notwithstanding Z-Tel Stockholder authorization thereof, and
- o adopt the Plan and reservation of shares for issuance thereunder representing 8% of the Fully Diluted Common Stock.

If all of any particular series of Preferred Stock is exchanged in the Exchange Offer, Z-Tel proposes to amend the certificate of incorporation to eliminate each such fully exchanged series of Preferred Stock.

If the Exchange Offer is not approved and consummated, none of the series of Preferred Stock will be amended, the reverse stock split will not be implemented and the Plan will not be adopted.

What is the name change amendment?

Z-Tel has been doing business for some time under the brand name "Trinsic." The difference between Z-Tel's name as a legal entity and its brand name can be a source of confusion for Z-Tel's vendors and customers. Accordingly, Z-Tel is seeking an amendment to its certificate of incorporation to change its legal entity name to "Trinsic, Inc."

How would the Exchange Offer and related transactions affect the holders of Z-Tel's capital stock?

If the Exchange Offer was completed, following the Exchange Offer and related transactions:

- o Z-Tel's Common Stock will remain outstanding. However, each share of Common Stock will be converted into 1/3, 1/4, 1/5, 1/6, 1/7 or 1/8 of a share of Common Stock, as a result of the reverse stock split, and will vote with any remaining holders of Series D Preferred Stock (to the extent any shares of Series D Preferred Stock remain outstanding following the Exchange Offer) to elect directors to Z-Tel's board of directors;
- o shares of Series D Preferred Stock and Series G Preferred Stock tendered in the Exchange Offer will be retired, shares of Series D Preferred Stock and Series G Preferred Stock not tendered in the Exchange Offer will remain outstanding, and the remaining holders of Series D Preferred Stock and Series G Preferred Stock will no longer have the benefit of certain restrictive provisions contained in the certificates of designation relating to the Series D Preferred Stock and Series G Preferred Stock, respectively;
- o Z-Tel's Series E Preferred Stock will be retired, the Series E Preferred Stockholders will receive, in exchange for the Series E Preferred Stock outstanding immediately prior to the Exchange Offer, shares of Common Stock, and Z-Tel's certificate of incorporation will be amended to eliminate the Series E Preferred Stock certificate of designation;
- o assuming all outstanding shares of Preferred Stock are exchanged for Common Stock, immediately following the Exchange Offer and related

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transactions:

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- o Z-Tel's pre-existing Common Stockholders and in-the-money warrant holders will own or have the right to acquire an aggregate of 13.8% of the Fully Diluted Common Stock,
- o Z-Tel's former Series D Preferred Stockholders will own an aggregate of 34.0% of the Fully Diluted Common Stock (including Common Stock available to be issued under the Plan),
- o Z-Tel's former Series E Preferred Stockholders will own an aggregate of 35.0% of the Fully Diluted Common Stock (including Common Stock available to be issued under the Plan), and
- o Z-Tel's former Series G Preferred Stockholders will own an aggregate of 9.2% of the Fully Diluted Common Stock (including Common Stock available to be issued under the Plan).

What are the conditions to the Exchange Offer and related transactions?

Z-Tel will not consummate the Exchange Offer or any of the related transactions unless (1) the Exchange Offer and related transactions are approved by the Stockholders entitled to vote thereon and (2) all of the Preferred Stock owned by The 1818 Fund is tendered for exchange in the Exchange Offer. In addition, because The 1818 Fund owns all of the Series E Preferred Stock and more than a majority of the Series G Preferred Stock, the Exchange Offer and related transactions cannot be approved unless The 1818 Fund votes in favor of such proposals at the special meeting. We will announce, by means of a press release, the number of shares of each series of Preferred Stock tendered as of the close of business (1) on the second business day preceding the date of the special meeting and (2) on the second business day prior to expiration of the Exchange Offer. We will also announce, by means of a press release, when The 1818 Fund has tendered its shares of Preferred Stock. If necessary, we will extend the Exchange Offer to the close of business on the fifth business day following the date upon which The 1818 Fund tenders its shares of Preferred Stock.

In addition, Z-Tel may terminate, amend or postpone consummation of the Exchange Offer if at any time prior to its expiration:

- o any action or proceeding is instituted or threatened in any court or by or before any governmental agency with respect to the Exchange Offer, or any material adverse development has occurred in any existing action or proceeding with respect to us or any of our subsidiaries, which, in Z-Tel's reasonable judgment, might materially impair our ability to proceed with the Exchange Offer;
- o any law, statute, rule or regulation is proposed, adopted or enacted which, in Z-Tel's reasonable judgment, might materially impair its ability to proceed with the Exchange Offer; or
- o any governmental approval has not been obtained, which approval Z-Tel, in its reasonable judgment, shall deem necessary for the consummation of the Exchange Offer as contemplated hereby.

Why is Z-Tel proposing the Exchange Offer and related transactions?

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Z-Tel is proposing the Exchange Offer at this time:

- o to improve and simplify our capital structure by eliminating all or substantially all of the approximately \$158.4 million aggregate liquidation value of Preferred Stock, as of September 27, 2004, in exchange for Common Stock, thereby enabling us to potentially attract necessary additional financing for our business plan;
- o to eliminate all or substantially all of the dividends payable to holders of Preferred Stock and the related dilutive effect on Common Stockholders (and increase the equity and earnings attributable to Common Stock);

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- o to reduce or eliminate the mandatory redemption payments on our Preferred Stock, which will be due in 2006 on the Series G Preferred Stock and in 2008 on the Series D Preferred Stock and Series E Preferred Stock;
- o to increase the aggregate market value of our Common Stock, which is currently below the \$35 million minimum amount required to maintain listing on the Nasdaq SmallCap Market, to an amount substantially in excess of the minimum amount required to maintain listing of the Common Stock on the Nasdaq SmallCap Market;
- o to increase our net book value by eliminating or reducing from our balance sheet the long-term liability associated with the Preferred Stock;
- o because failure to convert the Preferred Stock to Common Stock would prevent Z-Tel from being able to execute its business plan and most likely result in Z-Tel's need to downsize significantly or liquidate; and
- o because the effective conversion prices for the Preferred Stock were significantly higher than the trading prices of the Common Stock prior to the commencement of the Exchange Offer.

Z-Tel is proposing the amendments to the Preferred Stock certificates of designation at this time because it believes the amendments will reduce the impact of restrictive certificate of incorporation provisions imposed by any small amount of Series D Preferred Stock or Series G Preferred Stock not participating in the Exchange Offer and will otherwise eliminate certificate of incorporation provisions relating to Preferred Stock that is no longer outstanding.

Z-Tel is proposing the reverse stock split at this time because it believes:

- o the reverse stock split will facilitate the Exchange Offer by ensuring that enough Common Stock is available to consummate the Exchange Offer; and
- o the reverse stock split will increase the bid price per share of Common Stock, which is currently below the \$1.00 minimum amount required to maintain listing on the Nasdaq SmallCap Market, to an amount substantially in excess of the minimum amount required to

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maintain listing of the Common Stock on the Nasdaq SmallCap Market.

Z-Tel is proposing the Plan and reservation of shares for issuance thereunder to provide incentives to attract, retain and motivate employees, consultants and directors and to provide for competitive compensation opportunities, to encourage long-term service to recognize individual contributions and reward achievement of performance goals, and to promote the creation of long term value for Stockholders by aligning the interests of such persons with those of Stockholders.

