

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 0-17995

ZIXIT CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

TEXAS
(STATE OF INCORPORATION)

75-2216818
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

2711 NORTH HASKELL AVENUE
SUITE 2850, LB 36
DALLAS, TEXAS 75204-2911
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(214) 515-7300
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED
TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING
THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS
REQUIRED TO FILE SUCH REPORTS) AND (2) HAS BEEN SUBJECT TO SUCH FILING
REQUIREMENTS FOR THE PAST 90 DAYS.

YES NO

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF
COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE.

CLASS
OUTSTANDING
AT JULY
31, 2001 -

COMMON
STOCK, PAR
VALUE \$.01
PER SHARE
17,029,299

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ZIXIT CORPORATION
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

(Unaudited)

June 30,
2001
December 31,
2000 -----

ASSETS

Current
assets: Cash
and cash
equivalents
\$ 30,896 \$
13,347
Marketable
securities
4,556 36,943
Other
current
assets 1,419
1,942 -----

Total
current
assets
36,871
52,232

Investment
in Maptuit
Corporation,
at cost
3,000 3,000
Property and
equipment,
net 14,905
19,400 Other
noncurrent
assets, net
3,050 4,045

\$ 57,826 \$
78,677
=====

LIABILITIES

AND
STOCKHOLDERS'
EQUITY

Current
liabilities:
Accounts
payable and
accrued
expenses \$
2,704 \$
2,431
Liabilities
related to
discontinued
operations
1,079 1,116
Deferred
revenues 189

---- Total
current
liabilities

3,972 3,547
 Commitments
 and
 contingencies
 Stockholders'
 equity:
 Preferred
 stock, \$1
 par value,
 10,000,000
 shares
 authorized;
 none
 outstanding
 -- -- Common
 stock, \$.01
 par value,
 175,000,000
 shares 193
 193
 authorized;
 19,332,563
 issued,
 17,040,663
 outstanding
 in 2001 and
 19,327,563
 issued,
 17,035,663
 outstanding
 in 2000
 Additional
 capital
 176,112
 180,128
 Unearned
 stock-based
 compensation
 (6,652)
 (14,615)
 Treasury
 stock, at
 cost
 (11,314)
 (11,314)
 Accumulated
 other
 comprehensive
 loss (436)
 (169)
 Accumulated
 deficit (net
 of deficit
 accumulated
 during the
 development
 stage of
 \$108,189 at
 June 30,
 2001 and
 \$83,233 at
 December 31,
 2000)
 (104,049)
 (79,093) ---

 Total
 stockholders'
 equity
 53,854
 75,130 -----

 ----- \$
 57,826 \$
 78,677
 =====
 =====

See accompanying notes.

ZIXIT CORPORATION
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

(Unaudited)

Cumulative During Three Months Six Months Development Stage Ended June 30 Ended June 30 (From January 1, 1999 ----- ----- ----- -----	Through 2001 2000 2001 2000 June 30, 2001) ----- ----- ----- ----- -----
Revenues \$	
123 \$ 92 \$	
227 \$ 188 \$	
720	
Research and development expenses	
(2,591)	
(2,205)	
(4,796)	
(4,416)	
(37,005)	
Operating costs and general corporate expenses	
(9,394)	
(8,287)	
(21,577)	
(17,882)	
(81,256)	
Investment income, net	
468 636	
1,142 1,210	
6,603 ----- ----- ----- -----	
----- Loss from continuing operations before income taxes	
(11,394)	
(9,764)	
(25,004)	

(20,900)
(110,938)
Income tax
benefit --
-- -- --
807 -----

--- Loss
from
continuing
operations
(11,394)
(9,764)
(25,004)
(20,900)
(110,131)

Discontinued
operations
-- 308 48
308 1,942 -

Net loss \$
(11,394) \$
(9,456) \$
(24,956) \$
(20,592) \$
(108,189)

=====
=====
=====
=====
=====

Basic and
diluted
income
(loss) per
common
share:
Continuing
operations
\$ (0.67) \$
(0.60) \$
(1.46) \$
(1.32)

Discontinued
operations
-- 0.02 --
0.02 -----

---- Net
loss \$
(0.67) \$
(0.58) \$
(1.46) \$
(1.30)

=====
=====
=====
=====

Weighted
average
shares
outstanding
17,041
16,227
17,040
15,832

=====
=====
=====
=====

See accompanying notes.

ZIXIT CORPORATION
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

(Unaudited)

Cumulative During Six Months Development Stage Ended June 30 (From January 1, 1999 ----- ----- --- Through 2001 2000 June 30, 2001) ----- ----- -----	Cash flows from operating activities: Loss from continuing operations \$ (25,004) \$ (20,900) \$ (110,131) Adjustments to reconcile loss from continuing operations to net cash used by operating activities: Depreciation and amortization 5,999 4,627 19,403 Stock- based compensation 3,932 5,996 28,047 Write- down of marketable securities -- -- 1,202 Other non- cash expenses 200 -- 331 Changes in assets and liabilities, excluding divestiture of businesses: Other assets 423 (2,203) (1,121) Current liabilities 713 (530) 1,319 ----- ----- -----
Net cash used by continuing operations	

(13,737)
(13,010)
(60,950) Net
cash provided
(used) by
discontinued
operations 11
253 (1,435) -

----- Net
cash used by
operating
activities

(13,726)
(12,757)
(62,385) Cash
flows from
investing
activities:

Purchases of
property and
equipment,
net (860)
(4,739)
(31,650)

Purchases of
marketable
securities
(3,960)
(9,052)
(160,360)

Sales and
maturities of
marketable
securities
36,080 19,000
182,967

Investment in
Maptuit
Corporation -
- - - (3,000)

Purchase of
Anacom
Communications
- - - (2,500)

Proceeds from
sales of
discontinued
operations,
net of cash
sold - - 581
5,885 -----

Net cash
provided
(used) by
investing
activities

31,260 5,790
(8,658) Cash
flows from
financing
activities:

Proceeds from
private
placement of
common stock,
net of
issuance - -

27,534 43,784
costs

Proceeds from
exercise of
stock options
16 2,044

3,879 -----

Net cash

provided by
financing
activities 16
29,578 47,663
Effect of
exchange rate
changes on
cash and cash
equivalents
(1) (4) (16)

Increase
(decrease) in
cash and cash
equivalents
17,549 22,607
(23,396) Cash
and cash
equivalents,
beginning of
period 13,347
6,598 54,292

----- Cash
and cash
equivalents,
end of period
\$ 30,896 \$
29,205 \$
30,896

=====
=====
=====

See accompanying notes.

ZIXIT CORPORATION
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying financial statements, which should be read in conjunction with the audited consolidated financial statements included in the Company's 2000 Annual Report to Shareholders on Form 10-K, are unaudited but have been prepared in the ordinary course of business for the purpose of providing information with respect to the interim periods. The Condensed Consolidated Balance Sheet at December 31, 2000 was derived from the audited Consolidated Balance Sheet at that date which is not presented herein. Management of the Company believes that all adjustments necessary for a fair presentation for such periods have been included and are of a normal recurring nature except the adjustments relating to Anacom Communications, Inc. as explained in Note 3. The results of operations for the six-month period ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

During 1998, the Company sold all of its operating businesses and, accordingly, the assets and liabilities, operating results and cash flows of these businesses have been classified as discontinued operations in the accompanying financial statements.

Since 1999, the Company has been developing a digital signature and encryption technology and is developing a series of products and services that enhance privacy, security and convenience over the Internet. ZixMail(TM) is a secure email application and service that enables Internet users worldwide to easily send and receive encrypted and digitally signed communications without changing their existing email systems or addresses. The Company did not begin to charge for the use of ZixMail until the first quarter of 2001. Successful development of a development stage enterprise, particularly Internet related businesses, is costly and highly competitive. The Company's growth depends on the timely development and market acceptance of its products and services. A development stage enterprise involves risks and uncertainties, and there are no assurances that the Company will be successful in its efforts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The amounts presented for basic and diluted loss per common share in the accompanying statements of operations have been computed by dividing the applicable loss by the weighted average number of common shares outstanding. The two presentations are equal in amounts because the assumed exercise of common stock equivalents would be antidilutive, because a loss from continuing operations was reported for each period presented.

2. STOCKHOLDERS' EQUITY

The Company recognizes significant non-cash stock-based compensation expense resulting from certain stock option grants made to third party service providers, employees and directors. Unearned stock-based compensation expense of \$5,477,000 as of June 30, 2001 related to certain of these equity securities is fixed in amount and will be amortized to expense primarily through 2002. The determination of the amount to be expensed for the remaining equity securities requires that they be revalued on each reporting date until performance is complete with a cumulative catch up adjustment recognized for any changes in their fair value. The Company's future results of operations could be materially impacted by a change in valuation of these variable equity securities as a result of future increases or decreases in the price of the Company's common stock.

3. ANACOM COMMUNICATIONS, INC.

As previously announced on June 20, 2001, the Company reported that the credit card data bases at its independently operated subsidiary Anacom Communications, Inc. ("Anacom") had been improperly accessed and fraudulent transactions had been processed, causing Anacom to advise its merchant customer base to transfer their electronic commerce transactions to other payment gateways for processing. The Company is currently unable to assess the amount of the liability, if any, to Anacom or the Company, which may result from the unauthorized access to Anacom's data bases. Anacom, an on-line credit card processing service provider, was purchased by the Company in 1999 and was managed by the former owners.

Subsequently, the Company has ceased all operations at Anacom and the former owners of Anacom have separated from employment with Anacom. As a result, the October 2001 final installment of the Company's common stock issuable to the former owners in connection with the purchase of Anacom, which aggregated \$4,725,000, was canceled. These events resulted in a second quarter 2001 non-recurring net reduction in operating costs of approximately \$3,000,000. This favorable adjustment was primarily due to the reversal of previously recorded unvested stock-based compensation expense related to the canceled installment totaling \$3,800,000, partially offset by severance costs and asset write-downs, including goodwill. Over the last four quarters, Anacom's operating losses have averaged \$1,450,000, including non-cash charges of \$1,075,000 per quarter for amortization of goodwill and stock-based compensation. Substantially all of the Company's revenues since 1999 have been associated with Anacom.

4. COMMITMENTS

In the third quarter of 2000, the Company entered into an agreement with Yahoo! Inc. ("Yahoo!") to provide Yahoo! Mail users with the option to send encrypted email messages through the Company's ZixMail.net messaging portal. The Company has minimum future commitments to Yahoo! under this agreement totaling \$4,188,000, payable in quarterly installments through August 2002. In addition, the Company will pay Yahoo! a specified portion of revenues earned by the Company which are associated with Yahoo! users.

5. LITIGATION

On December 30, 1999, the Company and ZixCharge.com, Inc. ("ZixCharge"), a wholly-owned subsidiary of the Company, filed a lawsuit against Visa U.S.A., Inc. and Visa International Service Association (collectively "Visa") in the 192nd Judicial District Court of Dallas County, Texas. To obtain large numbers of consumers and merchants as users of its ZixCharge system, the Company's initial marketing efforts were focused on obtaining financial institutions as sponsors of the ZixCharge system. The suit alleges that Visa undertook a series of actions that interfered with these prospective business relationships and disparaged the Company, its products, its management and its stockholders. The suit alleges that Visa intentionally set out to destroy the Company's ability to market its ZixCharge system, which competed against the MasterCard and Visa-owned Secure Electronic Transaction system. The suit, which is in the discovery phase, seeks monetary damages and such other relief as the court deems appropriate. The Company believes it is unlikely that any Visa member banks will enter into any ZixCharge sponsorship agreements until the Visa litigation is resolved. Moreover, the resolution of the lawsuit could have a material effect on the Company's ability to market the ZixCharge system.

The Company is involved in legal proceedings that arise in the ordinary course of business. In the opinion of management, the outcome of pending legal proceedings will not have a material adverse affect on the Company's consolidated financial statements.

6. SUBSEQUENT EVENT -- RELATED PARTY TRANSACTION

In December 2000, the Company purchased approximately 9% of the equity ownership of Maptuit Corporation ("Maptuit") for \$3,000,000 in cash and committed to make a follow-on investment. Accordingly, in July 2001, the Company made an additional \$2,000,000 cash investment in Maptuit and received a promissory note convertible into Maptuit equity securities. The note bears interest at prime plus 1%, is due in July 2006 and automatically converts into Maptuit equity securities at the same price per share obtained if a third party equity financing arrangement is completed, as defined. Maptuit is currently seeking such third party equity funding. If Maptuit is unable to obtain additional equity funding or if such funding is obtained at a price per share which is less than the price per share the Company paid for its initial investment, the carrying value of the Company's investment in Maptuit may be impaired and therefore subject to write-down for financial accounting purposes. Maptuit, an early stage company, is a privately-held Internet application service provider that supplies wireline and wireless Internet location-based services. Mr. Jeffrey P. Papows, a director of the Company since March 2000 and the Company's chairman of its board of directors since October 2000, serves as the president and chief executive officer of Maptuit and holds a minority equity interest in Maptuit.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Historically, the Company operated in one industry segment, the provision of systems and solutions for the intelligent transportation, electronic security and other markets. The Company's operations included the design, manufacturing, installation and support of hardware and software products utilizing the Company's wireless data and security technologies. The businesses comprising this industry segment were sold during 1998 and 1997 and have been classified as discontinued operations in the condensed consolidated financial statements.

Since January 1999, the Company has been developing a digital signature and encryption technology and is developing a series of products and services that enhance privacy, security and convenience over the Internet. ZixMail(TM) is the only product currently being marketed and sold. ZixMail is a secure email application and service that enables Internet users worldwide to easily send and receive encrypted and digitally signed communications without changing their existing email systems or addresses. The Company did not begin charging for the use of its ZixMail product and related services until the first quarter of 2001.

