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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2021

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

For the transition period from __________to __________

Commission File Number: 0-17995

ZIX CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Texas	**75-2216818**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**

2711 North Haskell Avenue
Suite 2300, LB 36
Dallas, Texas 75204-2960
(Address of Principal Executive Offices)

(214) 370-2000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 3, 2021
Common Stock, par value $0.01 per share	**56,915,850**

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Trading Symbols(s)	Name of Exchange on Which Registered
Common Stock, par value $0.01 per share	**ZIXI**	**NASDAQ Global Market**

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ZIX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value data)	June 30, 2021 (unaudited)	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,901	$ 21,362
Receivables, net	18,153	16,831
Prepaid and other current assets	5,741	5,430
Total current assets	57,795	43,623
Property and equipment, net	6,182	7,345
Operating lease assets	12,011	14,259
Intangible assets, net	134,927	144,163
Goodwill	195,688	195,013
Deferred tax assets	33,410	32,554
Deferred costs and other assets	12,954	12,767
Total assets	$ 452,967	$ 449,724
LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 22,231	$ 20,018
Accrued expenses	11,453	10,364
Deferred revenue	43,271	40,447
Current portion of long-term debt	2,205	2,205
Operating lease liabilities, current	5,535	5,156
Finance lease liabilities, current	328	602
Total current liabilities	85,023	78,792
Long-term liabilities:		
Deferred revenue	756	1,079
Noncurrent operating lease liabilities	7,543	10,094
Noncurrent finance lease liabilities	25	114
Long-term debt	209,095	209,658
Total long-term liabilities	217,419	220,945
Total liabilities	302,442	299,737
Commitments and contingencies (see Note 11)		
Preferred stock:		
Series A convertible preferred stock, $1 par value; 100,206 shares designated, issued and outstanding in 2021 and in 2020	120,274	115,552
Total preferred stock	120,274	115,552
Stockholders' equity:		
Preferred stock, $1 par value, 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value, 175,000,000 shares authorized; 85,392,372 issued and 56,921,994 outstanding in 2021 and 85,382,484 issued and 57,246,521 outstanding in 2020	782	782
Additional paid-in capital	409,797	401,646
Treasury stock, at cost; 28,470,377 common shares in 2021 and 28,135,963 common shares in 2020	(115,454)	(113,031)
Accumulated deficit	(266,661)	(256,548)
Accumulated other comprehensive income	1,787	1,586
Total stockholders' equity	30,251	34,435
Total liabilities, preferred stock and stockholders' equity	$ 452,967	$ 449,724

See notes to condensed consolidated financial statements.

ZIX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

(In thousands, except share and per share data)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Revenue	$ 62,829	$ 53,337	$ 122,844	$ 105,771
Cost of revenue	34,604	28,258	67,742	54,337
Gross margin	28,225	25,079	55,102	51,434
Operating expenses:				
Research and development	6,882	5,820	12,942	11,206
Selling, general and administrative	22,391	19,216	43,688	39,245
Total operating expenses	29,273	25,036	56,630	50,451
Operating income (loss)	(1,048)	43	(1,528)	983
Other income (expense):				
Investment and other income (expense)	(48)	(7)	(5)	(22)
Interest expense	(2,187)	(2,508)	(4,313)	(5,155)
Total other (expense) income	(2,235)	(2,515)	(4,318)	(5,177)
Loss before income taxes	(3,283)	(2,472)	(5,846)	(4,194)
Income tax benefit	352	570	455	1,440
Net loss	$ (2,931)	$ (1,902)	$ (5,391)	$ (2,754)
Deemed and accrued dividends on preferred stock	2,399	2,218	4,722	4,447
Net loss attributable to common stockholders	$ (5,330)	$ (4,120)	$ (10,113)	$ (7,201)
Basic loss per share attributable to common stockholders	$ (0.10)	$ (0.08)	$ (0.18)	$ (0.13)
Diluted loss per common share attributable to common stockholders	$ (0.10)	$ (0.08)	$ (0.18)	$ (0.13)
Basic weighted average common shares outstanding	55,075,242	54,788,858	54,806,858	53,770,821
Diluted weighted average common shares outstanding	55,075,242	54,788,858	54,806,858	53,770,821
Other comprehensive loss, net of tax				
Foreign currency translation adjustments	1,463	294	201	(611)
Comprehensive loss	$ (1,468)	$ (1,608)	$ (5,190)	$ (3,365)

See notes to condensed consolidated financial statements

ZIX CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(Unaudited)

