ZIX CORP
Form DEF 14A
October 12, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20529
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under Rule 14a-12

ZIX CORPORATION
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

ZIX CORPORATION
2711 North Haskell Avenue
Suite 2200, LB 36
Dallas, Texas 75204-2960

October 10, 2005

Dear Fellow Shareholders:

It is my pleasure to invite you to a special meeting of shareholders of Zix Corporation to be held on November 21, 2005. The accompanying Notice of Special Meeting of Shareholders and proxy statement describe the items of business that will be discussed and voted upon during the meeting.

I am also pleased to report that we have successfully closed the first part of a private placement of securities of our company. In the private placement, we agreed to issue and sell an aggregate of 10,503,862 shares of our common stock and warrants to purchase up to an additional 3,466,274 shares of our common stock for total proceeds to us of approximately $26.3 million. Of that amount, we have completed the issuance of 6,302,318 shares of our common stock and warrants to purchase an additional 2,079,767 shares of our common stock, for total net proceeds to us of approximately $14.67 million. However, under applicable Nasdaq rules, we cannot issue the balance of the shares and warrants without your approval. One of the proposals included in the attached Proxy Statement describes in detail a proposal to enable us to complete this important financing.

COMPLETING THIS FINANCING WILL DILUTE YOUR EXISTING STOCKHOLDING. HOWEVER, IF SHAREHOLDERS DO NOT APPROVE THIS PROPOSAL, WE WILL NOT BE ABLE TO OBTAIN APPROXIMATELY $9.75 MILLION OF NET PROCEEDS THAT WE BELIEVE ARE ESSENTIAL TO OUR OPERATIONS AND SUCCESS.

In addition to the proposal regarding the private placement, at the special meeting you will also be asked to approve a proposal to elect three members of our Board of Directors.

Each shareholder should take the time to review the attached Proxy Statement and to complete and return the enclosed proxy card. Your vote is important, no matter how many shares you own. Please vote today.

Thank you very much for your prompt attention to these important matters.

RICHARD D. SPURR
Chief Executive Officer, President and
Chief Operating Officer

ZIX CORPORATION
2711 North Haskell Avenue
Suite 2200, LB 36
Dallas, Texas 75204-2960

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To Be Held Monday, November 21, 2005

We will hold a special shareholders meeting on Monday, November 21, 2005, at 10:00 a.m. (registration to begin at 9:30 a.m.), Central Time. We will hold the meeting at Cityplace Conference Center, Oak Lawn Room, 2711 North Haskell Avenue, Dallas, Texas 75204. At the meeting, we will ask you to consider and vote on the following proposals:

- a proposal to elect Robert C. Hausmann, Charles A. Chip Kahn and Paul E. Schlosberg as members of our Board of Directors;

- a proposal to approve the issuance of 4,201,544 shares of our common stock and related warrants to purchase an additional 1,386,507 shares of our common stock pursuant to the securities purchase agreement described in the accompanying Proxy Statement; and

- such other matters as may be properly brought before the meeting or any adjournment thereof.

If you held shares of our common stock at the close of business on October 7, 2005, the record date for the meeting, you are entitled to notice of the meeting or any adjournment thereof. All holders of our common stock as of the record date are entitled to vote on Proposal One to elect members of our Board of Directors and any other matters that are properly brought before the meeting. Holders of shares of our common stock as of the record date (other than shares acquired under the securities purchase agreement, as described in the accompanying Proxy Statement) are entitled to vote on Proposal Two to approve the additional issuance of shares and warrants pursuant to the securities purchase agreement. The stock transfer books will not be closed.

We would like you to attend the meeting in person, but understand that you may not be able to do so. For your convenience, and to ensure that your shares are represented and voted according to your wishes, we have enclosed a proxy card for you to use. Please vote, sign and date the proxy card and return it to us as soon as possible. We have provided you with a postage-paid envelope to return your proxy card. If you attend the meeting in person, you may revoke your proxy and vote in person. We look forward to hearing from you.

By Order of the Board of Directors,

RONALD A. WOESSNER
Senior Vice President, General Counsel & Secretary

Dallas, Texas
October 10, 2005

YOUR VOTE IS IMPORTANT.
Please vote early even if you plan to attend the special meeting.

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QUESTIONS AND ANSWERS

Although we encourage you to read the enclosed Proxy Statement in its entirety, we include this Question and Answer section to provide some background information and brief answers to several questions you might have about the enclosed proposals. In this Proxy Statement, we refer to Zix Corporation as the Company, Zix, ZixCorp, we, c and us.

Q. Why did I receive this Proxy Statement?

A. On or about October 14, 2005, we began mailing this Proxy Statement and accompanying proxy card to everyone who was a holder of our shares of common stock on the record date for the meeting, which is the close of business on October 7, 2005. We prepared this Proxy Statement to let our shareholders know when and where we will hold a special shareholders meeting. This proxy statement:

- provides you with information about the proposals that will be discussed and voted on at the meeting; and
- provides you with certain updated information about our company.

Q. What proposals are shareholders being asked to consider at the upcoming Special Meeting?

A. Shareholders are being asked to consider two proposals at the Special Meeting. The first proposal, which we refer to as Proposal One throughout this Proxy Statement, relates to the election of three members of our Board of Directors. The Company proposes to increase the number of members of our Board of Directors by adding one new member to our Board of Directors. Additionally, our shareholders are being asked to re-elect two members of our Board of Directors, who were initially elected to our Board of Directors in June 2005 by vote of our directors. The directors to be elected at the Special Meeting will serve until our next annual meeting of shareholders.

The second proposal, which we refer to as Proposal Two throughout this Proxy Statement, would allow us to complete the issuance of shares of our common stock and related warrants to purchase additional shares of our common stock in the private placement we closed on August 9, 2005.

Q. Why are shareholders being asked to elect additional directors?

A. The Company proposes to increase the number of members of our Board of Directors by electing Mr. Robert C. Hausmann to our Board of Directors. Mr. Hausmann has substantial financial and accounting business experience and we believe he would be a valuable addition to our Board of Directors. Since the last annual meeting of our shareholders, held in May 2005, Charles Chip Kahn III and Paul E. Schlosberg were elected to our Board of Directors by vote of our directors, as permitted under Texas law and our Restated Bylaws. A vote of our shareholders is required to elect Mr. Hausmann to our Board of Directors because Texas law permits the election of no more than two persons to a company s Board of Directors between annual meetings of that company s shareholders. In addition, under Texas law, Messrs. Kahn and Schlosberg s terms as directors extend only until the next election of one or more directors by our shareholders. Therefore, our shareholders are being asked to reelect Messrs. Kahn and Schlosberg to our Board of Directors while being asked to initially elect Mr. Hausmann to our Board of Directors. Messrs. Kahn, Schlosberg, and Hausmann will serve until our next annual meeting of shareholders.

Q. What is the private placement?

A.

On August 9, 2005, we agreed to sell and issue to certain purchasers (the Purchasers) under a securities purchase agreement (the Securities Purchase Agreement) an aggregate of 10,503,862 units. Each unit consists of (i) one share of our common stock, par value $0.01 per share, and (ii) a related warrant to purchase 0.33 of one share of our common stock. Under Nasdaq rules (as further described below), we could not, without the approval of our shareholders, issue more than 6.5 million shares of our common stock (or 19.99% of our issued and outstanding shares immediately prior to the execution of the Securities Purchase Agreement). Due to these limitations, we issued only an aggregate of 6,302,318 shares of common stock and related warrants to purchase an additional 2,079,767 shares of our common stock to the Purchasers at the closing of the Securities Purchase Agreement in exchange for proceeds of approximately $15.8 million ($14.67 million in net proceeds to us after transaction fees of $1.13 million). In this Proxy Statement, we refer to the shares of common stock we already issued to Purchasers at the closing of the Securities Purchase Agreement as Firm Shares and the related warrants as Firm Warrants, and when describing both the Firm Shares and Firm Warrants, we refer to them as the Firm Securities.

We are now seeking shareholder approval of Proposal Two to issue the balance of the shares and warrants that the Purchasers agreed to purchase from us (*i.e.*, an aggregate of 4,201,544 shares of common stock and related warrants to purchase 1,386,507 additional shares of our common stock). In this Proxy Statement, we refer to the additional shares to be issued to the Purchasers in Proposal Two as the Excess Shares and the additional warrants as the Excess Warrants, and when describing both shares and warrants, we refer to them as the Excess Securities.

Pursuant to an Escrow Agreement, dated as of August 9, 2005, between us and JPMorgan Chase Bank, N.A., approximately $10.5 million of funds relating to the Excess Securities were placed into escrow pending approval by our shareholders of the issuance of the Excess Securities. While held in escrow, the escrowed funds will accrue interest, payable by us, at a rate of 7.0% per annum.

If Proposal Two is approved by our shareholders, we will issue the Excess Securities to the Purchasers as promptly as practicable following such approval. Upon such issuance, we will receive escrowed funds, totaling approximately $9.75 million (net of transaction fees and expenses).

If Proposal Two is not approved by our shareholders, we will not be allowed to issue the Excess Securities and the funds held in escrow will be returned to the Purchasers.

Regardless of whether shareholder approval is obtained, we will be obligated to pay interest on the escrowed funds to the Purchasers at a rate of 7.0% per annum until the date the funds are released from escrow.

Q. For which part of the private placement is Zix seeking shareholder approval?

A. Zix is seeking shareholder approval of Proposal Two for the issuance to the Purchasers of the Excess Securities. Zix is not seeking shareholder approval for the private placement of Firm Shares and Firm Warrants issued to the Purchasers at the closing of the Securities Purchase Agreement.

Q. Why is Zix seeking shareholder approval for the issuance of the Excess Securities?

A. We are subject to the rules of the Nasdaq Stock Market, Inc. because our common stock is listed on the Nasdaq National Market. These rules require us to obtain shareholder approval for any issuance or sale of common stock, or securities convertible into or exercisable for common stock, that is (i) equal to 20% or more of our outstanding common stock before such issuance or sale and (ii) at a price per share below the greater of book or market value at the time of such issuance or sale. These rules apply to the Excess Shares because:

the purchase price of the units (each consisting of one share of common stock and a warrant to purchase 0.33 of one share of common stock) issued at the closing of the Securities Purchase Agreement, and that we intend to issue following shareholder approval, is $2.50 per unit (except for units purchased by certain of our officers and directors, which were issued or will be issued at a purchase price of $2.99 per unit), which is below the $2.94 per share closing price of our common stock on Nasdaq on August 8, 2005, the last day our common stock traded on Nasdaq before we entered into the Securities Purchase Agreement; and

the shares of common stock that we have issued or intend to issue pursuant to the Securities Purchase Agreement (including the Excess Shares) will comprise, in total, approximately 32.25% of the shares of our common stock outstanding immediately prior to August 9, 2005.

