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Form PTO-1594  
4-26-99

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05-12-1999

U.S. Department of Commerce  
Patent and Trademark Office



101034500

To the Honorable Commissioner of Patents and Trademarks, U.S. Department of Commerce, Patent and Trademark Office, Washington, DC 20514-0001. Record the attached original documents or copy thereof.

1. Name of conveying party(ies):  
Z-Tel Communications, Inc.  
 Individual(s)             Association  
 General Partnership     Limited  
 Corporation- Delaware    Partnership  
 Other:  
Additional name(s) of conveying party(ies) attached?  
 Yes     No

3. Nature of conveyance:  
 Assignment                     Merger  
 Security Agreement         Change of Name  
 Other  
Execution Date: March 15, 1999

2. Name and address of receiving party(ies):  
Name: CMB Capital, LLC  
Internal Address:  
Street Address: 2841 Cobblestone Drive  
City: Palm Harbor            Florida    Zip: 34684  
 Individual(s) citizen  
 Association  
 General Partnersh  
 Limited Partnersh  
 Corporation-  
 Other - Florida Limited Liability Company  
04-26-1999  
U.S. Patent & TMO/TM Mail Rcpt Dt. #61

If assignee is not domiciled in the United States, a domestic representative designation is attached:  Yes  No  
(Designations must be a separate document from Assignment)

Additional names(s) & address(es) attached?  Yes  No

4. Application number(s) or registration number(s):  
A. Trademark Application No.(s)  
  
See attached schedule

B. Trademark registration No.(s)  
  
Additional numbers attached?  Yes  No

5. Name and address of party to whom correspondence concerning document should be mailed:  
Name: Rachel S. Jozefacki  
Internal Address: Foley & Lardner  
  
Street Address: 777 E. Wisconsin Avenue  
  
City: Milwaukee    State: WI    Zip: 53202-5367

6. Total number of applications and registrations involved:.....[ 42 ]  
7. Total fee (37 CFR 3.41): .....\$1065.00  
 Enclosed  
 Authorized to be charged to deposit account any fee deficiencies.  
8. Deposit account number: 06-1447  
  
(Attach duplicate copy of this page if paying by deposit account)

DO NOT USE THIS SPACE

9. Statement and signature.  
*To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document.*

Rachel S. Jozefacki  
Name of Person Signing

*Rachel S. Jozefacki*  
Signature

April 22, 1999  
Date

05/11/1999 DMGUYEN 00000318 75629656  
01 FC:481 40.00 OP  
02 FC:482 1025.00 OP

Total Number of pages including cover sheet: [ 21 ]

TRADEMARK  
REEL: 1895 FRAME: 0485

# EXHIBIT B

1. 75-579852 Z-PARTNERS Pending Z-TEL TECHNOLOGIES, INC.
2. 75-579851 Z-NOTIFY Pending Z-TEL TECHNOLOGIES, INC.
3. 75-579850 Z-MILES Pending Z-TEL TECHNOLOGIES, INC.
4. 75-544177 Z-WAN Pending Z-TEL TECHNOLOGIES, INC.
5. 75-544176 Z-EXTENSION Pending Z-TEL TECHNOLOGIES, INC.
6. 75-544173 Z-ONLINE Pending Z-TEL TECHNOLOGIES, INC.
7. 75-544172 Z-LAN Pending Z-TEL TECHNOLOGIES, INC.
8. 75-544128 VERSION Z.---- Pending Z-TEL TECHNOLOGIES, INC.
9. 75-543324 GENERATION Z Pending Z-TEL TECHNOLOGIES, INC.
10. 75-537232 Z-PAGE Pending Z-TEL TECHNOLOGIES, INC.
11. 75-537231 Z-VILLAGE Pending Z-TEL TECHNOLOGIES, INC.
12. 75-537230 Z-WEB Pending Z-TEL TECHNOLOGIES, INC.
13. 75-537229 Z-LINK Pending Z-TEL TECHNOLOGIES, INC.
14. 75-537228 Z-TEL PRIVATE NETWORK Pending Z-TEL TECHNOLOGIES, INC.
15. 75-535455 Z-GRAM Pending Z-TEL TECHNOLOGIES, INC.
16. 75-535454 Z-BASE Pending Z-TEL TECHNOLOGIES, INC.
17. 75-535453 Z-LEC Pending Z-TEL TECHNOLOGIES, INC.
18. 75-535452 Z-NEXT Pending Z-TEL TECHNOLOGIES, INC.
19. 75-534404 Z-MINUTES Pending Z-TEL TECHNOLOGIES, INC.
20. 75-534402 Z-BILL PAYMENT SERVICES Pending Z-TEL TECHNOLOGIES, INC.
21. 75-530533 Z-PURSUIT Pending Z-TEL TECHNOLOGIES, INC.
22. 75-530532 Z-DIRECTORY Pending Z-TEL TECHNOLOGIES, INC.
23. 75-530531 Z-BUDDY Pending Z-TEL TECHNOLOGIES, INC.
24. 75-530530 ZBN Pending Z-TEL TECHNOLOGIES, INC.
25. 75-530529 Z-NOW! Pending Z-TEL TECHNOLOGIES, INC.
26. 75-530528 Z-SITE Pending Z-TEL TECHNOLOGIES, INC.
27. 75-530527 Z-COUPON Pending Z-TEL TECHNOLOGIES, INC.
28. 75-516261 Z-MESSAGE Pending Z-TEL TECHNOLOGIES, INC.
29. 75-516260 Z-CHAT Pending Z-TEL TECHNOLOGIES, INC.
30. 75-516259 Z-VOICE Pending Z-TEL TECHNOLOGIES, INC.
31. 75-516258 Z-FAX Pending Z-TEL TECHNOLOGIES, INC.
32. 75-513871 Z-NUMBER Pending Z-TEL TECHNOLOGIES, INC.
33. 75-513870 Z-NODE Pending Z-TEL TECHNOLOGIES, INC.
34. 75-513821 Z TEL COMMUNICATIONS, INC. (and Design) Pending Z-TEL TECHNOLOGIES, INC.
35. 75-513820 Z-LINE Pending Z-TEL TECHNOLOGIES, INC.
36. 75-513819 Z-CONNECT Pending Z-TEL TECHNOLOGIES, INC.
37. 75-453878 Z-TEL TECHNOLOGIES INC. Pending Z-TEL TECHNOLOGIES, INC.