The foundation of the Company's business model for its ZixMail product and services centers around the financial leverage expected to be generated by revenues that are believed to be predominantly recurring in nature and an efficient cost structure for data center operations, the core of which is expected to remain relatively stable regardless of the number of users. New business, primarily focused on the corporate market, is expected to be generated from the Company's own direct sales efforts, the promotional efforts of its strategic marketing partners and its affiliate marketing programs. Revenue streams in the near term are projected to consist primarily of ZixMail subscription fees, which are list priced at \$24.00 per year per email address and generally expected to be collected annually at the beginning of the subscription period. The Company began charging for its ZixMail services in the first quarter of 2001 and, during 2001, has expanded its sales and marketing reach and expects to incur certain variable customer acquisition costs associated with generating subscription fees. These 2001 variable costs include revenue sharing arrangements with the Company's strategic marketing partners, ranging from 20 to 65 percent of subscription fees, and performance-based incentive compensation earned by the Company's direct sales staff. As of July 31, 2001, the Company had a base of approximately 8,000 ZixMail subscribers. The Company has set a goal of obtaining 600,000 ZixMail subscribers by the end of 2001.

Based upon its anticipated cost structure, the Company currently estimates that it can become cash flow positive from operations in any period in which it receives annual subscription fees from an average of 150,000 or more new subscribers per month. The Company believes that it is possible to attain such levels of order activity sometime in the first half of 2002. Thereafter, if a base of 1,800,000 subscribers is attained, the Company expects to achieve the financial leverage generated by recurring revenues and a relatively stable cost structure, which is expected to result in a favorable cash flow scenario as new subscribers are added. For financial accounting purposes, subscription fees will be recognized as revenue on a prorated basis over the length of the subscription period, usually one year. As a result of the spreading of revenues over the applicable service period, a large portion of the new business added in 2001 will not be recognized as revenue in 2001; however, the deferred revenues generated should provide the Company with additional cash and a base level of revenue leading into 2002. The Company expects to incur a substantial net loss in the last half of 2001 based upon anticipated order activity and the related method of recognizing revenue, current cash expenditure levels and the significant levels of non-cash expenses, which are expected to be approximately \$8,800,000. However, as was the case in the first half of 2001, the anticipated reduction in the Company's cash resources in the last half of 2001 will be substantially less than the expected net loss.

Additionally, in October 1999, the Company purchased all of the outstanding shares of Anacom, a privately-held provider of real-time transaction processing services to Internet merchants. In June 2001, the operations of Anacom were discontinued.

RESULTS OF OPERATIONS

CONTINUING OPERATIONS

Revenues

The Company is in the development stage and had no significant revenues in 2000 and 2001. The Company began charging for its ZixMail products and services in the first quarter of 2001. Subscription fees billed or received from customers in advance are recorded as deferred revenue and recognized as revenues ratably over the subscription period.

Research and development expenses

Research and development expenses increased from \$2,205,000 and \$4,416,000 for the three months and six months ended June 30, 2000 to \$2,591,000 and \$4,796,000 for the corresponding periods in 2001. In 2001, employee compensation costs increased over both of the comparable reporting periods in 2000 and were partially offset by a reduction in third-party consulting expenditures as a result of hiring additional technical personnel to support the development of the Company's various Internet products and services.

Operating costs and general corporate expenses

Operating costs and general corporate expenses increased from \$8,287,000 and \$17,882,000 for the three months and six months ended June 30, 2000 to \$9,394,000 and \$21,577,000 for the corresponding periods in 2001. The increases for both periods are primarily due to additional costs incurred for sales and marketing of the ZixMail products and services, including strategic marketing expenses with Yahoo! and the hiring of additional personnel in the areas of direct sales and marketing support. Also, depreciation expense is higher in the 2001 periods due to an increased investment in property and equipment. The increases in both periods are partially offset by a non-recurring reduction in operating costs of approximately \$3,000,000, recorded in June 2001, related to the cessation of the Anacom business (See Note 3 to the condensed consolidated financial statements). In the near-term, the Company plans to continue to expand its sales and marketing efforts. Additionally, the Company will begin incurring new categories of costs such as variable customer acquisition costs associated with generating new subscription fees.

Investment income, net

Investment income decreased from \$636,000 and \$1,210,000 for the three months and six months ended June 30, 2000 to \$468,000 and \$1,142,000 for the corresponding periods of 2001 due to lower interest rates and a decrease in invested cash and marketable securities.

Income taxes

The income tax benefit on the loss from continuing operations in 2001 and 2000 is different from the U.S. statutory rate of 34%, primarily due to unbenefitted losses and tax credits. The Company has fully reserved its net deferred tax assets due to the uncertainty of future taxable income from the Company's business initiatives.

Loss from continuing operations

As a result of the foregoing, the Company experienced losses from continuing operations of \$11,394,000 and \$25,004,000 for the three months and six months ended June 30, 2001, respectively, as compared to losses of \$9,764,000 and \$20,900,000 for the corresponding periods in 2000.

Discontinued Operations

The Company recorded a gain of \$48,000 for the six months ended June 30, 2001, primarily due to a reduction in estimated future costs for various indemnification issues associated with the disposal of its remaining operating businesses in 1998.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2001, the Company's principal source of liquidity is its net working capital position of \$32,899,000, including cash and marketable securities of \$35,452,000. The Company plans to invest its excess cash primarily in short-term, high-grade U.S. corporate debt securities or U.S. government and agency securities. The Company's first six months 2001 loss from continuing operations included significant non-cash expenses such as depreciation and amortization, and stock-based compensation aggregating \$10,131,000. Net cash used by continuing operations in the first six months of 2001 was \$13,737,000, primarily representing continued development and operating costs relating to the Company's Internet related businesses. The Company began charging for its ZixMail products and services in the first quarter of 2001. The Company's near-term liquidity will be negatively impacted as the Company continues its development stage activities, particularly with regards to discretionary marketing and advertising costs and costs associated with forming or supporting its strategic marketing partners, such as a minimum future commitment to Yahoo! totaling \$4,188,000, payable in quarterly installments through August 2002. The trend for additions to property and equipment continues to decline with 2001 capital expenditures not expected to exceed \$2,000,000.

The Company has made cash investments in Maptuit Corporation equity securities totaling \$5,000,000, \$2,000,000 of which occurred in July 2001. (See Note 6 to the condensed consolidated financial statements). There is currently no public market for the Maptuit equity securities and the Company does not anticipate there being any near-term opportunity for liquidating its investment. Investments of this nature are subject to significant fluctuations in fair market value due to the volatility of the equity markets and the significant business and investment risks inherent in early stage enterprises. Separately, the Company's common shares issued to Entrust Technologies, Inc. in December 2000 are subject to transfer restrictions which lapse in four equal quarterly installments ending in December 2001. If the aggregate value of the shares on the dates the restrictions lapse is less than \$3,400,000, the Company is obligated to fund such deficiency in December 2001. Presently, \$1,387,000 of additional consideration in cash or stock at ZixIt's option would be required to be delivered, based on the value of the shares on the dates that restrictions have already lapsed and assuming the market value of the Company's common stock on the dates the remaining restrictions lapse is \$9.15, the market value of the Company's common stock on June 30, 2001.

The Company currently has no significant revenues, however, it believes existing cash and marketable securities are sufficient to sustain its current level of operating expenditures through the second quarter of 2002. The Company will consider various capital funding alternatives based upon the Company's revenue growth and strategic business plans. The Company currently has no existing borrowings or credit facilities. Acquisitions, if any, would be financed by the most attractive alternative available, which could be cash or the issuance of debt or equity securities.

RISKS AND UNCERTAINTIES

The following is a "safe harbor" statement under the Private Securities Litigation Reform Act of 1995: Certain matters discussed in this Quarterly Report on Form 10-Q contain statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The words "expect," "estimate," "anticipate," "predict," "believe," "plan," "should," "goal" and similar expressions and variations thereof are intended to identify forward-looking statements. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. These risks and uncertainties include, but are not limited to, the following:

LIMITED OPERATING HISTORY IN INTERNET ARENA

ZixIt's products and services are targeted at the new and rapidly evolving markets for secure Internet communications and e-commerce. Although the competitive environment in these markets has yet to fully develop, ZixIt anticipates that it will be intensely competitive, subject to rapid change and significantly affected by new products and service introductions and other market activities of industry participants.

ZixIt has only a limited operating history in the Internet arena on which to base an evaluation of its business and prospects. ZixIt's prospects must be considered in light of the risks and uncertainties encountered by other Internet companies in the early stages of development. These risks and uncertainties are often more pronounced for companies in new and rapidly evolving markets, particularly Internet-related businesses.

TIMELY DEVELOPMENT OF PRODUCTS AND SERVICES

ZixIt must be able to successfully and timely develop its products and services. The commercial version of ZixMail was first released in March 2000. ZixIt's new Internet secure-messaging portal - ZixMail.net(TM) - was first opened at the end of July 2000. ZixIt has not earned any significant revenues from its ZixMail products or services, although ZixIt first began charging for these products and services in the first quarter of 2001. ZixCharge(TM) has not been commercially released.

MARKET ACCEPTANCE

ZixIt must be able to achieve broad market acceptance for its products and services. To ZixIt's knowledge, there are currently no Internet secure-messaging services, such as ZixMail, that currently operate at the scale that ZixIt would require, at its current expenditure levels and proposed pricing, to become profitable from its secure-messaging operations. ZixIt's direct sales efforts are primarily focused on the corporate market. To reach a larger customer base for its ZixMail products and services than ZixIt can reach through its direct sales efforts, ZixIt is pursuing distribution arrangements and collaborative relationships with third parties with large existing user bases to assist ZixIt in promoting its ZixMail services. There is no assurance that ZixIt will be successful in entering into these arrangements or relationships, or that if entered into, they will significantly assist ZixIt in obtaining large numbers of ZixMail users. Moreover, in any event, there is no assurance that enough paying ZixMail users will ultimately be obtained to enable ZixIt to operate profitably.

ZIXCHARGE UNCERTAINTIES

Since the commercial version of ZixCharge has not yet been released, there are currently no consumers or merchants using ZixCharge. As noted in its periodic SEC filings, ZixIt has initiated litigation against Visa, which alleges that Visa set out to destroy ZixIt's ability to market ZixCharge. ZixIt believes it is unlikely that any Visa member banks will enter into any ZixCharge sponsorship agreements until the Visa litigation is resolved. Moreover, the resolution of this litigation could have a material effect on ZixIt's ability to market the ZixCharge system.

NO SIGNIFICANT REVENUES

ZixIt currently has no significant revenues, however, it believes existing cash and marketable securities are sufficient to sustain its current level of operating expenditures through the second quarter of 2002. ZixIt will consider various capital funding alternatives based upon ZixIt's revenue growth and strategic business plans.

COMPETITION

ZixIt is a new entrant into the rapidly evolving secure Internet communications and e-commerce markets. ZixIt will be competing with larger companies that have access to greater capital, research and development, marketing, distribution and other resources than it does. In addition, the Internet arena is characterized by extensive research efforts and rapid product development and technological change that could render ZixIt's products and

services obsolete or noncompetitive. ZixIt's failure to develop and introduce new products and services successfully on a timely basis and to achieve market acceptance for those products and services could have a significant adverse effect on its business, financial condition and results of operations. ZixIt may decide, at any time, to delay, discontinue or not initiate the development and release of any one or more of its planned or contemplated products and services.

Attempts have been made to define the size and nature of the market comprising secure Internet communications. A 2000 Robert W. Baird & Co. study of this market has coined the term "Secure e-Document Delivery Industry" to describe the activity and business within this sector. This report is instructive with respect to the competition within this market segment as it seeks to identify the market segments and to analyze the various participants. The analysis divides the secure e-document delivery industry into three segments: (1) email content management; (2) email statement creation and delivery; and (3) secure messaging. The report identifies 26 companies that participate in one, two or all three of these market segments. These companies include: Aladdin Knowledge Systems, CertifiedMail.com, click2send, Content Technologies, Critical Path, Disappearing, Inc., e-Docs, eLynx, ePage, e-Parcel, Hushmail, MessagingDirect, MicroVault, NetEx, PostX, Private Express, Slam Dunk Networks, SRA International, Ten Four AB, Trend Micro, Tumbleweed Communications, United Parcel Service, ValiCert, Xenos, ZipLip and ZixIt. Other participants in these market segments not included in this listing are PGP (Pretty Good Privacy), a division of Network Associates, and SigabaSecure.

While several of these companies participate in two or three of the market segments listed above, more than half -- 14 companies, including ZixIt -- focus only on the secure messaging segment. The report notes that this field is crowded because the technological requirements to compete in this space are widely available -- like public key infrastructure and encryption, as well as standard Internet and email protocols. While many of these companies compete with ZixIt, some of these companies do not. For example, although Slam Dunk Networks delivers messages securely, it does so within an enterprise-to-enterprise environment - the automated exchange of purchase orders between business partners, for example. Today, ZixIt participates primarily in the Desktop-to-Desktop market allowing individuals to transmit items like contracts, spreadsheets and other sensitive documents that are prepared on an ad hoc basis. Competition in this market includes, but is not limited to, CertifiedMail, Hushmail, PGP, Private Express, SigabaSecure and ZipLip.

Although the foregoing analysis attempts to categorize and classify the secure e-document delivery industry into specific niches, it is too early in the evolution of this industry to accurately portray its structure. What may be viewed today as competitive relationships between two or more participants may, in the near future, become collaborative relationships. Thus, while assessment of the competition is a fundamental part of this analysis, the fluid nature of the evolving technology in this market could produce alliances between apparent competitors that are impossible to predict today.

