

ZIX CORP
Form DEF 14A
March 30, 2004

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

SCHEDULE 14A

**INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

ZIX CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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ZIX CORPORATION

2711 North Haskell Avenue
Suite 2300, LB 36
Dallas, Texas 75204-2960

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held Thursday, May 6, 2004**

We will hold this year's annual stockholders' meeting on Thursday, May 6, 2004, at 9:00 a.m. (registration to begin at 8:30 a.m.), Central Time. We will hold the meeting at the Cityplace Conference Center, Lone Star Room, 2711 North Haskell Avenue, Second Floor, Dallas, Texas 75204. At the meeting, we will ask you to consider and vote on the following proposals:

a proposal to elect Michael E. Keane, James S. Marston, John A. Ryan, Antonio R. Sanchez III and Dr. Ben G. Streetman as members of our Board of Directors;

a proposal to approve the adoption of the Zix Corporation 2004 Stock Option Plan; and

a proposal to approve the adoption of the Zix Corporation 2004 Directors' Stock Option Plan.

We will also discuss and take action on any other business that is properly brought before the meeting or any adjournment thereof. If you were a stockholder at the close of business on March 12, 2004, you are entitled to notice of, and to vote at, the meeting or any adjournment thereof. The stock transfer books will not be closed.

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

By Order of the Board of Directors,

Ronald A. Woessner
Senior Vice President, General Counsel & Secretary

Dallas, Texas
March 25, 2004

YOUR VOTE IS IMPORTANT.

Please vote early even if you plan to attend the annual meeting.

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QUESTIONS AND ANSWERS

Why did I receive this proxy statement?

On or about March 25, 2004, we will begin mailing this proxy statement and accompanying proxy card to everyone who was a holder of our shares of common stock at the close of business on March 12, 2004. We prepare a proxy statement each year to let our stockholders know when and where we will hold our annual stockholders meeting. This proxy statement:

includes information about the matters that will be discussed and voted on at the meeting, and

provides you with updated information about our company.

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

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

What will occur at the annual meeting?

First, we will determine whether enough stockholders are present at the meeting to conduct business. A stockholder will be deemed to be present at the meeting if the stockholder:

is present in person, or

is not present in person but has voted by proxy card prior to the meeting.

All common stockholders at the close of business on March 12, 2004 will be entitled to vote on matters presented at the meeting or any adjournment thereof. As of the record date, there were 30,716,748 shares of our common stock outstanding. Each share of our common stock is entitled to one vote on all matters brought before the meeting or any adjournment thereof. Our common stock stockholders are entitled to cast an aggregate of 30,716,748 votes at the meeting. The holders of a majority, or 15,358,375, of the shares of our common stock who are entitled to vote at the meeting must be represented at the meeting in person or by proxy to have a quorum for the transaction of business at the meeting and to act on the matters specified in the Notice. If holders of fewer than 15,358,375 shares are present at the meeting, we will adjourn or reschedule the meeting.

After each proposal has been voted on at the meeting, we will discuss and take action on any other matter that is properly brought before the meeting. Our transfer agent, Computershare Investor Services, LLC, will count the votes and act as inspector of election.

A representative of Ernst & Young LLP (we refer to it as Ernst & Young), our independent auditors, is expected to be present at the annual meeting and will be afforded an opportunity to make a statement, if such representative so desires, and to respond to appropriate questions.

If enough stockholders are present at the meeting to conduct business, then we will vote on the proposals outlined in this proxy statement and any other business that is properly brought before the meeting and any adjournments thereof.

We know of no other matters that will be presented for consideration at the annual meeting. If, however, other matters or proposals are presented and properly come before the meeting, the proxy holders intend to vote all proxies in accordance with their best judgment in the interest of Zix Corporation and our stockholders.

How many votes are necessary to elect the nominees for director?

At the close of business on March 12, 2004, there were 30,716,748 common stock shares issued and outstanding. The five nominees receiving the highest number of votes will be elected as directors. This number is called a plurality.

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Votes that are withheld from any director nominee will be counted in determining whether a quorum has been reached but will not affect the outcome of the vote. Assuming a quorum is present, the affirmative vote of a plurality of the shares of common stock voted and entitled to vote for the election of directors is required for the election of directors. Votes may be cast in favor of, or withheld from, a director nominee.