MARK	SERIAL NO.
Z-TEL DIRECT.....	..75/629,656.....
Z-TEL BUSINESS NETWORK..	.75/629,655.....
Z-MAILBOX.....	..75/629,011.....
Z-OD.....	..75/629,013.....
Z-NET.....	..75/629,012.....

# SECURITY AGREEMENT

(Various Collateral)

THIS SECURITY AGREEMENT is made as of March/5, 1999 between:

## Z-TEL COMMUNICATIONS, INC.

Suite 220  
601 S. Harbour Island Blvd.  
Tampa, FL 33602

(the "Debtor")

and

## CMB CAPITAL, LLC

2841 Cobblestone Drive  
Palm Harbor, FL 34684

(the "Secured Party")

### Recitation of Facts

A. The Secured Party has agreed to purchase from and lease to Debtor certain equipment in a sale-lease back transaction and to purchase from the manufacturer and lease to Debtor certain other equipment from time to time, subject to the terms and conditions set forth in a Master Lease Agreement dated as of the date hereof between Secured Party and Debtor (the "Master Lease").

B. In order to induce Secured Party to enter into the Master Lease with Debtor, Debtor has agreed to grant to Secured Party a first priority security interest in all of the assets of Debtor as more fully described in this Agreement.

### Agreement

IN CONSIDERATION of the mutual benefits contained herein and to induce the Secured Party to extend credit constituting Indebtedness secured hereby, the parties hereto agree as follows:

1. Definitions. The following terms shall have the meanings indicated below and shall be construed to have the broadest possible meanings permitted under the Code:

"Agreement" means this Security Agreement as it is amended from time to time.

"Account Debtor" means the person (whether a natural person, corporation, unincorporated organization, trust, joint venture, partnership or agency or political subdivision of any government) who is obligated on an Account, Chattel Paper, Instrument or General Intangible.

"Accounts" means all accounts receivable, including any rights of payment for goods sold or leased or for services rendered which is not evidenced by an instrument or chattel paper whether or not it has been earned by performance and in addition includes all property included in the definition of "accounts" as used in the Code.

"Chattel Paper" means all writing or writings which evidence both a monetary obligation and a security interest in or the lease of specific goods and in addition includes all property included in the definition of "chattel paper" as used in the Code.

"Code" means the Uniform Commercial Code as enacted by the State of Florida as it shall be amended from time to time.

"Collateral" means all assets of the Debtor, now owned or hereafter acquired, described on Exhibit A hereto, and all parts, accessories, attachments, additions, replacements, accessions, substitutions (including securities into which such assets may be converted or exchanged), increases, profits, proceeds and products thereof in any form and wherever located, together with all written or electronically recorded records thereof, all computer programs relating thereto and any and all other interests of any type or nature therein, including any rights or warrants relating thereto.

"Debtor" means the party or parties designated as such in the introductory paragraph hereof, and shall include the plural as well as the singular.

"Default" means any event or circumstance which, with the passage of time, giving of notice or occurrence of any other contingency, would become an Event of Default.

"Default Rate" means the highest rate permitted to be charged after default under any instrument evidencing Indebtedness or the highest lawful rate, if less or if no default interest rate is provided in such instruments.

"Equipment" means all goods of every type, kind and description, whether purely personal property, fixtures or mixed, other than Inventory, and in addition includes all items included in the definition of "equipment" as used in the Code, and shall include all related replacements, parts, additions, software, software development costs,

accessories, alterations and repairs incorporated therein or affixed thereto, together with any related training, maintenance, installation, license agreements, freight, cabling, tooling and tenant improvements..

"Event of Default" shall have the same meaning as is ascribed to that term in the Master Lease.

"General Intangibles" means all intangible personal property (including things in action) except Accounts, Instruments and Chattel Paper, including all contract rights, copyrights, trademarks (including the trademarks identified in Exhibit B hereto), trade names, service marks, patents, patent drawings, designs, formulas, rights to the Debtor's name itself, customer lists, rights to all prepaid expenses, marketing expenses, rights to receive future contracts, fees, commissions and orders relating in any respect to any business of the Debtor, all licenses and permits, all computer programs and other software owned by the Debtor or which the Debtor has the right to use, and all rights for breach of warranty or other claims for funds to which the Debtor may be entitled, and in addition includes all property included in the definition of "general intangibles" as used in the Code.