	Preferred Stock and Stockholders' Equity								
	Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
(In thousands, except shares)	Shares	Amount	Shares	Amount					
Balances, December 31, 2020, as reported	100,206	$ 115,552	85,382,484	$ 782	$ 401,646	$ (113,031)	$ (256,548)	$ 1,586	$ 34,435
Accretion of beneficial conversion feature of Series A Preferred Shares (Participating)	—	50	—	—	—	—	(50)	—	(50)
Accrued dividend on Series A preferred stock	—	2,273	—	—	—	—	(2,273)	—	(2,273)
Net issuance of common stock upon exercise of stock options	—	—	65,000	—	251	—	—	—	251
Net issuance of common stock upon vesting of restricted stock units	—	—	17,397	—	—	—	—	—	—
Net issuance of common stock upon vesting of performance stock units	—	—	11,763	—	—	—	—	—	—
Net issuance of restricted common stock	—	—	39,745	—	—	—	—	—	—
Net issuance of restricted performance common stock	—	—	(113,628)	—	—	—	—	—	—
Employee stock-based compensation costs	—	—	—	—	3,477	(2,105)	—	—	1,372
Adjustment from foreign currency translation	—	—	—	—	—	—	—	(1,262)	(1,262)
Net loss	—	—	—	—	—	—	(2,460)	—	(2,460)
Balances, March 31, 2021	100,206	$ 117,875	85,402,761	$ 782	$ 405,374	$ (115,136)	$ (261,331)	$ 324	$ 30,013
Accretion of beneficial conversion feature of Series A Preferred Shares (Participating)	—	51	—	—	—	—	(51)	—	(51)
Accrued dividend on Series A preferred stock	—	2,348	—	—	—	—	(2,348)	—	(2,348)
Net issuance of common stock upon vesting of restricted stock units	—	—	25,580	—	—	—	—	—	—
Net issuance of restricted common stock	—	—	(35,969)	—	—	—	—	—	—
Employee stock-based compensation costs	—	—	—	—	4,423	(318)	—	—	4,105
Adjustment from foreign currency translation	—	—	—	—	—	—	—	1,463	1,463
Net loss	—	—	—	—	—	—	(2,931)	—	(2,931)
Balances, June 30, 2021	100,206	$ 120,274	85,392,372	$ 782	$ 409,797	$ (115,454)	$ (266,661)	$ 1,787	$ 30,251

See notes to condensed consolidated financial statements.

ZIX CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF PREFERRED STOCK AND STOCKHOLDERS' EQUITY

(Unaudited)

Continued

	Preferred Stock and Stockholders' Equity								
	Preferred Stock		**Common Stock**		**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Total Stockholders' Equity**
(In thousands, except shares)	**Shares**	**Amount**	**Shares**	**Amount**					
Balances, December 31, 2019, as reported	100,206	$ 106,527	83,393,514	$ 780	$ 391,605	$ (110,298)	$ (240,995)	$ 199	$ 41,291
Cumulative effect adjustment from changes in accounting standard (Note 2)	—	—	—	—	—	—	(103)	—	(103)
Balances, January 1, 2020, as reported	100,206	106,527	83,393,514	780	391,605	(110,298)	$ (241,098)	199	41,188
Accretion of beneficial conversion feature of Series A Preferred Shares (Participating)	—	48	—	—	—	—	(48)	—	(48)
Accrued dividend on Series A preferred stock	—	2,181	—	—	—	—	(2,181)	—	(2,181)
Net issuance of common stock upon exercise of stock options	—	—	46,875	1	116	—	—	—	117
Net issuance of common stock upon vesting of restricted stock units	—	—	30,084	—	—	—	—	—	—
Net issuance of common stock upon vesting of performance stock units	—	—	16,062	—	—	—	—	—	—
Net issuance of restricted common stock	—	—	1,062,683	—	—	—	—	—	—
Net issuance of restricted performance common stock	—	—	404,746	—	—	—	—	—	—
Employee stock-based compensation costs	—	—	—	—	1,989	(1,785)	—	—	204
Adjustment from foreign currency translation	—	—	—	—	—	—	—	(905)	(905)
Net loss	—	—	—	—	—	—	(853)	—	(853)
Balances, March 31, 2020	100,206	$ 108,756	84,953,964	$ 781	$ 393,710	$ (112,083)	$ (244,180)	$ (706)	$ 37,522
Accretion of beneficial conversion feature of Series A Preferred Shares (Participating)	—	47	—	—	—	—	(47)	—	(47)
Accrued dividend on Series A preferred stock	—	2,171	—	—	—	—	(2,171)	—	(2,171)
Net issuance of common stock upon exercise of stock options	—	—	67,500	1	216	—	—	—	217
Net issuance of common stock upon vesting of restricted stock units	—	—	75,631	—	—	—	—	—	—
Net issuance of common stock upon vesting of performance stock units	—	—	32,848	—	—	—	—	—	—
Net issuance of restricted common stock	—	—	6,590	—	—	—	—	—	—
Net issuance of restricted performance common stock	—	—	(26,666)	—	—	—	—	—	—
Employee stock-based compensation costs	—	—	—	—	3,251	(797)	—	—	2,454
Adjustment from foreign currency translation	—	—	—	—	—	—	—	294	294
Net loss	—	—	—	—	—	—	(1,902)	—	(1,902)
Balances, June 30, 2020	100,206	$ 110,974	85,109,867	$ 782	$ 397,177	$ (112,880)	$ (248,299)	$ (412)	$ 36,368

See notes to condensed consolidated financial statements.