In the election of directors, stockholders are not entitled to cumulate their votes or to vote for a greater number of persons than the number of nominees named in this proxy statement.

How many votes are necessary to approve the adoption of the Zix Corporation 2004 Stock Option Plan and Zix Corporation 2004 Directors Stock Option Plan?

The affirmative vote of a majority of the shares of our common stock represented at the annual meeting and entitled to vote, if a quorum is present, is required to approve the adoption of the proposed Zix Corporation 2004 Stock Option Plan and Zix Corporation 2004 Directors Stock Option Plan. The same vote is generally required for action on any other matters that properly come before the meeting.

What if a nominee is unwilling or unable to stand for election?

Each of the persons nominated for election to our Board of Directors has agreed to stand for election. However, should any nominee become unable or unwilling to accept nomination or election, no person will be substituted in his stead. The Board of Directors, in accordance with our Restated Bylaws, will by resolution reduce the number of members of our Board accordingly. Our Board of Directors has no reason to believe that any of the nominees will be unable or unwilling to serve if elected, and to the knowledge of the Board, each of the nominees intends to serve the entire term for which election is sought.

How do I vote if I am not planning to attend the annual meeting?

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

Please understand that voting by any means other than voting in person at the meeting has the effect of appointing John A. Ryan, our Chairman and Chief Executive Officer, and Steve M. York, our Senior Vice President, Chief Financial Officer and Treasurer, as your proxies. They will be required to vote on the proposals described in this proxy statement exactly as you have voted. However, if any other matter requiring a stockholder vote is properly raised at the meeting, then Messrs. Ryan and York will be authorized to use their discretion to vote on such issues on your behalf.

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

What if I want to change my vote?

Where a stockholder has appropriately specified how a proxy is to be voted, it will be voted accordingly, and where no specific direction is given on a properly executed proxy card, it will be voted FOR adoption of the proposals set forth in this proxy statement. The proxy holders will have discretion to vote on any matter properly proposed to come before the meeting that was not brought to our attention by February 9, 2004.

You may revoke your vote on a proposal at any time before the annual meeting for any reason. To revoke your proxy before the meeting, write to our Secretary, Ronald A. Woessner, at 2711 North Haskell Avenue, Suite 2300, LB 36, Dallas, Texas 75204-2960. You may also come to the meeting and change your vote in writing.

How do I raise an issue for discussion or vote at the annual meeting?

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If you would like to submit a proposal to be included in next year's proxy statement, you must submit your proposal in writing so that we receive it no later than November 26, 2004. We will include your proposal in our next annual proxy statement if it is a proposal that we would be required to include in our proxy

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statement pursuant to the rules of the Securities and Exchange Commission (we refer to it as the SEC). Under Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the Exchange Act), proposals of stockholders must conform to certain requirements as to form and may be omitted from the proxy materials under certain circumstances. To avoid unnecessary expenditures of time and money, you are urged to review this rule and, if questions arise, consult legal counsel prior to submitting a proposal to us. Proposals should be directed to our Secretary, Ronald A. Woessner, at our principal executive offices at 2711 North Haskell Avenue, Suite 2300, LB 36, Dallas, Texas 75204-2960.

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

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

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

leave your shares unvoted.

Under applicable rules, brokers who hold shares in street name have the authority to vote in favor of the election of the directors if they do not receive contrary voting instructions from beneficial owners. Brokers who hold shares in street name do not have the authority to vote in favor of the Zix Corporation 2004 Stock Option Plan or for the Zix Corporation 2004 Directors Stock Option Plan. Under applicable law, if a broker has not received voting instructions with respect to certain shares and gives a proxy for those shares, but does not vote the shares on a particular matter, those shares will not affect the outcome of the vote with respect to that matter. Such broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, but will not be counted for purposes of determining the number of votes cast with respect to a proposal. Thus, a broker non-vote will not affect the outcome of the voting on any of the proposals being considered at the meeting.

How are abstentions treated?

Any stockholder that is present at the meeting, either in person or by proxy, but who abstains from voting, will still be counted for purposes of determining whether a quorum exists. An abstention will not be counted as an affirmative or negative vote in the election of the directors. With respect to all other matters, an abstention would have the same effect as a vote against the proposal. Our stockholders have no appraisal rights under Texas law with respect to the proposals specified in the Notice. If you sign your proxy card but do not specify how you want to vote on a proposal, then your shares will be voted FOR that proposal.