For the above reasons, on the closing date of the Securities Purchase Agreement, we were only able to issue shares of our common stock representing up to 19.99% of our common stock outstanding on the date of the Securities Purchase Agreement and now we are required under Nasdaq National Market rules to obtain shareholder approval prior to issuing the Excess Securities.

In addition, under the Securities Purchase Agreement, we agreed to seek, and use our best efforts to obtain, the approval of our shareholders to issue the Excess Securities to the Purchasers no later than November 22, 2005. This Proxy Statement has been prepared pursuant to our obligations to the Purchasers under the Securities Purchase Agreement.

Q. Why does Zix need to issue the Excess Securities?

A. As of June 30, 2005, we had unrestricted cash and cash equivalents of $7.7 million. Prior to the private placement described in this Proxy Statement, we had taken certain actions to reduce our cash requirements, including cost reductions, sale of two product lines and amendments to the terms of our $20 million principal amount of convertible notes held by two institutional investors. In addition, the Company has chosen to continue to invest in the eHealth (e-prescription) market, which is a developing market, requiring us to make significant cash investments in order to develop the business. Based on this strategic decision to continue investing in the eHealth market, our anticipated cash requirements would have been greater than our balance of unrestricted cash and cash equivalents that were on hand at June 30, 2005.

Consequently, our management and Board of Directors determined that we should seek additional working capital to improve our cash position and fund our continuing investments in the eHealth market. The alternatives to securing additional working capital would have been a change in our business model, substantially scaled back investments in eHealth or significant disposition of business assets. Based on our stock price and the state of the capital markets, our management and Board of Directors, in consultation with our investment banking firm, C.E. Unterberg, Towbin LLC, determined that a private placement of our publicly-traded common stock (commonly referred to as a PIPE financing), targeting private venture capital investors and other institutional investors, had a higher likelihood of success, could be consummated promptly and would provide us better terms than alternate financing transactions.

At the closing of the Securities Purchase Agreement on August 9, 2005, we completed the issuance of the Firm Securities and received net proceeds of approximately $14.67 million. Assuming the approval of Proposal Two, we would promptly issue the Excess Securities and receive approximately $9.75 million in additional net proceeds (after fees and expenses). We may also receive an additional $10.5 million in aggregate gross proceeds if and when all warrants (including the Excess Warrants) are exercised in full (assuming an exercise price of $3.04 per share and no net exercise).

Q. What if Proposal Two is not approved?

A. If Proposal Two does not receive shareholder approval, the earlier issuance of the Firm Securities to the Purchasers at the closing of the Securities Purchase Agreement will not be affected, but the issuance and sale of the Excess Securities to the Purchasers will not occur. Specifically, the Excess Securities will not be issued, the funds relating to the Excess Securities that currently are held in escrow will be returned to the Purchasers and we will not receive approximately $9.75 million in net proceeds from the issuance of the Excess Securities.

Our current liquidity and capital resources are limited. If Proposal Two fails and we do not receive the proceeds from the Excess Securities, meeting our working capital needs under a continuation of the current business model would prove difficult beyond June 30, 2006 and could significantly harm our ability to achieve our intended business objectives. We could be forced to further augment our cash position through additional cost reduction measures, sales of non-core assets, additional financings or a combination of these actions. Should we have to seek additional funds to replace the funds under a failed Proposal vote, there can be no assurances that these funds could be obtained on terms that are as favorable to us as the terms of the Excess Securities; therefore, our business model might have to be altered. Any of these adverse events could substantially diminish the value of our common stock and thus your investment in our shares.

Q. Will the issuance of the Excess Securities dilute our shareholders ownership interest in Zix?

A. Our shareholders will incur immediate and significant dilution of their percentage of stock ownership in Zix if Proposal Two is approved and the Excess Securities are issued. The table below illustrates the incremental impact that the issuance of the Excess Securities will have upon the number of shares of our common stock outstanding (assuming no additional issuances of shares of our common stock):

	Number of Shares Outstanding Prior to Issuance	Shares	Warrants*
Issuance of Firm Securities on August 9, 2005:	32,573,744 (As of August 8, 2005)	6,302,318 (Firm Shares)	2,079,767 (Firm Warrants)
Issuance of Excess Securities:	38,876,062 (After issuance of Firm Shares)	4,201,544 (Excess Shares)	1,386,507 (Excess Warrants)

* The Firm Warrants and Excess Warrants reflected in this table are not exercisable until February 9, 2006. Shareholders immediately prior to the issuance of the Excess Securities will incur dilution in their percentage ownership of our common stock upon the consummation of the issuance of the Excess Shares, of approximately 9.75%, or 12.01% assuming exercise in full of the both Firm Warrants and the Excess Warrants.

However, as explained above in the answer to the question What if Proposal Two is not approved? failure to issue the Excess Securities could significantly harm our business and the value of our common stock, and the value of your investment in our common stock could be substantially diminished.

Q. Why have I received more than one proxy statement?

A. If you received more than one proxy statement, your shares are probably registered differently or are in more than one account. Please vote each proxy card that you receive.

Q. How do I vote if I am not planning to attend the special meeting?

A. In addition to voting in person at the meeting, you may mark your selections on the enclosed proxy card, date and sign the card and return the card in the enclosed postage-paid envelope.

Please understand that voting by any means other than voting in person at the meeting has the effect of appointing Richard D. Spurr, our Chief Executive Officer, President and Chief Operating Officer, and Bradley C. Almond, our Vice President of Finance and Administration, Chief Financial Officer and Treasurer, as your proxies. They will be required to vote on the proposals described in this Proxy Statement exactly as you have voted. However, if any other matter requiring a shareholder vote is properly raised at the meeting, then Messrs. Spurr and Almond will be authorized to use their discretion to vote on such issues on your behalf.

We encourage you to vote now even if you plan to attend the Special Meeting in person. If your shares are in a brokerage account, you may receive different voting instructions from your broker.

Q. What if I want to change my vote?

A. You may revoke your vote at any time before the Special Meeting for any reason. To revoke your vote before the meeting, write to our Secretary, Ronald A. Woessner, at 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960. You may also come to the meeting and change your vote in writing.

Q. What vote is necessary to approve each of the proposals?

A. With respect to Proposal One, votes may be cast in favor of or withheld from each director nominee. The three nominees receiving the highest number of for votes will be elected as directors. This number is called a plurality. Votes that are withheld from any director nominee will be counted in determining whether a quorum has been reached but will not affect the outcome of the vote. Assuming a quorum is present, the affirmative vote of a plurality of the shares of common stock voted and entitled to vote for the election of directors is required for the election of directors. In the election of directors, shareholders are not entitled to cumulate their votes or to vote for a greater number of persons than the number of nominees named in this proxy statement.

With respect to Proposal Two, the affirmative vote of a majority of the shares of our common stock represented, in person or by proxy, and entitled to vote on Proposal Two is required to approve Proposal Two. Pursuant to Nasdaq requirements, shares of common stock issued in the first part of the private placement (*i.e.*, the Firm Shares) are not entitled to vote on Proposal Two.

Q. What if my shares are in a brokerage account and I do not vote?

If your shares are in a brokerage account and you do not vote, your brokerage firm could:

vote your shares, if it is permitted by the Marketplace Rules of The Nasdaq Stock Market (Nasdaq); or

leave your shares unvoted.

Under applicable rules, brokers who hold shares in street name have the authority to vote in favor of the election of the directors if they do not receive contrary voting instructions from beneficial owners. Brokers who hold shares in street name do not have the authority to vote in favor of Proposal Two, relating to the issuance of the Excess Securities, without receiving instructions from the beneficial owner of the shares. Under applicable law, if a broker has not received voting instructions with respect to certain shares and gives a proxy for those shares, but does not vote the shares on a particular matter, those shares will not affect the outcome of the vote with respect to that matter. These are called broker non-votes. In accordance with our bylaws, such broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, but will not be counted for purposes of determining the number of votes cast with respect to a proposal. Therefore, broker non-votes will not be included in the tabulation of the voting results and will have no effect with respect to the approval of the proposals being considered at the meeting.

Q. How are abstentions treated?

A. Any shareholder that is present at the Special Meeting, either in person or by proxy, but who abstains from voting, will still be counted for purposes of determining whether a quorum exists. With respect to Proposal One, a WITHHELD vote, will not be counted as an affirmative or negative vote in the election of directors and will not affect the outcome of the vote. With respect to Proposal Two, an abstention would have the same effect as a vote against Proposal Two. However, if you sign your proxy card but do not specify how you want to vote on either of the proposals, then your shares will be voted FOR each of the proposals.

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Q. Where can I find additional information? Who can help answer my questions?

A. You should carefully review the entire Proxy Statement, which contains important information regarding the proposals, before voting. We filed a current report on Form 8-K with the Securities and Exchange Commission on August 9, 2005, and an amendment to such Form 8-K on August 10, 2005, which contain a summary of the private placement and attach each of the relevant agreements as exhibits. The Securities Purchase Agreement and Form of Warrant are also attached for your convenience as Annexes to this Proxy Statement. We strongly encourage you to carefully review the Form 8-K, as amended, and the exhibits thereto describing the private placement. The section under the heading Where You Can Find Additional Information, beginning on page 40 of this Proxy Statement, describes additional sources from which to obtain this Proxy Statement, our public filings under the Securities Exchange Act of 1934, as amended (including the Form 8-K described above), and other information about Zix.

If you would like copies of the Form 8-K, as amended, described above (including the exhibits thereto), additional copies of this Proxy Statement or other documents that we have filed with the SEC that are incorporated by reference into this Proxy Statement, free of charge, or if you have questions about the proposals or the procedures for voting your shares, you should contact: Zix Corporation, Attention: Bradley C. Almond, Vice President and Chief Financial Officer, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204, Telephone: (214) 370-2000.