SECURITY INTERRUPTIONS AND SECURITY BREACHES

ZixIt's business depends on the uninterrupted operation of its secure data center. ZixIt must protect this center from loss, damage or interruption caused by fire, power loss, telecommunications failure or other events beyond its control. Any damage or failure that causes interruptions in its secure data center operations could materially harm its business, financial condition and results of operations.

In addition, ZixIt's ability to issue digitally-signed certified time-stamps and public encryption codes in connection with its ZixMail service and deliver messages through its ZixMail.net message portal depends on the efficient operation of the Internet connections between customers and ZixIt's data center. ZixIt depends on Internet service providers efficiently operating these connections. These providers have experienced periodic operational problems or outages in the past. Any of these problems or outages could adversely affect customer satisfaction.

Furthermore, it is critical that ZixIt's facilities and infrastructure remain secure and the market perceives them to be secure. Despite ZixIt's security measures, its infrastructure may be vulnerable to physical break-ins, computer viruses, attacks by hackers or similar disruptive problems. It is possible that ZixIt may have to use additional resources to address these problems. Messages sent through ZixIt's ZixMail.net message portal will

reside, for a user-specified period of time, in its data center facilities. Also, ZixIt's planned ZixCharge business will retain certain confidential customer information in its data center facilities. Any physical or electronic break-ins or other security breaches or compromises of this information could expose ZixIt to significant liability, and customers could be reluctant to use its Internet-related products and services.

As was previously announced, ZixIt determined in June 2001 that credit card data bases at its independently operated subsidiary, Anacom, had been improperly accessed. (See Note 3 to the condensed consolidated financial statements). The ZixMail and ZixMail.net systems and ZixIt secure data center are entirely separate from those of Anacom. No ZixIt technologies or operations were involved in the incident. The Company is currently unable to assess the amount of the liability, if any, to Anacom or the Company, which may result from the unauthorized access to Anacom's data bases.

KEY PERSONNEL

ZixIt depends on the performance of its senior management team and other key employees, particularly highly skilled technical and sales and marketing personnel. ZixIt's success also depends on its ability to attract, retain and motivate these individuals. There is competition for these personnel, and ZixIt faces a tight employment market in general. There are no agreements with any of ZixIt's personnel that prevent them from leaving ZixIt at any time. In addition, ZixIt does not maintain key person life insurance for any of its personnel. The loss of the services of any of ZixIt's key employees or its failure to attract, retain and motivate key employees could harm its business.

UNKNOWN DEFECTS OR ERRORS

Any of ZixMail, the ZixMail.net message portal or ZixCharge could contain undetected defects or errors. Despite ZixIt's testing, defects or errors may occur, which could result in loss of or delay in revenues, failure to achieve market acceptance, diversion of development resources, injury to ZixIt's reputation, litigation claims, increased insurance costs or increased service and warranty costs. Any of these could harm ZixIt's business.

PUBLIC KEY CRYPTOGRAPHY TECHNOLOGY

ZixIt's products and services employ, and future products and services may employ, public key cryptography technology. With public key cryptography technology, a user has a public key and a private key, which are used to encrypt and decrypt messages. The security afforded by this technology depends, in large measure, on the integrity of a user's private key, which is dependent, in part, on the application of certain mathematical principles. The integrity of a user's private key is predicated on the assumption that it is difficult to mathematically derive a user's private key from the user's related public key. Should methods be developed that make it easier to derive a user's private key, the security of encryption products using public key cryptography technology would be reduced or eliminated and such products could become unmarketable. This could require ZixIt to make significant changes to its products, which could damage its reputation and otherwise hurt its business. Moreover, there have been public reports of the successful decryption of certain encrypted messages. This, or related, publicity could affect public perception of the security afforded by public key cryptography technology, which could harm ZixIt's business.

GOVERNMENT REGULATION

Exports of software products using encryption technology are generally restricted by the U.S. government. Although ZixIt has obtained U.S. government approval to export its ZixMail product to almost all countries in the world, the list of countries to which ZixMail cannot be exported could be revised in the future. Furthermore, some foreign countries impose restrictions on the use of software products using encryption technology, such as the ZixMail product. Failure to obtain the required governmental approvals would preclude ZixIt from selling the ZixMail product in international markets.

LACK OF GENERALLY ACCEPTED STANDARDS

There is no assurance that ZixIt's products and services will become generally accepted standards or that they will be compatible with any standards that become generally accepted.

INTELLECTUAL PROPERTY RIGHTS

ZixIt may have to defend its intellectual property rights or defend against claims that ZixIt is infringing the rights of others. Intellectual property litigation and controversies are disruptive and expensive. Infringement claims could require ZixIt to develop non-infringing products or enter into royalty or licensing arrangements. Royalty or licensing arrangements, if required, may not be obtainable on terms acceptable to ZixIt. ZixIt's business could be significantly harmed if it is not able to develop or license the necessary technology. Furthermore, it is possible that others may independently develop substantially equivalent intellectual property, thus enabling them to effectively compete against ZixIt.

SALE OF BUSINESSES

ZixIt disposed of its remaining operating businesses in 1998 and 1997. In selling those businesses, ZixIt agreed to provide customary indemnification to the purchasers of those businesses for breaches of representations and warranties, covenants and other specified matters. Although ZixIt believes that it has adequately provided for future costs associated with these indemnification obligations, indemnifiable claims could exceed ZixIt's estimates.

STOCK PRICE

The market price of ZixIt's common stock has fluctuated significantly in the past and is likely to fluctuate in the future. Also, the market prices of securities of other Internet-related companies have been highly volatile and, as is well known, have declined substantially and broadly.

OTHER UNANTICIPATED RISKS AND UNCERTAINTIES

There are no assurances that ZixIt will be successful or that it will not encounter other, and even unanticipated, risks. ZixIt discusses other operating, financial or legal risks or uncertainties in its periodic SEC filings. ZixIt is, of course, also subject to general economic risks.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For the six month period ended June 30, 2001, the Company did not experience any material changes in market risk exposures with respect to its cash investments and marketable securities that affect the quantitative and qualitative disclosures presented in the Company's 2000 Annual Report to Shareholders on Form 10-K.

The Company has made investments in Maptuit Corporation totaling \$5,000,000, comprised of \$3,000,000 in preferred stock and \$2,000,000 in a promissory note convertible into Maptuit equity securities. Maptuit is an early stage privately-held company. There is no readily determinable market value for the Company's investments in Maptuit Corporation. Investments of this nature are subject to significant fluctuations in fair market value due to the volatility of the equity markets and the significant business and investment risks inherent in early stage enterprises. The Company identifies and records impairment losses when events and circumstances indicate the investment has been impaired.

PART II - OTHER INFORMATION

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

The Company held its annual meeting of shareholders on May 15, 2001. At this meeting, the shareholders elected as directors of the Company, David P. Cook, H. Wayne Huizenga, Michael E. Keane, James S. Marston, Jeffrey P. Papows, Antonio R. Sanchez, Jr. and Dr. Ben G. Streetman. The tabulation of votes with respect to the election of directors is as follows:

Nominee	
Shares For	
Shares	
Withheld -	

---	David
	P. Cook
14,528,259	
845,927	H. Wayne
	Huizenga
14,519,428	
854,758	Michael E.
	Keane
15,246,510	
127,676	James S.
	Marston
15,247,923	
126,263	Jeffrey P.
	Papows
15,211,928	
162,258	Antonio R.
	Sanchez,
15,246,111	Jr.
128,075	Dr. Ben G.
	Streetman
15,247,745	
126,441	

The shareholders voted to approve the adoption of the ZixIt Corporation 2001 Stock Option Plan. The tabulation of votes with respect to the adoption of the 2001 Stock Option Plan is as follows:

For	13,623,864
Against	1,710,701
Abstain	37,621
Non-vote	2,000

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q.

DESCRIPTION OF EXHIBITS

- 3.1 Articles of Incorporation, together with all amendments thereto (filed as Exhibit 3.1 to the Company's Form 10-K for the year ended December 31, 1998, and incorporated herein by reference). Articles of Amendment to Articles of Incorporation, dated September 14, 1999 (filed as Exhibit 3.2 to the Company's Form 10-Q for the quarterly period ended

September 30, 1999, and incorporated herein by reference). Articles of Amendment to Articles of Incorporation, dated October 12, 1999 (filed as Exhibit 3.3 to the Company's Form 10-Q for the quarterly period ended September 30, 1999, and incorporated herein by reference).

3.2 Restated Bylaws of ZixIt Corporation, dated September 14, 1999 (filed as Exhibit 3.2 to the Company's Form 10-Q for the quarterly period ended March 31, 2000, and incorporated herein by reference).

*10.1 International Distribution Agreement, dated June 6, 2001, between ZixIt Corporation and AlphaOmega Soft Co., Ltd.

*10.2 Convertible Promissory Note of Maptuit Corporation, dated July 11, 2001.

*10.3 Security Agreement, dated July 11, 2001,
between Maptuit Corporation and ZixIt
Corporation.

b. Reports on Form 8-K

No reports of the Registrant on Form 8-K have been
filed with the Securities and Exchange Commission
during the three months ended June 30, 2001.

*Filed herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ZIXIT CORPORATION
(Registrant)

Date: August 2, 2001

By: /s/ Steve M. York

Steve M. York
Senior Vice President, Chief Financial
Officer, and Treasurer
(Principal Financial Officer and
Duly Authorized Officer)

INDEX TO EXHIBITS

EXHIBIT NO.
DESCRIPTION -

----- 3.1
Articles of
Incorporation,
together with
all
amendments
thereto
(filed as
Exhibit 3.1
to the
Company's
Form 10-K for
the year
ended
December 31,
1998, and
incorporated
herein by
reference).
Articles of
Amendment to
Articles of
Incorporation,
dated
September 14,
1999 (filed
as Exhibit
3.2 to the
Company's
Form 10-Q for
the quarterly
period ended
September 30,
1999, and
incorporated
herein by
reference).
Articles of
Amendment to
Articles of
Incorporation,
dated October
12, 1999
(filed as
Exhibit 3.3
to the
Company's
Form 10-Q for
the quarterly
period ended
September 30,
1999, and
incorporated
herein by
reference).
3.2 Restated
Bylaws of
ZixIt
Corporation,
dated
September 14,
1999 (filed
as Exhibit
3.2 to the
Company's
Form 10-Q for
the quarterly
period ended
March 31,
2000, and
incorporated
herein by

reference).

*10.1

International
Distribution
Agreement,
dated June 6,
2001, between
ZixIt
Corporation
and
AlphaOmega
Soft Co.,
Ltd. *10.2

Convertible
Promissory
Note of
Maptuit
Corporation,
dated July
11, 2001.

*10.3

Security
Agreement,
dated July
11, 2001,
between
Maptuit
Corporation
and ZixIt
Corporation.

* Filed herewith.

INTERNATIONAL
DISTRIBUTION AGREEMENT

WITH

ALPHAOMEGA SOFT CO., LTD.
("DISTRIBUTOR")

1 DEFINITIONS.

1.1 "Distributor" shall mean AlphaOmega Soft Co., Ltd., an affiliate of Fujitsu, which is incorporated under the laws of Japan.

1.2 "Effective Date" shall mean the date set forth on the signature page to this Agreement.

1.3 "Eligible Customer" shall mean a business enterprise headquartered in Japan or that conducts business in Japan and that subscribes to use the ZixIt Software/Service for the benefit of its employees and other agents that reside in the Territory. An "Eligible Customer" includes a person who has obtained the ZixMail(TM) software by downloading it from a Web site hosted by Distributor.

1.4 "Protected Information" shall mean any information pertaining to ZixIt or its affiliated, or associated companies not generally known to the public, including but not limited to, any information, data, or other material of ZixIt, regardless of form, whether oral or written, relating to, referring to, or evidencing any technology, processes, designs, patent applications, computer programs, supplier or customer lists, or any other financial or business information of ZixIt.

1.5 "Term" shall have the meaning given in Subsection 5.1.

1.6 "Territory" shall mean Japan.

1.7 "ZixIt" shall mean ZixIt Corporation, a Texas corporation.

1.8 "ZixIt Software/Service" shall mean the ZixIt ZixMail(TM) secure messaging software and related services provided by ZixIt's worldwide signature server.

2 APPOINTMENT; OBLIGATIONS OF DISTRIBUTOR.

2.1 Appointment. ZixIt appoints Distributor the exclusive distributor of the ZixIt Software/Service in the Territory, subject to the pre-existing distribution arrangements to distribute ZixIt's products as described in Exhibit A. These pre-existing arrangements permit the other distributors to sell, market and engage in other promotional activities (as defined below) for the

ZixIt Software/Service throughout the world. ZixIt will notify Distributor if ZixIt is working with these other distributors in relation to a prospect located in the Territory. ZixIt and Distributor will negotiate the compensation payable to Distributor, if any, arising from these situations. As the exclusive distributor, Distributor shall have the right to locate Eligible Customers in the Territory to use the ZixIt Software/Service and to provide support relating to the ZixIt Software/Service in the Territory. Without the prior written approval of ZixIt in each instance, Distributor's sales efforts and contacts and support services shall be limited to the Territory. Distributor shall not initiate or continue any sales efforts, contacts, or support efforts with respect to the ZixIt Software/Service outside the Territory without the prior written approval of ZixIt in each instance. Distributor agrees to use its best efforts to locate Eligible Customers in the Territory to use the ZixIt Software/Service. Distributor may establish relationships with dealers, distributors, integrators, value-added resellers and other third parties (collectively, "Third-Party Representatives") for the promotion, sale and/or distribution of the ZixIt Software/Service on behalf of Distributor within the Territory, provided: (i) Distributor registers the Third-Party Representative with ZixIt in writing and in accordance with ZixIt's then-current registration procedures, no less than 30 days in advance of establishing such a relationship; (ii) Distributor is solely responsible for any compensation owed to Third-Party Representatives; (iii) Distributor is solely responsible for and shall insure the Third-Party Representative's compliance with the terms of this Agreement; and (iv) Distributor is solely liable for, and shall indemnify ZixIt from any liability associated with, the actions of its Third-Party Representatives (including any breach of this Agreement). ZixIt shall not directly or indirectly market the ZixIt Software/Service to prospects located in the Territory, except that ZixIt and its other distributors shall be permitted to market, promote, license, sell and/or distribute (collectively, "promotional activities") licenses to use the ZixIt Software/Service to any prospect for the prospect's use anywhere in the world so long as ZixIt's promotional activities are directed toward the prospect's operations outside of the Territory.