"Indebtedness" means all obligations of the Debtor now or hereafter owed to the Secured Party. The borrowing relationship between Debtor and the Secured Party is a continuing one and is intended to cover numerous types of extensions of credit, loans, overdrafts, letters of credit or advances made directly or indirectly to or for the benefit of Debtor. Accordingly, the term "Indebtedness" includes all obligations of any kind owing by any Debtor to the Secured Party, whether now existing or hereafter incurred, direct or indirect, arising under the Master Lease together with any and all Lease Orders executed and delivered pursuant thereto, or under the Investment Agreement, as well as obligations arising from loans, guaranties, letters of credit, endorsements or otherwise, whether related or unrelated to the purpose of the Master Lease, whether the same or a different class as the primary obligation, and whether the obligations are from time to time reduced and thereafter increased or entirely extinguished and new obligations thereafter incurred, including, without limitation, any sums advanced by the Secured Party or obligations incurred by Debtor pursuant to this Agreement or any other Transaction Document.

"Instruments" means all negotiable instruments (as defined in the Code), Securities, and any other writing which evidences the right to the payment of money and is not itself a security agreement or lien and is of a type which in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, and in addition, includes all property included in the definition of "instrument" as used in the Code.

"Inventory" means all goods, merchandise and other personal property, now owned or hereafter acquired by the Debtor which is held for sale or lease or furnished or to be furnished under a contract for service or raw materials, and all work in progress and materials used or consumed or to be used or consumed in the Debtor's business, and in

addition, includes all property included in the definition of "inventory" as used in the Code.

"Investment Agreement" means that certain Investment Agreement dated as of the date hereof among Parent, Debtor and Secured Party.

"Issuer" means any corporation the Securities of which constitute a part of the Collateral.

"Master Lease" has the meaning attributed to it in the introductory paragraphs to this Agreement.

"Parent" means Z-Tel Technologies, Inc., a Delaware corporation and owner of all of the issued and outstanding capital stock of Debtor.

"Permitted Encumbrances" means any liens or other interests in the Collateral permitted by Section 7.12 of the Investment Agreement.

"Secured Party" means that party described as such in the introductory paragraph hereof.

"Securities" means any corporate stock, including stock of closely held corporations, any limited partnership interests, any warrants or rights to acquire a security, and in addition, includes all property included in the definition of "security" as used in the Code.

"Security Interest" means the security interest (as that term is defined by the Code) granted by this Agreement.

"Transaction Documents" means (a) this Agreement, (b) the Master Lease, (c) the Investment Agreement, and (d) all other agreements, documents and instruments executed by Debtor in connection therewith.

2. Grant of Security Interest. The Debtor hereby grants to the Secured Party a continuing and unconditional Security Interest in the Collateral to secure the prompt, timely and complete repayment of the Indebtedness and the full, complete and timely performance of any and all existing or future obligations of the Debtor incurred in any writing evidencing, describing or securing any portion of the Indebtedness.

3. Warranties of Debtor. The Debtor warrants and so long as this Agreement continues in full force and effect shall be deemed to continuously warrant to the Secured Party that:

(a) Good Title. The Debtor is the owner of the Collateral free of all security interests or other encumbrances or claims except the Security Interest (including, without limitation, any landlord's liens) except for Permitted Encumbrances.

(b) Power. The Debtor has the full power and authority to enter into this Agreement and this Agreement has been duly executed and is enforceable in accordance with its terms except for such limits thereon arising from bankruptcy and similar laws.

(c) Use and Location of Collateral. The Collateral is used or acquired for use primarily in the Debtor's business operation and shall at all times be maintained at the Debtor's address as described in the introductory paragraph hereof or at the Debtor's additional places of business which are described on Exhibit C hereto, if applicable, and such other places as may be approved in advance by the Secured Party in writing.

(d) Fixtures. No portion of the Collateral is or will become a fixture.

(e) Location of Debtor. Each Debtor's place of business, or if any Debtor has more than one place of business, such Debtor's chief executive office, is at that address designated in the introductory paragraph hereof.

(f) Intangible Rights. Each Instrument, Account, Chattel Paper and other writing constituting a portion of the Collateral, if any, is genuine and enforceable in accordance with its terms except for such limits thereon arising from bankruptcy and similar laws against the Account Debtor thereof and the Account Debtor has no defense, setoff, claim or counterclaim of a material nature against the Debtor except as to which the Debtor will promptly notify the Secured Party after the Debtor learns thereof.

(g) Accounts. The amount represented by the Debtor to the Secured Party from time to time as owing by each Account Debtor or by all Account Debtors is the correct amount actually and unconditionally owing by such Account Debtor, except for normal cash discounts, where applicable.

(h) No Defenses. The Debtor has no defense, set-off or counterclaim relating to any Indebtedness or any Transaction Document.