ZIX CORPORATION
PROXY STATEMENT FOR THE SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD NOVEMBER 21, 2005
INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed Proxy is solicited on behalf of the Board of Directors (the Board of Directors or the Board) of Zix Corporation, a Texas corporation (Zix), at a Special Meeting of Shareholders to be held on Monday, November 21, 2005, at 10:00 a.m. (registration to begin at 9:30 a.m.), Central Time, and at any adjournment, continuation or postponement of the meeting, referred to throughout this Proxy Statement as the Special Meeting, for the purposes set forth herein and in the accompanying Notice of Special Meeting of Shareholders. The Special Meeting will be held at Cityplace Conference Center, Oak Lawn Room, 2711 North Haskell Avenue, Dallas, Texas 75204.

These proxy solicitation materials were first mailed or given to all shareholders entitled to vote at the meeting on or about October 14, 2005.

Purpose of Special Meeting

As described above, the purpose of the Special Meeting is to obtain approval for the proposals and such other business as may properly come before the meeting, including any adjournment or postponement thereof.

Vote Required

With respect to Proposal One, votes may be cast in favor of or withheld from each director nominee. The three nominees receiving the highest number of FOR votes will be elected as directors. This number is called a plurality. Votes that are withheld from any director nominee will be counted in determining whether a quorum has been reached but will not affect the outcome of the vote. Assuming a quorum is present, the affirmative vote of a plurality of the shares of common stock voted and entitled to vote for the election of directors is required for the election of directors. In the election of directors, shareholders are not entitled to cumulate their votes or to vote for a greater number of persons than the number of nominees named in this proxy statement.

With respect to Proposal Two, the affirmative vote of the holders of a majority of the common stock present in person or represented by proxy and entitled to vote on Proposal Two will be required to approve the issuance of the Excess Securities. Pursuant to Nasdaq requirements, shares of common stock issued in the first part of the private placement (*i.e.*, the Firm Shares) are not entitled to vote on Proposal Two.

Record Date and Shares Outstanding

Only shareholders who owned shares of our common stock at the close of business on October 7, 2005, referred to in this Proxy Statement as the Record Date, are entitled to notice of, and to vote at, the Special Meeting. In addition, pursuant to Nasdaq requirements, shares of common stock issued in the first part of the private placement transaction (*i.e.*, the Firm Shares) are not entitled to vote on Proposal Two. Therefore, each share of common stock outstanding on the Record Date (other than the Firm Shares) is entitled to one vote on Proposal Two. As of October 7, 2005, 34,635,247 shares of Zix s common stock were outstanding and entitled to vote on Proposal Two.

Revocability of Proxies

You may revoke your Proxy at any time before it is exercised. Execution of the Proxy will not in any way affect your right to attend the Special Meeting in person. Revocation may be made prior to the meeting by written revocation or through a duly executed proxy bearing a later date sent to Zix Corporation, Attention: Ronald A. Woessner, Secretary, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204; or your

Proxy may be revoked personally at the Special Meeting by written notice to the Secretary at the Special Meeting prior to the voting of the Proxy. Any revocation sent to Zix must include the shareholder s name and must be received prior to the meeting to be effective.

How Your Proxy Will Be Voted

In the absence of specific instructions to the contrary, shares represented by properly executed proxies received by Zix, including unmarked proxies, will be voted to approve the proposals. In addition, if any other matters properly come before the meeting, it is the intention of the persons named in the enclosed Proxy to vote the shares they represent as directed by the Board of Directors. We have not received notice of any other matters that may properly be presented at the Special Meeting.

Quorum

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Zix s common stock entitled to vote at the Special Meeting is necessary to constitute a quorum at the Special Meeting. As there were 40,937,565 shares outstanding and entitled to vote at the Special Meeting as of the Record Date, we will need at least 20,468,783 shares present in person or by proxy at the Special Meeting for a quorum to exist.

Dissenters Rights

Under Texas law, shareholders are not entitled to dissenters rights with respect to the proposals.

Voting

Tabulation

Votes of shareholders entitled to vote who are present at the Special Meeting in person or by proxy and abstentions are counted as present or represented at the meeting for purposes of determining whether a quorum exists. For Proposal One, the three nominees receiving the highest number of FOR votes will be elected as directors. For Proposal Two, the affirmative vote of a majority of the shares of common stock entitled to vote and present in person or represented by proxy at the Special Meeting is necessary for approval.

Abstentions

Abstentions occur when a shareholder entitled to vote and present in person or represented by proxy affirmatively votes to abstain. Votes in abstention are considered present for purposes of calculating a quorum but do not count as a vote FOR or AGAINST any matter. With respect to Proposal One, a WITHHELD vote will not be counted as a vote FOR or AGAINST the election of directors and will not affect the outcome of the vote. With respect to Proposal Two, while abstentions do not count as a vote FOR or AGAINST this proposal, they will have the same effect as a negative vote on Proposal Two because abstentions will be included in tabulations of the shares of common stock entitled to vote for purposes of determining whether Proposal Two has been approved.

Broker Non-Votes

A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have the discretionary voting power with respect to that item and has not received instructions from the beneficial owner. If your shares are held in a brokerage account and you do not vote, your brokerage firm could:

vote your shares, if permitted by the Marketplace Rules of Nasdaq; or

leave your shares unvoted.

Under applicable rules, brokers who hold shares in street name have the authority to vote in favor of the election of the directors if they do not receive contrary voting instructions from beneficial owners. Brokers who hold shares in street name do not have the authority to vote in favor of Proposal Two, relating to the issuance of the Excess Securities, without receiving instructions from the beneficial owner of the shares. Under applicable law, if a broker has not received voting instructions with respect to certain shares and gives a proxy for those shares, but does not vote the shares on a particular matter, those shares will not affect the outcome of the vote with respect to that matter. In accordance with our Restated Bylaws, such broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, but will not be counted for purposes of determining the number of votes cast with respect to a proposal. Therefore, broker non-votes will not be included in the tabulation of the voting results and will have no effect with respect to the approval of the proposals being considered at the meeting.

Solicitation of Proxies

This solicitation is being made by mail on behalf of our Board of Directors. We will bear the expense of the preparation, printing and mailing of the enclosed Proxy, Notice of Special Meeting and this Proxy Statement and any additional material relating to the meeting that may be furnished to our shareholders by our Board subsequent to the furnishing of this Proxy Statement. We have engaged Georgeson Shareholder to assist in the solicitation of proxy materials from shareholders at a fee of approximately $17,000 plus reimbursement of reasonable out-of-pocket expenses. Proxies may also be solicited without additional compensation by our officers or employees by telephone, facsimile transmission, e-mail or personal interview. We will reimburse banks and brokers who hold shares in their name or custody, or in the name of nominees for others, for their out-of-pocket expenses incurred in forwarding copies of the proxy materials to those persons for whom they hold such shares. To obtain the necessary representation of shareholders at the meeting, supplementary solicitations may be made by mail, telephone, facsimile transmission, e-mail or personal interview by our officers or employees, without additional compensation, or selected securities dealers. We anticipate that the cost of such supplementary solicitations, if any, will not be material.

Shareholders Proposals

If you would like to submit a proposal to be included in next year s annual proxy statement, you must submit your proposal in writing so that we receive it no later than December 16, 2005. We will include your proposal in our next annual proxy statement if it is a proposal that we would be required to include in our proxy statement pursuant to the rules of the SEC. Under Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the Exchange Act), proposals of shareholders must conform to certain requirements as to form and may be omitted from the proxy materials in certain circumstances. To avoid unnecessary expenditures of time and money, you are urged to review this rule and, if questions arise, consult legal counsel prior to submitting a proposal to us.

The SEC rules also establish a different deadline for submission of shareholder proposals that are not intended to be included in our next annual proxy statement. If a shareholder intends to submit a proposal at the next annual meeting of shareholders and the proposal is not intended to be included in our proxy statement relating to such meeting, the shareholder must have given proper notice no later than March 1, 2005. If a shareholder gives notice of such a proposal after the deadline, the proxy holders will be allowed to use their discretionary voting authority to vote against the shareholder proposal when and if the proposal is raised at the next annual meeting.

All notices of proposals, whether or not to be included in our proxy materials, should be directed to our Secretary, Ronald A. Woessner, at our principal executive offices at 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960.

Householding of Proxy Materials

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders and enclosing separate proxy cards for each shareholder. This process, which is commonly referred to as householding, potentially eliminates some duplicative mailings to shareholders and reduces our mailing costs.

For this Special Meeting, a number of brokers with account holders who are shareholders of Zix will be householding our proxy materials. A single proxy statement will be delivered to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, please notify your broker, direct your written request to Zix Corporation, Attention: Ronald A. Woessner, Secretary, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204 or contact Ronald A. Woessner at (214) 370-2000. Shareholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker.

PROPOSAL ONE:
ELECTION OF DIRECTORS

We will vote on the election of three members of our Board of Directors at the Special Meeting. Each director will serve until the next annual meeting of shareholders and until the director s successor is duly elected and qualified, unless earlier removed in accordance with our Restated Bylaws. Officers serve at the discretion of our Board of Directors.

The Company proposes to increase the number of members of our Board of Directors by electing Mr. Robert C. Hausmann to our Board of Directors. Mr. Hausmann has substantial financial and accounting business experience and we believe he would be a valuable addition to our Board of Directors. Since our last annual meeting of shareholders, held in May 2005, Charles Chip Kahn III and Paul E. Schlosberg were elected to our Board of Directors by vote of our directors, as permitted under Texas law and our Restated Bylaws. A vote of our shareholders is required to elect Mr. Hausmann to our Board of Directors because Texas law permits the election of no more than two persons to a company s Board of Directors between annual meetings of that company s shareholders. In addition, under Texas law, Messrs. Kahn and Schlosberg s terms as directors extend only until the next election of one or more directors by our shareholders. Therefore, our shareholders are being asked to reelect Messrs. Kahn and Schlosberg to our Board of Directors while being asked to initially elect Mr. Hausmann to our Board of Directors. Messrs. Kahn, Schlosberg, and Hausmann will serve until our next annual meeting of shareholders.

The nominees for election to our Board are Robert C. Hausmann, Charles A. Chip Kahn and Paul E. Schlosberg.