Why is Z-Tel asking Stockholders to vote upon the Exchange Offer?

The Exchange Offer is a transaction which may require Stockholder approval pursuant to the rules of the Nasdaq SmallCap Market. As discussed elsewhere in this proxy statement, the Common Stock may be delisted from the Nasdaq SmallCap Market. Notwithstanding any such delisting, the board of directors has determined that the Exchange Offer is a transaction of sufficient significance and consequence that it should be submitted for approval to the Stockholders of Z-Tel. Z-Tel will not consummate the Exchange Offer unless it and the related transactions are approved by Stockholders.

Notwithstanding the fact that the Exchange Offer and related transactions are conditioned upon approval by stockholders, we commenced the Exchange Offer because under applicable law the Exchange Offer is required to be kept open for a minimum of 20 business days and we believe we should attempt to synchronize the Exchange Offer period and the notice period for the special meeting so that they run concurrently, with an overall view towards most expeditiously and efficiently consummating the Exchange Offer and related transactions.

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Did Z-Tel consider any negative factors that could or do arise from the Exchange Offer and related transactions?

Z-Tel considered several negative factors that could or will arise from the Exchange Offer and related transactions, including:

- o the anticipated aggregate costs of the Exchange Offer and related transactions, which are estimated to be approximately \$1.0 million, that will be incurred,
- o the risk that the anticipated benefits of the Exchange Offer and related transactions might not be fully realized, and
- o the Common Stockholders will have their percentage ownership in the outstanding Common Stock substantially diluted due to the additional shares of Common Stock to be issued in the Exchange Offer.

Did Z-Tel's independent directors make a determination that the Exchange Offer is in the best interests of the Common Stockholders?

Because certain members of Z-Tel's board of directors either hold or are affiliated with holders of Preferred Stock, Z-Tel's board of directors formed a special committee of its independent directors comprised of Messrs. John K. Aurell, W. Andrew Krusen, Jr. and Richard F. LaRoche, Jr., to evaluate the fairness, from a financial point of view, of the Exchange Offer to the Common Stockholders. The special committee retained the services of a financial advisor, Morgan Keegan & Company, Inc. Morgan Keegan has delivered a written

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opinion to the special committee as to the fairness, from a financial point of view, of the Exchange Offer to the Common Stockholders. The full text of Morgan Keegan's written opinion is attached to this proxy statement as Annex F. Z-Tel encourages you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Morgan Keegan's opinion is directed to the special committee and does not constitute a recommendation to any stockholder as to any matter relating to the Exchange Offer or any related transactions.

In addition to the opinion of Morgan Keegan, the special committee considered other factors:

- o the conversion of the Preferred Stock into Common Stock is essential for Z-Tel to be able to attract the financing necessary for the business plan, and
- o if the Exchange Offer is not successful and the business plan is not financed, the likely value of the Common Stock would be zero.

What conflicts of interest might Z-Tel's directors and officers have in the Exchange Offer and related transactions?

When considering the recommendation of Z-Tel's board of directors, you should be aware that some Z-Tel directors and officers have interests in the Exchange Offer and related transactions that may be different from, or in addition to, yours. These interests include:

- o Messrs. Lawrence C. Tucker and Andrew C. Cowen, directors of Z-Tel, are affiliates of The 1818 Fund, which owns all of the outstanding Series E Preferred Stock and approximately 73% of the outstanding Series G Preferred Stock.
- o Mr. Charles D. Hyman, a director of Z-Tel, owns approximately 0.5% of the outstanding Series D Preferred Stock and approximately 0.9% of the outstanding Series G Preferred Stock.
- o Directors and Officers of Z-Tel generally will be eligible to receive equity incentives pursuant to the Plan.

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Other than as described above and payments made to directors and officers in their capacities as such, no payments or benefits will be paid to Z-Tel's current directors or officers as a result of the Exchange Offer and related transactions.

Has Z-Tel been advised that any of its Stockholders intend to vote in favor of the Exchange Offer and related transactions?

Z-Tel has been advised by The 1818 Fund that it currently intends to vote in favor of the Exchange Offer and related transactions, subject to Z-Tel receiving tenders of substantially all of the Preferred Stock in the Exchange Offer, in its sole judgment. The 1818 Fund has not advised Z-Tel what level of tenders would, in its judgment, constitute "substantially all" of the Preferred Stock. The 1818 Fund is not obligated to vote in favor of the Exchange Offer or any of the related transactions and may decide not to do so at any time for any reason. However, because The 1818 Fund owns all of the Series E Preferred Stock and more than a majority of the Series G Preferred Stock, the Exchange Offer and

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related transactions cannot be approved unless The 1818 Fund votes in favor of such proposals at the special meeting. We will announce, by means of a press release, the number of shares of each series of Preferred Stock tendered as of the close of business (1) on the second business day preceding the date of the special meeting and (2) on the second business day prior to expiration of the Exchange Offer. We will also announce, by means of a press release, when The 1818 Fund has tendered its shares of Preferred Stock. If necessary, we will extend the Exchange Offer to the close of business on the fifth business day following the date upon which The 1818 Fund tenders its shares of Preferred Stock.

Will I have appraisal rights as a result of the recapitalization?

Stockholders will not have appraisal rights as a result of the Exchange Offer or related transactions.

Are any regulatory approvals required in connection with the Exchange Offer or related transactions?

Z-Tel is not aware of any federal or state regulatory approvals that must be obtained in connection with the Exchange Offer or related transactions.

What are the principal trading markets of the Z-Tel capital stock?

The Common Stock is currently traded on the Nasdaq SmallCap Market under the symbol "ZTEL." However, the Common Stock does not currently meet the following two criteria necessary for continued listing: (1) the aggregate market value of the Common Stock is less than \$35 million and (2) the closing bid price per share of the Common Stock is less than \$1.00. Z-Tel has asked for temporary approval from the Nasdaq SmallCap Market to continue listing the Common Stock through November 30, 2004. However, such temporary approval may not be granted and the Common Stock may be delisted from the Nasdaq SmallCap Market in the near future.

If Z-Tel is able to consummate the Exchange Offer and related transactions Z-Tel believes that the Common Stock will have an aggregate market value substantially in excess of \$35 million and a bid price per share substantially in excess of \$1.00. However, there can be no assurance that the Exchange Offer and related transactions will be consummated prior to November 30, 2004 or that the Common Stock will meet Nasdaq SmallCap Market listing requirements following consummation of Exchange Offer and related transactions. If not successful, Z-Tel expects that the Common Stock will be eligible for quotation on the OTC Bulletin Board. However, although Z-Tel would in such circumstance attempt to have the Common Stock quoted on the OTC Bulletin Board, there can be no assurance that it will be able to do so. Z-Tel believes that the failure to maintain the listing of its Common Stock on the Nasdaq SmallCap Market could have an adverse effect on the liquidity and price of the Common Stock and that this effect would be exacerbated if the Common Stock is not quoted on the OTC Bulletin Board.

The Preferred Stock is not currently traded in any trading market.

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What are the material federal income tax considerations of the Exchange Offer and the related transactions?