ZIX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Operating activities:		
Net loss	$ (5,391)	$ (2,754)
Non-cash items in net loss:		
Depreciation and amortization	18,682	15,514
Amortization of debt issuance costs	584	649
Employee stock-based compensation costs	7,903	5,241
Noncash lease costs	2,488	1,551
Changes in deferred taxes	(832)	(1,232)
Changes in operating assets and liabilities:		
Receivables	(1,317)	(2,688)
Prepaid and other current assets	(362)	(633)
Deferred costs and other assets	(177)	(316)
Accounts payable	2,707	(1,229)
Deferred revenue	2,432	(302)
Earn-out payment	(400)	—
Accrued and other liabilities	(961)	(4,681)
Net cash provided by operating activities	25,356	9,120
Investing activities:		
Purchases of property, equipment and internal-use software	(8,667)	(9,316)
Acquisition of business, net of cash acquired	(339)	—
Net cash used in investing activities	(9,006)	(9,316)
Financing activities:		
Proceeds of long-term debt	—	6,000
Proceeds from exercise of stock options	251	334
Repayment of long term debt	(1,103)	(925)
Repayment of finance lease liabilities	(363)	(746)
Purchase of treasury shares	(2,423)	(2,582)
Payment of acquisition related contingent consideration	—	(1,125)
Net cash (used in) provided by financing activities	(3,638)	956
Effect of exchange rate on cash	(173)	(52)
Increase in cash and cash equivalents	12,539	708
Cash and cash equivalents, beginning of period	21,362	13,349
Cash and cash equivalents, end of period	$ 33,901	$ 14,057

See notes to condensed consolidated financial statements.

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Zix Corporation ("Zix" the "Company," "we," "our" or "us") should be read in conjunction with the audited consolidated financial statements included in the Company's 2020 Annual Report on Form 10-K. These financial statements are unaudited, but have been prepared in the ordinary course of business for the purpose of providing information with respect to the covered interim periods.

Management of the Company believes that all adjustments necessary for a fair presentation for such periods have been included and are of a normal recurring nature. Our interim period operating results are not necessarily indicative of the results to be expected for any future periods or for the full fiscal year.

The preparation of financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America requires the Company's management to make estimates and assumptions that affect reported amounts and disclosures. These estimates and assumptions take into account historical and forward looking factors that the Company believes are reasonable, including but not limited to the potential impacts arising from the recent coronavirus (COVID-19) and public and private sector policies and initiatives aimed at reducing its transmission. As the extent and duration of the impacts of the COVID-19 remain unclear, the Company's estimates and assumptions may evolve as conditions change. Actual results could differ significantly from those estimates.

2. Recent Accounting Standards and Pronouncements

Income Taxes

On January 1, 2021, we adopted Accounting Standard Update No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12), which simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the tax basis of goodwill after a business combination, and the recognition of deferred tax liabilities for outside basis differences. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

3. Stock-Based Awards and Stock-Based Employee Compensation Expense

Our stock-based awards include (i) stock options, (ii) restricted stock awards, some of which are subject to time-based vesting ("Restricted Stock") and some of which are subject to performance-based vesting ("Performance Stock"), and (iii) restricted stock units, some of which are subject to time-based vesting ("RSUs") and some of which are subject to performance-based vesting ("Performance RSUs"). As of June 30, 2021, the Company had 777,010 stock options outstanding, 1,215,243 non-vested Restricted Stock awards; 553,277 non-vested Performance Stock awards; 1,845,868 non-vested RSUs; and 820,740 non-vested Performance RSUs. On June 9, 2021, the Zix Corporation 2021 Omnibus Incentive Plan (the "2021 Plan") received the requisite shareholder approval and became effective immediately. The 2021 Plan replaced the Zix Corporation Amended and Restated 2018 Incentive Plan (the "Prior Incentive Plan"). The 2021 Plan has 5,650,000 of shares of common stock reserved for issuance which includes a reserve for the incremental shares that would be required if performance awards issued from the Prior Incentive Plan achieve maximum target performance. As of June 30, 2021, there were 4,253,407 shares of common stock available for grant.

Stock Option Activity

The following is a summary of all stock option transactions during the three months ended June 30, 2021:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)
Outstanding at March 31, 2021	777,010	$ 4.45	5.28
Granted at market price	—	—	
Cancelled or expired	—	—	
Exercised	—	—	
Outstanding at June 30, 2021	777,010	$ 4.45	5.03
Options exercisable at June 30, 2021	620,760	$ 3.74	4.01

At June 30, 2021, 677,010 stock options outstanding and 589,510 stock options exercisable had an exercise price lower than the market price of the Company's common stock on that date. The aggregate intrinsic value of these stock options was $2.2 million and $2.1 million, respectively.