How much will this solicitation cost, and who will pay for it?

We will bear the cost of solicitation of proxies, including the cost of preparing, printing and mailing proxy materials, and the cost of reimbursing brokers for forwarding proxy solicitation materials to their principals. We have engaged Georgeson Shareholder to assist in the solicitation of proxy materials from stockholders at a fee of approximately \$6,000 plus reimbursement of reasonable out-of-pocket expenses. Proxies may also be solicited without extra compensation by our officers and employees by telephone or otherwise. Arrangements may also be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of proxy solicitation material to beneficial owners of shares of our common stock, and we may reimburse them for reasonable out-of-pocket expenses incurred by them.

Where can I find the voting results of the annual meeting?

We will announce the voting results at the meeting and will publish the results in our quarterly report on Form 10-Q for the second quarter of 2004 ending on June 30, 2004. We will file that report with the SEC by August 9, 2004, and you can get a copy by contacting either our Investor Relations office at (214) 515-7357 or the SEC at (800) SEC-0330 or <http://www.sec.gov>.

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

The nominees for election to our Board are Michael E. Keane, James S. Marston, John A. Ryan, Antonio R. Sanchez III and Dr. Ben G. Streetman.

<u>Name(1)</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Michael E. Keane	Senior Vice President and Chief Financial Officer, UNOVA, Inc.	1997
James S. Marston	Private Investor	1991
John A. Ryan	Chairman and Chief Executive Officer, Zix Corporation	2001
Antonio R. Sanchez III	Executive Vice President, Sanchez Oil & Gas Corporation	2003
Dr. Ben G. Streetman	Dean, College of Engineering at The University of Texas at Austin	1998

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

OUR BOARD OF DIRECTORS URGES YOU TO VOTE FOR EACH OF THE NOMINEES FOR DIRECTOR SET FORTH ABOVE.

PROPOSAL 2**ADOPTION OF ZIX CORPORATION 2004 STOCK OPTION PLAN**

On March 13, 2004, our Board of Directors adopted the Zix Corporation 2004 Stock Option Plan (we refer to it as the "Plan"), subject to approval by our stockholders at the annual meeting. Our Board believes that the adoption of the Plan will advance the interest of our company and our stockholders by enabling us to attract and retain personnel of high caliber by offering stock-based compensation incentives. The Plan will provide all employees a sense of proprietorship through stock ownership, thus closely aligning their interests with those of our stockholders. The Plan will become effective upon approval by our stockholders and will expire ten years from such effective date, unless terminated earlier.

A copy of the Plan is attached to this proxy statement as **APPENDIX A**. The following summary of certain provisions of the Plan is qualified in its entirety by reference to the full text of the Plan.

Administration

The Plan will be administered by our Board of Directors and the Board's Compensation Committee (the "committee"). All the members of the committee and a majority of the members of our Board of Directors are independent within the meaning of applicable rules and regulations. The committee will be authorized to grant awards in the form of stock options and to determine the terms and conditions relating to such options. The committee has complete authority to construe, interpret and administer the provisions of the Plan and the provisions of the agreements

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governing options granted thereunder. The committee will have the authority to prescribe, amend and rescind rules and regulations pertaining to the Plan and to make all other determinations necessary or deemed advisable in the administration of the Plan. The determinations and interpretations made by the committee are final and conclusive.

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Eligibility

Eligibility to participate in the Plan is limited to our employees and non-employee consultants and advisors and our subsidiaries employees and non-employee consultants and advisors, as selected by the committee. We estimate that the number of Plan participants could be approximately 300.

Number of Shares Subject to the Plan

Subject to adjustment as described below, the maximum number of shares of our common stock for which options may be granted under the Plan is 2,000,000 shares. We may use a portion of the available shares under the Plan for option grants to all or substantially all of our employees as a bonus incentive for achieving company defined financial metrics. In the event of a stock split, stock dividend or other relevant change affecting our common stock, the committee has the authority to make appropriate adjustments to the number of shares available for grants and to the number of shares under outstanding grants and, if applicable, the exercise price under outstanding grants made before the event in question.