Name(1)	**Principal Occupation**	**Director Since**
Robert C. Hausmann	Consultant	
Charles A. Chip Kahn	President, American Federation of Hospitals	June 2005
Paul E. Schlosberg	Chairman and Chief Executive Officer, INCA Group LLC	June 2005

(1) For biographical and other information regarding the nominees for director, please see **Who are our directors, director nominees, executive officers and significant employees?** below.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE NOMINEES FOR DIRECTOR SET FORTH ABOVE.

PROPOSAL TWO:
APPROVAL OF ISSUANCE OF EXCESS SECURITIES

Background and Reasons for the Private Placement Including the Issuance of the Excess Securities

General

On August 9, 2005, we entered into the Securities Purchase Agreement with the Purchasers, pursuant to which we agreed to sell to the Purchasers an aggregate of 10,503,862 units, each consisting of (i) one share of our common stock, par value $0.01 per share, and (ii) a related warrant to purchase 0.33 of one share of our common stock. The units were sold for a purchase price of $2.50 per unit, except in the case of units purchased by our officers and directors, which were sold at a purchase price of $2.99 per unit. Due to Nasdaq limitations (as described below), we issued only the Firm Securities (consisting of an aggregate of 6,302,318 shares of common stock and related warrants to purchase 2,079,767 shares of our common stock) to the Purchasers at the closing of the Securities Purchase Agreement in exchange for total net proceeds of approximately $14.67 million.

Assuming Proposal Two is approved, we will issue the Excess Securities and receive approximately $9.75 million in additional proceeds, net of fees and our expenses (for a total of $24.42 million in aggregate net proceeds from the private placement transaction). Such fees and expenses (totaling approximately $1.863 million) include (i) investment banking fees, (ii) legal fees, (iii) accounting fees, (iv) SEC filing fees, and (v) other fees and expenses. We may also receive up to an additional $10.5 million in aggregate proceeds if and when all warrants issued to the Purchasers in the private placement are exercised in full (assuming an exercise price of $3.04 and no net exercise of warrants, as described below in Terms of the Private Placement).

Board of Directors Determination

In reaching their unanimous decision to approve the private placement, including the issuance of the Excess Securities, and in determining that the private placement was in the best interests of us and our shareholders, our Board of Directors carefully considered many factors, the most important of which are set forth below:

- As of June 30, 2005, we had unrestricted cash and cash equivalents of $7.7 million. Prior to the private placement described in this Proxy Statement, we had taken certain actions to reduce our cash requirements, including cost reductions, sale of two product lines and amendments to the terms of our $20 million principal amount of convertible notes held by two institutional investors. In addition, the Company has chosen to continue to invest in the eHealth (e-prescription) market, which is a developing market requiring us to make significant cash investments in order to develop the business. Based on this strategic decision to continue investing in the eHealth market, our anticipated cash requirements would have been greater than our balance of unrestricted cash and cash equivalents that were on hand at June 30, 2005.

- In June 2005, we engaged a financial advisor and investment bank, C.E. Unterberg, Towbin LLC (CEUT), to help us identify financing alternatives. Based on our stock price and the state of the capital markets and the advice of CEUT, our management and our Board of Directors agreed that a private placement, structured as a PIPE transaction, targeting private venture capital investors and other institutional investors, had a higher likelihood of success, could be consummated promptly and would provide us better terms than alternative financing transactions.

Given the cash requirements of our business, our Board of Directors determined to proceed with the private placement (including the issuance of the Excess Securities) on the terms contained in the Securities Purchase Agreement.

Use of Proceeds

The proceeds received from the issuance of the Excess Securities will be used to fund operations under our current business model, including to fund the Company s continuing investments in the eHealth (e-prescription) market. In particular, the proceeds will be used in a focused effort to maintain and take advantage of what we believe to be our early mover position in the eHealth market as the market develops and continues to grow.

Terms of the Private Placement

General

The closing of the Securities Purchase Agreement occurred on August 9, 2005. At the closing of the Securities Purchase Agreement, we issued an aggregate of 6,302,318 units (each consisting of one share of common stock and a warrant to purchase 0.33 of one share of our common stock) at a price of $2.50 per unit, except in the case of units purchased by our officers and directors, which were sold for a purchase price of $2.99 per unit, for aggregate net proceeds of approximately $14.67 million. We are requesting in Proposal Two that the shareholders approve the issuance by Zix of the Excess Securities, consisting of an additional 4,201,544 units (totaling 4,201,544 shares of our common stock and warrants exercisable for 1,386,507 additional shares of our common stock at an exercise price of $3.04 per share) for aggregate net proceeds of approximately $9.75 million. The sale of common stock and warrants in the private placement is intended to be exempt from the registration requirements of the Securities Act of 1933, as amended, and we expect to rely upon the Regulation D safe harbor provisions. We have set forth below the major terms of the private placement.

To ensure that shareholder approval would not be required for the Firm Securities, the number of Firm Shares was capped at 19.99% of our issued and outstanding shares immediately prior to the execution of the Securities Purchase Agreement. In effecting such cap, we required each participating Purchaser to cut back, on a pro rata basis, the number of shares of common stock and warrants to purchase our common stock that were issued at the closing of the Securities Purchase Agreement, such that the aggregate number of shares of common stock issued at the closing of the Securities Purchase Agreement did not exceed the 19.99% threshold. The funds relating to the Excess Securities were placed into escrow pending shareholder approval of the issuance of the Excess Securities.

The Securities Purchase Agreement and a Form of Warrant are provided for your reference as Annexes A and B, respectively, to this Proxy Statement. These documents were also included as exhibits to our Form 8-K filed on August 9, 2005, as subsequently amended on August 10, 2005. On August 9, 2005, we also entered into an Escrow Agreement with JPMorgan Chase Bank, N.A., as escrow agent, pursuant to which the funds in respect of the Excess Securities are to be held in escrow pending shareholder approval. The Escrow Agreement was also included as an exhibit to our Form 8-K filed on August 9, 2005.

THIS SUMMARY OF THE TERMS OF THE PRIVATE PLACEMENT IS INTENDED TO PROVIDE YOU WITH BASIC INFORMATION CONCERNING THE TRANSACTION; HOWEVER, IT IS NOT A SUBSTITUTE FOR REVIEWING THE SECURITIES PURCHASE AGREEMENT AND THE FORM OF WARRANT IN THEIR ENTIRETY, WHICH WE HAVE INCLUDED AS ANNEXES A AND B, RESPECTIVELY, TO THIS PROXY STATEMENT. YOU SHOULD READ THIS SUMMARY IN CONJUNCTION WITH THE ANNEXES.

Terms of the Securities Purchase Agreement Applicable to the Issuance of the Excess Securities

Excess Securities to be Issued to Purchasers. Subject to obtaining the approval of our shareholders, we will issue an additional 4,201,544 shares of common stock and related warrants to purchase 1,386,507 shares of common stock, for an aggregate purchase price of approximately $10.5 million ($9.75 million net of transaction expenses). We have agreed to issue the Excess Securities as units, each consisting of one share of common stock and a warrant to purchase 0.33 of one share of common stock, at a purchase price of $2.50 per unit (except in the case of units issued to our officers and directors, which we have agreed to issue for a purchase price of $2.99 per unit). The warrants may be exercised at any time from February 9, 2006 through August 9, 2010 at an exercise price of $3.04 per share. We currently expect the issuance of such Excess Securities to take place promptly following this Special Meeting.

Special Meeting Obligations. Under the Securities Purchase Agreement, we are required to seek, and use our best efforts to obtain, our shareholders approval of the issuance of the Excess Securities on or before November 22, 2005 (the 105th day following the closing of the Securities Purchase Agreement). In satisfying such obligations, we are required to call the Special Meeting and were required to prepare and file a preliminary form of this Proxy Statement no later than 30 days after the closing date of the Securities Purchase Agreement. Our Board of Directors has also agreed to recommend approval of the issuance of the Excess Securities by our shareholders. Under the Securities Purchase Agreement, we agreed to mail and distribute this Proxy Statement to our shareholders at least 30 days prior to the date of the Special Meeting, actively solicit proxies to vote for Proposal Two and retain a proxy solicitation firm to assist in the solicitation.

Registration Obligations and Liquidated Damages. No later than 30 business days after the closing of the Securities Purchase Agreement (the Required Filing Date), we were required, at our expense, to file with the Securities and Exchange Commission (the SEC) a registration statement with respect to the resale of the shares of common stock (A) issued pursuant to the private placement (including the Firm Shares and the Excess Shares), and (B) issuable upon exercise of the warrants issued pursuant to the private placement (including the Firm Warrants and the Excess Warrants). We are required to use commercially reasonable efforts to cause such registration statement to be declared effective by the SEC no later than the 120th day following the closing date of the Securities Purchase Agreement (or if we receive notification from the SEC that the registration statement will receive no action or review from the SEC, within five business days after such notification) (the Required Effective Date), and, subject to our right to suspend the resale of stock under the registration statement in certain circumstances, we are required to maintain the effectiveness of this registration statement until the earlier of (1) the second anniversary of the effective date of the registration statement, (2) the date on which all such shares have been sold thereunder or (3) the date on which all such shares become eligible for resale pursuant to Rule 144(k) promulgated under the Securities Act of 1933, as amended (the Securities Act); provided, however, that if any Purchaser is an affiliate of Zix (as defined in Rule 144(a)(1) of the Securities Act) on the second anniversary of the effective date of the registration statement, the applicable time period to maintain the effectiveness of the registration statement will be the third anniversary of the effective date of the registration statement. If the registration statement (a) is not declared effective by the Required Effective Date or (b) once effective, ceases to be effective and available to the Purchasers in the private placement for any continuous period that exceeds 15 days, Zix is required to pay the investors in the private placement a cash payment as liquidated damages and not as a penalty. This cash payment is calculated as 1% per month (pro-rata on a 30 day basis) of the aggregate purchase price paid by the Purchasers in the private placement (or, in the case of a lapse of effectiveness of the registration statement for any continuous period that exceeds 15 days, 1% per month (pro rata on a 30 day basis) of the total purchase price of the purchased securities purchased and still held by the Purchasers).

Terms of the Warrants

Exercise Period. Each of the Excess Warrants to be issued in the private placement will be exercisable from February 9, 2006 through August 9, 2010 and can be exercised in cash or, in certain situations, pursuant to a net exercise provision (as described below).

