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):

(4) Proposed maximum aggregate value of transaction:

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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 for 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?

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.

MORE ABOUT THE PROPOSALS

PROPOSAL 1

ELECTION OF DIRECTORS

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.

Name(1)	Principal Occupation	Director Since
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

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.

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.

(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.

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:

	2003	**2002**
Audit Fees(1)	$233,660	$154,110
Audit-Related Fees(2)	21,543	20,896
Tax Fees(3)	7,484	29,953
All Other Fees		
Total Fees	$262,687	$204,959

(1) Audit fees consist of the annual audits of our consolidated financial statements included in Form 10-K and the quarterly reviews of our consolidated financial statements included in Form 10-Q, as well as accounting advisory services related to financial accounting matters, and services related to filings made with the SEC.

(2) Audit-related fees consist of the required audits of our employee benefit plan, access to Ernst & Young s online research tool and Sarbanes-Oxley Section 404 consultations.

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

Audit Committee Pre-Approval Policy

Our Audit Committee is required to pre-approve the audit and nonaudit services to be performed by our independent auditor in order to assure that the provision of such services does not impair the auditor s independence. Annually, our independent auditor will present to our Audit Committee services expected to be performed by the independent auditor over the next 12 months. Our Audit Committee will review and, as it

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deems appropriate, pre-approve those services. The services and estimated fees are to be presented to our Audit Committee for consideration in the following categories: Audit, Audit-Related, Tax and All Other (each as defined in Schedule 14A of the Exchange Act). For each service listed in those categories, our Audit Committee is to receive detailed documentation indicating the specific services to be provided. The term of any pre-approval is 12 months from the date of pre-approval, unless our Audit Committee specifically provides for a different period. Our Audit Committee will review on at least a quarterly basis the services provided to date by the independent auditor and the fees incurred for those services. Our Audit Committee may also revise the list of pre-approved services and related fees from time-to-time, based on subsequent determinations. All of the services provided by the independent auditor were approved by our Audit Committee and such services were performed by full-time, permanent employees of the independent auditor.

Compensation Committee

Our Compensation Committee is currently comprised of Messrs. Keane and Marston and Dr. Streetman and is chaired by Mr. Marston. All of the members of the Compensation Committee are independent within the meaning of applicable rules and regulations. The function of this committee is described below under the heading Report of Board of Directors on Executive Compensation. The Compensation Committee operates under a written charter that is available on our Website at *www.zixcorp.com* under the heading Corporate Governance. The Compensation Committee met on one occasion during the year ended December 31, 2003.

Nominating and Corporate Governance Committee

Our Board of Directors did not have a standing Nominating Committee during the year ended December 31, 2003; however, it currently has a Nominating and Corporate Governance Committee whose written charter is available on our Website at *www.zixcorp.com* under the heading Corporate Governance. Under the charter, the committee s principal responsibilities include: identifying individuals qualified to become members of our Board and recommending candidates for reelection as directors; developing and recommending to the Board a set of corporate governance principles applicable to our company; and taking a leadership role in shaping the corporate governance of our company, including the composition of the Board and its committees. Our Nominating and Corporate Governance Committee is currently comprised of Messrs. Keane and Marston and Dr. Streetman and is chaired by Dr. Streetman. All of the members of the Nominating and Corporate Governance Committee are independent within the meaning of applicable rules and regulations.

The Nominating and Corporate Governance Committee will consider director nominees recommended by our stockholders. Stockholders desiring to submit nominations for Board members to be included in next year s proxy statement should forward them no later than November 26, 2004 to Ronald A. Woessner, Secretary, at our principal executive offices at 2711 North Haskell Avenue, Suite 2300, LB 36, Dallas, Texas 75204-2960. See How does our Board select nominees for the Board? below for further information. The final selection of director nominees is within the sole discretion of our Board.

How does our Board select nominees for the Board?

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

A stockholder desiring to nominate a person for election to our Board of Directors must send a written notice to our General Counsel no later than November 26, 2004, as set forth in How do I raise an issue for discussion or vote at the annual meeting? above. The written notice is to include the following information: (i) the name of the candidate; (ii) the address, phone and fax number of the candidate; (iii) a statement signed by the candidate that certifies that the candidate wishes to be considered for nomination to our Board of Directors, explains why the candidate believes that he or she meets the minimum Director Qualification Criteria (discussed below) and would otherwise be a valuable addition to our Board of Directors, and states the number of shares of our stock that are beneficially owned by such candidate; and (iv) all information required to be disclosed in solicitations of proxies for election of directors, or as otherwise required, in each case pursuant to Regulation 14A under the Exchange Act.