2.2 Contracts with Eligible Customers. Distributor will contract directly with the Eligible Customers to provide the ZixIt Software/Service. Distributor will include in every license and services agreement with its customers the terms and conditions that are specified by ZixIt from time-to-time. ZixIt will provide to Distributor an English version of a sample form of license and services agreement. Distributor may suggest changes to this English version for the purposes of creating a suitable version for use in the Territory. Distributor and ZixIt will then jointly develop a Japanese version of the form of license and services agreement to be used by Distributor. Any further changes to the form of license and services agreement are to be approved by ZixIt.

2.3 Provision of ZixMail Software/Service. ZixIt will provide the ZixIt Software/Service to Distributor for the benefit of the Eligible Customers and their users. The terms and conditions attached hereto as Exhibit B shall apply to the provision of the ZixIt Software/Service by ZixIt to Distributor. ZixIt may change the terms and conditions by providing Distributor a revised Exhibit B at least five days prior to the effective date of the new terms and conditions. The provision of the ZixIt Software/Service subsequent to such effective date shall be governed by the revised terms and conditions.

2.4 Billing; Collection of Accounts Receivable. Distributor shall be responsible for billing to, and collecting from, its Eligible Customers for the use of the ZixMail Software/Service. Distributor shall be obligated to pay ZixIt the amounts owed pursuant to Subsection 3.1, regardless of whether or not Distributor's customers actually pay Distributor.

2.5 Promotional Materials. ZixIt will provide a Japanese translation of the ZixIt corporate brochure, the ZixMail product "white paper," and a "fact sheet" discussing email vulnerability. All materials referencing the ZixIt Software/Service distributed by Distributor shall include ZixIt's brand name and product logos in a manner as prominent as Distributor's brand name and logos and will include such proprietary, trademark, service mark, and patent protection notices as ZixIt may require. All of Distributor's promotional materials, including any English materials Distributor desires to translate, are to be submitted to ZixIt for approval prior to use. Distributor shall never take any action that is inconsistent with ZixIt's proprietary rights in ZixIt's brand name and product logos. Distributor agrees to allow ZixIt to use Distributor's logos and trademarks in ZixIt promotional activities with respect to the ZixIt Software/Service. Distributor must use all trade names or marks used by ZixIt to identify the ZixIt Software/Service, in accordance with ZixIt's most current requirements, whenever identifying the ZixIt Software/Service, however, all such marks and names shall remain the sole and exclusive property of ZixIt. ZixIt shall have the right to identify Distributor as a distributor of the ZixIt Software/Service in its advertising and promotional materials.

2.6 Governmental Approvals. Distributor shall be solely responsible for securing, and paying for, any governmental approvals required in connection with the licensing and use of the ZixIt Software/Service in the Territory, including import and use licenses. ZixIt shall provide reasonable technical support to Distributor in securing these governmental approvals.

2.7 Performance Review. At the later of (a) two and a half (2 1/2) years following the Effective Date or (b) two (2) years following the delivery to Distributor of a Japanese version of the ZixMail Software/Service (the "Evaluation Date"), ZixIt will evaluate Distributor's performance under this Agreement. If, as of the Evaluation Date, Distributor has not contracted with at least 200,000 paying email addresses to use the ZixMail Software/Service, then ZixIt may, in its sole discretion, convert Distributor's distribution arrangement hereunder to a non-exclusive distribution arrangement.

3 FEES.

3.1 ZixMail Fees Payable to ZixIt. Distributor will pay to ZixIt a Services Fee equal to the greater of (a) 35% of the license and services fees that Distributor contracts with Eligible Customers to provide the ZixIt Software/Service (calculated in U.S. \$ by using the average daily conversion rate for the applicable quarter) or (b) U.S. \$8.40 on an annualized basis per each email

address of an Eligible Customer for which there are active ZixMail encryption codes hosted by the ZixIt worldwide signature server; subject to the following:

For example:

- o Assume Distributor charges \$40 annually for the ZixMail(TM) license. Distributor owes ZixIt an annual Services Fee of \$14 (35% of \$40).
- o Assume Distributor charges \$20 annually for the ZixMail(TM) license. Distributor owes ZixIt an annual Services Fee of \$8.40 (35% of \$20 equals \$7.00, which is below the minimum).
- o During the Term, Distributor shall not be obligated to make any payment of Services Fees unless the cumulative fees earned by ZixIt exceed the cumulative payments made by Distributor.

Other than as provided in this Subsection 3.1 above, the Services Fees will be paid by Distributor within 30 days following the end of the quarter in which Distributor signed the contract for the ZixIt Software/Service.

3.2 Guaranteed Services Fees Payable to ZixIt. Distributor agrees to pay to ZixIt a Guaranteed Services Fee (herein so called) of \$1.2 Million, which is paid as follows until the cumulative payments made by Distributor during the Term equal \$1.2 Million:

- o a \$200,000 guaranteed payment for the first year of the Term, of which \$100,000 is due and payable within 30 days of the Effective Date and \$100,000 is due and payable on April 1, 2002, plus
- o a \$400,000 guaranteed payment for the second year of the Term, which is due and payable in four equal quarterly installments of \$100,000, with the first such installment due and payable on the first year anniversary of the Effective Date, plus
- o a \$600,000 guaranteed payment for the third year of the Term, which is due and payable in four equally quarterly installments of \$150,000, with the first such installment due and payable on the second year anniversary of the Effective Date.

3.3 Distributor Service Fees. Distributor shall pay to ZixIt 10% of any fees (net of taxes) contracted for by Distributor during the Term for support, training, installation, maintenance or related services that Distributor provides to Eligible Customers in connection with the licensing of ZixMail(TM). These Distributor Services Fees will be paid by Distributor within 30 days following the end of the quarter in which Distributor signed the contract for the Distributor Service.

3.4 Taxes; Duties; Customs Fees. Distributor shall be responsible for payment of any fees, sales, use, gross receipts, value added, property or other taxes, duties, or customs fees that are levied on the sale, use, import, or license of the ZixIt Software/Service to Eligible Customers and its users, however designated, levied, or based by any authority (except any tax based on ZixIt's net income). Distributor shall reimburse ZixIt for such taxes, duties, or customs fees whenever ZixIt is

required by applicable law to pay them. The parties agree that Distributor will withhold a 10% (or the then-applicable amount) withholding tax, if required by law.

3.5 Payment Information.

All payments to ZixIt hereunder shall be remitted to:

Bank of America, N.A.
Dallas, Texas 75205
Federal Wire Transfer:
Routing No. 111000025
For credit to: ZixMail.com, Inc.
Account No. 4779594348

ZixIt may change its payment instructions from time-to-time by notice given as provided herein. All monies owed under this Agreement are stated, and shall be paid, in U.S. dollars.

3.6 Audit Rights. ZixIt shall have the rights, upon at least five business days prior written notice, to visit Distributor's facilities, during normal business hours, and at its own expense, for the purpose of inspecting, reviewing, photocopying, and determining the adequacy of Distributor's procedures for maintaining the confidentiality of ZixIt's confidential information and to otherwise audit, monitor and ensure compliance with the terms of this Agreement. All such audits shall be reasonable in scope and duration. ZixIt shall maintain the confidentiality of any information disclosed during an audit that is identified as confidential by Distributor. If ZixIt's inspection reveals an underpayment of fees payable to ZixIt under this Section 3 of more than five percent, then Distributor shall pay for the costs and expenses of the audit.

4 SERVICE; MAINTENANCE. ZixIt will provide English language on-line help pages, accessible through www.zixit.com. Also, ZixIt will provide English language technical support via email at support@zixit.com. Distributor will be responsible for providing all other necessary technical support to its customers, including any assistance they may require in installing ZixMail. ZixIt will provide to Distributor modifications and enhancements to the ZixMail software at such time as ZixIt makes them generally available.

5 TERM AND TERMINATION.

5.1 Term. The Term of this Agreement shall extend for three years from the Effective Date, unless terminated earlier as permitted in this Section 5 below. The Term may be renewed as mutually agreed to by the parties.

5.2 Termination By ZixIt. This Agreement may be terminated by ZixIt by written notice to Distributor upon the happening of any of the following: (a) a failure by Distributor to pay to ZixIt any sum due and owing within 15 days after the date payment is due; (b) Distributor licenses or attempts to license the ZixIt Software/Service outside the Territory without ZixIt's prior

written approval; (c) Distributor violates any international treaties, trade agreements, trade policies, export/import regulations or laws or governmental decrees or requirements of the United States or Distributor is convicted of a criminal offense in any court of competent jurisdiction; (d) insolvency or the adjudication of bankruptcy or the petition for or consent to or becoming subject to any relief under any bankruptcy, reorganization or moratorium statutes or similar debtor relief laws by or of Distributor; (e) a breach by Distributor of Section 7 of this Agreement; and (f) any material breach by Distributor of any other provision of this Agreement that is not cured within 30 days after written notice by ZixIt to Distributor specifying the alleged breach in reasonable detail. Upon termination of this Agreement, Distributor shall cease endorsing, promoting, marketing or otherwise distributing the ZixIt Software/Service and shall immediately provide ZixIt with all originals and copies of the ZixIt Software/Service, promotional materials, marketing literature, written information, reports and ZixIt's confidential information. Distributor is not entitled to a refund or set-off for any fees, charges or other monies paid to ZixIt for any reason.

5.3 Termination By Distributor. This Agreement may be terminated by Distributor by written notice to ZixIt upon the happening of any of the following: (a) insolvency or adjudication of bankruptcy or the petition for or consent to or becoming subject to any relief under any bankruptcy, reorganization or moratorium statutes or similar debtor relief laws by or of ZixIt; and (b) any material breach by ZixIt of this Agreement that is not cured within 30 days after written notice by Distributor to ZixIt specifying the alleged breach in reasonable detail.

5.4 Effect on Payments. Upon the expiration or termination of this Agreement, Distributor will pay to ZixIt all fees (including the Guaranteed Services Fees) earned by ZixIt (pursuant to Section 3) prior to the effective date of the expiration or termination that have not yet been paid.

6 COMPLIANCE WITH LAWS. Distributor agrees that it will comply with all applicable laws imposed by any foreign governmental agency or foreign state or other political subdivision in the Territory. Distributor shall also comply with the requirements of the U.S. Foreign Corrupt Practices Act, as outlined in Exhibit C attached hereto.

7 CONFIDENTIALITY AND USE OF PROTECTED INFORMATION.

7.1 Nondisclosure. Distributor shall keep in strict confidence any and all Protected Information. Furthermore, Distributor shall not directly or indirectly disclose such Protected Information or make it available for any purpose to any person or entity other than bona-fide employees of Distributor or its wholly-owned subsidiaries who have a legitimate "need to know." Distributor shall also require such personnel, by written agreements with such personnel, to keep in confidence, not disclose or make available to any other person, or use any such Protected Information. In no event shall any disclosure of Protected Information be made to any competitor, actual or potential, of ZixIt in any applications market.

7.2 Exceptions. Distributor shall have no obligation under Subsection 7.1 with respect to "Protected Information" that: (a) is or becomes part of the public domain through no wrongful

act of Distributor; (b) is or becomes known to Distributor (from a source other than ZixIt) without the source violating any duty to ZixIt or any confidentiality restriction on subsequent disclosure or use; or (c) is disclosed pursuant to any judicial or governmental requirement or order; provided that, Distributor gives ZixIt sufficient prior notice in order to contest such requirement or order.

7.3 Use. Distributor shall not directly or indirectly use Protected Information for its own benefit or the benefit of any third-party.

7.4 Copies; No Rights. Distributor shall reproduce Protected Information only to the extent necessary for fulfilling its obligations under this Agreement. All Protected Information, including copies thereof, shall remain the property of ZixIt and shall be immediately returned to ZixIt upon the request of ZixIt or upon any termination of this Agreement, whichever occurs first. Neither this Agreement nor the disclosure or receipt of Protected Information shall constitute or imply a grant of any rights, by license or otherwise, in any Protected Information disclosed to Distributor by ZixIt.

8 GENERAL.

8.1 Assignment. Distributor shall not without the prior written consent of ZixIt assign or attempt to assign this Agreement or any of its rights hereunder or delegate any of its duties hereunder. For the purposes of this Subsection, a change in controlling ownership of Distributor shall be deemed to be an assignment hereunder. Any attempted assignment in violation of the preceding sentences shall be void and ineffective for all purposes. ZixIt may at any time assign all or any part of its right to receive payments from Distributor under this Agreement to any person. ZixIt may also assign this Agreement to any ZixIt affiliate. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties and their successors or assigns. The term "affiliate" as used in this Agreement with respect to an entity means an entity controlling, controlled by, or under common control with such entity.