Methods of Exercise. The warrants may be exercised in cash at all times during the exercise period, whereby the holders of the warrants deliver the certificates representing the warrants to Zix and the then-applicable exercise price for the warrants in exchange for the shares issuable thereunder. In addition, the warrants contain a net exercise provision. If there is no effective registration statement registering the resale of the shares issuable upon exercise of the warrants, the net exercise provision allows the holder to receive shares of common stock equal to the value of the warrant without paying the exercise price in cash, but rather with the shares underlying the warrant.

Exercise Price, Adjustment to Exercise Price and Number of Shares. The exercise price of the Warrants is initially $3.04 per share. The exercise price of, and the number of shares issuable pursuant to, the warrants are subject to customary anti-dilution adjustments in certain events, including certain mergers, consolidations, sales of substantially all of the assets of Zix, subdivision or combination of shares of Zix, stock dividends and other distributions of Zix.

Registration Rights. The warrants and the shares of our common stock issuable upon exercise of the warrants are not registered under the Securities Act or any state securities laws. Zix has granted registration rights to the Purchasers for the shares of common stock issuable upon the exercise of the warrants. Such registration rights are described in more detail above under the heading Terms of the Securities Purchase Agreement Applicable to the Issuance of the Excess Securities Registration Obligations and Liquidated Damages above on page 14.

Terms of the Escrow Agreement

Pursuant to the Escrow Agreement entered into as of August 9, 2005, between us and JPMorgan Chase Bank, N.A., as escrow agent, approximately $10.5 million of funds relating to the Excess Securities to be issued to the Purchasers under the Securities Purchase Agreement were placed into escrow pending approval by our shareholders of the issuance of the Excess Securities to the Purchasers. While held in escrow, the escrowed funds will accrue interest, payable by us, at a rate of 7.0% per annum.

If our shareholders approve the consummation of the issuance of the Excess Securities, we will receive the escrowed funds in exchange for the issuance of the Excess Securities. If our shareholders do not approve such issuance, the funds will be returned to the Purchasers. Under the terms of the Securities Purchase Agreement and the Escrow Agreement, we will be required to pay the required interest amount to the Purchasers whether or not shareholder approval is obtained.

Conditions to Consummating the Issuance of the Excess Securities

Under the terms of the Securities Purchase Agreement that govern the private placement, our obligation to issue the Excess Securities pursuant to the private placement is subject only to the condition that our shareholders approve the issuance of such securities.

Shareholder Approval and Nasdaq National Market Rules

We are subject to the rules of the Nasdaq Stock Market, Inc. because our common stock is listed on the Nasdaq National Market. These rules require us to obtain shareholder approval for any issuance or sale of common stock, or securities convertible into or exercisable for common stock, that is (i) equal to 20% or more of our outstanding common stock before such issuance or sale and (ii) at a price per share below the greater of book or market value at the time of such issuance or sale. These rules apply to the Excess Shares because:

- the purchase price of the units (each consisting of one share of common stock and a warrant to purchase 0.33 of one share of our common stock) issued and sold at the closing of the Securities Purchase Agreement, and that we intend to issue and sell following shareholder approval, is $2.50 per unit (except for units purchased by certain of our officers and directors, which were sold or will be sold at a purchase price of $2.99 per unit), which is below $2.94 per share, the closing price of our common stock on Nasdaq on August 8, 2005, the last day our common stock traded on Nasdaq before we entered into the Securities Purchase Agreement; and

- the shares of common stock that we have issued or intend to issue and sell pursuant to the Securities Purchase Agreement (including the Excess Shares) will comprise, in total, approximately 32.25% of the shares of our common stock outstanding immediately prior to August 9, 2005.

For the above reasons, we are required under Nasdaq National Market rules to obtain shareholder approval prior to issuing and selling the Excess Securities.

Dilutive Effect

Our shareholders will incur immediate and significant dilution of their percentage of stock ownership in Zix if Proposal Two is approved and the Excess Securities are issued. This means that our current shareholders will own a smaller percentage interest in Zix as a result of the issuance of the Excess Securities.

The table below illustrates the incremental impact that the issuance of the Excess Securities will have upon the number of shares of our common stock outstanding (assuming no additional issuances of shares of our common stock):

	Number of Shares Outstanding Prior to Issuance	**Shares**	**Warrants***
Issuance of Firm Securities on August 9, 2005:	32,573,744 (As of August 8, 2005)	6,302,318 (Firm Shares)	2,079,767 (Firm Warrants)
Issuance of Excess Securities:	38,876,062 (After issuance of Firm Shares)	4,201,544 (Excess Shares)	1,386,507 (Excess Warrants)

* The Firm Warrants and Excess Warrants reflected in this table are not exercisable until February 9, 2006.

Shareholders immediately prior to the issuance of the Excess Securities will incur dilution in their percentage ownership of our common stock upon the consummation of the issuance of the Excess Shares, of approximately 9.75%, or 12.01% assuming exercise in full of the Firm Warrants and the Excess Warrants.

Interests of Certain Persons in the Issuance of the Excess Securities

Some of the Purchasers in the private placement are officers and directors of Zix. Units issued to our officers and directors in the private placement were sold for a purchase price of $2.99 per unit (each unit consisting of one share of common stock and a warrant to purchase up to 0.33 of one share of our common stock), which is equal to (i) $2.94 per share, the closing market price of one share of our common stock on August 8, 2005 (the day immediately prior to the closing of the Securities Purchase Agreement) plus (ii) $0.05 attributable to the warrant to purchase 0.33 of one share of our common stock (or approximately an additional $0.125 per whole share of our common stock as required under Nasdaq rules). All other Purchasers in the private placement purchased units at a price of $2.50 per unit. The following table sets forth the beneficial ownership of each such officer and/or director who is participating in the private placement in our common stock immediately prior to the issuance of the Excess Securities, the number of Excess Shares and Excess Warrants that such officer and/or director will own after the issuance of the Excess Securities, and the beneficial ownership of such officer and/or director immediately following the issuance of the Excess Securities:

	Beneficial Ownership				
				After Issuance of Excess Shares	
Officers/Directors Participating in the Private Placement	**Prior to Issuance of Excess Securities(5)**	**Excess Shares**	**Excess Warrants**	**Shares(6)**	**Percentage of Shares Outstanding(6)(7)**

Bradley C. Almond(1)	113,557	1,338	441	114,895	*
Charles N. Chip Kahn III(2)	8,258	1,338	441	9,596	*%
Antonio Sanchez III(3)	477,366	13,378	4,414	490,744	1.2%
Richard D. Spurr(4)	588,097	6,690	2,207	594,787	1.5%

* Less than 1%.

(1) Includes 100,000 shares that Mr. Almond has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005.

(2) Includes 6,250 shares that Mr. Kahn has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005.

(3) Includes (i) 187,068 shares held by Mr. Sanchez III directly, (ii) 170,121 shares held by a trust for which he serves as co-trustee, along with 44,345 shares issuable to the trust upon exercise of certain warrants and (iii) 75,832 shares that he has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005. Mr. Sanchez III is the son of Antonio R. Sanchez, Jr., a former director.

(4) Includes 574,240 shares that Mr. Spurr has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005.

(5) Does not include the number of shares issuable upon exercise of the Firm Warrants, which will not be exercisable within 60 days of August 31, 2005. Firm Warrants exercisable for 663 shares, 663 shares, 6,623 shares and 3,312 shares were issued to Messrs. Almond, Kahn, Sanchez and Spurr, respectively, and will become exercisable on February 9, 2006.

(6) Does not include number of shares issuable to each applicable person upon exercise of Firm Warrants and Excess Warrants. The Firm Warrants and Excess Warrants will not be exercisable within 60 days of August 31, 2005.

(7) Percentages are based on the total number of shares of our common stock outstanding at August 31, 2005, which was 39,194,218. Shares of our common stock that were not outstanding but could be acquired upon exercise of an option or other convertible security within 60 days of August 31, 2005 are deemed outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by a particular person. However, such shares are not deemed to be outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by any other person.

Recommendation of the Board of Directors

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF PROPOSAL TWO.

OTHER INFORMATION YOU NEED
TO MAKE AN INFORMED DECISION ON PROPOSAL ONE

Who are our directors, director nominees, executive officers and significant employees?

The following table sets forth, as of August 30, 2005, the names of our directors, director nominees, executive officers and other significant employees and their respective ages and positions:

Name	Age	Position
Bradley C. Almond	39	Vice President, Finance and Administration, Chief Financial Officer and Treasurer
Robert C. Hausmann	42	Director Nominee
Charles A. Chip Kahn	53	Director and Director Nominee
Michael E. Keane(1)(2)(3)	49	Director
James S. Marston(1)(2)(3)	72	Director
Russell J. Morgan	46	Vice President, Client Services
David J. Robertson	47	Vice President, Engineering
John A. Ryan	49	Director and Chairman
Antonio R. Sanchez III	31	Director
Paul E. Schlosberg	54	Director and Director Nominee
Richard D. Spurr	51	Chief Executive Officer, President and Chief Operating Officer
Dr. Ben G. Streetman(1)(2)(3)	66	Director
Ronald A. Woessner	48	Senior Vice President, General Counsel and Secretary

(1) Member of the Audit Committee.

(2) Member of the Nominating and Corporate Governance Committee.

(3) Member of the Compensation Committee.

Director Nominees

Robert C. Hausmann, director nominee, is currently a consultant to public and private companies with respect to operational and financial market matters, including Sarbanes-Oxley and systems and process re-engineering. Formerly, Mr. Hausmann served as Vice President and Chief Financial Officer of Securify, Inc. from September 2002 through June 2005. From September 1999 through September 2002, Mr. Hausmann serviced as Vice President and Chief Financial Officer of Resonate, Inc. and helped manage the company s initial public offering. Previously, he served as operations partner and chief financial officer of Mohr, Davidow Ventures, a Silicon Valley based venture capital partnership. Mr. Hausmann holds an MBA from Santa Clara University and a B.A. in Finance and Accounting from Bethel College.