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

- The highest personal and professional ethics, integrity and values;
- Broad-based skills and experience at an executive, policy-making level in business, academia, government or technology areas relevant to our activities;
- A willingness to devote sufficient time to become knowledgeable about our business and to carry out his or her duties and responsibilities effectively;
- A commitment to serve on our Board for two years or more at the time of his or her initial election; and
- Be between the ages of 30 and 70, at the time of his or her initial election.

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

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

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

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

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

- The Chairman of our Board, the Nominating and Corporate Governance Committee or other Board members identify the need to add new members to the Board with specific criteria or to fill a vacancy on the Board.
- The Chair of the Nominating and Corporate Governance Committee initiates a search, working with staff support and seeking input from the members of the Board and senior management, and hiring a search firm, if necessary.
- The Nominating and Corporate Governance Committee identifies an initial slate of candidates, including any recommended by stockholders and accepted by the Nominating and Corporate Governance Committee, after taking account of the Director Qualification Criteria.
- The Nominating and Corporate Governance Committee determines if any Board members have contacts with identified candidates and if necessary, uses a search firm.

The Chairman of the Board, the Chief Executive Officer and at least one member of the Nominating and Corporate Governance Committee interview prospective candidate(s).

The Nominating and Corporate Governance Committee keeps the Board informed of the selection progress.

The Nominating and Corporate Governance Committee meets to consider and approve final candidate(s).

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

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

How do stockholders communicate with our Board?

Stockholders interested in communicating with our Board of Directors may do so by writing to our General Counsel, Ronald A. Woessner, at 2711 North Haskell Avenue, Suite 2300, LB 36, Dallas, Texas 75204-2960. Our General Counsel will review all stockholder communications. Those that appear to contain subject matter reasonably related to matters within the purview of our Board of Directors will be forwarded to the entire Board or the individual Board member to whom the communication was addressed. Obscene, threatening or harassing communications will not be forwarded. We encourage the members of our Board to attend our annual meeting of stockholders, although attendance is not mandatory. None of our outside directors attended the 2003 annual meeting of stockholders.

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

A majority of our Board of Directors must be independent within the meaning of applicable rules and regulations. The Board has determined that Messrs. Keane and Marston and Dr. Streetman are independent according to these rules and regulations.

Does Zix Corporation have a Code of Ethics?

We have a Code of Business Conduct, which applies to all of our employees, officers and directors, including a Code of Ethics, which applies to our Chief Executive Officer and senior financial officials (the Code). The Code is available on our Website at *www.zixcorp.com* under the heading Corporate Governance. Any waiver of the Code will be publicly disclosed as required by applicable law, rules and regulations.

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COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Summary Compensation Table

The following table sets forth the compensation paid to our named executive officers for services rendered to our company for the periods indicated:

		Annual Compensation			Long-Term Compensation: Awards		Long-Term Compensation: Payouts	
Name and Principal Position	Year	Salary (Cash and Non-cash)	Bonus (Cash and Non-cash)	Other Annual Compensation	Restricted Stock Award(s)	Number of Securities Underlying Options	LTIP Payouts	All Other Compensation
John A. Ryan	2003	$ 300,000	$ 160,000	$	$		$	$
Chairman and	2002	300,000	200,000					
Chief Executive Officer	2001	37,500	1,000,000(3)			1,050,000		
Dennis F. Heathcote	2003	185,417	73,750			50,000		46,301(1)
Vice President,	2002	172,900	75,000			25,000		58,930(1)
Sales and Marketing	2001	9,000				100,000		
Daniel S. Nutkis	2003	200,000	132,500			175,000		259,962(2)
Executive Vice President,	2002	183,337	70,833			100,000		108,291(2)
and Chief Strategy Officer	2001							
David J. Robertson	2003	200,000	67,500			50,000		5,000(4)
Vice President, Engineering	2002	158,333	25,000			125,000		2,771(4)
	2001							
Ronald A. Woessner	2003	216,000	41,500			8,791		5,000(4)
Senior Vice President, General	2002	216,000				75,000		3,500(4)
Counsel and Secretary	2001	216,000						8,123(4)
Steve M. York	2003	216,000	41,500			50,000		5,000(4)
Senior Vice President,	2002	216,000	25,000			125,000		3,500(4)
Chief Financial Officer and Treasurer	2001	216,000				50,000		2,975(4)