The tax consequences of the Exchange Offer to holders of Preferred Stock are explained in the offering circular sent to Preferred Stockholders.

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The reverse stock split, other than cash paid for fractional shares, will generally be tax-free to Common Stockholders for United States federal income tax purposes. However, tax matters are very complicated and the tax consequences of the reverse stock split to you will depend on your own personal circumstances. You should consult your tax advisors for a full understanding of all of the tax consequences of the reverse stock split to you.

What is the anticipated accounting treatment of the transaction?

The exchange of Common Stock for Preferred Stock will be treated as an induced conversion for accounting purposes per Financial Accounting Standards Board ("FASB") Statement No. 84, "Induced Conversions of Convertible Debt." An "induced conversion" is considered to occur when the conversion privileges, pursuant to the original terms of the instrument, are changed or additional consideration is offered to security holders for the purpose of inducing prompt conversion of the security. Per Topic D-42 and FASB 84, a dividend charge will be incurred representing the difference between the value of the Common Stock issued in the Exchange Offer, and the value of the shares that were issuable under the original conversion terms of the Preferred Stock. The dividend charge will result in an adjustment to net earnings in the quarter in which the conversion is approved. This adjustment is expected to be a reduction to net earnings, assuming Z-Tel's common stock price remains below the preferred stock effective exchange price on the day the conversion is approved. Earnings per share attributable to common stock will be adjusted due to the dividend and will show an even greater loss per common share outstanding.

A reverse stock split will not affect Z Tel's results of operations. Because the number of outstanding shares of Common Stock will be reduced, the per share values of operation and value per share will be increased.

What will be the sources and uses of funds in the transaction?

The Common Stock issued in the Exchange Offer is being issued in exchange for outstanding securities of Z-Tel. No funds will be required for the Exchange Offer and related transactions other than cash payments for fractional shares as a consequence of a reverse stock split and transaction costs, which will be paid from working capital. Z-Tel will not receive any cash proceeds from the issuance of Common Stock in the exchanges.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING

Where and when is the special meeting being held?

The special meeting will be held at the our offices located at _____, on Tuesday, November 16, 2004, at _____, Eastern time.

What is the purpose of the special meeting?

The special meeting is being held to consider and vote upon:

- o an Exchange Offer, at the election of the holders thereof (subject in each case to the impact of any reverse stock split):
- o 25.69030 shares of its Common Stock, for each share of its Series D Preferred Stock (representing an exchange price of approximately

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\$0.644 per share);

- o 25.24216 shares of its Common Stock for each share of its Series E Preferred Stock (representing an exchange price of approximately \$0.644 per share); and
- o 161,469.4 shares of its Common Stock for each share of its Series G Preferred Stock (representing an exchange price of approximately \$0.898 per share);
- o subject to approval and consummation of the Exchange Offer, an amendment to the terms of the Series D Preferred Stock to eliminate certain restrictive provisions contained therein;
- o subject to approval and consummation of the Exchange Offer, an amendment to the certificate of incorporation to eliminate the Series E Preferred Stock;
- o subject to approval and consummation of the Exchange Offer, an amendment to the terms of the Series G Preferred Stock to eliminate certain restrictive provisions contained therein;
- o subject to approval and consummation of the Exchange Offer, and subject to all of the Series D Preferred Stock being exchanged in the Exchange Offer, an amendment of the certificate of incorporation to eliminate the Series D Preferred Stock;
- o subject to approval and consummation of the Exchange Offer, and subject to all of the Series G Preferred Stock being exchanged in the Exchange Offer, an amendment of the certificate of incorporation to eliminate the Series G Preferred Stock;
- o subject to approval and consummation of the Exchange Offer, an amendment of Z-Tel's certificate of incorporation to effect a 3 for 1, 4 for 1, 5 for 1, 6 for 1, 7 for 1 or 8 for 1 reverse stock split of the Common Stock, as determined at the direction of the board of directors, which reverse stock split may be abandoned at the discretion of the board of directors; and
- o subject to approval and consummation of the Exchange Offer, adoption of the Plan and reservation of shares for issuance thereunder representing 8% of the Fully Diluted Common Stock.

At the special meeting, Stockholders will also be asked to approve an amendment to Z-Tel's certificate of incorporation to change its name to "Trinsic, Inc."

The board of directors knows of no other business that will be presented for consideration at the special meeting. However, if any matters are properly presented at the special meeting or any adjournment or postponement of the special meeting (including any motion to adjourn the special meeting to permit the Company to solicit addi-

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tional votes in favor of the Exchange Offer and related transactions) the proxy holders will be granted discretionary authority with respect to any such matter.

Who is entitled to vote at the special meeting?

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These proposals will be submitted for approval to the record holders of Z-Tel's Common Stock, Series D Preferred Stock and Series E Preferred Stock as of October 25, 2004, the record date established by the board of directors for determining Stockholders entitled to vote at the special meeting, all voting together as a single class.

In addition to the votes described in the preceding paragraph, proposals II and III will be submitted for approval to the record holders of Z-Tel's Series D Preferred Stock as of October 25, 2004, voting as a separate class, proposal IV will be submitted for approval to the record holders of Z-Tel's Series E Preferred Stock as of October 25, 2004, voting as a separate class and proposals V and VI will be submitted for approval to the record holders of Z-Tel's Series G Preferred Stock as of October 25, 2004, voting as a separate class.

As of the record date, there were shares of Common Stock issued, outstanding and entitled to be voted at the special meeting, shares of Series D Preferred Stock issued, outstanding and entitled to be voted at the special meeting with a Common Stock voting strength equal to shares of Common Stock, shares of Series E Preferred Stock issued, outstanding and entitled to be voted at the special meeting with a Common Stock voting strength equal to shares of Common Stock, and shares of Series G Preferred Stock issued, outstanding and entitled to be voted at the special meeting with no Common Stock voting rights.

How many votes do I have?

For the purposes of each vote of the Common Stock, Series D Preferred Stock and Series E Preferred Stock as a single class, each share of Common Stock is entitled to one vote, each share of Series D Preferred Stock is entitled to votes per share, which is the number of votes equal to the Series D Preferred Stock liquidation value per share divided by the Series D Preferred Stock conversion price, each as of the record date for the special meeting, and each share of Series E Preferred Stock is entitled to votes per share, which is the number of votes equal to the Series E Preferred Stock liquidation value per share divided by the Series E Preferred Stock conversion price, each as of the record date for the special meeting.

For the purpose of the Series D Preferred Stock class vote on proposals II and III, each share of Series D Preferred Stock is entitled to one vote.

For the purpose of the Series E Preferred Stock class vote on proposal IV, each share of Series E Preferred Stock is entitled to one vote.

For the purpose of the Series G Preferred Stock class vote on proposals V and VI, each share of Series G Preferred Stock is entitled to one vote.

How do I vote by proxy?

If you complete and properly sign the accompanying proxy card and return it to Z-Tel, and if it is received in time and not revoked, it will be voted at the special meeting in accordance with the instructions indicated in such proxy. If you are a registered stockholder and attend the meeting, you may deliver your completed proxy card at that time or vote in person. If your shares of Z-Tel stock are held in "street name" and you wish to vote at the meeting, you must obtain a proxy card from the broker, bank or other nominee that holds your shares. If no instructions are indicated on a proxy card returned to Z-Tel, the shares represented by that proxy will be voted "FOR" the Exchange Offer and each of the other proposals and in the discretion of the proxy holder as to any other matter that may properly come before the special meeting or any adjournment or postponement thereof. No proxy voted against the Exchange Offer or any of the other proposals will be voted in favor of any adjournment or postponement of the meeting.