Type of Awards Under the Plan

The committee may grant options under the Plan to purchase shares of our common stock. The maximum number of shares of our common stock for which stock options may be granted under the Plan is 2,000,000 shares. No participant in the Plan may be granted stock options for more than 850,000 shares of our common stock in the aggregate during the term of the Plan. The committee will determine the number of shares subject to the option, the manner and time of the exercise of the option, the exercise price per share of stock subject to the option and other applicable conditions. The committee may grant either nonqualified stock options (we refer to these as NQSOs) or incentive stock options (we refer to these as ISOs) pursuant to Section 422 of the Internal Revenue Code, as amended, or both. The exercise price of ISOs may not be less than the fair market value of our common stock on the date of grant (and not less than 110% of the fair market value in the case of options granted to an optionee owning 10% or more of our outstanding common stock). The exercise price for NQSOs may not be less than 100% of the fair market value of our common stock on the date of grant. The exercise price may, at the discretion of the committee, be paid in cash, shares of our common stock or a combination thereof. We may make financing available to the optionee on such terms as the committee shall specify. The effect of an optionee's termination of employment by reason of death, retirement, disability or otherwise and other conditions that will apply to the exercise of the option will be specified in the option agreement evidencing the grant of the option. ISOs granted to an optionee who owns 10% or more of our outstanding common stock may not be exercisable more than five years after the date of grant (or such other time period as the Internal Revenue Code may require). NQSOs and all other ISOs may not be exercisable more than ten years after the date of grant.

Amendment and Termination

Our Board of Directors may amend, abandon, suspend or terminate the Plan or any portion thereof at any time. No amendment shall, however, be made without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement. No options may be granted under the Plan after May 6, 2014.

Change in Control

In order to preserve the rights of participants in the event of a change in control of Zix Corporation, the committee in its discretion may, at the time a grant is made or any time thereafter, take one or more of the following actions: (i) provide for the acceleration of any time period relating to the exercise of an option, (ii) provide for the purchase of the option upon the participant's request for an amount of cash or other property that could have been received upon the exercise or realization of the option had the option been currently exercisable or payable, (iii) adjust the terms of the option in a manner determined by the committee to reflect the change in control, (iv) cause an option to be assumed, or new rights substituted therefor, by another entity or (v) make such other provisions as the committee may consider equitable and in the best interest of Zix Corporation.

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Federal Income Tax Consequences

Under current U.S. federal tax law, the following are the U.S. federal income tax consequences generally arising with respect to stock option awards under the Plan.

An employee receiving NQSOs will not realize any taxable income, and we will not be entitled to any federal income tax deduction, at the time the NQSO is granted. At the time the NQSO is exercised, however, the employee generally will realize ordinary income in an amount equal to the excess of the fair market value of our common stock on the date of exercise over the option price paid, and we will generally be entitled to a corresponding federal income tax deduction. Upon the sale of our common stock acquired upon exercise of a NQSO, the employee generally will recognize capital gain or loss.

Any employee receiving ISOs generally will not realize taxable income, and we will not be entitled to a federal income tax deduction, at the time an ISO is granted or at the time the ISO is exercised. However, there may be certain alternative minimum tax consequences to the employee resulting from the exercise of an ISO. Upon a sale of our common stock acquired upon exercise of an ISO, the employee generally will realize a capital gain or capital loss, and we will receive no deduction, so long as the sale does not occur within two years of the date of the grant of the ISO or within one year from the date the shares were transferred to the employee upon the exercise of the ISO. If a sale does occur within two years of the date of grant or one year of the transfer date, however, part or all of the income recognized by the employee may be treated as ordinary income. Under such circumstances, we could be entitled to a federal income tax deduction equal to the ordinary income recognized by the employee.

Summary

Our Board of Directors believes that the Plan is in the best interest of our company and our stockholders and is necessary to enable us to attract and retain highly qualified personnel. The affirmative vote of a majority of the shares of our common stock represented at the annual meeting and entitled to vote, if a quorum is present, is required to approve the adoption of the Plan.

OUR BOARD OF DIRECTORS URGES STOCKHOLDERS TO VOTE FOR THE ADOPTION OF THE PROPOSED ZIX CORPORATION 2004 STOCK OPTION PLAN.