(i) Intent and Effect of Transactions. This Agreement and the transactions contemplated herein (i) are not made or incurred with intent to hinder, delay or defraud any person to whom the Debtor has been, is now, or may hereafter become indebted; (ii) do not render the Debtor insolvent nor is the Debtor insolvent on the date of this Agreement; (iii) do not leave the Debtor with an unreasonably small capital with which to engage in its business or in any business or transaction in which it intends to engage; and (iv) are not entered into with the intent to incur, or with the belief that the Debtor would incur, debts that would be beyond its ability to pay as such debts mature.

(j) Litigation. Except as disclosed in Schedule 5.5 to the Investment Agreement, there are no suits or proceedings pending, or to the knowledge of the Debtor threatened, before any court or before any governmental or regulatory authority, commission, bureau or agency against or affecting the Debtor or any of its subsidiaries (i) as to which the Debtor or any of its subsidiaries is not likely to prevail, and (ii) which, if

adversely determined, would have a material adverse effect on the financial condition or business of the Debtor or any of its subsidiaries.

(k) Financial Condition. Other than as disclosed in writing prior to the date hereof, there have been no material adverse changes in the condition, financial or otherwise, of the Debtor or any of its subsidiaries since the date of the most recent financial statements, if any, provided to the Secured Party. Other than as disclosed in writing prior to the date hereof, neither the Debtor nor any of its subsidiaries has any material direct or contingent obligation or liabilities or any material unrealized or anticipated losses from any commitments of the Debtor or any subsidiary.

4. General Covenants of the Debtor. So long as this Agreement has not been terminated as provided hereafter, the Debtor:

(a) Title. Will defend the Collateral against the claim of all other persons, subject to Permitted Encumbrances, if any;

(b) No Encumbrances. Will keep the Collateral free of all security interests or other interests and encumbrances, except the Security Interest and Permitted Encumbrances, if any;

(c) No Sale, Etc. Will not assign, deliver, sell, transfer, lease or otherwise dispose of (including dispositions by operation of law) any portion of the Collateral, or any interest therein without the prior written consent of the Secured Party, except that prior to the occurrence of an Event of Default, the Debtor may sell Inventory in the ordinary course of the Debtor's business;

(d) Location of Collateral. Will keep the Collateral at the addresses specified in this Agreement and the Debtor will not remove the Collateral from any such location without the prior written consent of the Secured Party which shall not be unreasonably withheld;

(e) Location of Debtor. Will notify the Secured Party in writing 60 days in advance of any change in the Debtor's address (or the address of its chief executive office if it has more than one address) from that specified above and will permit the Secured Party or its agents to inspect the Collateral at any time;

(f) Care of Collateral. Will keep the Collateral in good repair and will not use the Collateral in violation of any of the provisions of this Agreement, any provision of the Transaction Documents, or in violation of any applicable statute, regulation, ordinance or any policy of insurance insuring the Collateral;

(g) Financing Statements. Will execute and deliver to the Secured Party such financing statements, certificates of title, stock certificates, Instruments and other documents, pay all costs including costs of title searches and costs of filing financing statements and other documents in any public offices requested by the Secured Party and



take such other action as the Secured Party may deem advisable to perfect the Security Interest created by this Security Agreement;

(h) Taxes. Will pay all taxes, assessments and other charges of every nature which may be levied or assessed against the Collateral and will make all required federal, state and local withholding payments with respect to wages paid to employees of the Debtor and its subsidiaries;

(i) Insurance. Will insure tangible Collateral against risks by obtaining policies (none of which may be cancelable without at least thirty days' prior notice to the Secured Party) with coverage, form and amount, and with companies satisfactory to the Secured Party, containing a "New York Standard" or equivalent loss-payee provision in favor of the Secured Party, and at the Secured Party's request will deliver each such policy or a certificate of insurance therefor to the Secured Party;

(j) Accessions. Will prevent any part of the Collateral from becoming an accession to or becoming commingled with other goods not covered by this Agreement;

(k) Fixtures. Unless the Collateral is specified above as a fixture, will prevent the Collateral or any part of the Collateral from becoming a fixture;

(l) Motor Vehicles. If any Collateral is subject to certificate of title laws, will cause the Secured Party's Security Interest under this Agreement to be noted in such certificate and will deliver the original certificate to the Secured Party;

(m) Preserve Rights. Will not take or permit to be taken any action which might jeopardize or diminish any right of the Debtor or the Secured Party under any Accounts, Chattel Paper, Instruments or General Intangibles;

(n) Landlord's Liens. Will obtain subordination agreements satisfactory to the Secured Party from all lessors that might otherwise have superior liens on any Collateral;

(o) Documentary Tax. Will pay all documentary stamp taxes and intangible taxes and any penalties or interest with respect thereto, which may be imposed upon the Debtor, the Secured Party, any Transaction Document or this Agreement, or with respect to any advances or loans by the Secured Party to the Debtor; and

(p) Further Assurances. Will take all other action reasonably requested by the Secured Party to effectuate the intent of this Agreement, to protect and preserve the Collateral, and to protect, preserve and perfect the Security Interest of the Secured Party; including, without limitation, any action required to comply with any laws or regulations governing the assignment of government contracts.