(1) Includes $8,641 for contributions to our 401(k) Retirement Plan and Employee Stock Purchase Plan and $50,289 for move-related costs paid to Mr. Heathcote in 2002. Includes $12,658 for contributions to our 401(k) Retirement Plan and Employee Stock Purchase Plan and $33,643 for move-related costs paid to Mr. Heathcote in 2003.

(2) Mr. Nutkis was engaged by our company as a consultant in 2002 when acting as an executive officer of our company. The amounts in 2002 represent housing costs and living expenses paid to or on behalf of Mr. Nutkis. The amounts in 2003 represent moving costs, housing costs and living expenses paid to or on behalf of Mr. Nutkis.

(3) Served as our Chairman, President and Chief Executive Officer from November 2001 until January 2004 and currently serves as our Chairman and Chief Executive Officer. The 2001 bonus to Mr. Ryan consisted of 152,672 shares of our common stock valued at $1,000,000.

(4) Represents our contributions to our 401(k) Retirement Plan or Employee Stock Purchase Plan.

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Option Grants in 2003 to Named Executive Officers

We made the following stock option grants to our named executive officers during the year ended December 31, 2003:

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in 2003	Exercise Price Per Share	Expiration Date	5%	10%
John A. Ryan			$		$	$
Dennis F. Heathcote	50,000(1)	2.05	4.38	01/21/2013	137,500	349,000
Daniel S. Nutkis	75,000(2)	3.08	4.38	01/21/2013	206,250	523,500
	100,000(3)	4.10	6.40	12/15/2013	402,000	1,020,000
David J. Robertson	50,000(1)	2.05	4.38	01/21/2013	137,500	349,000
Ronald A. Woessner	8,791(4)	0.36	4.18	01/01/2006	23,120	58,548
Steve M. York	50,000(1)	2.05	4.38	01/21/2013	137,500	349,000

(1) The options were 25% vested on the date of grant, and an additional 25% vest on the first year anniversary of the grant and the balance vests pro-rata every six months over the following two years of employment. In the event of a change in control (as defined in the applicable agreement) of our company or the occurrence of other specified events, the options become immediately exercisable.

(2) The options were 33% vested on the date of grant, an additional 4% vests in six months, an additional 21% vests on the first anniversary of the grant, an additional 12.5% vests every six months in the second year following the grant and the balance vests pro-rata every six months over the third year following the grant. In the event of a change in control (as defined in the applicable agreement) of our company or the occurrence of other specified events, the options become immediately exercisable.

(3) The options vest pro-rata every three months over the following three years of employment. In the event of a change in control (as defined in the applicable agreement) of our company or the occurrence of other specified events, the options become immediately exercisable.

(4) The options, which were granted pursuant to a company-wide bonus plan paid in stock options, vested six months from the grant date.

Aggregated Option Exercises in 2003 and Year-end Option Values

The following table sets forth information relating to the exercises of stock options during the year ended December 31, 2003, and the value of unexercised stock options held as of December 31, 2003, by each of our named executive officers:

	Option Exercises During 2003		Number of Securities Underlying Unexercised Options at December 31, 2003		Value of Unexercised In-the-Money Options at December 31, 2003	
Name	Number of Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
John A. Ryan		$	1,050,000		$3,525,000	$
Dennis F. Heathcote			104,689	70,311	430,740	295,010
Daniel S. Nutkis	86,460	370,771		188,540		586,442
David J. Robertson			98,440	76,560	349,509	295,991
Ronald A. Woessner	61,167	295,495	141,376	31,248	322,064	119,991
Steve M. York	75,281	351,815	124,138	70,831	355,264	292,949

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Equity Compensation Plan Information