PROPOSAL 3

ADOPTION OF ZIX CORPORATION 2004 DIRECTORS' STOCK OPTION PLAN

Our Board of Directors adopted the Zix Corporation 2004 Directors' Stock Option Plan in March 2004 (we refer to it as the Directors' Plan), subject to approval by our stockholders at the annual meeting. Our Board believes that the adoption of the Directors' Plan will strengthen our ability to attract and retain non-employee directors of high caliber by encouraging a sense of proprietorship through stock ownership. The Directors' Plan provides for the automatic grant of options to acquire shares of our common stock to non-employee directors, as described below. The Directors' Plan will become effective upon approval by our stockholders. We anticipate that the number of shares authorized for issuance under the Directors' Plan will be sufficient until the Company's 2005 annual meeting of shareholders. The proposed Directors' Plan replaces our current 1999 Directors' Stock Option Plan, which has no options available for grant. See **How are our Board members paid?** on page 21 for a description of our current 1999 Directors' Stock Option Plan.

A copy of the Directors' Plan is attached to this proxy statement as **APPENDIX B**. The following summary of certain provisions of the Directors' Plan is qualified in its entirety by reference to the full text of the Directors' Plan.

Administration

The Directors' Plan will be administered by our Board of Directors and the Board's Compensation Committee (the committee). The Directors' Plan provides for the automatic grant of stock options to the non-employee members of our Board of Directors. The committee has complete authority to construe,

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interpret and administer the provisions of the Directors' Plan and the provisions of the agreements governing options granted thereunder. The committee has the authority to prescribe, amend and rescind rules and regulations pertaining to the Directors' Plan and to make all other determinations necessary or deemed advisable in the administration of the Directors' Plan. The determinations and interpretations made by the committee are final and conclusive. All the members of the committee and a majority of the members of our Board of Directors are independent within the meaning of applicable rules and regulations.

Eligibility

Eligibility to participate in the Directors' Plan is limited to our non-employee directors. As of February 20, 2004, we had four non-employee directors.

Automatic Grants of Options

The Directors' Plan provides that on the day that a non-employee director is first appointed or elected to our Board of Directors, such director will be granted nonqualified options to purchase 25,000 shares of our common stock. These options vest quarterly and pro-rata over one year from the grant date, and the exercise price is 100% of the common stock price on the grant date.

Also, on the first business day of January of each year during the term of the Directors' Plan, each non-employee director that has served on our Board for at least six months as of the grant date will be granted nonqualified options to purchase a number of shares of our common stock equal to the *greater* of (i) one-half of one percent of the number of our outstanding shares (measured as of the prior December 31) *or* (ii) 200,000 shares, divided by the *greater* of (i) five or (ii) the number of non-employee directors that have served on our Board for at least 6 months as of the grant date. The options will vest quarterly and pro-rata over three years from the grant date and the option exercise price will be 100% of our common stock price on such day. Messrs. Keane, Marston, Sanchez and Dr. Streetman will, assuming continued service on our Board of Directors, be eligible to receive these annual grants.

Also, the Directors' Plan will provide that any non-employee director that was not eligible to receive an option grant in January 2004 under our current 1999 Directors' Stock Option Plan shall be entitled to receive an option grant covering 50,000 shares, effective the date of the 2004 annual stockholders meeting. The exercise price of these options will be 100% of the common stock price on such date. These options will vest quarterly and pro-rata over three years. Mr. Sanchez will, assuming continued service on our Board of Directors, be the only director eligible to receive this option grant.

Number of Shares Subject to the Directors' Plan

Subject to adjustment as described below, the maximum number of shares of our common stock for which options may be granted under the Directors' Plan is 300,000 shares. In the event of a stock split, stock dividend or other relevant change affecting our common stock, the committee has the authority to make appropriate adjustments to the number of shares available for grants and to the number of shares under outstanding grants and, if applicable, the exercise price under outstanding grants made before the event in question.

Amendment and Termination

Our Board of Directors may amend, abandon, suspend or terminate the Directors' Plan or any portion thereof at any time. No amendment, however, shall be made without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement.

Federal Income Tax Consequences

An optionee will not realize any taxable income, and we will not be entitled to any federal income tax deduction, at the time the option is granted. At the time the option is exercised, however, the optionee generally will realize ordinary income in an amount equal to the excess of the fair market value of the common

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stock on the date of exercise over the option price paid, and we will generally be entitled to a corresponding federal income tax deduction.

OUR BOARD OF DIRECTORS URGES YOU TO VOTE FOR THE ADOPTION OF THE ZIX CORPORATION 2004 DIRECTORS STOCK OPTION PLAN.