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Can I vote in person at the special meeting?

If you plan to attend the special meeting and vote in person, you will receive a ballot when you arrive. If your shares are held in the name of a broker, bank or other nominee, you must follow instructions received from that broker, bank or nominee with this proxy statement in order to vote at the special meeting or to change your vote.

Can I revoke my vote after I return my proxy card?

Yes. If you are a registered holder, you may revoke your proxy at any time prior to its exercise at the special meeting by:

- o filing with corporate secretary of Z-Tel, at or before the taking of the vote at the special meeting, a written notice of revocation bearing a later date than the proxy being revoked,
- o duly executing a later-dated proxy relating to the same shares and delivering it to corporate secretary of Z-Tel before the taking of the vote at the special meeting, or
- o attending and voting in person at the special meeting.

All written notices of revocation or other communications with respect to revocation of proxies should be sent to Z-Tel Corporation, 601 South Harbour Island Boulevard, Tampa, Florida 33602, Attention: corporate secretary, or hand delivered to the corporate secretary of Z-Tel at or before the taking of the vote at the special meeting.

If your shares are held in the name of a broker, bank or other nominee, you must follow instructions received from such broker, bank or nominee with this proxy statement in order to revoke your vote or to vote at the special meeting.

What constitutes a quorum?

The presence, in person or by proxy, of holders of (1) a majority of the combined voting power of the outstanding shares of Common Stock, the Series D Preferred Stock and the Series E Preferred Stock, (2) a majority of the outstanding shares of the Series D Preferred Stock as a separate class, (3) a majority of the outstanding shares of the Series E Preferred Stock as a separate class and (4) a majority of the outstanding shares of the Series G Preferred Stock as a separate class will constitute a quorum to conduct business at the special meeting. Proxies received but marked as abstentions or "broker non-votes" (which occur when shares held by brokers or nominees for beneficial owners are voted on some matters but not on others) will be included in the calculation of the number of shares present and entitled to vote at the special meeting for purposes of determining whether a quorum exists, but will not constitute a vote "for" or "against" any matter and thus will be disregarded in the calculation of "votes cast."

What are the recommendations of the board of directors?

Exchange Offer

After careful consideration and after receiving a written opinion from Morgan Keegan & Company, Inc. as to the fairness, from a financial point of

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view, to Common Stockholders of the exchange offer, a special committee of Z-Tel's board of directors determined that the exchange offer is in the best interests of Common Stockholders. On the basis of such determination,

- o The board of directors recommends that Common Stockholders vote FOR the Exchange Offer proposal.
- o The board of directors is not making any recommendation to Preferred Stockholders with respect to the Exchange Offer proposal.

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Amendments to Certificates of Designation, subject to Approval and Consummation of the Exchange Offer

- o The board of directors recommends that Common Stockholders vote FOR the proposals to amend the Series D and Series G Preferred Stock certificates of designation.
- o The board of directors is not making any recommendation to Preferred Stockholders as to how they should vote on the proposal to amend the Series D Preferred Stock and Series G Preferred Stock certificates of designation.

Charter Amendments to Eliminate Certificates of Designation of Preferred Stock Series No Longer Outstanding, Authorization of Reverse Stock Split Alternatives, and Adoption of 2004 Stock Incentive Plan, subject to Approval and Consummation of the Exchange Offer

- o The board of directors recommends that Stockholders vote FOR the proposals to eliminate from Z-Tel's certificate of incorporation certificates of designation relating to series of Preferred Stock no longer outstanding, to authorize the board of directors to adopt, in its discretion, one of the reverse stock split alternatives and to adopt the Plan.

Name Change Amendment

- o The board of directors recommends that Stockholders vote FOR the proposal to change Z-Tel's name to "Trinsic, Inc."

The board of directors reserves the right to abandon any or all of the several amendments to and elimination of the Preferred Stock certificates of designation, any or all of the reverse stock split alternatives or the name change amendment at any time prior to their effectiveness notwithstanding authorization thereof by Stockholders.

What vote is required to approve the Exchange Offer, the related transactions and the name change?

The affirmative vote of a majority of the voting power of the outstanding shares of the Common Stock, Series D Preferred Stock and Series E Preferred Stock, voting together as a single class, cast at the special meeting is required to approve the Exchange Offer and the Plan. The affirmative vote of a majority of the voting power of the outstanding shares of the Common Stock, Series D Preferred Stock and Series E Preferred Stock, voting together as a single class, is required to approve the several amendments to the certificates of designation, the reverse stock split and the name change proposal. In

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addition, an amendment to or termination of the certificate of designation relating to the Series D Preferred Stock requires the affirmative class vote of 70% of the outstanding shares of the Series D Preferred Stock, the termination of the certificate of designation relating to the Series E Preferred Stock requires the affirmative class vote of a majority of the Series E Preferred Stock outstanding and the amendment to the certificate of designation relating to the Series G Preferred Stock requires the affirmative class vote of a majority of the outstanding shares of the Series G Preferred Stock. The failure to vote, a vote to abstain and any "broker non-votes" will have no direct effect on the approval of either of the Exchange Offer or the Plan so long as a quorum is present at the special meeting. However, the failure to vote, a vote to abstain and any "broker non-votes" will effectively be counted as a vote against the several amendments to the certificates of designation, the reverse stock split and the name change proposal. Because the Exchange Offer is conditioned upon the approval of all of the related transactions being submitted to Stockholders for approval, including the several amendments to the certificates of designation and the reverse stock split proposal, the failure to vote, a vote to abstain and any "broker non-votes" with respect to the several amendments to the certificates of designation or the reverse stock split proposal will effectively be counted as a vote against the Exchange Offer and the related transactions.

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What does it mean if I get more than one proxy card?

You should vote on each proxy card you receive. You will receive separate proxy cards for all shares you hold in different ways, such as jointly with another person or in trust, or in different brokerage accounts. If you hold shares in a stock brokerage account, you will receive a proxy card or information about other methods of voting from each broker, and you must send your vote to your broker according to the broker's instructions.

Who will count the votes?

All votes will be tabulated by employees of Corporate Communications, Inc., one or more of whom will serve also as inspectors of election.

How will the costs of soliciting proxies be paid and in what manner will proxies be solicited?

Z-Tel will pay all of the costs associated with soliciting the proxies, including the cost of preparing, assembling and mailing the notice of special meeting, proxy statement and proxy. In addition to soliciting proxies by mail, Z-Tel's officers, directors and other regular employees, without additional compensation, may solicit proxies personally or by telephone or facsimile. It is anticipated that banks, brokers, fiduciaries, other custodians and nominees will forward proxy soliciting materials to their principals. Z-Tel will reimburse such persons' out-of-pocket expenses.

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SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA AND OTHER INFORMATION

The following tables present summary historical consolidated financial and operating information and summary pro forma consolidated financial information

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of Z-Tel reflecting completion of the Exchange Offer.