5. Default. If an Event of Default shall occur and be continuing, the Secured Party may declare the Indebtedness or any portion or part thereof to be immediately due

and payable and thereupon such amount shall forthwith become due and payable and the Secured Party may take all of the actions or remedies specified in Section 6 hereof ("Remedies") or elsewhere herein or as provided by law; provided, however, that the right of acceleration set forth herein does not in any way limit any right which the Secured Party has under any Transaction Document or any other instrument, evidencing or describing or securing any portion of the Indebtedness to demand immediate payment thereof or to accelerate the maturity thereof or otherwise exercise remedies with respect thereto, including, without limitation, its rights under any instruments payable on demand.

6. Remedies.

(a) If an Event of Default shall have occurred and be continuing, without waiving any of its rights under any Transaction Documents, the Secured Party shall have all rights and remedies of a secured party under the Code of any applicable jurisdiction and such other rights and remedies as may be available hereunder, under other applicable law or pursuant to contract. If requested by the Secured Party, the Debtor will promptly assemble the Collateral and make it available to the Secured Party at a place to be designated by the Secured Party. The Debtor agrees that any notice by the Secured Party of the sale or disposition of the Collateral or any other intended action hereunder, whether required by the Code or otherwise, shall constitute reasonable notice to the Debtor if the notice is mailed to the Debtor by regular or certified mail, postage prepaid, at least five days before the action to be taken. The Debtor also agrees to pay all costs and expenses incurred by the Secured Party in enforcing this Agreement and realizing upon any Collateral (including reasonable attorneys' fees whether or not suit is brought and whether or not incurred in connection with trial, appeals or insolvency action) and the Debtor shall be liable for any deficiencies in the event the proceeds of the disposition of the Collateral do not satisfy the Indebtedness in full.

(b) The Debtor agrees that in any sale of any Collateral the Secured Party is hereby authorized to comply with any limitation or restriction in connection with such sale as it may be advised by counsel is necessary in order to avoid any violation of applicable law (including, without limitation, compliance with such procedures as may restrict the number of prospective bidders and purchasers of Securities or other Instruments, require that such prospective bidders and purchasers have certain qualifications, and restrict such prospective bidders and purchasers to persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of such Collateral), or in order to obtain any required approval of the sale or of the purchaser by any governmental regulatory authority or official, and the Debtor further agrees that such compliance shall not result in such sale being considered or deemed not to have been made in a commercially reasonable manner, nor shall the Secured Party be liable or accountable to the Debtor for any discount or diminution in value caused by the fact that such Collateral is sold in compliance with any such limitation or restriction. The Debtor further agrees that any sales by the Secured Party shall not be considered to be other than "public sales" within the meaning of Section 9-504 of the Uniform Commercial Code because such sales or solicitations are structured to

comply with such limitations or restrictions, the intent of the parties being that any public sale be subject to such limitations and restrictions. If, in the opinion of the Secured Party after default, registration of any Instruments would be beneficial, the Debtor will take or cause to be taken at its expense such action as is necessary to effect proper registration under federal and state laws. If the Debtor shall refuse or be unable to take such action, the Secured Party, at its election, may take such action. Any costs incurred by the Secured Party shall be repaid on demand by the Debtor with interest from the date of demand at the Default Rate and all such amounts shall be secured by this Agreement.

(c) Debtor agrees that after Default it will not sell or transfer or permit the sale or transfer of any securities of the Issuer if such transfer would reduce the amount of Collateral that could be sold by the Secured Party under Rule 144 of the Securities and Exchange Commission.

(d) If any amounts are outstanding under letters of credit or banker's acceptances or other contingent obligations of the Secured Party, the Debtor agrees that any proceeds of Collateral may be held by the Secured Party as cash collateral for such obligations.

7. Instruments. If any part of the Collateral is Instruments the following provisions shall apply in addition to and not in lieu of the other provisions of this Agreement:

(a) Voting Rights. If any part of the Collateral is Securities, the Debtor irrevocably constitutes and appoints the Secured Party, whether or not the Securities have been transferred into the name of the Secured Party or its nominee, as the Debtor's proxy with full power to:

- (i) attend all meetings of securities holders of the Issuer held after the date of this Agreement and to vote the Securities at those meetings in such manner as the Secured Party shall in its sole discretion deem appropriate, including without limitation, in favor of liquidation of the Issuer;
- (ii) to consent in the sole discretion of the Secured Party to any action by or concerning the Issuer for which the consent of the securities holders of the Issuer is or may be necessary or appropriate; and
- (iii) without limitation to do all things which the Debtor could do as a security holder of the Issuer, giving to the Secured Party full power of substitution and revocation.

Notwithstanding the foregoing, the Debtor alone shall have the rights under this paragraph and the Secured Party may not exercise those rights (whether or not the Securities have been transferred into the name of the Secured Party or its nominee) so long as no Default

has occurred and is continuing. The proxy contained in this paragraph shall terminate when this Agreement terminates as provided hereafter. The Debtor hereby agrees not to give or permit to exist any other proxies in derogation of this proxy so long as this Agreement is in force.

(b) Transfer of Record. The Debtor authorizes and appoints the Secured Party, whether or not a Default has occurred, as the Debtor's attorney-in-fact to transfer all or any part of the Instruments into the Secured Party's name or that of its nominee so that the Secured Party or its nominee may appear of record as the sole owner of the Instruments. After the occurrence and during the continuance of any Default, the Debtor waives all rights to be advised or to receive any notices, statements or communications received by the Secured Party or its nominee as such record owner, and agrees that no proxy or proxies issued by the Secured Party to the Debtor or its designee shall thereafter be effective.