8.2 Patents; Marks. Distributor acknowledges and agrees to the validity of all patents, trademarks, service marks, and applications therefore of ZixIt and its affiliates. Distributor shall take no action to challenge the validity of any patent, trademark, service mark, or applications therefor of ZixIt or its affiliates, and ZixIt may terminate this Agreement upon notice to Distributor in such event.

8.3 Relationship of Parties. The relationship between ZixIt and Distributor hereunder is that of independent contractor. Nothing herein shall be construed to constitute Distributor an agent, licensee, employee or consignee of ZixIt, nor a partner or joint venturer with ZixIt. Neither party shall, in its contractual relationships with third parties or otherwise, represent or imply that any agency, licensee, employee or consignee relationship exists between the parties or that either party is a partner or joint venturer of the other party. ZixIt shall have no liability to Distributor's Eligible Customers or their users in connection with their use of the ZixMail Software/Service.

8.4 Force Majeure. Neither party shall be held responsible for any delay in performance hereunder arising out of causes beyond that party's control and without that party's fault or negligence. Such causes may include, by way of example and not limitation, force majeure, fire, strikes, unavailability of parts, embargoes, governmental requirements or actions of civil or military authorities, acts of nature or of the public enemy, inability to secure material or transportation facilities, or acts or omissions of carriers. Notwithstanding the foregoing, each party reserves the right to terminate this Agreement under Subsections 5.2 or 5.3, as applicable, if the other party fails to perform its obligations hereunder due to an act of force majeure.

8.5 Limitation on Liability. IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES (INCLUDING LOSS OF PROFITS) OF ANY NATURE ARISING UNDER THIS AGREEMENT, REGARDLESS OF WHETHER LIABILITY ARISES IN CONTRACT, TORT, STRICT LIABILITY, BREACH OF WARRANTY, INDEMNIFICATION, OR OTHERWISE. IN ADDITION TO THE FOREGOING, ZIXIT'S AGGREGATE LIABILITY TO DISTRIBUTOR ARISING UNDER THIS AGREEMENT OR RELATING TO THE PROVISION OF THE ZIXMAIL SOFTWARE/SERVICE TO DISTRIBUTOR UNDER ANY THEORY OF RECOVERY SHALL NOT EXCEED THE AMOUNTS ACTUALLY PAID BY DISTRIBUTOR TO ZIXIT UNDER THIS AGREEMENT WITHIN THE ONE-YEAR PERIOD PRECEDING THE ASSERTION OF A CLAIM BY DISTRIBUTOR. OTHER THAN FOR THE PAYMENT OBLIGATIONS SET FORTH IN SECTION 3 OR FOR THE MISAPPROPRIATION BY DISTRIBUTOR OF ZIXIT'S INTELLECTUAL PROPERTY RIGHTS, DISTRIBUTOR'S AGGREGATE LIABILITY TO ZIXIT ARISING UNDER THIS AGREEMENT UNDER ANY THEORY OF RECOVERY SHALL NOT EXCEED THE AMOUNTS ACTUALLY PAID BY DISTRIBUTOR TO ZIXIT UNDER THIS AGREEMENT WITHIN THE ONE-YEAR PERIOD PRECEDING THE ASSERTION OF A CLAIM BY ZIXIT.

8.6 Governing Law; Authority. This Agreement shall be governed, by the laws of the state of Texas (without regard to its choice of law rules). The parties expressly exclude the applicability of the Convention on Contracts for the International Sale of Goods. Distributor agrees to submit to the personal jurisdiction of any court of competent subject matter jurisdiction in the state of Texas. If there is a foreign language translation of this Agreement, the English version shall be the governing language.

8.7 Severability; Captions. If any provision of this Agreement is deemed to be unlawful or unenforceable, such provision shall be deemed severable, and the other provisions shall remain in full force and effect. The failure of either party to exercise, in any respect, any right provided for herein shall not be deemed a waiver of that right or any other right in this Agreement. If there is a conflict between any part of this Agreement and any present or future law, this Agreement shall be curtailed only to the extent necessary to bring it within the requirements of that law. The headings herein are provided for ease of reference only and are not to be used in interpreting the provisions of this Agreement.

8.8 Notices. All official notices, requests, demands, reports or other communications pursuant to this Agreement shall be given by prepaid certified mail, return receipt requested, or personally delivered to the respective parties at the addresses set forth below:

If to: ZixIt Corporation
2711 North Haskell Avenue
Suite 2850, LB 36
Dallas, Texas 75204-2911
USA
Attn: Legal Department
Fax: (214) 515-7385

If to: AlphaOmega Soft Co., Ltd.
9F, NOA Bldg. 2-3-5 Azabudai
Minato-ku, Tokyo 106 0041
Japan
Attn: Takamasa Sasaki, President
Fax: +81-3-5575-2270

Contact for technical matters:

Ted Hull-Ryde
(214) 370-1028 (phone)
(214) 370-2074 (fax)
tryde@zixit.com

Contact for business matters:

Steve Gersten
(214) 370-2039 (phone)
(214) 370-2074 (fax)
sgersten@zixit.com

Such notices shall be deemed given when received by the other party.

8.9 Entire Agreement. This Agreement constitutes the complete understanding between the parties with respect to the subject matter hereof and supersedes all previous communications and representations or agreements, whether written or oral, with respect to the subject matter hereof. No modification to this Agreement will be binding upon the parties unless acknowledged in writing by their duly authorized representatives.

8.10 Public Statements. Upon the execution of this Agreement, each party shall issue a press release pertaining to this Agreement. Each party will give the other party a reasonable opportunity to review and comment on its press release prior to issuance.

8.11 Remedies. Distributor agrees that in the event of any threatened or actual breach by Distributor of any of its obligations under Section 7, ZixIt will suffer irreparable harm and that monetary damages will be inadequate to compensate ZixIt for such breach. Accordingly, Distributor agrees that ZixIt will, in addition to any other remedies available to it at law or in equity, be entitled to preliminary and permanent injunctive relief to enforce any such breach of the terms of this Agreement. Distributor further agrees that all of its obligations under Section 7 shall survive and continue after termination of this Agreement for any reason.

8.12 Indemnification. Each party shall indemnify, defend and hold harmless the other and its officers, employees, directors, shareholders, suppliers and agents, from any losses, claims, demands, actions, causes of action, suits, costs, attorney's fees, damages, expenses, compensation, penalties, liabilities or obligations of any kind (collectively, "Losses") asserted by a third party that arise out of or relate to the indemnifying party's: (i) failure to comply with applicable law or (ii) failure to comply with the terms of this Agreement.

8.13 Further Assurances. Distributor, and the person signing on behalf of Distributor, represents and warrants that it has the full legal capacity and authority to enter into and perform the obligations of this Agreement without any further approval, and that entering into this Agreement does not violate any other obligation to which it may be subject.

8.14 Rules of Construction; Multiple Counterparts. This Agreement shall be construed equally against the parties regardless of who is more responsible for its preparation. This Agreement may be executed in multiple counterparts that, together, shall be deemed a single binding agreement.

EXECUTED the date set forth below the parties signatures, to be effective as of June 6, 2001 (the "Effective Date").

ZIXIT CORPORATION

ALPHAOMEGA SOFT CO., LTD.,
a Fujitsu affiliate

By: /s/ Steve Gersten

By: /s/ Takamasa Sasaki

Name (print): Steve Gersten

Name (print): Takamasa Sasaki

Title: SVP of Sales & Marketing

Title: President

Date: 6-28-2001

Date: June 27, 2001

EXHIBIT A
PRE-EXISTING ARRANGEMENTS

ZixIt has already entered into the following distribution arrangements:

1. Entrust Technologies, Inc. (Nasdaq: ENTU), under which Entrust has the right to incorporate ZixMail into Entrust's products, to provide users of Entrust's digital certificates with the option of sending secure email through the ZixMail.net service.
2. IT Factory, Inc., a leading developer of Lotus Notes applications, under which IT Factory has the right to market ZixMail to Lotus Notes, Lotus Domino, Microsoft Outlook and Microsoft Exchange Server users.
3. SNET Systems Corporation, the leading developer of distributed network deception management solutions, under which SNET has the right to integrate the use ZixMail into SNET's computer network security solutions.
4. Xenos (TSE: XNS), a leading provider of software that allows companies to rapidly Web enable their customers' bills and statements, under which Xenos has the right to market ZixMail.
5. Hummingbird Ltd. (Nasdaq: HUMC) (TSE:HUM), a world-leading enterprise solutions company, under which Hummingbird has the right to offer ZixMail within the Hummingbird Enterprise Information Portal (EIP).
6. Control Systems Inc., a provider of cost recovery products, under which Control Systems has the right to market ZixMail to law firms and other professional organizations as part of Control Systems' cost recovery product suite.

EXHIBIT B
GENERAL TERMS AND CONDITIONS

1. ZixMail Software/Service. So long as Distributor has made the payments it is required to make under Section 3 of the Agreement, ZixIt agrees to provide the ZixMail Service to an Eligible Customers' employees and other agents that reside in the Territory.

2. Disclaimer. THE SOFTWARE AND ANY SUBSEQUENT RELEASE OF THE SOFTWARE IS PROVIDED "AS IS," AND ALL WARRANTIES, WHETHER STATUTORY, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTIES OF MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE, COMPLIANCE OF DATA OUTPUT WITH APPLICABLE LAW, DESIGN, QUALITY, DURABILITY, CONTINUOUS USE, PERFORMANCE OR ERROR-FREE OPERATION (EVEN IF CREATED BY THE INTERNATIONAL SALE OF GOODS CONVENTION) ARE DISCLAIMED IN THEIR ENTIRETY.

3. Technical Info. ZixMail messages optionally routed through ZixIt's mail relays, rather than through and Eligible Customer's email server, are limited to 10 Megabytes compressed in size per message. See ZixIt's on-line help pages, accessible through www.zixit.com, for technical information about the ZixMail Service. Technical support is available via email at support@zixit.com.

4. Acknowledgements. The ZixMail Software is being provided for no charge by ZixIt's subsidiary ZixMail Technology Company, and the Services are being provided in exchange for the specified fees by ZixIt's subsidiary ZixMail.com, Inc. The ZixMail Software incorporates compression code by the Info-ZIP group. There are no extra charges or costs due to the use of this code, and the original compression sources are freely available from CompuServe in the IBMPRO forum and by anonymous ftp from the Internet site "ftp.uu.net/pub/archiving/zip." ZixIt will also, upon request, mail to Distributor the full sources to the compression code that we use on a 3.5" MSDOS-format diskette (or other appropriate medium) for the cost of mailing. Send \$10.00 to us at our address noted above, Attention: Legal Department, and reference "request for Info-ZIP source code." Also, hash functions used in the ZixMail Software are derived from the RSA Data Security, Inc. MD-5 Message-Digest Algorithm. The ZixMail Software incorporates spell checking code from The Sentry Spelling-Checker Engine, copyright(c) 1999 WintertreeSoftware, Inc.

EXHIBIT C
COMPLIANCE WITH LAWS

1. Compliance With U.S. Foreign Corrupt Practices Act. In connection with performing its obligations under this Agreement, Distributor agrees that it will not offer, pay, promise to pay, or authorize the payment of any money, or offer, gift, promise to give, or authorize the giving of anything of value to:

(i) any foreign official, foreign political party or official thereof, or any candidate for foreign political office for purposes of:

(a) influencing any act or decision of such official, political party or official thereof, or candidate in his or its official capacity; or

(b) inducing such official, political party or official thereof, or candidate to do or omit to do any act in violation of the lawful duty of such official, party or official thereof, or candidate; or

(c) inducing such official, party or official thereof, or candidate to use his or its influence with a foreign government or any instrumentality thereof to affect or influence any act or decision of such government or instrumentality.

(ii) any person, while knowing that all or a portion of such money or thing of value will be offered, given, or promised, directly or indirectly, to any foreign official, to any foreign political party or official thereof, or to any candidate for foreign political office, for purposes of accomplishing the prohibited acts in Subsection 1.(i) above.

2. Permitted Exceptions. The above does not prohibit Distributor from:

(i) making any facilitating or expediting payment to a foreign official, political party, or party official, the purpose of which is to expedite or to secure the performance of a routine governmental action by such foreign official, political party, or party official;

(ii) making a payment, gift, offer, or promise of anything of value that is lawful under the written laws and regulations of the country of the foreign official, political party, party official or candidate to whom such payment, gift, offer or promise was made; or

(iii) making a payment, gift, offer, or promise of anything of value that is a reasonable and bona fide expenditure, such as travel and lodging expenses, incurred by or on behalf of a foreign official, political party, party official, or candidate and is directly related to (a) the promotion, demonstration, or explanation of ZixIt' s or Distributor's products or services or (b) the execution or performance of a contract with a foreign government or agency thereof.

CONVERTIBLE PROMISSORY NOTE

U.S.\$2,000,000

JULY 11, 2001

ARTICLE 1
PRINCIPAL SUM

SECTION 1.1 PRINCIPAL SUM.

For value received, MAPTUIT CORPORATION (the "BORROWER"), incorporated under the laws of Ontario and having its principal office and place of business at 133 King Street East, Toronto, Ontario, promises to pay to or to the order of ZIXIT CORPORATION (the "LENDER"), at its offices at 2711 N. Haskell Avenue, Suite 2850, Dallas, Texas or such other place as Lender may designate, the principal amount of TWO MILLION DOLLARS (US\$2,000,000) in lawful money of the United States of America on July 11, 2006 (the "MATURITY DATE") together with interest thereon as hereinafter provided (subject to the conversion privileges set forth below).