Charles N. Chip Kahn III was elected to our Board in June 2005. He is president of the Federation of American Hospitals, the national advocacy organization for investor-owned hospitals and health systems. Previously, he served as executive vice president and president for the Health Insurance Association of America. As a staff director for the Health Subcommittee of the House Ways and Means Committee from 1995-1998, Kahn helped bring about HIPAA and the Medicare provisions of the 1997 Balanced Budget Act. In addition to teaching health policy at Johns Hopkins University, George Washington University, and Tulane University, he has numerous academic and advisory appointments. He holds a Bachelor of Arts from Johns Hopkins University and a Masters of Public Health from Tulane University.

Paul E. Schlosberg was elected to our Board in June 2005. He brings nearly 30 years of experience in investment banking to our Board. He is currently the founder, chairman, and CEO of INCA Group LLC, a newly formed entity facilitating corporate restructuring, merger, acquisition, and capital funding activities for both public and private enterprises. From 1994 to 2003 he served in various capacities at the investment banking firms of First Southwest Asset Management, Inc. and First Southwest Company, including chairman and CEO, president and chief operating officer, and vice chairman of the board of directors. He is also a member of The NASDAQ Stock Market, Inc. Listing Qualifications Committee, an advisor to three private investment funds, and a current member of the board of The Center for BrainHealth at the University of Texas at Dallas and a past member of the American Heart Association s Dallas chapter board. From 1982 to 1994 he worked for Bear, Stearns & Co. as account executive and associate director. He holds a Bachelor of Business Administration from the University of Texas and a Masters of Business Administration from Southern Methodist University.

Continuing Directors, Executive Officers and Significant Employees

Bradley C. Almond joined our company in November 2003 and has served as Vice President of Finance and Administration, Chief Financial Officer and Treasurer since April 2004. Mr. Almond previously served as Vice President, Investor Relations and Mergers and Acquisitions from November 2003 through March 2004. From April 1998 to November 2003, Mr. Almond worked at Entrust, Inc., where he held a variety of management positions, including President Entrust Japan (in Tokyo, Japan), General Manager Entrust Asia and Latin America, Vice President of Finance and Vice President of Sales and Customer Operations. Prior to April 1998, Mr. Almond was employed by Nortel Networks Corporation in their Dallas, Texas and then Paris, France offices in various finance and operations roles, including Product Line Controller. Prior to Nortel, Mr. Almond was employed by KPMG Peat Marwick. Mr. Almond received his Certified Public Accountant certification in 1993.

Michael E. Keane was elected to our Board in November 1997. Mr. Keane is currently Vice President Finance, Computer Sciences Corporation (NYSE:CSC). Formerly, he served as Senior Vice President and Chief Financial Officer of UNOVA, Inc. from November 1997 until July 2005. UNOVA, Inc. comprised the former industrial technology businesses spun off from Western Atlas, Inc. in October 1997, where Mr. Keane was also Senior Vice President and Chief Financial Officer from October 1996 until October 1997 and Vice President and Treasurer from March 1994 until October 1996. From June 1981 until March 1994, he held various management positions with Litton Industries, Inc. Prior to June 1981, Mr. Keane was employed in the Chicago office of PriceWaterhouse. He received his Certified Public Accountant certification in 1977.

James S. Marston was elected to our Board in September 1991. From September 1987 through February 1998, Mr. Marston served as a Senior, or Executive, Vice President and the Chief Information Officer of APL Limited, a U.S.-based intermodal shipping company. Between 1986 and 1987, Mr. Marston served as President of AMR Technical Training Division, AMR Corporation. From 1982 until 1986, he was Vice President of Data Processing and Communications for American Airlines, in which position he was in charge of the Sabre reservations system and related technologies.

Russell J. Morgan joined our company in September 2002 and has served as Vice President, Client Services since joining us. From February 1997 until August 2002, he worked at Entrust, Inc. where he held a variety of senior management positions, including director, professional services and senior director, Entrust.net. At Entrust, Mr. Morgan was responsible for founding and building the Professional Services organization and building and operating a WebTrust certified secure data center for issuing digital certificates to business customers. Prior to February 1997, Mr. Morgan held a number of key management positions at Lockheed Martin, where he specialized in secure messaging and military command and control systems. Mr. Morgan is a professional engineer with over 20 years experience in delivering customer-focused technology solutions.

David J. Robertson joined our company in March 2002 and has served as Vice President, Engineering since joining us. Mr. Robertson has over 20 years of experience in the telecommunications and Internet industries, with specific expertise in network architecture, security and protocols, PBX and Key System design in circuit and packet environments and broadband and cellular access systems. He has also worked extensively in product areas involving 802.11, DECT and other unlicensed wireless access standards. Mr. Robertson has contributed to the early stages of Telecommunications Standards definition for the Unlicensed Wireless Industry in the U.S. and Canada and to the finalization of the ADSI standard for enhanced telecommunications carrier service deployment. He participated in pioneering efforts toward end-to-end voice quality standards for Quality of Service in many wireline and wireless domains. He is a member of multiple company advisory boards and serves with the City of Richardson Chamber of Commerce.

John A. Ryan joined our company in November 2001 and has served as director and Chairman of our Board since joining us. Mr. Ryan previously served as our President, which position was assumed by Mr. Spurr when he joined our company in January 2004. He also served as our Chief Executive Officer from November 2001 until February 2005, at which time Mr. Spurr was appointed the acting role. From January 1997 through January 2001, he served as President, Chief Executive Officer and director of Entrust, Inc., a company for which he led the private placement in 1996 and took public in August 1998. Prior to that, Mr. Ryan held a number of senior management positions in general management, marketing and sales, and finance with Nortel Networks, with his most recent position being Vice President and General Manager of Nortel s global multimedia and Internet projects unit. Before joining Nortel, Mr. Ryan worked for Deloitte & Touche LLP and was awarded his Canadian Chartered Accountant designation in 1981. He has also served as an advisory board member to Scopus Technologies. Prior to joining our company, Mr. Ryan formed ARM Technologies, a privately-held Internet consulting and services company, in February 2001. He is on the Board of Trustees for the Hart eCenter at Southern Methodist University.

Antonio R. Sanchez III was elected to our Board in May 2003 and is enrolled in the Master of Business Administration Program at Harvard University. Since October 2001, he has been Executive Vice President of Sanchez Oil & Gas Corporation. He is a 1997 graduate of Georgetown University, where he received a Bachelor of Science Degree in Business Administration with a concentration on Accounting and Finance and a minor in Economics. From 1997 through 1999, he was employed as an analyst in the mergers and acquisitions group in the New York City office of JP Morgan. From 1999 through 2001, he worked at our company in a variety of positions, including sales and marketing, product development and investor relations. He is currently involved in the day-to-day operations of Sanchez Oil & Gas.

Richard D. Spurr joined our company in January 2004 and has served as Chief Executive Officer since March 2005 and as President and Chief Operating Officer since joining us. Mr. Spurr brings 30 years of global IT experience in building sales, marketing, service and operations in both corporate and fast-growing environments, most recently as Senior Vice President, Worldwide Sales, Marketing and Business Development for Securify, Inc. beginning March 2003. From 1974 until 1990, Mr. Spurr worked for IBM where, as Regional Manager, he was responsible for over 1,000 employees, and as Group Director in Tokyo, for a $1.2 billion business throughout the Asia Pacific Region. Mr. Spurr then took two start-ups, SEER Technologies, Inc. and Entrust, Inc., from early stages through IPOs and beyond. Under his leadership, both companies increased revenue over eight-fold in three years, with Entrust, Inc. s revenue topping $148 million a year.

Dr. Ben G. Streetman was elected to our Board in July 1998. Dr. Streetman is Dean of the College of Engineering at The University of Texas at Austin and holds the Dula D. Cockrell Centennial Chair in Engineering. He is a Professor of Electrical and Computer Engineering and was the founding director of the Microelectronics Research Center, The University of Texas at Austin, from 1984 until 1996. Dr. Streetman also serves as a director of National Instruments Corporation.

Ronald A. Woessner joined our company in April 1992 as General Counsel and has served as Secretary since March 1993 and as Senior Vice President since May 2000. He was previously a corporate and securities attorney with the Dallas-based law firm of Johnson & Gibbs, P.C., where he specialized in public and private equity and debt financings, mergers and acquisitions, and leveraged buy-outs.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the shares of our common stock beneficially owned by (1) each of our directors, (2) our executive officers, (3) all of our directors and executive officers as a group, and (4) all persons known by us to beneficially own more than 5% of our outstanding stock.

	Amount and Nature of Beneficial Ownership(1)	
Beneficial Owner(2)	**Number of Common Stock Shares Beneficially Owned(3)**	**Percentage of Total Common Stock Shares Outstanding(3)**
Amaranth LLC(4) c/o Amaranth Advisors L.L.C. One American Lane Greenwich, Connecticut 06831	1,400,958	3.6%
Bradley C. Almond(5)	113,557	*
George W. Haywood(6) c/o Cronin & Vris, LLP 380 Madison Avenue, 24th Floor New York, New York 10017	4,716,203	12.1%
Michael E. Keane(7)	258,014	*
Charles N. Kahn III(8)	8,258	*
James S. Marston(7)	260,514	*
David J. Robertson(7)	202,083	*
John A. Ryan(9)	1,485,309	3.7%
Antonio R. Sanchez, Jr.(10) Post Office Box 2986 Laredo, Texas 78044	2,640,896	6.7%
Antonio R. Sanchez III(11)	477,366	1.2%
Paul E. Schlosberg(7)	6,250	*
Richard D. Spurr(12)	588,097	1.5%
Dr. Ben G. Streetman(7)	207,706	*
Ronald A. Woessner(13)	73,485	*
All directors and executive officers as a group (11 persons)(14)	3,680,639	8.7%

* Denotes ownership of less than 1%.

(1) Reported in accordance with the beneficial ownership rules of the Securities and Exchange Commission. Unless otherwise noted, each shareholder listed in the table has both sole voting and sole investment power over the common stock shown as beneficially owned, subject to community property laws where applicable.

(2) Unless otherwise noted, the address for each beneficial owner is c/o Zix Corporation, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960.

(3) Percentages are based on the total number of shares of our common stock outstanding at August 31, 2005, which was 39,194,218. Shares of our common stock that were not outstanding but could be acquired upon exercise of an option or other convertible security within 60 days of August 31, 2005 are deemed outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by a particular person. However, such shares are not deemed to be outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by any other person. The number of shares beneficially owned does not include the Excess Shares or shares issuable upon exercise of the Firm Warrants or Excess Warrants.