(c) Distributions.

- (i) Whether or not a Default has occurred, the Debtor assigns to, and authorizes the Secured Party to receive, any interest, principal, dividends, distributions, or other income or payments of whatever nature (whether in cash or in kind) now or hereafter made in respect of the Instruments, including those made in connection with the dissolution, liquidation, sale of assets, merger, consolidation, or other reorganization of the Issuer of the Instruments, or any stock dividend, stock split, recapitalization, reclassification or otherwise (collectively, "Distributions"), to surrender such Instruments or any part thereof in exchange therefor, and to hold any such Distribution as part of the Collateral; provided, however, that the Secured Party or its nominee need not collect any Distributions on any Instruments or give any notice of nonpayment with respect to such Distributions and further provided that if no Default shall have occurred, that the Debtor may receive for its own account any cash dividends or other cash Distributions if, and to the extent, expressly permitted by the Transaction Documents.
- (ii) Unless (and only to the extent) specifically provided in the Transaction Documents, the Debtor will not demand or receive any income or Distribution from the Instruments and if the Debtor receives any such Distributions, the Debtor will hold such Distributions in trust and deliver them promptly in the form received to the Secured Party in the form received to hold as Collateral. Unless otherwise provided in the Transaction Documents, whether or not a Default exists, the Secured Party may apply any net cash Distributions to payment

of any of the Indebtedness but the Secured Party shall account for and pay over to the Debtor any Distributions remaining after full payment of the Indebtedness.

8. Miscellaneous Provisions.

(a) Perfection. The Debtor authorizes the Secured Party at the Debtor's expense to file any financing statements relating to the Collateral (without the Debtor's signature thereon) which the Secured Party deems appropriate and the Debtor appoints the Secured Party as the Debtor's attorney-in-fact to execute any such financing statements in the Debtor's name and to perform all other acts which the Secured Party deems appropriate to perfect and to continue perfection of the Security Interest.

(b) Right of Entry. The Debtor hereby irrevocably consents to any lawful act by the Secured Party or its agents in entering upon any premises for the purposes of either (i) inspecting the Collateral, or (ii) taking possession of the Collateral after any Event of Default; and the Debtor hereby waives its right to assert against the Secured Party or its agents any claim based upon trespass or any similar cause of action for entering upon any premises where the Collateral may be located.

(c) Insurance Proceeds. The Debtor authorizes the Secured Party to collect and apply against the Indebtedness any refund of insurance premiums or any insurance proceeds payable on account of the loss or damage to any of the Collateral and appoints the Secured Party as the Debtor's attorney-in-fact to endorse any check or draft representing such proceeds or refund.

(d) Right to Perform Obligations. Upon the Debtor's failure to perform any of its duties hereunder, the Secured Party may, but it shall not be obligated to, perform any of such duties and the Debtor shall forthwith upon demand reimburse the Secured Party for any expenses incurred by the Secured Party in so doing.

(e) No Waiver. No delay or omission by the Secured Party in exercising any right hereunder or with respect to any Indebtedness shall operate as a waiver of that or any other right, and no single or partial exercise of any right shall preclude the Secured Party from any other or further exercise of the right or the exercise of any other right or remedy. The Secured Party may cure any Default by the Debtor in any reasonable manner without waiving the Default so cured and without waiving any other prior or subsequent Default by the Debtor. All rights and remedies of the Secured Party under this Agreement and under the Uniform Commercial Code shall be deemed cumulative.

(f) Care of Collateral, Etc. The Secured Party shall exercise reasonable care in the custody and preservation of the Collateral to the extent required by law and it shall be deemed to have exercised reasonable care if it takes such action for that purpose as the Debtor shall reasonably request in writing; however, no omission to do any act not requested by the Debtor shall be deemed a failure to exercise reasonable care and no omission to comply with any requests by the Debtor shall of itself be deemed a failure to

exercise reasonable care. The Secured Party shall have no obligation to take and the Debtor shall have the sole responsibility for taking any steps to preserve rights against all prior parties to any Instrument or Chattel Paper in the Secured Party's possession as Collateral or as proceeds of the Collateral. The Debtor waives notice of dishonor and protest of any Instrument constituting Collateral at any time held by the Secured Party on which the Debtor is in any way liable and waives notice of any other action taken by the Secured Party.

(g) Notification of Account Debtors. Unless otherwise provided in the Transaction Documents, before or after any Default, the Secured Party may notify any Account Debtor of the Security Interest and may also direct such Account Debtor to make all payments on the Collateral to the Secured Party. All payments on and other proceeds from the Collateral received by the Secured Party directly or from the Debtor shall be applied to the Indebtedness in such order and manner and at such time as the Secured Party shall in its sole discretion determine. If the Secured Party so notifies the Debtor in writing, or if required by the Transaction Documents, any payments on or other proceeds of the Collateral received by the Debtor before or after notification to the Account Debtor shall be held by the Debtor in trust for the Secured Party in the same medium in which received, shall not be commingled with any assets of the Debtor and shall be turned over to the Secured Party not later than the next business day following the day of their receipt. The Debtor shall also promptly notify the Secured Party of the return to or repossession by the Debtor of goods underlying any Collateral.