SECTION 1.2 INTEREST.

The principal amount outstanding from time to time shall bear interest both before and after maturity, default and judgment from and including July 11, 2001 to the date of repayment in full at the Prime Rate (as defined below) plus 1% per annum. Interest at such rate shall accrue daily and be calculated on the basis of an annual rate. Interest shall be payable in cash on the Maturity Date, or at such time (and in such a manner) as the Lender converts the unpaid principal amount and accrued interest thereon into securities of the Borrower in accordance with Article 3 hereunder, or if an Event of Default has occurred and the Lender has elected to accelerate the payment of the principal amount and accrued interest thereon pursuant to Article 7 hereof. Overdue interest shall bear interest at the same rate, calculated as aforesaid.

SECTION 1.3 PREPAYMENTS.

The Borrower shall have no right to prepay the principal amount of this Note, nor any interest accruing on the principal amount, in whole or in part at any time prior to the Maturity Date.

ARTICLE 2
INTERPRETATION

SECTION 2.1 DEFINITIONS.

As used in this Note, the following terms have the following meanings:

"BUSINESS DAY" means any day of the year, other than Saturday, Sunday or other day on which banks are required or authorized to close in Toronto, Ontario.

"CLASS A PREFERRED SHARES" means the Class A voting convertible preferred shares in the capital of the Borrower.

"COMMON SHARES" means the common shares in the capital of the Borrower.

"CONVERSION PRICE" means at any time prior to a Qualified Financing, \$2.78 per Class A Preferred Share and on and after a Qualified Financing, the issue price of the Shares issued in the Qualified Financing (subject to adjustment as provided in Section 3.3 hereunder).

"DEBT" means indebtedness for borrowed money, including letters of credit or letters of guarantee; indebtedness for the deferred purchase price of property or services represented by a note, bond, debenture or other evidence of Debt; indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired; all current liabilities represented by a note, bond, debenture or other evidence of Debt; and all obligations under leases which have been or should be, in accordance with GAAP, recorded as capital leases where the Corporation is the lessee.

"EVENT OF DEFAULT" has the meaning specified in Section 6.1.

"GAAP" means, at any time, accounting principles generally accepted in Canada including those as recommended in the Handbook of the Canadian Institute of Chartered Accountants at the relevant time applied on a consistent basis.

"GOVERNMENTAL ENTITY" means any (i) multinational, federal, provincial, state, municipal, local or other government, governmental or public department, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) any subdivision or authority of any of the foregoing, or (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"IPO" means an initial public offering of Common Shares or other equity securities of the Borrower by way of a prospectus, registration statement or similar document where, or in connection with which, the aggregate proceeds thereof shall at least equal \$5,000,000 and such shares or securities are to become listed and posted for trading or quoted on at least one of the the Toronto Stock Exchange, the New York Stock Exchange, or the NASDAQ National Market, together with such other stock exchange or exchanges as may be approved by the board of directors of the Borrower.

"OPERATING DEBT" means (i) leases entered into in the ordinary course of business in respect of computer equipment or software; (ii) leases entered into in the ordinary course of business in respect of property other than computer equipment or software, with an initial capital cost of less than \$75,000 in the aggregate; (iii) debt in favour of suppliers of inventory or equipment in the ordinary course of business which represents a purchase money security interest; (iv) unsecured debt incurred in the ordinary course of business with trade suppliers; (v) unsecured debt pursuant to any other contracts entered into in the ordinary course of business; and (vi) credit facilities obtained from a bank or other reputable financial institution in an aggregate amount not to exceed \$100,000, to cover cash flow deficiencies arising in the ordinary course of business or to finance the acquisition of assets for use by the Borrower in the ordinary course of business;

"ORIGINAL CURRENCY" has the meaning specified in Section 8.5(1).

"OTHER CURRENCY" has the meaning specified in Section 8.5(1).

"PERSON" means an individual, partnership, corporation, joint stock company, trust, unincorporated association, joint venture or other entity or Governmental Entity.

"PRIME RATE" means the per annum rate of interest from time to time quoted, published and commonly known as the "PRIME RATE" of Canadian Imperial Bank of Commerce which it establishes at its main office in Toronto, Ontario as the reference rate of interest in order to determine interest rates for commercial loans in Canadian dollars to its Canadian borrowers, adjusted automatically with each quoted or published change in such rate, all without the necessity of any notice to the Borrower or any other person.

"QUALIFIED FINANCING" has the meaning specified in Section 3.2.

"SHARES" means any equity securities in the capital of the Borrower.

SECTION 2.2 GENDER AND NUMBER.

Any reference in this Note to gender includes all genders and words importing the singular number only include the plural and vice versa.

SECTION 2.3 HEADINGS, ETC.

The division of this Note into Articles and Sections and the insertion of headings are for convenient reference only and are not to affect the interpretation of this Note.

SECTION 2.4 CURRENCY OF PAYMENT.

The principal amount and accrued interest shall be repaid or paid in lawful money of the United States. All references in this Note to dollars, unless otherwise specifically indicated, are expressed in United States currency.

SECTION 2.5 CERTAIN PHRASES, ETC.

In this Note (i) (y) the words "INCLUDING" and "INCLUDES" mean "INCLUDING (OR INCLUDES) WITHOUT LIMITATION" and (z) the phrase "THE AGGREGATE OF", "THE TOTAL OF", "THE SUM OF", or a phrase of similar meaning means "THE AGGREGATE (OR TOTAL OR SUM), WITHOUT DUPLICATION, OF", and (ii) in the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word "FROM" means "FROM AND INCLUDING" and the words "TO" and "UNTIL" each mean "TO BUT EXCLUDING".

SECTION 2.6 ACCOUNTING TERMS.

All accounting terms not specifically defined in this Note shall be interpreted in accordance with GAAP.

ARTICLE 3 CONVERSION RIGHTS

SECTION 3.1 CONVERSION OPTION OF LENDER.

1. So long as this Note is outstanding, at any time and from time to time, the Lender may, at its option, convert all or any portion of the outstanding principal amount and accrued interest thereon into the number of Class A Preferred Shares (including any fraction of a share) computed by dividing the aggregate of the unpaid principal amount and accrued interest by the Conversion Price then in effect. At the time of any such conversion of the aggregate of the principal amount and accrued interest, or a portion thereof, the rights of the Lender with respect to such portion of the aggregate of the principal amount and accrued interest so converted shall cease and the Lender shall be deemed to have become the record holder of the Class A Preferred Shares issuable upon such conversion.
2. The Borrower covenants with the Lender that it will at all times reserve and keep available out of its authorized Class A Preferred Shares and solely for the purpose of conversion as provided herein, and conditionally allot to the Lender, such number of Class A Preferred Shares as shall then be issuable upon the conversion of this Note. The Borrower covenants with the Lender that all Class A Preferred Shares which shall be so issuable shall be duly and validly issued as fully-paid and non-assessable.

SECTION 3.2 REPAYMENT IN EQUITY SECURITIES.

1. Notwithstanding Section 3.1, so long as this Note is outstanding, in the event that the Borrower completes an IPO, the aggregate of the principal amount and accrued interest shall be automatically converted, in its entirety, without notice or any further act of the Lender, effective immediately prior to the completion of the IPO, into such number of Class A Preferred Shares calculated by dividing the aggregate of the principal amount and accrued interest by the Conversion Price in effect immediately prior to the completion of the IPO. At the time of any such conversion of the aggregate of the principal amount and accrued interest, the rights of the Lender with respect to such debt so converted shall cease and the Lender shall be deemed to have become the record holder of the Class A Preferred Shares issuable upon such conversion.
2. Notwithstanding Section 3.1, so long as this Note is outstanding, in the event that the Borrower completes an equity financing consisting of the issuance of any class or classes of equity shares of the Borrower to a bona fide third party which deals with the Borrower and each of its shareholders at arm's length (as such term is defined in the Income Tax Act (Canada)), resulting in aggregate net proceeds to the Borrower of not less than \$2,000,000 DOLLARS (a "QUALIFIED FINANCING"), the principal amount and accrued interest thereon shall be automatically converted without notice or any further act of the Lender into such number of securities of the type and class of security and at the price per security sold in the Qualified Financing which, based upon such price, have an aggregate value equal to the aggregate of such unpaid principal and accrued interest. If the price per security is in a currency other than US Dollars, the exchange rate shall be based on the noon spot rate of the Bank of Canada on that day and, if that day is not a Business Day, on the immediately preceding Business Day. At the time of any such conversion of the aggregate of the principal amount and accrued interest, or a portion thereof, the rights of the Lender with respect to such portion of the aggregate of the principal amount and accrued interest so converted shall cease and the Lender shall be deemed to have become the record holder of the equity securities issuable upon such conversion.

SECTION 3.3 ADJUSTMENTS.

So long as this Note is outstanding, if and whenever the Borrower shall:

- (a) subdivide or redivide the outstanding Class A Preferred Shares into a greater number of shares; or
- (b) reduce, combine or consolidate the outstanding Class A Preferred Shares into a smaller number of shares,

the number of Class A Preferred Shares to which the Lender is entitled pursuant to Section 3.1 or Section 3.2 as the case may be, on the date of the subdivision, redivision, reduction, combination or consolidation, shall be increased, in the case of the events referred to in (a) above, in the proportion which the number of Class A Preferred Shares outstanding before the subdivision or redivision bears to the number of Class A Preferred Shares outstanding after the subdivision or redivision, or shall be decreased, in the case of the events referred to in (b) above, in the proportion which the number of Class A Preferred Shares outstanding before the reduction, combination or consolidation bears to the number of Class A Preferred Shares outstanding after the reduction, combination or consolidation.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES

SECTION 4.1 REPRESENTATIONS AND WARRANTIES.

The Borrower represents and warrants to the Lender as follows:

- (a) INCORPORATION AND QUALIFICATION. The Borrower is a corporation duly incorporated, organized and validly existing under the laws of Ontario and is qualified, licensed or registered to carry on business under the laws applicable to it in all jurisdictions in which such qualification, licensing or registration is necessary or where failure to be so qualified would have a material adverse effect on its operations, business, properties or financial condition;
- (b) CORPORATE POWER. The Borrower has all requisite corporate power and authority to (i) own, lease and operate its properties and assets and to carry on its business as now being conducted by it, and (ii) enter into and perform its obligations under this Note (including the issuance of Common Shares or equity securities of the Borrower upon conversion as contemplated in Article 3) and any security documents given by the Borrower as security for the repayment of the principal amount and interest under this Note;
- (c) CONFLICT WITH OTHER INSTRUMENTS. The execution and delivery by the Borrower and the performance by it of its obligations under, and compliance with the terms, conditions and provisions of, this Note and any security documents will not (i) conflict with or result in a breach of any of the terms or conditions of (t) its constating documents or by-laws, (u) any applicable law, rule or regulation, (v) any contractual restriction binding on or affecting it or its properties, or (w) any judgment, injunction, determination or award which is binding on it, or (ii) result in, require or permit (x) the imposition of any encumbrance in, on or with respect to any of its assets or property

(except in favour of the Lender), (y) the acceleration of the maturity of any debt binding on or affecting the Borrower, or (z) any third party to terminate or acquire rights under any material agreement;

- (d) CORPORATE ACTION, GOVERNMENTAL APPROVALS, ETC. The execution and delivery of this Note and any security documents by the Borrower and the performance by the Borrower of its obligations hereunder and thereunder have been duly authorized by all necessary corporate action including, without limitation, the obtaining of all necessary shareholder consents. No authorization, consent, approval, registration, qualification, designation, declaration or filing with any person, is or was necessary in connection with the execution, delivery and performance of the obligations under this Note and any security documents except as are in full force and effect, unamended, as at the date of this Note;
- (e) EXECUTION AND BINDING OBLIGATION. This Note and any security documents executed by the Borrower as security for this Note have been duly executed and delivered by the Borrower and constitute legal, valid and binding obligations of the Borrower enforceable against it in accordance with their terms, subject only to any limitation under applicable laws relating to (i) bankruptcy, insolvency, arrangement or creditors' rights generally, and (ii) the discretion that a court may exercise in the granting of equitable remedies;
- (f) INTELLECTUAL PROPERTY. The Borrower is not aware of a claim by any other Person of any infringement or breach of its industrial or intellectual property rights by the Borrower, nor has the Borrower received any notice that the conduct of its business, including the use of its intellectual property, infringes upon or breaches any industrial or intellectual property rights of any other Person. The Borrower has no knowledge of any infringement or violation of any of its rights in its intellectual property, and has taken all necessary steps to protect its intellectual property rights.
- (g) AUTHORIZATIONS, ETC. The Borrower possesses all authorizations, permits, consents, registrations and approvals necessary to properly conduct its businesses and all such authorizations, permits, consents, registrations and approvals are in good standing and in full force and effect; and
- (h) NO MATERIAL ADVERSE AGREEMENT. The Borrower is not a party to any agreement or instrument or subject to any restriction (including any restriction set forth in its constating documents, by-laws or any

shareholders' agreement applicable to it) which has or, to the best of its knowledge, in the future may have a material adverse effect.

ARTICLE 5
COVENANTS

SECTION 5.1 AFFIRMATIVE COVENANTS.