The following table provides information about our equity compensation arrangements that have been approved by our stockholders, as well as equity compensation arrangements that have not been approved by our stockholders, as of December 31, 2003:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by stockholders	3,688,718	$8.46	656,105
Equity compensation plans not approved by stockholders	2,201,999(1)	$5.78	943,214
Total	5,890,717	$7.46	1,599,319

(1) A description of the material terms of our equity arrangements that have not been approved by our stockholders follows:

John A. Ryan

We entered into a two-year employment agreement with Mr. Ryan, effective through November 2003, which provided for a $300,000 annual salary and a cash bonus of $160,000 paid at the end of 2003 that was tied to the achievement of defined objectives. In addition, in 2001, Mr. Ryan received options to acquire 1,000,000 shares of our common stock at an exercise price of $5.24 per share that became fully vested in November 2003 pursuant to the John Ryan 2001 Stock Option Agreement Plan.

David P. Cook

Mr. Cook, a former director and former executive officer of our company, received an option in 1998 to acquire 4,254,627 shares of our common stock at an exercise price of $7.00 per share pursuant to the AMTC [Zix] Corporation Stock Option Agreement. All of the options are currently vested and expire in April 2004. Of this original option grant, as of December 31, 2003, Mr. Cook held options to acquire 102,500 shares, after giving effect to Mr. Cook s option exercises and his reallocation of 2,138,890 of his option shares to the members of the investment group that, in 2000, invested $44,000,000 in our company, and 807,127 of his option shares (we refer to them as the Cook Employee Transferred Options) to certain of our current and former employees and a former director.

Cook Employee Transferred Options

Of the 807,127 Cook Employee Transferred Options, 329,000 shares remained outstanding as of December 31, 2003. These shares are governed by plan arrangements that are substantially the same as (if not identical to) the provisions of the 2004 Stock Option Plan, which is described above under **PROPOSAL 2** and set forth in its entirety in **APPENDIX A.** The exercise prices of the Cook Employee Transferred Options range from $7.00 to $13.75, and they are all currently vested.

Other Option Grants

As of December 31, 2003, 160,834 and 218,000 shares of our common stock were reserved for issuance upon exercise of outstanding stock options granted to employees under our 2001 Employee Stock Option Plan and 2003 New Employee Stock Option Plan, respectively. In addition, 391,665 shares of our common stock were subject to issuance upon the exercise of outstanding stock options granted to certain of our current and former named executive officers under executive stock option arrangements. The terms of these stock option

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plans and plan arrangements are substantially the same as (if not identical to) the provisions of the 2004 Stock Option Plan, which is described above under **PROPOSAL 2** and set forth in its entirety in **APPENDIX A.** The exercise price of all of these options is the fair market value of our common stock on the date of grant, and the vesting periods range from immediately vested to vesting annually and pro-rata over three years.

Other Stock Grants

As of December 31, 2003, 528,714 shares were available for issuance under our 2003 Stock Compensation Plan to certain employees for the payment of various compensation elements. The 2003 Stock Compensation Plan allows us to use our common stock to pay salary, bonus and commission compensation payable to our employees and former employees. Since the inception of the 2003 Stock Compensation Plan, 71,286 shares have been issued at an average price of $6.81.

Employment and Severance Agreements with Certain Executive Officers

We entered into an employment agreement, effective December 1, 2003, with Mr. Nutkis, Executive Vice President and Chief Strategy Officer, for the period through December 31, 2004. The agreement provides for a $200,000 annual salary, plus a non-recoverable $25,000 quarterly draw against commissions. As additional compensation, Mr. Nutkis is eligible to receive commissions on contracted billings attributable to services provided to end-user customers by our Care Delivery business as follows: 2% on billings up to $5 Million; 3% on billings between $5 Million and up to $10 Million; and 2% on billings over $10 Million. The commissions will only be paid if the expenses of the Care Delivery business do not exceed the budgeted amounts.

We entered into an employment agreement with Mr. Spurr, our President and Chief Operating Officer, effective January 20, 2004 through February 1, 2005, which provides for a $250,000 annual salary, plus a quarterly cash bonus of $50,000 subject to the achievement of defined objectives. Mr. Spurr also received a signing bonus of 3,823 shares of our common stock (valued at $50,000). If Mr. Spurr s employment with us is terminated for cause or he resigns other than for good reason, as such terms are defined in his employment agreement, his signing bonus shares will be forfeited to us. Furthermore, Mr. Spurr may not sell, option, pledge, transfer or otherwise dispose of these signing bonus shares or any interest therein until February 1, 2005. Also, Mr. Spurr forfeits these shares to our company if he resigns employment or if his employment terminates for any reason other than termination by our company without cause prior to February 1, 2005. Notwithstanding the foregoing, upon the occurrence of a change in control (as defined in the applicable agreement), these forfeiture provisions and transfer restrictions shall lapse.