(h) Other Rights. The Debtor acknowledges that its obligations hereunder are absolute and unconditional and authorizes the Secured Party without affecting the Debtor's obligations hereunder from time to time to take the following actions, whether or not increasing the risk of loss to the Debtor:

- (i) to take from any party and hold collateral (other than the Collateral) for the payment of the Indebtedness or any part thereof, and to exchange, enforce or release such collateral or any guaranty of payment of the Indebtedness or any part thereof and to release or substitute any such endorser or guarantor or any party who has given any security interest in any collateral as security for the payment of the Indebtedness or any part thereof or any party in any way obligated to pay the Indebtedness or any part thereof; and
- (ii) upon the occurrence of any Event of Default to direct the manner of the disposition of the Collateral and any other collateral and the enforcement of any endorsements or guaranties relating to the Indebtedness or any part thereof as the Secured Party in its sole discretion may determine.

(i) Enforcement. The Secured Party may demand, collect and sue for all amounts owed pursuant to Accounts, Instruments, General Intangibles, Chattel Paper or for proceeds of any Collateral (either in the Debtor's name or the Secured Party's name at the latter's option), with the right to enforce, compromise, settle or discharge any such amounts. The Debtor appoints the Secured Party as the Debtor's attorney-in-fact to endorse the Debtor's name on all checks, commercial paper and other instruments pertaining to Collateral or proceeds.

(j) Assignment. The rights and benefits of the Secured Party under this Agreement shall, if the Secured Party agrees, inure to any party acquiring an interest in the Indebtedness or any part thereof.

(k) Benefit. The terms "Secured Party" and "Debtor" and as used in this agreement include the heirs, personal representatives and successors or assigns of those parties and this Agreement shall benefit and bind such parties. If more than one person is named herein as the Debtor, the obligation hereunder shall be joint and several.

(l) Amendment. This Agreement may not be modified or amended nor shall any provision of it be waived except in writing signed by the Debtor and by an authorized officer of the Secured Party.

(m) Governing Law. This Agreement shall be construed under the Florida Uniform Commercial Code and any other applicable laws of Florida in effect from time to time.

(n) Term. This Agreement is a continuing agreement which shall remain in force until all of the Indebtedness shall be paid in full and any commitment of the Secured Party to extend credit to the Debtor shall have terminated. Upon termination of the Agreement, the Secured Party shall take all steps reasonably requested (but at the Debtor's cost) by the Debtor to release its Security Interest.

(o) Notices. Notices required or permitted to be given hereunder shall be given to the parties at the addresses set forth in the introductory paragraphs hereto or at such other address as may be designated in writing from time to time by one party to the other. Any such notices or communications shall be deemed to be received upon the earlier of actual receipt at the address provided or, if mailed, two business days after mailing by first class mail.

(p) Cash Collateral. As additional Collateral for the Indebtedness secured by this Agreement, the Debtor hereby grants to the Secured Party a security interest in and a lien on all cash, bank deposits, securities and other property of whatever kind now or hereafter in the possession or custody of the Secured Party in which the Debtor may have an interest. The Secured Party shall be deemed to be in the possession or custody of such Collateral as soon as it is put in transit to, or upon coming into the possession of, the Secured Party or any of its correspondents or agents. The Secured Party is hereby

authorized to apply the funds in any deposit accounts and any other cash or cash equivalents to the obligations secured hereby upon the occurrence of a Default.

(q) Powers. All powers granted to the Secured Party herein are coupled with an interest and are irrevocable.

(r) No Usury. Notwithstanding anything herein or in the Transaction Documents or any evidence of Indebtedness, the Debtor shall not be required to pay nor shall the Secured Party be entitled to charge any interest or charges in the nature of interest in excess of that permitted by applicable law and if any such excess is paid or charged, it shall be automatically deemed to be applied against the principal balance of the Indebtedness and, if no principal balance remains, shall be immediately repaid to the Debtor, together with interest on such excess amounts from the date charged at the highest lawful rate (or 25% per annum if there is no rate limitation). The Debtor hereby agrees that the right to require such application of excess charges is its exclusive remedy with respect thereto.

(s) Approvals. If this Agreement calls for the approval or consent of the Secured Party, such approval or consent may be given or withheld in the discretion of the Secured Party unless otherwise specified herein.

(t) Jurisdiction, Service of Process.

(i) Any suit, action or proceeding against the Debtor with respect to this Agreement may be brought in the courts of the State of Florida or in the U.S. District Court with jurisdiction in Tampa, Florida as the Secured Party in its sole discretion may elect, and the Debtor hereby accepts the nonexclusive jurisdiction of those courts for the purpose of any suit, action or proceeding.

(ii) In addition, the Debtor hereby irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any judgment entered by any court in respect to any part thereof brought in the State of Florida and hereby further irrevocably waives any claim that any suit, action or proceeding brought in the State of Florida has been brought in an inconvenient forum.

(u) Receiver. In addition to any other remedy available to it, the Secured Party shall have the absolute right, upon the occurrence of an Event of Default, to seek and obtain the appointment of a receiver to take possession of and operate and/or dispose of the business and operations of the Debtor and of the collection and distribution of Accounts as provided herein and any costs and expenses incurred by the Secured Party in



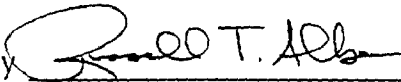
connection with such receivership shall bear interest at the Default Rate and shall be secured by all Collateral.