So long as any amount owing under this Note remains unpaid or the Borrower has any obligation under this Note, and unless prior consent is given by the Lender in writing, the Borrower shall:

- (a) maintain in full force and effect its corporate existence and take all reasonable steps to maintain approvals to carry on its business or to own or lease its property and assets;
- (b) maintain adequate insurance on all the property and assets of the Borrower against loss or damage in amounts, against perils and with insurers acceptable to the Lender acting reasonably;
- (c) deliver to the Lender, (i) from time to time upon request of the Lender, evidence of the maintenance of all insurance required to be maintained, including originals or copies as the Lender may request of policies, certificates of insurance, riders, endorsements and proof of premium payments, (ii) promptly upon becoming aware thereof, a notice of any actions, suits, arbitrations or other proceedings or threatened actions, suits, arbitrations or other proceedings which could reasonably be expected to have a material adverse effect, and (iii) such other information respecting the condition or operations, financial or otherwise, of the business of the Borrower as the Lender may from time to time reasonably request;
- (d) comply in all material respects with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, paying when due all taxes, assessments and governmental charges or levies assessed or imposed upon it or upon its income or profits or any of its property except to the extent the same are contested in good faith and diligently;
- (e) keep adequate and accurate records and books of account in which complete entries will be made reflecting all financial transactions and prepare its financial statements in accordance with GAAP;
- (f) maintain all property and assets that are not obsolete or redundant in good condition and repair (normal wear and tear excepted) and pay

and discharge or cause to be paid and discharged when due the cost of repairs to or maintenance of the same;

- (g) advise the Lender forthwith upon becoming aware of the occurrence of an Event of Default or of any default, or event, condition or occurrence which with notice or lapse of time, or both, would constitute a default of its obligations hereunder (a "DEFAULT") and the action which the Borrower proposes to take or has taken;
- (h) at its cost and expense, and upon the request of the Lender, duly execute and deliver, or cause to be duly executed and delivered, to the Lender such further instruments and documents and cause to be done such further acts and things as may be necessary or proper in the reasonable opinion of the Lender to carry out more effectively the provisions and purposes of this Note; and
- (i) promptly cure or cause to be cured any defects in the execution and delivery of any of the security documents or any defects in the validity or enforceability of any of the security given by the Borrower and at its expense, execute and deliver or cause to be executed and delivered, all such agreements, instruments and other documents (including the filing of any financing statements or financing change statements) as the Lender may consider necessary or desirable to protect or otherwise perfect its security interest in the Borrower's property and assets.

SECTION 5.2 NEGATIVE COVENANTS.

So long as any amount owing under the Note remains unpaid, the Borrower shall not, without the consent of the Lender:

- (a) make any material change in the nature of its business;
- (b) create, incur, assume or suffer to exist any Debt other than Operating Debt;
- (c) create, incur, grant, assume or suffer to exist any mortgages, charges or security interests over its property and assets;
- (d) enter into transactions (whether by way of reconstruction, reorganization, consolidation, amalgamation, merger, transfer, sale or otherwise) whereby all or any material part of its undertaking, property and assets would become the property of any other person, firm or corporation or, in the case of any such amalgamation, of the continuing corporation resulting therefrom;
- (e) declare, make, pay or commit to any form of distribution or reduction of the profits of the Borrower or of its capital, including (i) any

dividend (including stock dividends) or other distribution on any present or future shares, (ii) the purchase, redemption or retirement or acquisition any of its shares, or any option, warrant or other right to acquire any such shares, or apply or set apart any of its assets therefor, (iii) bonuses to shareholders, (iv) payment on account of loans made to shareholders of the Borrower, or (v) payment of any bonuses or management fees other than in the ordinary course consistent with past practice of the Borrower;

- (f) amend its articles or by-laws, change its capital structure or enter into any agreement or make any offer to do so, other than as required by any unanimous shareholders agreement to which the Borrower is a party;
- (g) sell, exchange, lease, release or abandon or otherwise dispose of any assets or properties (other than securities) to any person other than (i) bona fide sales, exchanges, leases, abandonments or other dispositions in the ordinary course of business for the purpose of carrying on its business and at fair market value, and (ii) property or assets (other than securities) which have no material economic value in the business or are obsolete;
- (h) incorporate or acquire any subsidiaries or commence to carry on its business otherwise than through the Borrower;
- (i) make any payments outside the ordinary course of business or make any prepayments of professional fees or place any funds on trust with third parties.

ARTICLE 6
EVENTS OF DEFAULT

SECTION 6.1 EVENTS OF DEFAULT.

The occurrence of any of the following events shall constitute an "EVENT OF DEFAULT" under this Note:

- (a) The Borrower fails to pay any amount due to the Lender under this Note when such amount becomes due and payable;
- (b) The Borrower fails to perform, observe or comply with any other term, covenant, condition or provision this Note or any security given by the Borrower and such failure remains unremedied for ten (10) days following notice of such failure by the Lender to the Borrower;

- (c) Any material representation or warranty made by the Borrower in any security given by the Borrower shall prove to have been incorrect when made or deemed to be made; and, if the circumstances giving rise to the incorrect representation or warranty are capable of modification or rectification (such that, thereafter the representation or warranty would be correct), the representation or warranty remains uncorrected for a period of ten (10) days following notice of such failure by the Lender to the Borrower;
- (d) The Borrower ceases to carry on business;
- (e) Any judgment or order for the payment of money in excess of \$100,000 is rendered against the Borrower and either (i) enforcement proceedings have been commenced by a creditor upon the judgment or order, or (ii) there is any period of two consecutive days during which a stay of enforcement of the judgment or order, by reason of a pending appeal or otherwise, is not in effect;
- (f) The Borrower fails to pay the principal of, or premium or interest on, any of its debt (excluding this Note) which is outstanding in an aggregate principal amount exceeding \$100,000 when such amount becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to the debt; or any other event occurs or condition exists and continues after the applicable grace period, if any, specified in any agreement or instrument relating to any such debt, if its effect is to accelerate, or permit the acceleration of the debt; or any such debt shall be declared to be due and payable prior to its stated maturity;
- (g) The Borrower sells, exchanges, leases, releases or abandons or otherwise disposes of any assets or properties (other than securities) to any person other than (i) bona fide sales, exchanges, leases, abandonments or other dispositions in the ordinary course of business for the purpose of carrying on its business and at fair market value, and (ii) property or assets (other than securities) which have no material economic value in the business or are obsolete;
- (h) The Borrower (i) becomes insolvent or generally not able to pay its debts as they become due, (ii) admits in writing its inability to pay its debts generally or makes a general assignment for the benefit of creditors, (iii) institutes or has instituted against it any proceeding seeking (a) to adjudicate it a bankrupt or insolvent, (b) liquidation, winding-up, reorganization, arrangement, adjustment, protection,

relief or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors including any plan of compromise or arrangement or other corporate proceeding involving its creditors, or (c) the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its properties and assets, and in the case of any such proceeding instituted against it (but not instituted by it), either the proceeding remains undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including the entry of an order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its properties and assets) occurs, or (iv) takes any corporate action to authorize any of the above actions; or

- (i) There has occurred any material adverse change in, or developments likely to have a material adverse effect on, the assets, business, operations, undertaking or condition (financial or otherwise) of the Borrower; ARTICLE 7 ENFORCEMENT

SECTION 7.1 REMEDIES.

1. Upon the occurrence of an Event of Default, the balance of the principal amount and all interest due hereunder shall, at the election of the Lender, become immediately due and payable.
2. Upon the occurrence of an Event of Default and acceleration of the amounts outstanding hereunder, the Lender may commence such legal action or proceedings as it in its sole discretion, may deem expedient, including without limitation, the commencement of enforcement proceedings under any security granted by the Borrower or others to the Lender, all without any additional notice, presentation, demand, protest, notice of dishonour, entering into of possession of any of the property or assets, or any other action or notice, of all of which the Borrower hereby expressly waives. The rights and remedies of the Lender hereunder are cumulative and are in addition to and not in substitution for any other rights or remedies provided by law. Nothing contained herein or in any security hereafter held by the Lender with respect to the indebtedness or liability of the Borrower to the Lender, or any part thereof, nor any act or omission of the Lender with respect to such security, shall in any way prejudice or affect the rights, remedies and powers of the Lender with respect to any other such security.

ARTICLE 8
MISCELLANEOUS

SECTION 8.1 NOTICES.

Any notice, direction or other communication to be given under this Note shall, except as otherwise permitted, be in writing and given by delivering it or sending it by facsimile or other similar form of recorded communication addressed:

(a) to the Borrower at:

133 King Street East
2nd Floor
Toronto, Ontario
M5C 1G6

Attention: Secretary

Telephone: (416) 367-7301
Facsimile: (416) 367-7333

(d) to the Lender at:

2711 N. Haskell Avenue
Suite 2850, LB 36
Dallas, Texas 75204

Attention: Chief Legal Officer

Telephone: (214) 515-7300
Facsimile: (214) 515-7385

Any such communication shall be deemed to have been validly and effectively given if (i) personally delivered, on the date of such delivery if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Toronto time), otherwise on the next Business Day, (ii) transmitted by facsimile or similar means of recorded communication on the Business Day following the date of transmission. Any party may change its address for service from time to time by notice given in accordance with the foregoing and any subsequent notice shall be sent to the party at its changed address.

SECTION 8.2 SECURITY.

To secure the obligations of the Borrower to repay the principal amount and interest as evidenced by this Note, the Borrower has executed a general security agreement of even date in favour of the Lender.

SECTION 8.3 SEVERABILITY.

If any provision of this Note is deemed by any court of competent jurisdiction to be invalid or void, the remaining provisions shall remain in full force and effect.

SECTION 8.4 SUCCESSORS AND ASSIGNS.

This Note shall enure to the benefit of the Lender, its successors and assigns and shall be binding upon the Borrower, its successors and assigns. This Note may be assigned by the Lender in accordance with the terms of the amended and restated securityholders' agreement of the Borrower dated March 8, 2000 and amended and restated on September 27, 2000 and December 6, 2000. Presentment, notice of dishonour, protest and notice of protest hereof are hereby waived.

SECTION 8.5 JUDGMENT CURRENCY.

1. If, for the purposes of obtaining judgment in any court, it is necessary to convert a sum due to the Lender in any currency (the "ORIGINAL CURRENCY") into another currency (the "OTHER CURRENCY"), the parties agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which, in accordance with normal banking procedures, the Lender could purchase the Original Currency with the Other Currency on the Business Day preceding the day on which final judgment is given or, if permitted by applicable law, on the day on which the judgment is paid or satisfied.
2. The obligations of the Borrower in respect of any sum due in the Original Currency from it to the Lender under this Note, or under any security granted to the Lender as security for the obligations of the Borrower pursuant to this Note, shall, notwithstanding any judgment in any Other Currency, be discharged only to the extent that on the Business Day following receipt by the Lender of any sum adjudged to be so due in the Other Currency, the Lender may, in accordance with normal banking procedures, purchase the Original Currency with such Other Currency. If the amount of the Original Currency so purchased is less than the sum originally due to the Lender in the Original Currency, the Borrower agrees, as a separate obligation and notwithstanding the judgment, to indemnify the Lender, against any loss, and, if the amount of the Original Currency so purchased exceeds the sum originally due to the Lender in the Original Currency, the Lender shall remit such excess to the Borrower.

SECTION 8.6 GOVERNING LAW.

This Note shall be governed by and interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

IN WITNESS WHEREOF the Borrower has executed this Note.

MAPTUIT CORPORATION

By: /s/ William K. Tapsott

Authorized Signing Officer

SECURITY AGREEMENT

Security Agreement dated as of July 11, 2001 made by Maptuit Corporation (the "CORPORATION") to and in favour of ZixIt Corporation (the "LENDER").

RECITALS:

- (a) The Lender has advanced funds to the Corporation as evidenced by a convertible promissory note of even date herewith, issued by the Corporation to and in favour of the Lender (such promissory note as it may at any time or from time to time be amended, supplemented, restated or replaced (the "NOTE")); and
- (b) The Corporation has agreed to execute and deliver this security agreement to and in favour of the Lender as security for the payment and performance of the Corporation's obligations to the Lender under the Note.

In consideration of the foregoing and other good and valuable consideration (the receipt and adequacy of which are acknowledged), the Corporation agrees as follows:

ARTICLE 1
SECURITY

SECTION 1.1 TERMS INCORPORATED BY REFERENCE.

Terms defined in the Personal Property Security Act (Ontario) (the "PPSA") and used in this security agreement shall have the meanings specified in the PPSA.

SECTION 1.2 GRANT OF SECURITY.

Subject to Section 1.5, the Corporation grants to the Lender a security interest (the "SECURITY INTEREST") in all the Corporation's right, title and interest in and to the property, assets and undertaking of the Corporation now owned or hereafter acquired (collectively, the "COLLATERAL") including, without limitation, any and all of the Corporation's:

- (a) inventory including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, goods used in or procured for packing and materials used or consumed in the business of the Corporation;
- (b) equipment, machinery, furniture, fixtures, plants, vehicles and other goods of every kind and description and all licences and other rights and

all records, files, charts, plans, drawings, specifications, manuals and documents relating thereto;

- (c) accounts due or accruing due and all agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating thereto;
- (d) money, documents of title, chattel paper, instruments and securities;
- (e) intangibles including all security interests, goodwill, choses in action and other contractual benefits and all trade marks, trade mark registrations and pending trade mark applications, patents and pending patent applications and copyrights and other intellectual property (collectively, the "INTELLECTUAL PROPERTY");
- (f) substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in Section 1.2(a) - Section 1.2(e) inclusive; and
- (g) proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in Section 1.2(a) - Section 1.2(f) inclusive of the proceeds of such proceeds.

SECTION 1.3 OBLIGATIONS SECURED.