In November 2001, we entered into a two-year employment agreement with Mr. Ryan, our Chairman and Chief Executive Officer. The agreement, which expired in November 2003, provided for a $300,000 annual salary and a cash bonus tied to the achievement of defined objectives. In addition, Mr. Ryan received options to acquire 1,000,000 shares of our common stock at an exercise price of $5.24 per share that became fully vested in November 2003.

We are a party to severance agreements with Messrs. Almond, Heathcote, Nutkis, Robertson, Woessner and York which provide for the payment to each of them of six months (or 18 months in the case of Messrs. Woessner and York) of each of their base salaries in the event each has good reason (as defined) to resign his employment or if his employment is terminated other than for cause (as defined). The severance agreements also provide for the payment of six months (or two times and three times, respectively, in the case of Messrs. Woessner and York) of each of their annual base salaries in the event his employment terminates after a change in control (as defined) of our company. The severance agreements of Messrs. Woessner and York also contain confidentiality and stock option acceleration provisions.

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How are our Board members paid?

Former Arrangements

Under our 1999 Directors Stock Option Plan, on the day an outside director was first appointed or elected to our Board of Directors, such director was granted nonqualified options to purchase 25,000 shares of our common stock, which vested six months from the grant date with an exercise price equal to 100% of our common stock price on the grant date. In 2003, Mr. Sanchez III received options to purchase 25,000 shares at an exercise price of $5.24 per share. Also, in January of each year, each director who had served on our Board at least 12 consecutive months received a further grant of options determined according to a specified formula, which provided that the eligible directors collectively receive options for 1% of our outstanding common stock. The exercise price for these options was 120% of our common stock price on the grant date. These annual options vest over three years. In 2003, the eligible directors received, in the aggregate, options to acquire 153,282 shares of our common stock. The exercise price of these options was $5.02 per share. We reimbursed our directors for expenses they incurred attending our Board or committee meetings.

Current and Proposed Arrangements

There are no further options available for grant under our 1999 Directors Stock Option Plan. Hence, we are proposing the adoption of the Zix Corporation 2004 Directors Stock Option Plan see **PROPOSAL 3** herein. In addition to the options that will be granted to the non-employee Board members under the proposed Zix Corporation 2004 Directors Stock Option Plan, we will begin paying our non-employee directors cash fees as follows:

- Cash payment of $2,000 per meeting per director for attendance in person at Board meetings,
- Cash payment of $1,000 per meeting per director for attendance at telephonic Board meetings,
- Annual cash payment of $5,000 per director for serving as Chair of a Board committee (assuming attendance of at least two-thirds of the meetings), and
- Annual cash payment of $2,000 per director for serving as a member (*i.e.*, not the Chair) of a Board committee (assuming attendance of at least two-thirds of the meetings).

Certain Relationships and Related Transactions

On September 18, 2002, we closed two financing transactions pursuant to which we received $16,000,000 in gross cash proceeds. In the first transaction, we issued 819,886 shares of Series A Convertible Preferred Stock, par value $1.00 per share (the Series A); 1,304,815 shares of Series B Convertible Preferred Stock, par value $1.00 per share(the Series B); and warrants to purchase 709,528 shares of our common stock. Purchasers of the Series A and associated warrants included John A. Ryan, our Chairman and Chief Executive Officer; Antonio R. Sanchez, Jr., a former director, father of one of our current directors, and substantial stockholder of our company; SANTIG, Ltd., a family limited partnership for which Mr. Sanchez owns and controls the managing general partner, Sanchez Management Corporation; and the 1988 Spendthrift Trust, a family trust of which Mr. Sanchez is a beneficiary. Mr. Ryan purchased 189,205 shares of Series A and associated warrants to purchase an aggregate of 66,518 shares of our common stock. Mr. Sanchez purchased 126,136 shares of Series A and associated warrants to purchase an aggregate of 44,345 shares of our common stock. SANTIG, Ltd. purchased 252,273 shares of Series A and associated warrants to purchase an aggregate of 88,691 shares of our common stock. The 1988 Spendthrift Trust purchased 126,136 shares of Series A and associated warrants to purchase an aggregate of 44,345 shares of our common stock. Messrs. Ryan and Sanchez and the Sanchez limited partnership and family trust invested an aggregate of $2,750,000 in our company.