Restricted Stock Activity

The following is a summary of Restricted Stock activity during the three months ended June 30, 2021:

	Restricted Shares	Weighted Average Fair Value
Non-vested restricted stock at March 31, 2021	1,411,093	$ 7.41
Granted at market price	—	—
Vested	(159,881)	5.84
Cancelled	(35,969)	7.79
Non-vested restricted stock at June 30, 2021	1,215,243	$ 7.61

Restricted Stock Unit Activity

The following is a summary of all RSU activity during the three months ended June 30, 2021:

	Restricted Stock Units	Weighted Average Fair Value
Non-vested restricted stock units at March 31, 2021	1,444,767	$ 7.39
Granted at market price	434,633	7.23
Vested	—	—
Cancelled	(33,532)	7.83
Non-vested restricted stock units at June 30, 2021	1,845,868	$ 7.35

Performance RSU Activity

The following is a summary of all Performance RSU activity during the three months ended June 30, 2021:

	Performance RSUs	Weighted Average Fair Value
Non-vested performance RSUs at March 31, 2021	748,265	$ 7.40
Granted at market price	72,475	7.20
Vested	—	—
Forfeited	—	—
Non-vested performance RSUs at June 30, 2021	820,740	$ 7.39

Performance Stock Activity

The following is a summary of all Performance Stock activity during the three months ended June 30, 2021:

	Performance Stock	Weighted Average Fair Value
Non-vested performance stock at March 31, 2021	553,277	$ 7.50
Granted at market price	—	—
Vested	—	—
Forfeited	—	—
Non-vested performance stock at June 30, 2021	553,277	$ 7.50

The weighted average grant-date fair value of awards of Restricted Stock, RSUs, Performance RSUs and Performance Stock is based on the quoted market price of the Company's common stock on the date of grant.

Stock-Based Compensation Expense

For the six month period ended June 30, 2021, the total stock-based employee compensation expense (excluding $361 thousand payroll tax expense resulting from the vesting of employees' equity awards) resulting from stock options, Restricted Stock, RSUs, Performance RSUs and Performance Stock was recorded to the following line items of the Company's condensed consolidated statement of comprehensive loss:

(In thousands)	Three Months Ended June 30, 2021	Six Months Ended June 30, 2021
Cost of revenues	$ 119	$ 370
Research and development	950	1,472
Selling, general and administrative	3,357	6,061
Stock-based compensation expense	$ 4,426	$ 7,903

A deferred tax asset totaling $1.6 million and $948 thousand, resulting from stock-based compensation expense associated with awards relating to the Company's U.S. operations, was recorded for the six month periods ended June 30, 2021 and 2020, respectively. As of June 30, 2021, there was $27.7 million of total unrecognized stock-based compensation expense related to non-vested stock-based compensation awards granted. This expense is expected to be recognized over a weighted average period of 2.13 years.

For additional information regarding the Company's Equity Awards and Stock-based Employee Compensation, see Note 3, *Stock Options and Stock-Based Employee Compensation* of the "Notes to Consolidated Financial Statements" included in our Annual Report on Form 10-K for the year ended December 31, 2020.

4. Supplemental Cash Flow Information

Supplemental cash flow information relating to taxes, interest and non-cash activities:

(In thousands)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Interest payments	$ 3,750	4,649
Income tax payments	234	116
Non-cash investing and financing activities:		
Accrued and deemed dividends on Series A preferred stock	4,722	4,447

5. Receivables, net

(In thousands)	June 30, 2021	December 31, 2020
Gross accounts receivables	$ 30,757	$ 30,188
Allowance for credit losses	(391)	(478)
Unpaid portion of deferred revenue	(12,213)	(12,879)
Note receivable	458	458
Allowance for note receivable	(458)	(458)
Receivables, net	$ 18,153	$ 16,831

Accounts receivable are recorded at cost less an allowance for credit losses. We estimate losses on receivables at the reporting date based on expected losses resulting from the inability of our customers to make required payments, including our historical experience of actual losses and the aging of such receivables. These receivables have been pooled by shared risk characteristics. Based on known information we may also establish specific reserves for customers in an adverse financial condition or adjust our expectations of changes in conditions that may impact the collectability of outstanding receivables. As of June 30, 2021, based on available information to date, the Company assessed no material impact related to potential losses caused by COVID-19.

The reduction for the unpaid portion of deferred revenue represents future customer service or maintenance obligations that have been billed to customers, but remain unpaid as of the respective balance sheet dates. Deferred revenue on our consolidated balance sheets represents future customer service or maintenance obligations that have been billed and collected as of the respective balance sheet dates.

The note receivable represents the remaining outstanding balance of an original note related to the sale of a product line in 2005 in the amount of $540 thousand. This was fully reserved at the time of the sale, as the note's collectability was not assured. The note receivable is fully reserved at June 30, 2021.

6. Leases

The Company determines if a contract is or contains a lease at inception. The Company has operating leases for office spaces and data centers and finance leases for equipment. The Company has entered into lease contracts ranging from 1 to 12 years with the majority of leases having terms one to seven years, many of which include options to extend in various increments. Variable lease costs consist primarily of variable common area maintenance, taxes, insurance, parking and utilities. The Company's leases do not have any residual value guarantees or restrictive covenants.

As the implicit rate is not readily determinable for most of the Company's lease agreements, the Company uses an estimated incremental borrowing rate to determine the initial present value of lease payments. These discount rates for leases are calculated using the Company's weighted average interest rate of the term loan and delayed draw term loan.