(4) Excludes 900,000 Excess shares that may be issued to Amulet Limited upon shareholder approval of the issuance of the Excess Securities and warrants exercisable for 245,025 shares that were reported as beneficially owned by Amaranth LLC on a Schedule 13G filed jointly by Amaranth LLC, Amaranth Advisors L.L.C and Nicholas M. Maounis on August 19, 2005. If the Excess Shares were included, the percentage of our common stock beneficially owned by Amaranth LLC would be 5.8%. Includes 1,398,658 shares held by Amaranth LLC through Amulet Limited, its wholly-owned subsidiary. Amaranth Advisors L.L.C., the trading advisor for Amulet Limited, exercises dispositive powers with respect to the shares, and voting and/or dispositive power with respect to the common stock underlying the warrants. Amaranth Advisors L.L.C. has designated authorized signatories who will sign on behalf of Amulet Limited. Nicholas M. Maounis is the managing member of Amaranth Advisors L.L.C. Each of Amaranth Securities L.L.C. and Amaranth Global Securities Inc. is a broker-dealer registered pursuant to Section 15(b) of the Exchange Act and is a member of the National Association of Securities Dealers, Inc. (the NASD). Each such broker-dealer may be deemed to be an affiliate of Amaranth LLC. Neither of such broker-dealers, however, is authorized by the NASD to engage in securities offerings either as an underwriter or as a selling group participant and neither of such broker-dealers actually engages in any such activity. Amaranth LLC, through Amulet Limited, also holds $10 million principal amount of our convertible promissory notes and warrants covering 536,673 shares of our common stock. As of August 31, 2005, the convertible notes have a conversion price of $5.59 and the warrants have an exercise price of $5.59, both of which may be adjusted in certain events. We have agreed to redeem $2.5 million principal amount of the convertible notes with shares of our common stock by October 31, 2005 and an additional $2.5 million principal amount of the convertible notes with shares of our common stock by December 31, 2005 at (i) 105% of the principal amount, plus accrued interest and (ii) a redemption rate that will require that we issue shares of our common stock valued at a 10% discount to the daily volume weighted average price (VWAP) of our common stock for a specified number of trading days preceding the applicable redemption date. On September 23, 2005, these $5.25 million mandatory redemptions would be payable with approximately 5.4 million shares of our common stock using a VWAP of approximately $2.17 per share. For more information on Amaranth LLC s convertible note holdings, see our Registration Statement on Form S-3 (File No. 333-124318).

(5) Includes 100,000 shares that Mr. Almond has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005.

(6) As reported in Mr. Haywood s most recent Form 4, filed August 11, 2005. Includes (i) 41,500 shares that are owned by family members of Mr. Haywood, (ii) 115,000 shares owned by the estate of a family member for which Mr. Haywood is executor and has voting power and (iii) 199,556 shares of common stock currently issuable to him upon exercise of certain warrants. Does not include 320,000 Excess Shares that may be issued to Mr. Haywood upon shareholder approval of the issuance of the Excess Securities. If such Excess Shares were included, the percentage of our common stock beneficially owned by Mr. Haywood would be 12.8%.

(7) This individual has the right to acquire these shares under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005.

(8) Includes 6,250 shares that Mr. Kahn has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005.

(9) Includes (i) 1,050,000 shares that Mr. Ryan has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005 and (ii) 66,518 shares currently issuable upon exercise of certain warrants.

(10) As reported in Mr. Sanchez s most recent Schedule 13D/ A filed August 11, 2005. Includes (i) 1,883,770 shares held by Mr. Sanchez, Jr. directly, (ii) 9,375 shares held by family members of Mr. Sanchez, Jr.,

(iii) 91,123 shares held by trusts for which he serves as trustee or co-trustee, (iv) 523,592 shares held by SANTIG, Ltd., a family limited partnership for which he owns and controls the managing general partner, Sanchez Management Corporation, and (v) 133,036 shares currently issuable to Mr. Sanchez, Jr. and SANTIG, Ltd. upon exercise of certain warrants. Mr. Sanchez, Jr. is a former director and father of current director Antonio R. Sanchez III. Does not include 80,000 Excess Shares that may be issued to Mr. Sanchez, Jr. upon shareholder approval of the issuance of the Excess Securities. If such Excess Shares were included, the percentage of our common stock beneficially owned by Mr. Sanchez, Jr. would be 7.0%.

(11) Includes (i) 187,068 shares held by Mr. Sanchez III directly, (ii) 170,121 shares held by a trust for which he serves as co-trustee, along with 44,345 shares issuable to the trust upon exercise of certain warrants and (iii) 75,832 shares that he has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005. Mr. Sanchez III is the son of Antonio R. Sanchez, Jr., a former director.

(12) Includes 574,240 shares that Mr. Spurr has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005.

(13) Includes 59,374 shares that Mr. Woessner has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of August 31, 2005 and 2,500 shares held by a trust for which Mr. Woessner serves as trustee.

(14) Includes 2,800,263 and 110,863 shares of our common stock that the group has the right to acquire under outstanding stock options and warrants, respectively, that are currently exercisable or that become exercisable within 60 days of August 31, 2005.

Section 16(a) Beneficial Ownership Reporting Compliance

Under the securities laws of the U.S., our directors, officers and any beneficial owner of more than 10% of our outstanding common stock (collectively, insiders) are required to report their initial ownership of our common stock and any subsequent changes in their ownership to the SEC. The SEC s rules require insiders to provide us with copies of all reports that the insiders file with the SEC pursuant to Section 16(a) of the Exchange Act. Specific due dates have been established by the SEC, and we are required to disclose any failure to file by those dates. Based upon our review of filings with the SEC and written representations that no other reports were required to be filed, we believe that our insiders complied with all Section 16(a) filing requirements applicable to them during 2004, with the exception of the following. During 2004, Messrs. Keane and Marston and Dr. Streetman failed to timely file one Form 4 with respect to the automatic grant of director stock options and Mr. Spurr failed to timely file one Form 4 with respect to a grant of stock options. In all cases, the filings were promptly made as soon as the oversight was discovered. In addition, based upon our review of filings with the SEC, we believe that our insiders have complied with all Section 16(a) filing requirements applicable to them through August 31, 2005.

CORPORATE GOVERNANCE

We are in compliance with the current corporate governance requirements imposed by the Sarbanes-Oxley Act of 2002 and the Nasdaq Marketplace Rules. We will continue to modify our policies and procedures to ensure compliance with developing standards in the corporate governance area. Set forth below is information regarding the meetings of our Board during the calendar year 2004, a description of the standing committees of our Board and additional highlights of our corporate governance policies and procedures.

What members of our Board are independent within the meaning of applicable rules and regulations?

Our Board has formally determined that Messrs. Keane, Marston and Sanchez III and Dr. Streetman each qualify as independent in accordance with the published listing requirements of Nasdaq. The Nasdaq independence definition includes a series of objective tests, such as that the director is not an employee of the company and has not engaged in various types of business dealings with the company. In addition, as further required by the Nasdaq rules, our Board has made a subjective determination as to each independent director that no relationships exist which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. We expect that the Board will formally determine that each of Messrs. Hausmann, Kahn and Schlosberg are also independent directors under the Nasdaq rules.

In addition, as required by Nasdaq rules, the members of the Audit Committee each qualify as independent under special standards established by the SEC for members of audit committees. The Audit Committee also includes at least one independent member who is determined by our Board to meet the qualifications of an audit committee financial expert in accordance with SEC rules, including that the person meets the relevant definition of an independent director. Mr. Keane is the independent director who has been determined to be an audit committee financial expert. Shareholders should understand that this designation is a disclosure requirement of the SEC related to Mr. Keane s experience and understanding with respect to certain accounting and auditing matters. The designation does not impose upon Mr. Keane any duties, obligations or liability that are greater than are generally imposed on him as a member of the Audit Committee and our Board, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or our Board. Our Board has also determined that each Audit Committee member has sufficient knowledge in reading and understanding the company s financial statements to serve on the Audit Committee.

How do our Board and its committees work?

Our business is managed under the direction of our Board of Directors. Our Board presently consists of eight members. The Board meets during the year to review significant developments and to act on matters requiring Board approval. The Board met on seven occasions during the year ended December 31, 2004 and has met on 13 occasions during 2005 through August 31, 2005. Each of the current directors attended at least 75% of all meetings of our Board called during the time he served as a director in the past fiscal year and during 2005 (through August 31, 2005). Each of the current directors attended at least 75% of all meetings of each committee of our Board on which he served in the past fiscal year and during 2005 (through August 31, 2005).

What is the role of our Board s committees?

Our Board has a standing Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee to devote attention to specific subjects and to assist our Board in discharging its responsibilities.

Audit Committee

Our Audit Committee is currently comprised of Michael E. Keane, James S. Marston and Dr. Ben G. Streetman and is chaired by Mr. Keane. Our Board has determined that all three members of the Audit Committee satisfy the independence and other requirements for audit committee membership required by the

Marketplace Rules of Nasdaq and the SEC. Our Board has also determined that Mr. Keane qualifies as a financial expert. The function of the Audit Committee is described below under the heading **REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS.** The Audit Committee operates under a written charter adopted by our Board that is available on our Website at *www.zixcorp.com* under the heading Corporate Governance. The Audit Committee met on ten occasions during the year ended December 31, 2004 and has met on six occasions in 2005 through August 31, 2005. The information regarding the audit charter and committee independence shall not be deemed to be incorporated by reference in any filing by us under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act, except to the extent that we specifically incorporate this information by reference.

Independent Auditor Fee Information

On April 27, 2004, our Audit Committee requested management to solicit proposals from several independent registered accounting firms for professional services relating to the audit of our financial statements. On June 16, 2004, we engaged Deloitte as our independent registered public accounting firm to audit our financial statements for 2004, subject to Deloitte s satisfactory completion of its client acceptance procedures. On June 16, 2004, we also notified Ernst & Young LLP (E&Y), our independent auditors for the year ended December 31, 2003 and previous years, of our election to dismiss E&Y as our independent auditors. The foregoing was approved by our Audit Committee.