OTHER INFORMATION YOU NEED TO MAKE AN INFORMED DECISION

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

The following table sets forth, as of February 20, 2004, the names of our directors, director nominees, executive officers and other significant employees and their respective ages and positions:

Name	Age	Position
Bradley C. Almond	37	Vice President, Investor Relations and Mergers and Acquisitions
Dennis F. Heathcote	47	Vice President, Sales and Marketing
Michael E. Keane(1)(2)(3)	48	Director
James S. Marston(1)(2)(3)	70	Director
Russell J. Morgan	43	Vice President, Client Services
Daniel S. Nutkis	38	Executive Vice President and Chief Strategy Officer
David J. Robertson	45	Vice President, Engineering
John A. Ryan	47	Director, Chairman and Chief Executive Officer
Antonio R. Sanchez III	29	Director
Richard D. Spurr	50	President and Chief Operating Officer
Dr. Ben G. Streetman(1)(2)(3)	64	Director
Ronald A. Woessner	46	Senior Vice President, General Counsel and Secretary
Steve M. York	53	Senior Vice President, Chief Financial Officer and Treasurer

- (1) Member of the Audit Committee.
- (2) Member of the Nominating and Corporate Governance Committee.
- (3) Member of the Compensation Committee.

Bradley C. Almond joined our company in November 2003 as Vice President, Investor Relations and Mergers and Acquisitions. From April 1998 to November 2003, Mr. Almond worked at Entrust, Inc, where he held a variety of management positions, including President Entrust Japan (in Tokyo, Japan), General Manager Entrust Asia and Latin America, Vice President of Finance and Vice President of Sales and Customer Operations. Prior to Entrust, Mr. Almond was employed by Nortel Networks in their Dallas, Texas and then Paris, France offices in various finance and operations roles, including product line controller. Prior to Nortel, Mr. Almond was employed by KPMG Peat Marwick. Mr. Almond is a licensed Certified Public Accountant with a degree in accounting from Texas A&M and master degrees in business administration and international management from the University of Texas.

Dennis F. Heathcote joined our company in December 2001 and serves as Vice President, Sales and Marketing. From May 1998 until June 2001, Mr. Heathcote worked at Entrust, Inc., where he held a variety of senior sales and management positions, including Vice President and General Manager of Entrust.net, Inc., Entrust, Inc.'s business unit focused on providing e-business trust solutions for wired and wireless networks, from October 1999 until June 2001. In addition, Mr. Heathcote, a Canadian Chartered Accountant, has more than 20 years of experience in senior sales, finance and business administration roles in the software and technology industry, including more than ten years with IBM and IBM Global Services.

Michael E. Keane was elected to our Board in November 1997. Mr. Keane has been Senior Vice President and Chief Financial Officer of UNOVA, Inc. since November 1997. UNOVA, Inc. comprises the

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former industrial technology businesses spun off from Western Atlas, Inc. in October 1997, where Mr. Keane was also Senior Vice President and Chief Financial Officer from October 1996 until October 1997 and Vice President and Treasurer from March 1994 until October 1996. Prior to that, he held various management positions with Litton Industries, Inc. from June 1981 until March 1994. Prior to that Mr. Keane was employed in the Chicago office of PriceWaterhouse. He received his Certified Public Accountant certification in 1977.

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

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

Daniel S. Nutkis joined our company in February 2002 and serves as Executive Vice President and Chief Strategy Officer. He was previously a consultant to PricewaterhouseCoopers LLP in 2001, serving as head of health care for the firm's subsidiary, beTRUSTed. Before working for PricewaterhouseCoopers, in January 2000 he founded (and served as Chief Executive Officer of) Medtegrity Inc., a provider of health care industry-accepted identification, authentication, security and privacy services. Prior to founding Medtegrity, during 1999 Mr. Nutkis was Chairman of the Odin Group, a health care information technology research firm. Prior to that, Mr. Nutkis worked at Ernst & Young for over ten years where he held many positions, including National Director of the firm's Health Care Emerging Technology practice, and Chief Executive Officer of ConnectedHealth.Net, one of the firm's knowledge management subsidiaries.

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

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

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Internet consulting and services company, in February 2001. He is on the Board of Trustees for the Hart eCenter at Southern Methodist University.