The components of lease costs are as follows:

	Three Months ended June 30,		Six Months ended June 30,	
(In thousands)	**2021**	**2020**	**2021**	**2020**
Finance lease costs:				
Amortization of right-of-use assets	$ 193	$ 310	$ 408	$ 688
Interest on lease liabilities	7	23	17	53
Operating lease costs	1,492	942	2,978	1,883
Short-term lease costs	418	773	932	1,173
Variable lease costs	226	267	509	484
Total lease costs	$ 2,336	$ 2,315	$ 4,844	$ 4,281

Supplemental cash flow information related to leases are as follows:

	Three Months ended June 30,		Six Months ended June 30,	
(In thousands)	**2021**	**2020**	**2021**	**2020**
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 1,447	$ 963	$ 2,863	$ 1,936
Operating cash flows related to finance leases	7	24	17	53
Financing cash flows related to finance leases	162	340	363	746
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases	307	491	307	856
Finance leases	—	—	—	—

Supplemental balance sheet information related to leases are as follows:

(In thousands)	Balance Sheet Classification	June 30, 2021	December 31, 2020
Operating Leases			
Operating lease right-of-use assets	Operating lease assets	$ 12,011	$ 14,259
Total operating lease assets		$ 12,011	$ 14,259

(In thousands)	Balance Sheet Classification	June 30, 2021	December 31, 2020
Finance Leases			
Finance lease right-of-use assets		$ 3,362	$ 3,362
Accumulated depreciation - finance leases		(2,893)	(2,490)
Finance lease right-of-use assets, net	Property and equipment, net	$ 469	$ 872

Weighted average remaining lease term and weighted average discount rate are as follows:

Weighted Average Remaining Lease Term (Years)	2021	2020
Operating leases	2.78	3.97
Finance leases	1.00	1.71
Weighted Average Discount Rate		
Operating leases	4.29%	5.79%
Finance leases	6.09%	6.14%

Maturities of lease liabilities are as follows:

	Payments Due by Period - Year Ending December 31, 2021				
(In thousands)	Total	Year 1 (1)	Years 2 & 3	Years 4 & 5	Beyond 5 Years
Operating leases	$ 13,921	$ 2,955	$ 8,646	$ 2,238	$ 82
Less imputed interest	(843)				
Total	$ 13,078				
Finance leases	$ 363	$ 247	$ 116	$ —	$ —
Less imputed interest	(10)				
Total	$ 353				

(1) Year 1 excluding the six months ended June 30, 2021

7. Long-term Debt

On February 20, 2019, the Company entered into a credit agreement (the “Credit Agreement”) with a syndicate of lenders and SunTrust Bank as administrative agent, which (1) provided for borrowing in the form of a senior secured term loan facility in an aggregate principal amount of $175 million (the “Term Loan”), (2) provided for a senior secured delayed draw term loan facility in an aggregate principal amount of $10 million (the “Delayed Draw Term Loan Facility”), and (3) provided for a senior secured revolving credit facility in an aggregate principal amount of $25 million, up to $5 million of which is available for letters of credit (the “Revolving Facility” and, together with the Term Loan and the Delayed Draw Term Loan Facility, the “Credit Facilities”). On February 20, 2019, the Term Loan was borrowed in full to pay a portion of the purchase price in connection with the AppRiver acquisition (described below in Note 16 “Acquisitions”) including certain fees, costs and expenses related thereto. On May 2, 2019, the Delayed Draw Term Loan Facility was borrowed in full to pay a portion of the purchase price in connection with the DeliverySlip acquisition (described below in Note 16 “Acquisitions”), including certain fees, costs and expenses related thereto. On November 5, 2020, the Company amended its Credit Agreement to, among other things, borrow an incremental $35.0 million term loan (the “Incremental Term Loan”). The Incremental Term Loan has the same interest rate, maturity date, amortization schedule, collateral and other terms as the existing Term Loan and Delayed Draw Term Loan. The Company used the proceeds of the Incremental Term Loan to fund the acquisition of CloudAlly (described below in Note 16 “Acquisitions”) and to repay all existing borrowing under the Revolving Facility. As of June 30, 2021, the Company had no outstanding debt attributable to the Revolving Facility. The Credit Facilities are secured by substantially all the assets of Zix and its wholly-owned domestic subsidiaries and guaranteed by substantially all of Zix’s wholly-owned domestic subsidiaries.

Borrowings under the Credit Agreement bear interest, at the Company’s option, at either (1) the adjusted LIBOR rate (as defined in the Credit Agreement) plus a margin ranging from 2.50% to 3.50% or (2) the alternate base rate (as defined in the Credit Agreement) plus a margin ranging from 1.50% to 2.50%. The applicable margin varies depending on the Company’s total net leverage ratio. One-week and 2-month U.S dollar LIBOR and all remaining U.S dollar LIBOR settings are set to be phased out at December 31, 2021 and June 30, 2023, respectively. We are currently reviewing how the LIBOR rate phase out will affect us, but we do not expect the impact to be material.

The Credit Facilities are scheduled to mature on February 20, 2024, unless extended in accordance with the terms of the Credit Agreement. The Credit Agreement includes procedures for additional financial institutions to become lenders, or for any existing lender to increase its commitments thereunder, subject to the limits and conditions set forth in the Credit Agreement.

