

## Zix Corporation Announces Second Quarter 2007 Financial Results

### Company reports record company-wide revenues and gross margin

**DALLAS — August 7, 2007** — Zix Corporation (ZixCorp®), (Nasdaq: ZIXI), the leader in hosted services for email encryption and e-prescribing, today announced financial results for the second quarter ended June 30, 2007. ZixCorp recorded second quarter revenues of \$5.55 million and a net loss of \$3.1 million for the quarter, or \$0.05 per share, compared with revenues of \$4.2 million, and a net loss of \$5.1 million, or \$0.09 per share, in the corresponding quarter in 2006. Total cash and cash equivalents as of June 30, 2007 were \$12.1 million, including \$1.7 million of restricted cash.

“With record company-wide revenues and gross margins, and by far the highest Email Encryption orders in our history, ZixCorp delivered strong results for the quarter ending June 30, 2007, driven primarily by our Email Encryption business. I am pleased with both the current results, where we exceeded guidance in each key area, and the future prospects for the Company’s continued growth,” said Rick Spurr, ZixCorp’s chief executive officer. “At the same time, we continue to make dramatic improvement in our cash utilization. As previously reported, our second quarter cash burn of \$350,000 was well ahead of expectations and our first half total cash consumption of \$682,000, when compared with \$11.6 million cash burn in the first half of 2006, demonstrates the success we have had in growing revenues and cash collections while cutting costs. We remain on track to attain our goal of achieving positive cash flow in first quarter 2008.”

### Corporate Highlights

- Company-wide second quarter 2007 revenues of \$5.55 million is up 32 percent over the comparable quarter in 2006, exceeding previously-issued revenue guidance for second quarter of \$5.0 to \$5.3 million
- Similar to first quarter, the Company’s second quarter ending cash balance of \$12.1 million, including restricted cash, remained well ahead of our guidance range of \$11.3 to \$11.5 million
- The Company’s \$682,000 cash burn improvement for the first half of 2007, compared with an \$11.6 million burn for the first half of last year, is due to significant increases in

cash receipts from both the Email Encryption and e-Prescribing businesses coupled with the operational improvements made over the past year

## **Business Highlights**

### **e-Prescribing**

- e-Prescribing revenue for second quarter 2007 was \$1.4 million, up 71 percent when compared to the corresponding quarter in 2006
- ZixCorp's PocketScript® e-Prescribing service processed 3.6 million e-scripts through June 30, 2007, bringing the all-time total number processed to over 12 million and growing at a rate of 140,000 e-scripts per week
- Two customers, Independence Blue Cross and Aetna, signed up in Q2 to pay for renewals of their active prescribers, which, along with previous contracts and other expressions of intent to do the same, means that six out of our eight programs have decided to renew the subscription licenses for their active prescribers
- ZixCorp completed 557 deployments in the second quarter, an increase from the previous quarter and the quarterly e-script count continued to grow with 1.84 million e-scripts in second quarter 2007, compared with 1.3 million processed in second quarter 2006

### **Email Encryption:**

- Email Encryption revenue for second quarter 2007 was \$4.1 million, up 22 percent when compared to second quarter 2006
- Total orders for the second quarter were \$6.9 million, the highest in company history by 29 percent and also an increase of 30 percent over Q2 2006, which was a near-record quarter at the time. Of the total orders, \$1.4 million were new first-year orders and customer contract renewals were 100 percent on a contract value basis
- ZixCorp announced in second quarter 2007 that its ZixDirectory™ now hosts the public keys for more than eight million email recipients and it continues to grow at a rate of more than 60,000 new protected email addresses per week
- The Company now has 30 percent of the state banking regulators as customers of ZixCorp's Email Encryption Service, adding its 14<sup>th</sup> and 15<sup>th</sup> members of the Conference of State Bank Supervisors during the second quarter
- The Company continued its government client base growth, announcing in the second quarter its participation in the Minnesota-based Community Health Information Collaborative (CHIC), which involves an email encryption pilot in Carlton and Itasca counties. The Company also announced that Minnesota-based St. Louis County

expanded its current use of ZixCorp's email encryption service by selecting ZixConnect™, a managed TLS service

### Financial Highlights

**Revenues:** Company-wide revenues were a record \$5.55 million in the second quarter 2007, which was a 32 percent increase over the second quarter 2006. The Company's Email Encryption business had its highest quarterly revenue at \$4.1 million, a 22 percent improvement over the corresponding period in 2006, while the e-Prescribing quarterly revenue of \$1.4 million represented a 71 percent increase over the same period of 2006. Email Encryption's increase was due to the revenue growth inherent in a successful subscription model with steady additions to the subscriber base coupled with a high rate of renewing existing customers. The e-Prescribing revenues increased principally from increased transaction/usage-based fees, revenues on new, billable deployments throughout 2006 and in the first half of 2007, and renewals by payors. The Company's order backlog (contractually bound service contracts that represent future revenue to be recognized as the services are provided) was a record \$29.9 million on June 30, 2007.