- (1) The Security Interest secures the payment and performance of all obligations due from the Corporation to the Lender pursuant to or in connection with the Note (collectively, and together with the expenses, costs and charges set out in Section 1.3(2), the "OBLIGATIONS").
- (2) All expenses, costs and charges incurred by or on behalf of the Lender in connection with the enforcement of this security agreement, including all legal fees, court costs, receiver's or agent's remuneration and other expenses of taking possession of, repairing, protecting, insuring, preparing for disposition, realizing, collecting, selling, transferring, delivering or obtaining payment of the Collateral or other lawful exercises of the powers conferred by the Note, and of taking, defending or participating in any action or proceeding in connection with any of the foregoing matters or otherwise in connection with the Lender's interest in any Collateral, shall be added to and form a part of the Obligations.

SECTION 1.4 ATTACHMENT.

The Corporation acknowledges that (i) value has been given, (ii) it has rights in the Collateral (other than after-acquired Collateral), (iii) it has not agreed to postpone the time of attachment of the Security Interest, and (iv) it has received a duplicate original copy of this security agreement.

SECTION 1.5 SCOPE OF SECURITY INTEREST.

- (1) To the extent that the creation of the Security Interest would constitute a breach or permit the acceleration or termination of any agreement, right, licence or permit of the Corporation (each, a "RESTRICTED ASSET"), the Security Interest shall not attach to the Restricted Asset but the Corporation shall hold its interest in the Restricted Asset in trust for the Lender, and shall assign such Restricted Asset to the Lender immediately upon obtaining the consent of the other party.
- (2) Unless and until an Event of Default has occurred and is continuing, the Corporation may, without the consent of the Lender:
 - (i) sell, assign, transfer, exchange, lease, consign or otherwise dispose of Inventory in the ordinary course of its business;
 - (ii) sell or otherwise dispose of such part of its Equipment which is no longer necessary or useful in connection with its business or which has become worn out or obsolete or unsuitable for the purpose for which it was intended; and
 - (iii) collect Accounts in the ordinary course of its business.
- (3) The grant of the Security Interest in the Intellectual Property shall not affect in any way the Corporation's rights to commercially exploit the Intellectual Property, defend it, enforce the Corporation's rights in it against third parties in any court or claim and be entitled to receive any damages with respect to any infringement of it.
- (4) The Security Interest shall not extend to consumer goods.
- (5) The Security Interest shall not extend or apply to the last day of the term of any lease or sublease or any agreement for a lease or sublease now held or hereafter acquired by the Corporation in respect of real property, but the Corporation shall stand possessed of any such last day upon trust to assign and dispose of it as the Lender may direct.

SECTION 1.6 GRANT OF LICENCE TO USE INTELLECTUAL PROPERTY.

For purposes of enabling the Lender to exercise its rights and remedies pursuant to Article 2, at such time the Lender shall be lawfully entitled to exercise its rights and remedies and for no other purpose, the Corporation grants to the Lender an irrevocable, nonexclusive licence (exercisable without payment of royalty or other compensation to the Corporation) to use, assign or sublicense any of the Intellectual Property wherever the same may be located, including in such licence access to (i) all media in which any of the licensed items may be recorded or stored, and (ii) all computer programs used for compilation or print-out.

SECTION 1.7 CARE AND CUSTODY OF COLLATERAL.

The Lender may, after the Security Interest shall have become enforceable, (i) notify any person obligated on an account or on chattel paper or any obligor on an instrument to make payments to the Lender whether or not the Corporation was previously making collections on such accounts, chattel paper or instruments, and (ii) assume control of any proceeds arising from the Collateral.

SECTION 1.8 AMALGAMATION.

The Corporation acknowledges and agrees that if it amalgamates or merges with or into any other corporation or corporations, then (i) the term "Corporation" shall extend to and include the continuing corporation from such amalgamation or merger, and (ii) the Collateral hereby secured and the Security Interests over the Collateral of the Corporation will extend to and include all of the property, assets and undertakings of each of the amalgamating or merging corporations at the time of such amalgamation or merger and any and all property, assets and undertakings of the continuing corporation from such amalgamation or merger thereafter owned or acquired by such continuing corporation.

**ARTICLE 2
ENFORCEMENT****SECTION 2.1 ENFORCEMENT.**

The Security Interest shall be and become enforceable against the Corporation upon the occurrence of an Event of Default (as such term is defined in the Note).

SECTION 2.2 REMEDIES.

- (1) Whenever the Security Interest has become enforceable, the Lender may realize upon the Collateral and enforce its rights by:
- (a) entry onto any premises where Collateral consisting of tangible personal property may be located;
 - (b) entry into possession of the Collateral by any method permitted by law;
 - (c) sale or lease of all or any part of the Collateral;
 - (d) collection of any proceeds arising in respect of the Collateral;
 - (e) collection, realization or sale of, or other dealing with, the accounts;
 - (f) appointment by instrument in writing of a receiver (which term as used in this security agreement includes a receiver and manager) or agent of all or

any part of the Collateral and removal or replacement from time to time of any receiver or agent;

- (g) institution of proceedings in any court of competent jurisdiction for the appointment of a receiver of all or any part of the Collateral;
 - (h) institution of proceedings in any court of competent jurisdiction for sale or foreclosure of all or any part of the Collateral;
 - (i) filing of proofs of claim and other documents to establish claims to the Collateral in any proceeding relating to the Corporation; and
 - (j) any other remedy or proceeding authorized or permitted under the PPSA or otherwise by law or equity.
- (2) Such remedies may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Lender however created. The Lender shall not be bound to exercise any right or remedy, and the exercise of any rights and remedies shall be without prejudice to the rights of the Lender in respect of the Obligations including the right to claim for any deficiency.

SECTION 2.3 ADDITIONAL RIGHTS.

In addition to the remedies set forth in Section 2.2, the Lender may, whenever the Security Interest has become enforceable:

- (a) require the Corporation, at the Corporation's expense, to assemble the Collateral at a place or places designated by notice in writing and the Corporation agrees to so assemble the Collateral;
- (b) require the Corporation, by notice in writing, to disclose to the Lender the location or locations of the Collateral and the Corporation agrees to make such disclosure when so required;
- (c) repair, process, modify, complete or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Corporation or otherwise;
- (d) carry on all or any part of the business of the Corporation and, to the exclusion of all others including the Corporation, enter upon, occupy and use all or any of the premises, buildings, and other property of or used by the Corporation for such time as the Lender sees fit, free of charge, and the Lender shall not be liable to the Corporation for any act, omission or negligence (other than wilful misconduct) in so doing or for any rent,

charges, depreciation or damages incurred in connection with or resulting from such action;

- (e) require the Corporation to engage a consultant or consultants of the Lender's choice, or engage a consultant or consultants on behalf of the Lender, such consultant to receive the full cooperation and support of the Corporation and its officers and employees, including unrestricted access to the premises and books and records of the Corporation; all reasonable fees and expenses of any such consultant shall be for the account of the Corporation and the Corporation hereby authorizes any such consultant to report directly to the Lender and to disclose to the Lender any and all information obtained by such consultant;
- (f) borrow for the purpose of carrying on the business of the Corporation or for the maintenance, preservation or protection of the Collateral and grant a security interest in the Collateral, whether or not in priority to the Security Interest, to secure repayment; and
- (g) commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral, and give good and valid receipts and discharges in respect of the Collateral and compromise or give time for the payment or performance of all or any part of the accounts or any other obligation of any third party to the Corporation.

SECTION 2.4 RECEIVER'S POWERS.

- (1) Any receiver appointed by the Lender shall be vested with the rights and remedies which could have been exercised by the Lender in respect of the Corporation or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any supplemental instruments. The identity of the receiver, its replacement and its remuneration shall be within the sole and unfettered discretion of the Lender.
- (2) Any receiver appointed by the Lender shall act as agent for the Lender for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below), as agent for the Corporation. The receiver may sell, lease, or otherwise dispose of Collateral as agent for the Corporation or as agent for the Lender as the Lender may determine in its discretion.
- (3) Except where the Lender is not permitted by the provisions of the PPSA to absolve itself from liability with respect thereto, the Lender, in appointing or refraining from appointing any receiver, shall not incur liability to the receiver, the Corporation or otherwise and shall not be responsible for any misconduct or negligence of the receiver.

SECTION 2.5 APPOINTMENT OF ATTORNEY.

Effective upon the Security Interest becoming enforceable against the Corporation, the Corporation irrevocably appoints the Lender (and any of its officers) as attorney of the Corporation (with full power of substitution) to do, make and execute, in the name of and on behalf of the Corporation, all such further acts, documents, matters and things which the Lender may deem necessary or advisable to accomplish the purposes of this security agreement including the execution, endorsement and delivery of documents and any notices, receipts, assignments or verifications of the accounts. All acts of the attorney are ratified and approved, and the attorney shall not be liable for any act, failure to act or any other matter or thing, except for its own wilful misconduct.

SECTION 2.6 DEALING WITH THE COLLATERAL.

- (1) The Lender shall not be obliged to exhaust its recourse against the Corporation or any other person or against any other security it may hold in respect of the Obligations before realizing upon or otherwise dealing with the Collateral in such manner as the Lender may consider desirable.
- (2) The Lender may grant extensions or other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Corporation and with other persons, sureties or securities as it may see fit without prejudice to the Obligations, the liability of the Corporation or the rights of the Lender in respect of the Collateral.
- (3) Except as otherwise provided by law or this security agreement, the Lender shall not be (i) liable or accountable for any failure to collect, realize or obtain payment in respect of the Collateral, (ii) bound to institute proceedings for the purpose of collecting, enforcing, realizing or obtaining payment of the Collateral or for the purpose of preserving any rights of any persons in respect of the Collateral, (iii) responsible for any loss occasioned by any sale or other dealing with the Collateral or by the retention of or failure to sell or otherwise deal with the Collateral, or (iv) bound to protect the Collateral from depreciating in value or becoming worthless.

SECTION 2.7 STANDARDS OF SALE.

Without prejudice to the ability of the Lender to dispose of the Collateral in any manner which is commercially reasonable, the Corporation acknowledges that, to the extent permitted by law:

- (a) collateral may be disposed of in whole or in part;
- (b) collateral may be disposed of by public auction, public tender or private contract, with or without advertising and without any other formality;

- (c) any assignee of such Collateral may be a customer of the Lender;
- (d) a disposition of Collateral may be on such terms and conditions as to credit or otherwise as the Lender, in its sole discretion, may deem advantageous; and
- (e) the Lender may establish an upset or reserve bid or price in respect of Collateral.

ARTICLE 3
GENERAL

SECTION 3.1 DISCHARGE.

The Security Interest shall be discharged upon, but only upon, full payment and performance of the Obligations. Upon satisfaction of such conditions to discharge the Security Interest, and at the request of the Corporation, the Lender shall execute and deliver to the Corporation such releases and discharges as the Corporation may reasonably require.

SECTION 3.2 AMENDMENTS, ETC.

No amendment or waiver of any provision of this security agreement, nor consent to any departure by the Corporation from such provisions, is effective unless in writing and approved by the Lender. Any amendment, waiver or consent is effective only in the specific instance and for the specific purpose for which it was given.

SECTION 3.3 WAIVERS.

No failure on the part of the Lender to exercise, and no delay in exercising, any right under this security agreement shall operate as a waiver of such right; nor shall any single or partial exercise of any right under this security agreement preclude any other or further exercise of such right or the exercise of any other right.

SECTION 3.4 NO MERGER.

This security agreement shall not operate by way of merger of any of the Obligations and no judgment recovered by the Lender shall operate by way of merger of, or in any way affect, the Security Interest, which is in addition to, and not in substitution for, any other security now or hereafter held by the Lender in respect of the Obligations.

SECTION 3.5 FURTHER ASSURANCES.

The Corporation shall from time to time, whether before or after the Security Interest shall have become enforceable, do all acts and things and execute and deliver all transfers, assignments and instruments as the Lender may reasonably require for (i) protecting the Collateral, (ii) perfecting the Security Interest, and (iii) exercising all

powers, authorities and discretions conferred upon the Lender. The Corporation shall, from time to time after the Security Interest has become enforceable, do all acts and things and execute and deliver all transfers, assignments and instruments as the Lender may require for facilitating the sale or other disposition of the Collateral in connection with its realization.

SECTION 3.6 SUPPLEMENTAL SECURITY.

This security agreement is in addition and without prejudice to and supplemental to all other security now held or which may hereafter be held by the Lender.

SECTION 3.7 NOTICES.

Any notices, directions or other communications provided for in this security agreement shall be in writing and given in accordance with the provisions of the Note.

SECTION 3.8 SUCCESSORS AND ASSIGNS.

This security agreement shall be binding upon the Corporation and its successors, and shall enure to the benefit of the Lender, its successors and assigns. In the event that the Note is assigned by the Lender, all rights of the Lender hereunder shall be assignable to such assignee of the Note. In any action brought by an assignee to enforce any right assigned hereunder, the Corporation shall not assert against the assignee any claim or defence which the Corporation now has or hereafter may have against the Lender.

SECTION 3.9 GENDER AND NUMBER.

Any reference in this security agreement to gender shall include all genders and words importing the singular number only shall include the plural and vice versa.

SECTION 3.10 HEADINGS, ETC.

The division of this security agreement into Articles and Sections and the insertion of headings are for convenient reference only and are not to affect its interpretation.

SECTION 3.11 SEVERABILITY.

If any provision of this security agreement shall be deemed by any court of competent jurisdiction to be invalid or void, the remaining provisions shall remain in full force and effect.

SECTION 3.12 GOVERNING LAW.

This security agreement shall be governed by and interpreted and enforced in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

SECTION 3.13 CONFLICTS.

To the extent of any inconsistency between this security agreement and the Note, the Note shall prevail.

IN WITNESS WHEREOF the Corporation has executed this security agreement.

MAPTUIT CORPORATION

By: /s/ William K. Tapsott

Authorized Signing Officer