Optional prepayments of borrowings under the Credit Facilities are permitted at any time and do not require any prepayment premium (other than reimbursement of the lenders’ breakage and redeployment costs in the case of a prepayment of LIBOR borrowings).

The Credit Agreement contains various financial, operational, and legal covenants. The financial covenant is tested on a quarterly basis, based on the rolling four-quarter period that ends on the last day of each fiscal quarter. The financial covenant requires the Company to maintain a maximum total net leverage ratio of:

- 4.50:1.00 for the fiscal quarters ending June 30, 2021 through December 31, 2021; and
- 4.25:1.00 for the fiscal quarter ending March 31, 2022 and each fiscal quarter thereafter.

The non-financial covenants restrict the Company’s ability and the ability of the Company’s restricted subsidiaries to, among other things, incur indebtedness, incur liens, merge with or acquire other entities, make investments, dispose of assets, enter into sale and leaseback transactions, make dividends, distributions or stock repurchases, prepay junior indebtedness, enter into transactions with affiliates, enter into restrictive agreements, and amend organizational documents or the terms of junior indebtedness.

The Credit Agreement contains events of default that Zix believes are customary for a secured credit facility. If an event of default relating to bankruptcy or other insolvency events occurs, all obligations under the Credit Agreement will immediately become due and payable. If any other event of default exists under the Credit Agreement, the lenders may accelerate the maturity of the Credit Facilities and exercise other rights and remedies, including foreclosure or other actions against the collateral. If any default exists under the Credit Agreement, or if the Company is unable to make any of the representations and warranties in the Credit Agreement at the applicable time, Zix will be unable to borrow additional funds or have letters of credit issued under the Credit Agreement.

Term Loan and Incremental Term Loan (“Combined Term Loan”)

As of June 30, 2021, the Company had $205.8 million in principal outstanding under the Term Loan. The Term Loan was fully drawn on February 20, 2019 in the amount of $175 million, and requires quarterly payments of principal of $437 thousand beginning on June 30, 2019. The Incremental Loan was fully drawn on November 5, 2020 in the amount of $35.0 million, and requires quarterly payments of principal of $89 thousand beginning on December 31, 2020. In addition to other customary mandatory prepayment requirements, the Term Loan requires annual prepayments based on a percentage of Zix’s excess cash flow, which percentage will reduce if Zix’s total net leverage ratio decreases. Based on the calculation of excess cash flow and total net leverage ratio and for the year ended December 31, 2020, the Company is not required to make a prepayment in addition to the quarterly installment.

At June 30, 2021, the Company had an outstanding debt balance of $201.5 million attributable to the Combined Term Loan based on the 4.15% and 4.08% interest rate in effect during the three- and six-month period ended on June 30, 2021, respectively. Included in the balance at June 30, 2021 is $4.3 million of unamortized debt issuance costs.

Future principal payments under the Combined Term Loan as of June 30, 2021 are as follows:

(In thousands) Year Ending December 31,	Amount
2021	1,053
2022	2,105
2023	2,105
2024	200,533
	205,796

Delayed Draw Term Loan Facility

At June 30, 2021, the Company had $9.8 million in principal outstanding under the Delayed Draw Term Loan Facility. The Delayed Draw Term Loan Facility was fully drawn on May 2, 2019 in the amount of $10 million to fund the DeliverySlip acquisition. The Delayed Draw Term Loan Facility requires 1.00% per annum amortization of the original principal amount borrowed, payable in equal quarterly installments of $25 thousand beginning on September 30, 2019. In addition to other customary mandatory prepayment requirements, the Delayed Draw Term Loan Facility requires annual prepayments based on a percentage of Zix's excess cash flow, which percentage reduces if Zix's total net leverage ratio decreases. Based on the calculation of excess cash flow and total net leverage ratio and for the year ended December 31, 2020, the Company is not required to make a prepayment in addition to the quarterly installment.

At June 30, 2021, the Company had an outstanding debt balance of $9.8 million attributable to the Delayed Draw Term Loan Facility based on the 3.55% and 3.48% interest rate in effect during the three- and six-month period ended June 30, 2021. Included in the balance at June 30, 2021 is $36 thousand of unamortized debt issuance costs.

Future principal payments under the Delayed Draw Term Loan Facility as of June 30, 2021 are as follows:

(In thousands) Year Ending December 31,	Amount
2021	50
2022	100
2023	100
2024	9,550
	9,800

Revolving Facility

The Company also has a Revolving Facility with the lenders, pursuant to which the lenders agreed to make a Revolving Facility available to the Company in an aggregate amount of up to $25 million. Proceeds from the Revolving Facility may be used for working capital and general business purposes, including the financing of permitted acquisitions, investments and restricted payments, subject, in both cases, to the conditions contained in the Credit Agreement. Zix is charged a commitment fee ranging from 0.25% to 0.50% per year on the daily amount of the unused portions of the commitments under the Revolving Facility.