### Revenues by Product Second Quarter 2006 – 2007

	Three Months Ended, June 30,		3-month Variance 2007 vs. 2006		Six Months Ended, June 30,		6-month Variance 2007 vs. 2006	
	2007	2006	\$	%	2007	2006	\$	%
Email Encryption	\$4,120,000	\$3,369,000	\$ 751,000	22%	\$8,054,000	\$6,702,000	\$ 1,352,000	20%
e-Prescribing	<u>1,435,000</u>	<u>840,000</u>	<u>595,000</u>	71%	<u>2,888,000</u>	<u>1,402,000</u>	<u>1,486,000</u>	106%
Total revenues	<u>\$5,555,000</u>	<u>\$4,209,000</u>	<u>\$ 1,346,000</u>	32%	<u>\$10,942,000</u>	<u>\$8,104,000</u>	<u>\$ 2,838,000</u>	35%

**Gross Margin:** The Company recorded its highest gross margin ever with \$2.9 million (52 percent of revenue) for the second quarter 2007. The gross margin contribution from the Email Encryption business was \$3.1 million or a record 75 percent, while the gross margin for e-Prescribing was negative \$0.2 million in the quarter. The Company-wide gross margin for the same period in 2006 was \$1.1 million or 27 percent of revenue, which was comprised of \$2.0 million in Email Encryption and negative \$0.9 million for e-Prescribing. The gross margin improvement for both Email Encryption and e-Prescribing was driven by continued revenue growth and lower costs, the latter of which resulted principally from the cost-cutting efforts completed in 2006.

**R&D and SG&A Expenditures:** In the second quarter 2007, the combination of the Company's research and development (R&D) expenses and its sales, general, and administrative (SG&A) expenses decreased by \$2.2 million when compared with the same

period in 2006, representing a decrease of 27 percent. Spending for these areas declined primarily as a result of cost-cutting measures completed in 2006.

**Cash Utilization:** Cash and cash equivalents as of June 30, 2007 were \$12.1 million, including \$1.7 million of restricted cash primarily supporting the restructured note held by sanofi-aventis. Net cash utilization for the second quarter 2007 totaled \$350,000, compared with net cash utilization for the second quarter of 2006 of \$5.5 million. The year-over-year improvement of \$5.1 million in net operating cash utilization came from the combination of increased cash receipts and decreased cash spending. The reductions in cash spending from operations are principally due to the Company's 2006 cost cutting measures.

**Outlook:** The Company forecasts revenue for the third quarter to be between \$5.7 and \$6.0 million. e-Prescribing deployments are expected to be between 450 and 500 prescribers for the third quarter. The ending total cash balance for the third quarter is projected to be between \$11.0 and \$11.3 million, including \$1.7 million in restricted cash. Given the fourth quarter's seasonal decrease in Email Encryption cash collections and annual expenditures typically made in that quarter, we are reaffirming our guidance of burning less than \$4.8 million for all of 2007.

#### **Second Quarter Conference Call Information**

The Company will hold a conference call to discuss this information today at 5:00 p.m. ET. A live Webcast of the conference call will be available on the investor relations portion of ZixCorp's Web site at <http://investor.zixcorp.com>. Alternatively, participants can listen to the conference call by dialing 617-597-5380 or toll-free 866-510-0712 and entering access code 60467146. An audio replay of the conference will be available until August 14, by dialing 617-801-6888 or toll-free 888-286-8010, and entering the access code 64920829, and after that date via Webcast on the Company's Web site.

#### **About Zix Corporation**

ZixCorp is the leading provider of easy-to-use-and-deploy email encryption and e-prescribing services that Connect entities with their customers and partners to Protect and Deliver sensitive information in the healthcare, finance, insurance and government industries. ZixCorp's hosted Email Encryption Service provides an easy and cost-effective way to ensure customer privacy and regulatory compliance for corporate email. Its PocketScript® e-prescribing service saves lives and saves money by automating the prescription process between payors, doctors, and pharmacies. For more information, visit [www.zixcorp.com](http://www.zixcorp.com).

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**Safe Harbor Statement for ZixCorp**

The following is a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995. Mr. Spurr's statement, "We remain on track to attain our goal of achieving positive cash flow in first quarter 2008", and the statements under the caption "Outlook" are forward-looking statements, not a guarantee of future performance, and involve risks and uncertainties. Actual results may differ materially from those projected in the forward-looking statements. These risks and uncertainties include, but are not limited to, the following: the Company's continued operating losses and use of cash resources; the Company's ability to achieve broad market acceptance for the Company's products and services, including the Company's ability to enter into new sponsorship agreements for the e-prescribing services offered by its PocketScript, Inc. subsidiary and the Company's ability to continue realizing acceptance of its Email Encryption business in its core markets of healthcare and financial and to achieve market acceptance of its Email Encryption business in other markets; the Company's ability to maintain existing and generate other revenue opportunities, including fees for scripts written, from its PocketScript e-Prescription business; the Company's ability to establish and maintain strategic relationships to gain customers and grow revenues, particularly in its Email Encryption business; the expected increase in competition in the Company's Email Encryption and e-Prescription businesses; and the Company's ability to successfully and timely introduce new Email Encryption and e-Prescription products and services or related products and services and implement technological changes. Further details pertaining to such risks and uncertainties may be found in the Company's public filings with the SEC.