EACH DEBTOR AND THE SECURED PARTY, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, HEREBY WAIVES ANY RIGHT IT MIGHT OTHERWISE HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, ANY AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION THEREWITH, ANY TRANSACTION DOCUMENT, OR IN THE COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE SECURED PARTY EXTENDING CREDIT TO THE DEBTOR.

IN WITNESS WHEREOF, the parties hereto have executed this instrument as of the date first stated above.

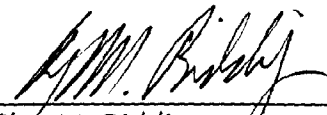
**"DEBTOR"**

**Z-TEL COMMUNICATIONS, INC.**

By   
\_\_\_\_\_  
Russell T. Alba  
Senior Vice President

**"SECURED PARTY"**

**CMB CAPITAL, LLC**

By   
\_\_\_\_\_  
Clay M. Biddinger  
Its Chairman and C.E.O.

## SCHEDULE OF EXHIBITS

<u>Exhibit</u>	<u>Section Reference</u>	<u>Title</u>
A	1 - Definition of "Collateral"	Description of Collateral
B	1 -Definition of "General Intangibles"	Trademarks
B	3(c)	Additional Places of Business

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# EXHIBIT A

## Description of Collateral

All of Debtor's right, title and interest in and to all assets of Debtor, in any form and wherever located and whether now owned or hereafter acquired, including all Accounts, Chattel Paper, Equipment, General Intangibles, Instruments, Inventory and Securities, and all parts, accessories, attachments, additions, replacements, accessions, substitutions (including securities into which such assets may be converted or exchanged), increases, profits, proceeds and products thereof, together with all written or electronically recorded records thereof, all computer programs relating thereto and any and all other interests of any type or nature therein, including any rights or warrants relating thereto (hereinafter referred to as the "Collateral"), whether or not such Collateral is deposited with or in the possession of the Secured Party. The following terms shall have the meanings indicated below and shall be construed to have the broadest possible meanings permitted under the Code:

"Accounts" means all accounts receivable, including any rights of payment for goods sold or leased or for services rendered which is not evidenced by an instrument or chattel paper whether or not it has been earned by performance and in addition includes all property included in the definition of "accounts" as used in the Code.

"Chattel Paper" means all writing or writings which evidence both a monetary obligation and a security interest in or the lease of specific goods and in addition includes all property included in the definition of "chattel paper" as used in the Code.

"Code" means the Uniform Commercial Code as enacted by the State of Florida as it shall be amended from time to time.

"Equipment" means all goods of every type, kind and description, whether purely personal property, fixtures or mixed, other than Inventory, and in addition includes all items included in the definition of "equipment" as used in the Code, and shall include all related replacements, parts, additions, software, software development costs, accessories, alterations and repairs incorporated therein or affixed thereto, together with any related training, maintenance, installation, license agreements, freight, cabling, tooling and tenant improvements..

"General Intangibles" means all intangible personal property (including things in action) except Accounts, Instruments and Chattel Paper, including all contract rights, copyrights, trademarks, trade names, service marks, patents, patent drawings, designs, formulas, rights to the Debtor's name itself, customer lists, rights to all prepaid expenses, marketing expenses, rights to receive future contracts, fees, commissions and orders relating in any respect to any business of the Debtor, all licenses and permits, all computer programs and other software owned by the Debtor or which the Debtor has the right to use, and all rights for breach of warranty or other claims for funds to which the

Debtor may be entitled, and in addition includes all property included in the definition of "general intangibles" as used in the Code.

"Instruments" means all negotiable instruments (as defined in the Code), Securities, and any other writing which evidences the right to the payment of money and is not itself a security agreement or lien and is of a type which in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, and in addition, includes all property included in the definition of "instrument" as used in the Code.

"Inventory" means all goods, merchandise and other personal property, now owned or hereafter acquired by the Debtor which is held for sale or lease or furnished or to be furnished under a contract for service or raw materials, and all work in progress and materials used or consumed or to be used or consumed in the Debtor's business, and in addition, includes all property included in the definition of "inventory" as used in the Code.

"Securities" means any corporate stock, including stock of closely held corporations, any limited partnership interests, any warrants or rights to acquire a security, and in addition, includes all property included in the definition of "security" as used in the Code.

# **EXHIBIT C**

**TO  
SECURITY AGREEMENT  
DATED MARCH 11, 1999  
By and Between  
Z-TEL COMMUNICATIONS, INC.  
And  
CMB CAPITAL, LLC**

## **Additional Places of Business**

**3340 Peachtree Road, N.E., Suite 2900, Atlanta, GA 30326  
Atrium Building, Suite 111, 1200 North Central Avenue, Kissimmee, FL 34741  
55 Marietta Street, Suite 1765, Atlanta, GA 30303  
901 Main Street, Suite 2610, Dallas, TX 75202  
8806 Complex Drive, San Diego, CA 92123-1404  
611 River Oaks Parkway, San Jose, CA 95134  
8212 Woodland Center, Building G, Tampa, FL 33614-2401**