As of June 30, 2021, the Company had no outstanding debt attributable to the Revolving Facility. The undrawn balance of $25 million is available to fund working capital and for other general corporate purposes, including the financing of permitted acquisitions, investments and restricted payments, subject to the conditions contained in the Credit Agreement. The Company incurred $24 and $47 thousand of commitment fees for the three- and six-month period ended June 30, 2021.

As of June 30, 2021, the estimated fair value of the Credit Facilities approximated their carrying value and the Company was in compliance with all covenants in the Credit Agreement.

8. Preferred Stock

On February 20, 2019, (the "Original Issuance Date" or "Closing Date"), Zix consummated a private placement pursuant to an investment agreement with an investment fund managed by True Wind Capital and issued an aggregate of $100 million of shares of convertible Preferred Stock (as defined below) at a price of $1,000 per share (the "Stated Value"). 64,914 shares of Series A Convertible Preferred Stock (the "Series A Preferred Stock") were issued for proceeds of $62.7 million, net of issuance costs of $2.3

million, and 35,086 shares of Series B Convertible Preferred Stock (the “Series B Preferred Stock” and, together with the Series A Preferred Stock, the “Preferred Stock”) were issued for proceeds of $33.9 million, net of issuance costs of $1.2 million. The Preferred Stock is classified outside of stockholders’ equity in temporary equity because the shares contain certain redemption features which require redemption upon a change in control. The Series A Preferred Stock can be immediately converted to common stock.

On June 5, 2019, Shareholders approved the conversion of the outstanding shares of Series B Preferred Stock into shares of Series A Preferred Stock. Each share of Series B Preferred Stock was converted into the number of shares of Series A Preferred Stock equal to the liquidation preference of such share of Series B Preferred Stock divided by the accreted value of a share of Series A Preferred Stock on the date of conversion plus cash in lieu of fractional shares. On June 6, 2019, all the outstanding shares of Series B Preferred Stock were converted into 35,292 shares of Series A Preferred Stock. As of June 30, 2021, no shares of Series B Preferred Stock are outstanding.

The conversion option of the Series A Preferred Stock was determined to have a beneficial conversion feature valued at $2.5 million, excluding the additional beneficial conversion feature accrued for the deemed dividend, and was recorded to additional paid-in capital and as a discount to the Series A Preferred Stock. This resulting discount was immediately amortized as the Series A Preferred Stock has no set redemption date but is currently convertible.

Dividends

The Stated Value of the Series A Preferred Stock accretes at a fixed rate of 8% per annum, compounded quarterly (“Series A Preferred Dividend”). Apart from the Series A Preferred Dividend, the holders of Series A Preferred Stock are also entitled to receive any dividends paid on our common stock on an "as converted" basis. No dividend may be paid on our common stock until such dividend is paid on the Series A Preferred Stock. All calculations of the Accreted Value (as defined below) of Series A Preferred Stock will be computed on the basis of a 360-day year of twelve 30-day months. As of June 30, 2021, the accretion of the Stated Value of Series A Preferred Stock is valued at $19.6 million.

Voting Rights

Holders of Series A Preferred Stock are entitled to vote, together with the holders of common stock on all matters submitted to a vote of the holders of our common stock. Each holder of Series A Preferred Stock shall be entitled to the number of votes equal to the largest number of whole shares of common stock into which all shares of Series A Preferred Stock held by such holder could be converted. The vote or consent of the holders of at least a majority of the shares of Series A Preferred Stock outstanding will be necessary for effecting or validating any of the following actions: (i) any amendment, alteration or repeal of Zix’s Articles of Incorporation or Series A Certification of Designations that would adversely affect the rights, preferences, privileges or power of the Series A Preferred Stock; (ii) any amendment or alteration to Zix’s Articles of Incorporation or any other action to authorize or create, or increase the number of authorized or issued shares of capital stock of the Company convertible into shares of, or ranking senior to, or on a parity basis with, the Series A Preferred Stock as to dividend rights or liquidation rights; (iii) the issuance of shares of Series A Preferred Stock after the Original Issuance Date other than in connection with the conversion of Series B Preferred Stock that was issued on the Original Issuance Date; (iv) any action that would cause the Company to cease to be treated as a domestic corporation for U.S. federal income tax purposes; and (v) the incurrence of any indebtedness of the Company that would cause Zix to exceed a specified leverage ratio.

Liquidation Preference

The Series A Preferred Stock has a liquidation preference equal to the greater of (i) the Stated Value per share as it has accreted as of such date (the “Accreted Value”) and (ii) the amount such holder would have received if the Series A Preferred Stock had converted into common stock immediately prior to such liquidation.

Conversion

At any time, each Series A Preferred Stock holder may elect to convert each share of such holders’ then-outstanding Series A Preferred Stock into (i) the number of shares of common stock equal to the product of (a) the Accreted Value with respect to such share on the conversion date multiplied by (b) the conversion rate (currently 166.11) as of the applicable conversion date divided by (c) 1,000 plus (ii) cash in lieu of fractional shares.

Optional Redemption by Zix

At any time after the fourth anniversary of the Closing Date, Zix may redeem the Series A Preferred Stock for an amount per share of Series A Preferred Stock equal to the Accreted Value per share of the Series A Preferred Stock to be redeemed as of the applicable redemption date multiplied by 1.50.