Summary Historical Consolidated Financial Information of Z-Tel

The following table sets forth summary historical consolidated financial and operating information of Z-Tel. Except for the six months ended June 30, 2004 and 2003, and the property information, the summary historical financial information is derived from audited consolidated financial statements of Z-Tel for each period presented. The summary historical data are only a summary, and should be read in conjunction with the historical annual audited and interim unaudited financial statements of Z-Tel included in Annex H-2 and H-3 hereto.

	Years Ended December 31,					
	2003	2002	2001	2000 (1)	1999	
	(In thousands, except share and per share data)					
Revenues.....	\$289,180	\$238,397	\$280,350	\$177,668	\$6,615	\$13
Operating expenses:						
Network operations (2).....	135,097	94,474	159,617	107,077	6,518	6
Sales and marketing.....	18,753	12,327	31,243	45,018	8,898	
General and administrative (3)	127,018	122,579	156,107	99,606	20,055	6
Asset impairment charge (4)...	--	1,129	59,247	--	--	--
Wholesale development costs (5)	--	1,018	--	--	--	--
Restructuring charge (6).....	--	1,861	--	--	--	--
Depreciation and amortization.	23,449	23,936	23,277	17,166	4,372	1
Total operating expenses....	(304,317)	257,324	429,491	268,867	39,843	15
Operating loss.....	(15,137)	(18,927)	(149,141)	(91,199)	(33,228)	(1
Non-operating income (loss):						
Interest and other income.....	2,086	3,509	6,862	5,475	608	
Interest and other expense....	(3,076)	(4,137)	(3,789)	(2,313)	(3,351)	(
Total non-operating income (loss).....	(990)	(628)	3,073	3,162	(2,743)	(
Net loss.....	(16,127)	(19,555)	(146,068)	(88,037)	(35,971)	(2
Less mandatorily redeemable convertible preferred stock dividends and accretion.....	(17,480)	(15,589)	(15,059)	(3,644)	(1,654)	(
Less deemed dividend related to beneficial conversion feature	(186)	(186)	(9,356)	(20,027)	--	
Net loss attributable to Common Stockholders.....	\$ (33,793)	\$ (35,330)	\$ (170,483)	\$ (111,708)	\$ (37,625)	\$ (2
Weighted average common shares outstanding.....	35,396,922	34,951,720	33,908,374	33,066,538	15,099,359	36,
Basic and diluted net loss per share.....	\$ (0.95)	\$ (1.01)	\$ (5.03)	\$ (3.38)	\$ (2.49)	
Consolidated Balance Sheet Data						
Cash and cash equivalents (7) (8)	\$12,013	\$16,037	\$18,892	\$46,650	\$101,657	\$
Working capital (deficit).....	(31,038)	(19,380)	(11,983)	59,245	95,315	(4
Total assets.....	89,453	106,711	116,737	246,461	137,677	\$8
Total debt.....	5,531	10,144	15,766	20,417	14,134	
Mandatorily convertible redeemable preferred stock (8)	144,282	127,631	112,570	84,585	--	1
Total stockholder's equity (deficit).....	(131,019)	(99,284)	(67,172)	89,100	114,378	(

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		Years Ended December 31,				
	2003	2002	2001	2000 (1)	1999	
		(In thousands, except share and per share data)				
Other Financial Data						
Net cash provided by (used in)						
operating activities.....	11,956	18,399	(21,846)	(96,862)	(32,681)	(
Net cash used in investing						(
activities.....	(10,996)	(15,600)	(15,615)	(40,602)	(5,182)	
Net cash provided by (used in)						
financing activities.....	(4,984)	(5,654)	9,701)	82,455	131,547	1

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- (1) We completed the acquisition of Touch 1 on April 14, 2000. We used the purchase accounting method for our acquisition of Touch 1. Therefore, our 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, which is treated as being closed for accounting purposes, on April 1, 2000.
 - (2) During 2002, we received a \$9.0 million retroactive rate reduction for the unbundled network elements we acquired from Verizon as a result of a settlement approved by the New York Public Service Commission.
 - (3) Included in the 2001 general and administrative expense was a write-off of accounts receivable that resulted in \$29.9 million of additional bad debt expense.
 - (4) We recorded a \$1.1 and \$59.2 million expense related to impaired assets in 2002 and 2001, respectively. This expense was the result of management's decision to reduce various customer growth initiatives, most notably telemarketing activity levels. In 2001, a majority of the operations and assets of telemarketing centers acquired from Touch 1 was either voluntarily closed or sold. In addition to the goodwill impairment of \$54.9 million, we recorded a \$4.3 million charge associated with the impairment of assets, composed of \$3.0 million relating to unrealizable software and development projects, \$0.9 million of a worthless telemarketing property and equipment, and \$0.4 million of securities deemed to be worthless. As a result of management's decision in the second quarter of 2002 to enhance future cash flow and operating earnings, we closed the remaining call centers in North Dakota and recorded a \$1.1 million asset impairment. We also incurred restructuring charges as a result of this decision during 2002 as discussed in note (1).
 - (5) During 2002, we began to provide our services on a wholesale basis. We recorded start-up costs for developing this new service offering of approximately \$1.0 million. All wholesale related costs after our initial wholesale services contract signed on March 20, 2002 are included in the operating expenses line items, rather than being segregated.
 - (6) During 2002, we closed two call centers in North Dakota and our New York sales office. As discussed in note (4) above, these expenses consisted primarily of termination benefits, lease abandonment and lease settlement costs.
 - (7) Included in the December 31, 1999 cash balance was approximately \$109.1

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million of net proceeds from our December 15, 1999 initial public offering. This cash was obtained through the sale of 6,900,000 shares (including the underwriters' over-allotment option) of our Common Stock at \$17.00 per share.

- (8) During 2000, we issued Series D Preferred Stock and Series E Preferred Stock for approximately \$56.3 and \$50.0 million, respectively. During 2001, we issued Series G Preferred Stock for approximately \$17.5 million.

Summary Pro Forma Consolidated Financial Information of Z-Tel

The following unaudited pro forma information presents the effects of the Exchange Offer assuming all of Z-Tel's outstanding Preferred Stock is exchanged as if the exchange occurred as of June 30, 2004 for the unaudited balance sheet data. There would be no pro forma adjustments to our income statement data for either the year ended December 31, 2003 or the six months ended June 30, 2004 if the exchange occurred as of the first day of such periods. In the quarter in which the exchange is approved, a dividend charge will be recorded that will impact net earnings. It is expected that this dividend will reduce net earnings, assuming Z-Tel's common stock price remains below the effective exchange price. Earnings per share attributable to common stock will be adjusted due to the dividend and will show an even greater loss per common share outstanding. The pro forma information does not include costs of the Exchange Offer or a dividend charge that Z-Tel will incur as a result of the Exchange Offer.