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

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

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

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

Steve M. York joined our company in April 1990 as Vice President, Chief Financial Officer and Treasurer and was subsequently appointed Senior Vice President. Mr. York, a Certified Public Accountant, previously held various financial management positions with commercial operating companies and was employed by Arthur Young & Co. (now Ernst & Young).

How much stock do our principal stockholders, directors, director nominees and executive officers own?

Set forth below is information as of February 20, 2004 concerning:

each stockholder known by us to beneficially own more than 5% of our outstanding shares of common stock;

the shareholdings of each of our directors, director nominees and named executive officers with respect to our common stock; and

the shareholdings of all directors and executive officers as a group with respect to our common stock.

Table of Contents**Common Stock Security Ownership of Certain****Beneficial Owners and Management Table**

Beneficial Owner	Amount and Nature of Beneficial Ownership(1)(2)	
	Number of Common Stock Shares Beneficially Owned	Percentage of Total Common Stock Shares Outstanding(3)
George W. Haywood(4) c/o Cronin & Vris, LLP 380 Madison Avenue, 24th Floor New York, New York 10017	4,939,203	16.0%
Dennis F. Heathcote(5)	125,695	*
Michael E. Keane(6)	191,515	*
James S. Marston(6)	201,515	*
Daniel S. Nutkis(6)	32,291	*
David J. Robertson(6)	126,564	*
John A. Ryan(7)	1,485,309	4.69%
Antonio R. Sanchez, Jr.(8) Post Office Box 2986 Laredo, Texas 78044	2,674,479	8.67%
Antonio R. Sanchez III(9)	426,466	1.39%
Richard D. Spurr(6)	162,500	*
Dr. Ben G. Streetman(6)	141,207	*
Vertical Fund I, L.P.; Vertical Fund II, L.P. and Stephen D. Baksa(10) 25 DeForest Avenue Summit, New Jersey 07901	1,785,510	5.84%
Ronald A. Woessner(11)	99,478	*
Steve M. York(12)	104,692	*
All directors and executive officers as a group (13 persons)	3,154,974	9.56%

* Denotes ownership of less than 1%.

- (1) Reported in accordance with the beneficial ownership rules of the SEC. Unless otherwise noted, each stockholder listed in the table has both sole voting and sole investment power over the common stock shown as beneficially owned, subject to community property laws where applicable.
- (2) Unless otherwise noted, the address for each beneficial owner is c/o Zix Corporation, 2711 North Haskell Avenue, Suite 2300, LB 36, Dallas, Texas 75204-2960.
- (3) Percentages are based on the total number of shares of our common stock outstanding at February 20, 2004. Shares of our common stock that were not outstanding but could be acquired upon exercise of an option or other convertible security within 60 days of February 20, 2004 are deemed outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by a particular person. However, such shares are not deemed to be outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by any other person.
- (4) As reported in Mr. Haywood's most recent Form 4, filed January 29, 2004. Includes (i) 41,500 shares that are owned by family members of Mr. Haywood, (ii) 115,000 shares owned jointly by Mr. Haywood and a family member and (iii) 305,986 shares of common stock currently issuable to him upon exercise of certain warrants.
- (5) Includes 125,002 shares that Mr. Heathcote has the right to acquire under outstanding stock options that are currently exercisable or become exercisable within 60 days of February 20, 2004.

- (6) This individual has the right to acquire these shares under outstanding stock options that are currently exercisable or that become exercisable within 60 days of February 20, 2004.