The reports of E&Y on our financial statements for the years ended December 31, 2002 and 2003 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. In connection with its audits of our financial statements for the years ended December 31, 2002 and 2003 and through June 16, 2004, (i) there were no disagreements with E&Y on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to E&Y s satisfaction, would have caused E&Y to make reference to the subject matter of the disagreements in connection with its reports; and (ii) there were no reportable events as described in Item 304(a)(1)(v) of the SEC s Regulation S-K. E&Y agrees with the foregoing disclosures as evidenced by their letter addressed to the SEC. See our Current Report on Form 8-K, dated June 23, 2004, for a copy of such letter.

During the years ended December 31, 2002 and 2003, and through June 16, 2004, Deloitte has not been engaged as an independent accountant to audit either our financial statements or any of our subsidiaries, nor have we or anyone acting on our behalf consulted with Deloitte regarding either: (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements; or (ii) any matter that was the subject of a disagreement or reportable event as set forth in Item 304(a)(2)(ii) of Regulation S-K.

Deloitte has, however, conducted the American Institute of Certified Public Accountants (AICPA) and Canadian Institute of Chartered Accountants (CICA) SysTrust^{tm} certification examinations of our ZixSecure Center^{tm} and related ZixMessage Center^{tm} functions. We received our initial SysTrust certification from Deloitte in May 2003, and Deloitte concluded its latest SAS-70 examination in May 2004. The SysTrust certification examination signifies that a company has effective system controls and safeguards that meet pre-defined principles and criteria related to issues such as security, availability, processing integrity and confidentiality. A SAS-70 examination signifies that an organization has had its control objectives examined by an independent accounting and auditing firm.

Following is a summary of E&Y and Deloitte s fees for the years ended December 31, 2003 and 2004, respectively:

	E&Y 2003	Deloitte 2004
Audit Fees	$ 233,660(1)	$ 573,905(1)
Audit-Related Fees	21,543(2)	18,145(2)
Tax Fees	7,484(3)	59,000(3)
All Other Fees		102,951(4)
Total Fees	$ 262,687	$ 754,001

(1) Audit fees consist of the annual audits of our consolidated financial statements included in Form 10-K, the quarterly reviews of our consolidated financial statements included in Form 10-Q, and in 2004, the audit of management s report on internal control over financial reporting, as well as accounting advisory services related to financial accounting matters, and services related to filings made with the SEC.

(2) Audit-related fees consist of required audits of our employee benefit plan and access to online research tools.

(3) Tax fees include assistance with certain tax compliance matters and various tax planning consultations.

(4) All other fees consist of professional services rendered in performing the ZixCorp AICPA/ CICA SysTrust audit of the ZixMessage Center^{tm} portal and the relevant components of the ZixData Center^{tm}. Such fees to Deloitte in 2003 were $72,727.

Audit Committee Pre-Approval Policy

Our Audit Committee is required to pre-approve the audit and non-audit services to be performed by our independent auditor in order to assure that the provision of such services does not impair the auditor s independence. Annually, our independent auditor will present to our Audit Committee services expected to be performed by the independent auditor over the next 12 months. Our Audit Committee will review and, as it deems appropriate, pre-approve those services. The services and estimated fees are to be presented to our Audit Committee for consideration in the following categories: Audit, Audit-Related, Tax and All Other (each as defined in Schedule 14A of the Exchange Act). For each service listed in those categories, our Audit Committee is to receive detailed documentation indicating the specific services to be provided. The term of any pre-approval is 12 months from the date of pre-approval, unless our Audit Committee specifically provides for a different period. Our Audit Committee will review, on at least a quarterly basis, the services provided to date by the independent auditor and the fees incurred for those services. Our Audit Committee may also revise the list of pre-approved services and related fees from time-to-time, based on subsequent determinations. All of the services provided by the independent auditor were approved by our Audit Committee and such services were performed by full-time, permanent employees of the independent auditor.

Compensation Committee

Our Compensation Committee is currently comprised of Messrs. Keane and Marston and Dr. Streetman and is chaired by Mr. Marston. Our Board has determined that each member of the Compensation Committee qualifies as independent in accordance with the published listing requirements of Nasdaq. The Compensation Committee operates under a written charter that is available on our Website at *www.zixcorp.com* under the heading Corporate Governance. Under the charter, the Compensation Committee s primary responsibilities are to: (i) establish the Company s overall management compensation philosophy and policy; (ii) make recommendations to our Board with respect to corporate goals and objectives with respect to compensation for our executive officers, including our Chief Executive Officer; (iii) make recommendations to our Board with respect to our executive officers annual compensation, including salary, bonus and incentive and equity compensation; and (iv) administer our incentive compensation programs and other equity-based compensation plans. The Compensation Committee met once during the year ended December 31, 2004 and has not met in 2005 through August 31, 2005.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee is currently comprised of Messrs. Keane and Marston and Dr. Streetman and is chaired by Dr. Streetman. Our Board has determined that each member of the Nominating and Corporate Governance Committee qualifies as independent in accordance with the published listing requirements of Nasdaq. The Nominating and Corporate Governance Committee operates under a written charter that is available on our Website at *www.zixcorp.com* under the heading Corporate Governance. Under the charter, the committee s principal responsibilities include: (i) identifying individuals qualified to become members of our Board and recommending candidates for reelection as directors; (ii) developing and recommending to the Board a set of corporate governance principles applicable to our company; and (iii) taking a leadership role in shaping the corporate governance of our company, including the composition of our Board and its committees. The Nominating and Corporate Governance Committee, formed in March 2004, did not meet during the year ended December 31, 2004 as the independent directors of our Board performed the functions of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee has not met in 2005 through August 31, 2005. However, our full Board of Directors, including all members of the Nominating and Corporate Governance Committee, has approved the nominations of Messrs. Hausmann, Kahn and Schlosberg to serve as members of our Board of Directors.

The Nominating and Corporate Governance Committee will consider director nominees recommended by our shareholders. Shareholders desiring to submit nominations for Board members to be included in next year s proxy statement should forward them no later than December 5, 2005 to Ronald A. Woessner, Secretary, at our principal executive offices at 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960. See **How does our Board select nominees for the Board?** below for further information. The final selection of director nominees is within the sole discretion of our Board.

How does our Board select nominees for the Board?

The Nominating and Corporate Governance Committee has a policy with respect to the consideration of director candidates recommended by shareholders. The policy provides that any shareholder of record who is entitled to vote for the election of directors at a meeting called for that purpose may nominate persons for election to our Board of Directors, subject to the following requirements.

A shareholder desiring to nominate a person for election to our Board of Directors must send a written notice to our General Counsel no later than December 5, 2005, as set forth in **How do I raise an issue for discussion or vote at the annual meeting?** above. The written notice is to include the following information: (i) the name of the candidate; (ii) the address, phone and fax number of the candidate; (iii) a statement signed by the candidate that certifies that the candidate wishes to be considered for nomination to our Board of Directors, explains why the candidate believes that he or she meets the minimum Director Qualification Criteria (discussed below) and would otherwise be a valuable addition to our Board of Directors, and states the number of shares of our stock that are beneficially owned by such candidate; and (iv) all information required to be disclosed in solicitations of proxies for election of directors, or as otherwise required, in each case pursuant to Regulation 14A under the Exchange Act.

Our Board of Directors has set forth minimum qualifications (Director Qualification Criteria) that a recommended candidate must possess. All candidates must have the following characteristics if they are to be considered to serve on our Board of Directors as an independent director:

The highest personal and professional ethics, integrity and values;

Broad-based skills and experience at an executive, policy-making level in business, academia, government or technology areas relevant to our activities;

A willingness to devote sufficient time to become knowledgeable about our business and to carry out his or her duties and responsibilities effectively;

A commitment to serve on our Board for two years or more at the time of his or her initial election; and

- Be between the ages of 30 and 70 at the time of his or her designation as an independent director of the Board.

Candidates who will serve on the Audit Committee must have the following additional characteristics:

- All candidates must meet additional independence requirements in accordance with applicable rules and regulations;
- All candidates must have the ability to read and understand fundamental financial statements, including a company s balance sheet, income statement and cash flow statement; and
- At least one member of the Audit Committee must meet the requirements of an audit committee financial expert under SEC rules and regulations.

Other factors considered in candidates may include, but are not limited to, the following:

- Experience in the technology areas relevant to our activities;
- Experience as a director or executive officer of a large public company;
- Experience as an independent public accountant;
- Significant academic experience in a field of importance to our company;
- Recent experience in an operating role at a large company; and
- Other relevant information.

The Nominating and Corporate Governance Committee s process for identifying and evaluating director candidates is as follows:

- The Chairman of our Board, the Nominating and Corporate Governance Committee or other Board members identify the need to add new members to the Board with specific criteria or to fill a vacancy on the Board.
- The Chair of the Nominating and Corporate Governance Committee initiates a search, working with staff support and seeking input from the members of the Board and senior management, and hiring a search firm, if necessary.
- The Nominating and Corporate Governance Committee identifies an initial slate of candidates, including any recommended by shareholders and accepted by the Nominating and Corporate Governance Committee, after taking account of the Director Qualification Criteria.
- The Nominating and Corporate Governance Committee determines if any Board members have contacts with identified candidates and if necessary, uses a search firm.
- The Chairman of the Board, the Chief Executive Officer and at least one member of the Nominating and Corporate Governance Committee interview prospective candidate(s).
- The Nominating and Corporate Governance Committee keeps the Board informed of the selection progress.
- The Nominating and Corporate Governance Committee meets to consider and approve final candidate(s).

These procedures do not create a contract between our company, on the one hand, and a company shareholder(s) or a candidate recommended by a shareholder(s), on the other hand. We reserve the right to change these procedures at any time, consistent with the requirements of applicable law, rules and regulations.

The Nominating and Corporate Governance Committee presents selected candidate(s) to the Board and seeks full Board endorsement of such candidate(s). There is no third party that we pay to assist in identifying or evaluating potential director nominees.

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How do shareholders communicate with our Board?

Shareholders interested in communicating with our Board of Directors may do so by writing to our General Counsel, Ronald A. Woessner, at 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960. Our General Counsel will review all shareholder communications. Those that appear to contain subject matter reasonably related to matters within the purview of our Board of Directors will be forwarded to the entire Board or the individual Board member to whom the communication was addressed. Obscene, threatening or ha