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Consolidated Pro Forma Balance Sheet (In thousands, except share and per share data) (Unaudited)

	June 30, 2004	Pro Forma Adjustments
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,196	\$ --
Accounts receivable, net of allowance for doubtful accounts	28,672	
Prepaid expenses and other current assets	4,804	
Total current assets	41,672	--
Property and equipment, net	34,298	
Intangible assets, net	1,372	
Other assets	3,227	
Total assets	\$ 80,569	\$ --
Liabilities, preferred stock and deficit		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 63,745	\$ --
Deferred revenue	8,357	
Current portion of long-term debt and capital lease obligations	14,697	
Total current liabilities	86,799	

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Long-term deferred revenue	221	
Long-term debt and capital lease obligations	205	--
Total liabilities	87,225	--
Mandatorily redeemable convertible preferred stock	152,366	(152,366)
Stockholders' deficit:		
Common stock	373	2,538
Notes receivable from Stockholders	(930)	
Additional paid-in capital	183,281	149,828
Accumulated deficit	(341,358)	--
Treasury stock	(388)	--
Total Stockholders' deficit	(159,022)	152,366
Total liabilities, preferred stock and deficit	\$ 80,569	\$ --

Market for the Common Stock and the Preferred Stock

Our Common Stock currently trades on the Nasdaq SmallCap Market under the symbol "ZTEL." Our Preferred Stock does not trade on an exchange, nor is it listed or quoted on an inter-dealer quotation system. The price ranges presented below for Common Stock represent high and low sale prices for each quarter, as reported by the Nasdaq SmallCap Market. There is no established trading market for the Preferred Stock.

	HIGH	LOW
FISCAL YEAR 2002:		
First Quarter	\$ 2.98	\$ 1.25
Second Quarter	\$ 2.25	\$ 0.35
Third Quarter	\$ 1.55	\$ 0.41
Fourth Quarter	\$ 1.37	\$ 0.70

FISCAL YEAR 2003:		
First Quarter	\$ 1.60	\$ 0.60

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Second Quarter	\$ 2.99	\$ 1.58
Third Quarter	\$ 3.25	\$ 1.70
Fourth Quarter	\$ 3.08	\$ 1.40

FISCAL YEAR 2004		
First Quarter	\$ 4.79	\$ 2.00
Second Quarter	\$ 3.19	\$ 1.25
Third Quarter	\$ 1.41	\$ 0.29
October 1, 2004 through		
October 20, 2004.....	\$ 0.56	\$ 0.37

- (1) Prices for our Common Stock for periods prior to September 10, 2002 represent stock prices on the Nasdaq National Market, the exchange on which our Common Stock was listed prior to such date.

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You are urged to obtain current market quotations for your shares.

As of September 27, 2004, there were 229 record holders of Common Shares, 36 record holders of Series D Preferred Stock, 1 record holder of Series E Preferred Stock, and 7 record holders of Series G Preferred Stock.

By letter dated July 28, 2004, the Nasdaq Stock Market, Inc. notified us that for 10 consecutive days, the market value of our Common Stock on the Nasdaq SmallCap Market was not \$35 million or more, as required for continued inclusion on the Nasdaq SmallCap Market by the Nasdaq rules. The market value of our Common Stock remained below the minimum market value, and as a result the Nasdaq staff provided us with written notification that our Common Stock will be delisted. Currently we are appealing the staff's decision to a Listing Qualifications Panel primarily on the basis that we believe, following consummation of the Exchange Offer, that the market value of our Common Stock will substantially exceed the minimum required amount. The Listing Qualifications Panel may not grant our request to defer a determination of delisting until after the Exchange Offer is consummated. In that event our Common Stock is delisted, we expect that our Common Stock will be eligible for quotation on the OTC Bulletin Board, however, although Z-Tel would in such circumstance attempt to have the Common Stock quoted on the OTC Bulletin Board, there can be no assurance that it will be able to do so. Z-Tel believes that the failure to maintain the listing of its Common Stock on the Nasdaq SmallCap Market could have an adverse effect on the liquidity and price of the Common Stock and that this effect would be exacerbated if the Common Stock is not quoted on the OTC Bulletin Board. Even if our request is granted, we may not achieve the necessary market value for our Common Stock following the Exchange Offer or our Common Stock may not maintain the necessary market value for any length of time. If we fail to achieve and maintain the market value for our Common Stock above that required by the Nasdaq rules, our Common Stock will ultimately be delisted from the Nasdaq SmallCap Market.

We have also been advised by the Nasdaq staff that our Common Stock does not currently meet the minimum bid price per share of \$1.00 necessary to maintain listing on the Nasdaq SmallCap Market as required by the Nasdaq rules. Although we believe that the reverse stock split proposal, if adopted at the special meeting, will allow us to regain compliance, we may not achieve the necessary bid price per share following the reverse stock split or our Common Stock may not maintain the necessary minimum bid price for any length of time. If we fail to achieve and maintain a bid price for our Common Stock above that required by the Nasdaq rules, our Common Stock will ultimately be delisted from the Nasdaq SmallCap Market.

SPECIAL FACTORS

Background of the Exchange Offer

Shortly after a March 2004 federal court decision vacating certain Federal Communications Commission rules related to UNE-P pricing, management of Z-Tel expedited implementation of a new business plan that revolved around Z-Tel becoming a voice over Internet Protocol ("VoIP") based telecommunications provider to reduce or eliminate the uncertainty of UNE-P. As part of this process, the then chief executive officer of Z-Tel, D. Gregory Smith, began having informal discussions with various parties about raising financing that would be neces-

sary to pursue the VoIP initiative. It became clear fairly quickly to Mr. Smith

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that the existence of the Preferred Stock, particularly the mandatory redemption features thereof, would be a serious impediment to Z-Tel's ability to attract additional financing.

During April and May of 2004, Mr. Smith began having discussions with representatives of The 1818 Fund, the largest holder of the Series G Preferred Stock and the only holder of the Series E Preferred Stock, and representatives of Richland Ventures III, L.P. ("Richland"), the largest holder of Series D Preferred Stock, about possibly converting their Preferred Stock into Common Stock. Representatives of The 1818 Fund indicated a willingness to possibly convert their Preferred Stock on a negotiated basis but only if substantially all of the other holders of Preferred Stock also agreed to convert. Mr. Smith informed the board that the representatives of Richland were not interested in converting their Preferred Stock into Common Stock. Mr. Smith continued discussing the proposed conversion with representatives of The 1818 Fund in June 2004 and reached a tentative agreement whereby The 1818 Fund would agree to consider a conversion of their Preferred Stock (with the continued condition that substantially all holders of Preferred Stock would similarly convert) at an effective conversion price of \$2.28 for the Series D Preferred Stock, \$2.27 for the Series E Preferred Stock and \$0.68 for the Series G Preferred Stock.

In late June 2004, the board determined that it was advisable for a special committee comprised solely of independent directors be formed in order to recommend to the board the advisability of any exchange offer. The members of the special committee were John K. Aurell, Richard F. LaRoche, Jr., and W. Andrew Krusen, Jr., who was to serve as Chairman. The committee retained the law firm of Cahill Gordon & Reindel LLP to act as its counsel and Morgan, Keegan & Co. to act as its financial advisor.

In July 2004, Mr. Smith had additional conversations with representatives of Richland regarding Richland's willingness to convert the Series D Preferred Stock owned by them on the same basis he had negotiated with The 1818 Fund. Mr. Smith informed the board of directors that the representatives of Richland said they were not interested in the proposed terms of the exchange offer, although they would consider exchanging their Preferred Stock for a combination of notes and equity.