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- (7) Includes (i) 1,050,000 shares that Mr. Ryan has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of February 20, 2004 and (ii) 66,518 shares currently issuable upon exercise of certain warrants.
- (8) Includes (i) 1,763,770 shares held by Mr. Sanchez, Jr. directly, (ii) 9,375 shares held by family members of Mr. Sanchez, Jr., (iii) 91,123 shares held by trusts for which he serves as trustee or co-trustee, (iv) 523,592 shares held by SANTIG, Ltd., a family limited partnership for which he owns and controls the managing general partner, Sanchez Management Corporation, (v) 153,583 shares that may be acquired by him within 60 days of February 20, 2004 upon exercise of outstanding options and (vi) 133,036 shares currently issuable to Mr. Sanchez, Jr. and SANTIG, Ltd. upon exercise of certain warrants. Mr. Sanchez, Jr. is a former director and father of current director Antonio R. Sanchez III.
- (9) Includes (i) 167,000 shares held by Mr. Sanchez III directly, (ii) 170,121 shares held by a trust for which he serves as co-trustee, along with 44,345 shares issuable to the trust upon exercise of certain warrants and (iii) 45,000 shares that he has the right to acquire under outstanding options and stock options that are currently exercisable or that become exercisable within 60 days of February 20, 2004. Mr. Sanchez III is the son of Antonio R. Sanchez, Jr., a former director.
- (10) As reported in a combined Schedule 13G, filed January 30, 2004, by Vertical Fund I, L.P.; Vertical Fund II, L.P. and Stephen D. Baksa. The sole general partner of the two funds is The Vertical Group, L.P., and Mr. Baksa is a general partner of The Vertical Group, L.P. Therefore, the two funds and Mr. Baksa may be deemed to constitute a group (as used in Section 13(d)(3)), and Mr. Baksa may be deemed the beneficial owner of the shares owned by each fund. Mr. Baksa disclaims beneficial ownership of the shares owned by the funds except to the extent of his indirect pecuniary interest therein.
- (11) Includes 87,626 shares that Mr. Woessner and his spouse have the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of February 20, 2004. Mr. Woessner disclaims beneficial ownership with respect to 43,813 of these option shares.
- (12) Includes 103,637 shares that Mr. York has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of February 20, 2004.

Section 16(a) Beneficial Ownership Reporting Compliance

Under the securities laws of the U.S., our directors, officers and any beneficial owner of more than 10% of our outstanding common stock (collectively, insiders) are required to report their initial ownership of our common stock and any subsequent changes in their ownership to the SEC. The SEC's rules require insiders to provide us with copies of all reports that the insiders file with the SEC pursuant to Section 16(a) of the Exchange Act. Specific due dates have been established by the SEC, and we are required to disclose any failure to file by those dates. Based upon our review of filings with the SEC and written representations that no other reports were required to be filed, we believe that our insiders complied with all Section 16(a) filing requirements applicable to them during 2003, with the exception of the following. During 2003, Messrs. Heathcote, Nutkis, Woessner and York and former employee Wael Mohamed each failed to timely file one Form 4 with respect to a grant of employee stock options in January 2003, and Messrs. Almond and Nutkis each failed to timely file one Form 4 with respect to a grant of employee stock options in December 2003. Also during 2003, Messrs. Keane and Marston and Dr. Streetman failed to timely file one Form 4 with respect to the grant of director stock options. In all cases, the filings were promptly made as soon as the oversight was discovered.

CORPORATE GOVERNANCE

We are in compliance with the current corporate governance requirements imposed by the Sarbanes-Oxley Act of 2002 and the Nasdaq Marketplace Rules. We will continue to modify our policies and procedures to ensure compliance with developing standards in the corporate governance area. Set forth below is information regarding the meetings of our Board during fiscal year 2003, a description of the standing committees of the Board and additional highlights of our corporate governance policies and procedures.

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How do our Board and its committees work?

Our business is managed under the direction of our Board of Directors. Our Board presently consists of five members. The Board meets during the year to review significant developments and to act on matters requiring Board approval. The Board met on ten occasions during the year ended December 31, 2003. Each of the current directors attended at least 75% of all meetings of our Board called during the time he served as a director in the past fiscal year. Each of the current directors attended at least 75% of all meetings of each committee of our Board on which he served in the past fiscal year.

What is the role of our Board's committees?

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

Audit Committee

Our Audit Committee is currently comprised of Michael E. Keane, James S. Marston and Dr. Ben G. Streetman and is chaired by Mr. Keane. All of the Audit Committee members are non-employee directors and are independent within the meaning of applicable rules and regulations. The function of the Audit Committee is described below under the heading Report of the Audit Committee of the Board of Directors. The Audit Committee operates under a written charter adopted by our Board, a copy of which is attached hereto as **APPENDIX C** and is available on our Website at *www.zixcorp.com* under the heading Corporate Governance. The Audit Committee met on five occasions during the year ended December 31, 2003. The information regarding the audit charter and committee independence shall not be deemed to be incorporated by reference in any filing by us under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act, except to the extent that we specifically incorporate this information by reference.

Independent Auditor Fee Information

Our independent auditing firm for 2003 was Ernst & Young. Following is a summary of Ernst & Young's fees for the years ended December 31, 2002 and 2003:

	<u>2003</u>	<u>2002</u>
Audit Fees(1)	\$	