Purchasers of the Series B and associated warrants included George W. Haywood, a current 16.0% beneficial stockholder of our company, and an IRA for the benefit of Mr. Haywood. Mr. Haywood and the IRA for the benefit of Mr. Haywood purchased an aggregate of 947,708 shares of Series B and associated

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warrants to purchase an aggregate of 305,986 shares of common stock. Mr. Haywood and the IRA for the benefit of Mr. Haywood invested an aggregate of $3,450,000 in our company.

During 2003, shares of the Series A and the Series B were converted into shares of our common stock pursuant to the mandatory conversion provisions of the Series A and the Series B. Then, effective September 30, 2003, we elected to convert the remaining outstanding shares of our Series A and our Series B into shares of our common stock pursuant to the terms of the Series A and the Series B. The closing price of the common stock exceeded specified prices for the required number of days, thus permitting us to effect the conversion. During 2003, 189,205 and 504,545 Series A shares held by Messrs. Ryan and Sanchez, respectively, and related accrued dividends were converted into 196,119 and 522,982 shares of our common stock. Also, during 2003, 947,708 Series B shares held by Mr. Haywood and an IRA for the benefit of Mr. Haywood and related accrued dividends were converted into 969,745 shares of our common stock.

Finally, for the year 2003, we received payments of $1,345,000 in connection with a marketing agreement with Entrust, Inc. Mr. Ryan, our Chairman and Chief Executive Officer, was Chief Executive Officer of Entrust, Inc. when such agreement was executed. Mr. Almond, our Vice President of Investor Relations and Mergers and Acquisitions, was Vice President of Sales Operations of Entrust, Inc. when such agreement was executed and he holds a minority equity interest in Entrust, Inc. This agreement was terminated in 2003 by mutual agreement with Entrust, Inc.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised of three independent directors, Michael E. Keane, James S. Marston and Dr. Ben G. Streetman, who served on the committee during the year ended December 31, 2003. None of Messrs. Keane or Marston or Dr. Streetman is or was an officer or employee of our company or any of our subsidiaries. The committee met on one occasion during the year ended December 31, 2003. We have no executive officers who serve as a member of a board of directors or compensation committee of any other entity that has one or more executive officers serving as a member of our Board or Compensation Committee.

REPORT OF BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION

The Compensation Committee or the entire Board of Directors of Zix Corporation (the Company) approves salaries and annual bonuses for executive officers and administers its stock option plans.

Compensation Philosophy

The Company s compensation philosophy is to offer its executive officers compensation packages that are competitive with those being paid for comparable positions. Compensation consists of salary, bonus and stock options.

Chief Executive Officer Compensation

At December 31, 2003, the Company s Chairman, President and Chief Executive Officer was John A. Ryan. Mr. Ryan s employment agreement, which expired in November 2003, provided for, among other things, an annual base salary of $300,000 and a cash bonus tied to the achievement of corporate objectives. Mr. Ryan received a cash bonus of $160,000 for calendar year 2003. In addition, Mr. Ryan s options, granted at the inception of his employment, to acquire 1,000,000 shares of the Company s common stock at an exercise price of $5.24 per share became fully vested in November 2003. Mr. Ryan s bonus opportunity for 2004 will be tied to the attainment of defined corporate objectives. Mr. Ryan received no salary increase in 2003.

Inasmuch as a substantial portion of Mr. Ryan s compensation is stock based and Mr. Ryan s 2004 cash bonus opportunity is tied to the achievement of defined objectives, his interests are aligned precisely with those of the Company s stockholders. The Company believes that Mr. Ryan s employment arrangement was and continues to be appropriate in light of his demonstrated prior success at Entrust in building its customer base and achieving significant revenue growth and the results he has accomplished at the Company to date.