During June and July 2004, Mr. Smith and representatives of The 1818 Fund discussed the possibility of The 1818 Fund providing a "bridge loan" to Z-Tel to enable Z-Tel to meet current operating expenses. In late July 2004, The 1818 Fund and Z-Tel tentatively agreed on terms whereby The 1818 Fund would lend Z-Tel \$5 million with an additional \$10 million potentially to be available for future loans at the discretion of The 1818 Fund. Representatives of The 1818 Fund indicated that the additional \$10 million would only be made available if substantially all of the Preferred Stock was converted to Common Stock. The 1818 Fund also indicated that, if the Preferred Stock conversion was successful, they would consider converting their outstanding loan to Z-Tel into Common Stock on a negotiated basis if Z-Tel so desired.

On August 12, 2004, the special committee determined that the proposed exchange offer negotiated with representatives of The 1818 Fund was in the best interests of the Stockholders of Z-Tel and unanimously voted to recommend to Z-Tel's board of directors that they make such exchange offer to the holders of the Preferred Stock. Soon after such meeting, Mr. Smith again asked Richland if they would support the proposed terms of the offer and Mr. Smith reported to the board of directors that representatives of Richland declined to support such terms. On August 16, 2004, Mr. Smith notified the board of directors that he was not confident that The 1818 Fund would provide the \$5 million of bridge loan financing (the loan was subsequently made on August 25, 2004) and that he would be unable to negotiate a mutually satisfactory Preferred Stock conversion with the holders, and instructed management to hire a bankruptcy counsel and consider a potential bankruptcy filing by Z-Tel. On August 24, 2004, Mr. Smith tendered

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his resignation as chief executive officer and together with Charles W. McDonough, our former chief technology officer, commenced discussions with us to purchase certain assets of our Atlanta technology center, which resulted in an agreement between us entered into on September 29, 2004. Trey Davis was appointed as successor chief executive officer on August 29, 2004. During the late August and early September time period, representatives of The 1818 Fund began direct discussions with representatives of Richland to see whether a mutually acceptable Preferred Stock conversion plan could be negotiated.

Following Mr. Smith's resignation, representatives of Richland indicated to representatives of The 1818 Fund that, while Richland would not agree to the previously proposed exchange rate, Richland could potentially agree to participate in a Common Stock for Preferred Stock exchange offer that (1) provided for a greater rate of

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exchange to Series D Preferred Stock Holders and Series E Preferred Stockholders and (2) accounted for the junior ranking of the Series G Preferred Stock by providing for a significantly less favorable exchange rate than the rate of exchange applicable to the Series D Preferred Stock and the Series E Preferred Stock. In mid-September, The 1818 Fund reported to Z-Tel that they and Richland had reached a potential agreement on modified exchange offer terms which are the same terms as those contained in the Exchange Offer.

At meetings held on September 23 and September 28, 2004, the special committee together with its advisors considered the revised terms of the proposed Exchange Offer. At the September 28, 2004 meeting Morgan, Keegan presented its analysis of the Exchange Offer terms to the special committee and rendered their opinion that the terms of the proposed offer were fair to the holders of the Common Stock from a financial point of view.

After discussion, members of the special committee voted to recommend to the Z-Tel board of directors that they authorize and commence the Exchange Offer and at a meeting on September 28, 2004 the board of directors authorized the commencement of the Exchange Offer.

Opinion of Financial Advisor to the Special Committee

At a meeting of the special committee on September 28, 2004, Morgan Keegan presented orally its financial analysis of the Exchange Offer. Morgan Keegan confirmed its oral presentation in a written opinion that the Exchange Offer was fair, from a financial point of view to Common Stockholders. The complete text of the Morgan Keegan opinion described above, dated September 28, 2004, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached to this proxy statement as Annex F. The advisory services and opinion of Morgan Keegan were provided for the information and assistance of the special committee in connection with their consideration of the Exchange Offer and do not constitute a recommendation as to how any Stockholder should vote with respect to the Exchange Offer. The summary of the opinion set forth below is qualified in its entirety by reference to such opinion.

In connection with its opinion, Morgan Keegan has made such reviews, analyses and inquiries as it deemed necessary and appropriate under the circumstances. Among other things, Morgan Keegan:

- o reviewed the proposed terms of the Exchange Offer;
- o reviewed certain publicly available business and financial information

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relating to Z-Tel;

- o reviewed a series of internal presentations and correspondence prepared by Z-Tel's management regarding Z-Tel's business plan and capital structure among others;
- o reviewed certain other information provided to Morgan Keegan by Z-Tel and discussed the business prospects and financial position of Z-Tel with its management and independent auditors;
- o visited Z-Tel's office facilities located in Atmore, Alabama;
- o reviewed audited financial results of Z-Tel for fiscal years ended December 2001 through 2003 as well as for the latest twelve months ended June 30, 2004 and the latest unaudited interim results of Z-Tel;
- o reviewed financial forecasts provided by Z-Tel's management;
- o reviewed the reported historical prices and historical trading activity of the Common Stock;
- o compared and considered the financial performance of Z-Tel with that of certain other publicly traded companies and their securities; and
- o performed such other analyses and considered such other factors as Morgan Keegan deemed appropriate.

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Morgan Keegan assumed and relied upon, without independent verification, the accuracy and completeness of the information it reviewed in arriving at its opinion and did not independently verify any of such information. With respect to internal financial statements, financial and operational forecasts and other financial and operating data, Morgan Keegan assumed that such financial statements, forecasts and data had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Z-Tel. Morgan Keegan also assumed that there had been no material changes in Z-Tel's assets, financial condition, results of operations, business or prospects since the respective dates of the last financial statements made available to it. Morgan Keegan did not make any independent valuation, inspection or appraisal of the assets or liabilities of Z-Tel, nor was it furnished with any such appraisals or valuations. Morgan Keegan's opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion.

The following is a summary of the material financial analyses used by Morgan Keegan in reaching its opinion and does not purport to be a complete description of the analyses performed by Morgan Keegan. The following quantitative information, to the extent it is based on market data, is based on market data as it existed at or about September 27, 2004, and is not necessarily indicative of current or future market conditions. You should understand that the order of analyses and the results derived from these analyses described below do not represent relative importance or weight given to these analyses by Morgan Keegan.

Financial Condition of Z-Tel

Morgan Keegan reviewed relevant considerations associated with Z-Tel's

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financial condition:

- o Z-Tel is in financial distress and is running out of money to fund operations;
- o Cash levels are critical and in the absence of additional funding, Z-Tel's management projects that cash will be exhausted in the first quarter of 2005;
- o Z-Tel has accumulated a Stockholders' deficit of \$159.0 million as of June 30, 2004;
- o Z-Tel projects annual operating losses through December 31, 2004;
- o The Common Stock may be de-listed from the Nasdaq SmallCap Market (currently under appeal);
- o Z-Tel's Preferred Stock is entitled to the first \$158.4 million (as of September 27, 2004) in the event of liquidation of Z-Tel; and
- o Z-Tel was not in compliance with the financial covenants under its existing bank facility.

Stock Trading Analysis

Using publicly available market data Morgan Keegan reviewed the reported historical prices and historical trading activity for the Common Stock over the time period beginning September 27, 2001 and ending September 27, 2004. In addition, Morgan Keegan reviewed the amount of active equity analyst coverage Z-Tel received and examined Z-Tel's historical trading index over a one-year period beginning September 29, 2003 and ending September 27, 2004 as compared to the S&P 500 index, the Nasdaq index and an index of competitive local exchange carrier companies.