**ZIX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2007 (unaudited)</b>	<b>December 31, 2006 (audited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,436,000	\$ 12,783,000
Restricted cash	200,000	—
Receivables, net	811,000	746,000
Prepaid and other current assets	1,746,000	2,178,000
Total current assets	13,193,000	15,707,000
Restricted cash	1,500,000	35,000
Property and equipment, net	2,052,000	2,404,000
Goodwill, intangible and other assets	2,286,000	2,220,000
Total assets	\$ 19,031,000	\$ 20,366,000
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,637,000	\$ 3,300,000
Deferred revenue	11,296,000	8,388,000
Customer deposit	6,000	2,000,000
Promissory note payable	200,000	2,661,000
Short-term note payable	104,000	255,000
Total current liabilities	15,243,000	16,604,000
Long-term liabilities:		
Deferred revenue	3,706,000	2,496,000
Promissory note payable	1,293,000	—
Deferred rent	352,000	339,000
Total long-term liabilities	5,351,000	2,835,000
Total liabilities	20,594,000	19,439,000
Total stockholders' equity (deficit)	(1,563,000)	927,000
Total liabilities and stockholders' equity (deficit)	\$ 19,031,000	\$ 20,366,000

**ZIX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues	\$ 5,555,000	\$ 4,209,000	\$ 10,942,000	\$ 8,104,000
Cost of revenues	<u>2,647,000</u>	<u>3,090,000</u>	<u>5,500,000</u>	<u>6,465,000</u>
Gross margin	2,908,000	1,119,000	5,442,000	1,639,000
Operating expenses:				
Research and development expenses	1,343,000	1,626,000	2,642,000	3,221,000
Selling, general and administrative expenses	4,649,000	6,549,000	9,449,000	13,141,000
Customer deposit forfeiture	<u>—</u>	<u>—</u>	<u>(2,000,000)</u>	<u>(1,000,000)</u>
Total operating expenses	<u>5,992,000</u>	<u>8,175,000</u>	<u>10,091,000</u>	<u>15,362,000</u>
Operating loss	(3,084,000)	(7,056,000)	(4,649,000)	(13,723,000)
Other (expense) income:				
Investment and other income	139,000	294,000	294,000	511,000
Interest expense	(56,000)	(477,000)	(106,000)	(895,000)
Gain on derivative liabilities	—	2,930,000	—	2,930,000
Loss on impairment of operating lease	(100,000)	—	(100,000)	—
Loss on extinguishment of debt	<u>—</u>	<u>(871,000)</u>	<u>(178,000)</u>	<u>(871,000)</u>
Total other (expense) income	<u>(17,000)</u>	<u>1,876,000</u>	<u>(90,000)</u>	<u>1,675,000</u>
Loss before income taxes	(3,101,000)	(5,180,000)	(4,739,000)	(12,048,000)
Income taxes benefit (expense)	<u>(34,000)</u>	<u>94,000</u>	<u>(37,000)</u>	<u>88,000</u>
Net loss	<u>\$ (3,135,000)</u>	<u>\$ (5,086,000)</u>	<u>\$ (4,776,000)</u>	<u>\$ (11,960,000)</u>
Basic and diluted loss per common share	<u>\$ (0.05)</u>	<u>\$ (0.09)</u>	<u>\$ (0.08)</u>	<u>\$ (0.22)</u>
Basic and diluted weighted average common shares outstanding	<u>60,338,839</u>	<u>59,200,723</u>	<u>60,110,662</u>	<u>54,453,902</u>

**ZIX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Operating activities:		
Net loss	\$(4,776,000)	\$ (11,960,000)
Non-cash items in net loss	(22,000)	722,000
Changes in operating assets and liabilities	4,810,000	634,000
Net cash provided (used) by operating activities	12,000	(10,604,000)
Investing activities:		
Purchases of property and equipment	(543,000)	(692,000)
Restricted cash investments, net	(1,665,000)	5,100,000
Net cash provided (used) by investing activities	(2,208,000)	4,408,000
Financing activities:		
Net proceeds from private placement of common stock	—	11,003,000
Payment of convertible debt, short-term notes payable, capital leases and other	(151,000)	(5,478,000)
Net cash provided (used) by financing activities	(151,000)	5,525,000
Decrease in cash and cash equivalents	(2,347,000)	(671,000)
Cash and cash equivalents, beginning of period	12,783,000	20,240,000
Cash and cash equivalents, end of period	\$ 10,436,000	\$ 19,569,000

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