Morgan Keegan noted that the Common Stock traded between a range of \$0.29 and \$4.79 for the 52-week period ended September 27, 2004 with a three-month average daily volume of approximately 1.0 million shares. The closing price of the Common Stock on September 27, 2004 was \$0.51. Morgan Keegan noted that Z-Tel had received notice that it was being de-listed from the Nasdaq SmallCap Market because the Common Stock did not meet the minimum listing standards. Z-Tel was in the process of appealing the de-listing decision. Morgan Keegan concluded that the Common Stock received virtually no analyst coverage.

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Exchange Offer Analysis

Morgan Keegan reviewed the dilutive effects that the Exchange Offer would have on Common Stockholders. Morgan Keegan found that the Exchange Offer would be highly dilutive to existing Common Stockholders. Pre-Exchange Offer, Z-Tel had approximately 77.0 million Common Stock equivalent shares outstanding (including shares issuable upon exercise of in the money warrants or conversion of Preferred Stock and restricted Common Stock, but excluding out of the money options and warrants to acquire Common Stock), of which outstanding shares of Common Stock (including restricted Common Stock) and in the money warrants represent approximately 41.5 million shares, or 53.8%. Immediately following the conversion of the Series D Preferred Stock, Series E Preferred Stock and Series G Preferred Stock into Common Stock, Z-Tel will have approximately 276.5 million Common Stock equivalent shares issued and outstanding (including shares issuable

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upon exercise of in the money warrants and restricted Common Stock, but excluding out of the money options and warrants to acquire Common Stock). Of the 276.5 million Common Stock equivalent shares outstanding post-Exchange Offer, 15.0% will be held by the existing Common Stockholders (including holders of restricted Common Stock) and in the money warrant holders. Former Series D Preferred Stock, Series E Preferred Stock and Series G Preferred Stock will hold approximately 235.0 million shares representing 85.0% of Common Stock equivalent shares outstanding.

Morgan Keegan noted that the Exchange Offer price with respect to the Series D Preferred Stock of \$0.644 per share of Common Stock represents a 92.4% discount to its current conversion price and a 26.3% premium to the per share Common Stock price as of September 27, 2004; that the Exchange Offer price with respect to the Series E Preferred Stock of \$0.644 per share of Common Stock represents a 92.0% discount to its current conversion price and a 26.3% premium to the per share Common Stock price as of September 27, 2004; and that the Exchange Offer price with respect to the Series G Preferred Stock of \$0.898 per share of Common Stock represents a 29.8% discount to its current conversion price and a 76.1% premium to the per share Common Stock price as of September 27, 2004.

Upon the completion of the Exchange Offer, significant additional dilution to existing Common Stockholders may occur if (1) newly issued shares of Common Stock are sold, (2) The 1818 Fund converts the aggregate amount due under its note receivable into shares of Common Stock and (3) The 1818 Fund exercises its warrant to purchase 2.7 million shares of Common Stock at \$0.01 per share.

Peer Group Analysis

Morgan Keegan compared financial, market and operating information of Z-Tel with corresponding data for selected publicly traded companies selected on the basis of operational and economic similarity with the principal business operations of Z-Tel, taking into account the risks specific to Z-Tel. Morgan Keegan reviewed the following companies in the telecommunications industry: Choice One Communications, ITC^Deltacom, Talk America Holdings, Time Warner Telecom and US LEC Corporation (the "Peer Group").

Specifically, Morgan Keegan:

- o compared Z-Tel's historical financial performance for the latest twelve months ending June 30, 2004 ("LTM") and projected financial results for the year ending December 31, 2008 with the performance of the Peer Group for the latest twelve months of publicly available data;
- o derived valuation multiples by analyzing the Peer Group's financial information; and
- o applied these valuation multiples to Z-Tel's LTM results.

In addition, because forward looking multiples could not be derived based on available information, Morgan Keegan applied a range of estimated market multiples to imply theoretical equity values based on Z-Tel's projected results. Implied equity values were discounted at 14.1%, Z-Tel's assumed weighted average cost of capital ("WACC"). A range of discounts was applied to current market multiples to take into consideration risks, if any, associated with Z-Tel's business plan.

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Morgan Keegan concluded that no company analyzed in the Peer Group was identical to Z-Tel and that given the uncertain regulatory environment and impending price increases facing CLECs, the Peer Group as a whole has been under significant pressure from investors. All companies in the Peer Group were trading at or near their respective 52-week lows. In addition, all companies in the Peer Group, except for one, had reported a net loss for the latest twelve month period.

Morgan Keegan applied the valuation multiples derived from the Peer Group to Z-Tel's LTM revenues, EBITDA, EBIT, Net Income and Book Value. Due to Z-Tel's negative EBITDA, EBIT, Net Income and Book Value for the LTM period, Morgan Keegan was unable to calculate an implied equity value. Based on Z-Tel's LTM Revenue, however, Morgan Keegan did calculate an implied Common Stock share price on a post "Exchange Offer" basis of \$1.58, on a post Exchange Offer basis. Morgan Keegan did not believe that this implied share price represents a fair estimate of value to the Common Stockholders as the current revenue base is largely dependent on the legacy UNE-P business model.

Morgan Keegan then calculated an implied equity value by applying current median market multiples of the Peer Group to Z-Tel's projected results for the year ending December 31, 2008. Due to limited forward estimates and multiples for the Peer Group, Morgan Keegan applied a range of discounts to the current median market multiples. This analysis resulted in a range of implied equity value to existing Common Stockholders from \$29.5 million to \$39.5 million. This range excluded the results implied from the EBIT and Net Income multiples, which Morgan Keegan did not find meaningful. While Morgan Keegan noted that this range of value was not necessarily an accurate measure of Z-Tel's current equity value, this analysis provided a representative evaluation of the potential value to the Common Stockholders should Z-Tel successfully implement its VoIP business strategy.

Discounted Cash Flow Analysis

Morgan Keegan performed a discounted cash flow analysis on the projected cash flows of Z-Tel for the fiscal years ending December 31, 2004 through 2008. Morgan Keegan analyzed future cash flows as projected by Z-Tel's management. Morgan Keegan used a range of discount rates (14.0% - 17.0%), terminal multiples (8.0x - 10.0x) based on forecasted EBITDA and terminal multiples (1.1x - 2.1x) based on forecasted revenue for the fiscal year ending December 31, 2008 to calculate a range of implied equity values per share of Common Stock. Projected cash flows were discounted back to September 27, 2004.

The discounted cash flow analysis implied total equity value to existing Common Stockholders of between \$21.4 million and \$48.8 million. This represents the theoretical value to existing Common Stockholders based on the Z-Tel's successful execution of its VoIP strategy and is dependent upon the Z-Tel's ability to obtain additional invested capital to fund working capital requirements and vendor financing. Should the Z-Tel fail to complete the Exchange Offer, The 1818 Fund may be reluctant to loan additional capital beyond the \$5.0 million required to fund immediate working capital needs and Morgan Keegan believes that the Z-Tel's ability to continue as a going concern will be in substantial doubt.

Conclusion

In determining the fairness of the Ex