9. Revenue from Contracts with Customers

Accounting policies

Our Company provides message security solutions as subscription services in which we recognize revenue as our services are rendered. Certain customers commit to contract terms ranging from one to three year. The Company typically invoices on either an annual or monthly installments. Deferred revenue is recognized when payments received in advance of revenue recognition from our subscription and other services. We exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by our Company from a customer (e.g., sales, use, value added, and some excise taxes).

Disaggregation of Revenue

In the six months ended June 30, 2021, excluding our CloudAlly business, we recorded revenue for our services in the following core industry verticals: 20% healthcare, 17% financial services, 3% government sector, and 60% as other. In the first six months of 2020, we categorized our revenue in the following core industry verticals: 20% healthcare, 18% financial services, 3% government sector, and 59% as other.

We operate as a single operating segment. Revenue generated from our email encryption and security solutions represented 100% of our revenues in the six months ended June 31, 2021 and 2020, respectively.

Contract balances

Our contract assets include our accounts receivables, discussed above in Footnote 5 “Receivables, net”, and the deferred cost associated with commissions earned by our sales team on securing new, add-on, and renewal contract orders. During the three and six months ended June 30, 2021, we increased our noncurrent deferred contract asset by $1.1 million and $1.8 million, respectively, resulting from commissions earned by our sales team during the three and six months ended June 30, 2021. We also amortized $1.1 million and $2.2 million of deferred cost as a selling and marketing expense in the same periods. Our deferred cost asset is assessed for impairment on a periodic basis. There were no impairment losses recognized on deferred contract cost assets for the three and six months ended June 30, 2021.

Our contract liabilities consist of deferred revenue representing future customer services which have been billed and collected. The $2.5 million increase to our net deferred revenue in the six months ended June 30, 2021, is related to the timing of orders and payments.

Performance obligations

As of June 30, 2021, the aggregate amount of the transaction prices allocated to remaining service performance obligations, which represents the transaction price of firm orders less inception to date revenue, was $82.9 million. We expect to recognize approximately $44.6 million of revenue related to this backlog during the remainder of 2021, $27.2 million in 2022, and $11.1 million in periods thereafter.

Approximately $27.6 million of our $62.8 million revenue recognized in the three months ended June 30, 2021, was included in our performance obligation balance at the beginning of the period. Approximately $43.0 million of our $122.8 million recognized in the six months ended June 30, 2021, was included in our performance obligation balance at the beginning of the period.

10. Earnings (Loss) Per Share and Potential Dilution

Basic earnings (loss) per share are computed using the weighted average number of common shares outstanding for the applicable period under the Treasury Stock method. As applicable, the dilutive effect of potential common shares outstanding is included in diluted earnings (loss) per share. Basic and diluted net loss per common share was the same for all periods presented as the impact of all potentially dilutive securities outstanding was anti-dilutive.

The following table presents the potentially dilutive common shares outstanding that were excluded from the computation of dilutive net loss per share of common stock for the periods presented because including them would have been anti-dilutive:

	June 30, 2021	June 30, 2020
Stock options to purchase common stock	777,010	742,010
Restricted Stock	1,215,243	2,090,745
RSUs	1,845,868	153,099
Performance RSUs	820,740	44,349
Performance Stock	553,277	691,852
Preferred Stock	19,903,585	18,391,421
Potential dilutive common shares	25,115,723	22,113,476

11. Commitments and Contingencies

We have not entered into any material, non-cancelable purchase commitments at June 30, 2021.

Claims and Proceedings

We are from time to time involved in legal claims, litigation, and other legal proceedings. Although we may incur significant expenses in those matters, we expect no material adverse effect on our operations or financial results from current or concluded legal proceedings.

12. Fair Value Measurements

FASB guidance regarding fair value measurement establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices for similar assets and liabilities in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

For certain of the Company’s financial instruments, including cash and cash equivalents, trade receivables, and accounts payable, the fair values approximate the carrying values due to the short-term maturities of these instruments. The carrying values of other current assets and accrued expenses are also not recorded at fair value, but approximate fair values primarily due to their short-term nature.

13. Goodwill

The following is a summary of the changes in the carrying amount of goodwill for the six month periods ended June 30, 2021 and 2020:

	Six Months ended June 30,	
(In thousands)	**2021**	**2020**
Opening balance	$ 195,013	$ 171,209
Acquisition adjustments	729	—
Effect of currency translation adjustment	(54)	(515)
Goodwill	$ 195,688	$ 170,694

The increase to our goodwill in the six months ended June 30, 2021 is due to fair value adjustment of our acquired intangible assets and deferred revenue liability as well as the final working capital adjustment of our CloudAlly acquisition completed on November 5, 2020. See below Note 16 “Acquisitions” for additional information regarding our acquisitions.

We evaluate goodwill for impairment annually in the fourth quarter, or when there is a reason to believe that the value has been diminished or impaired. There were no impairments to goodwill during the periods presented above.

14. Other Comprehensive Loss

The assets and liabilities of international subsidiaries are translated from the respective local currency to the U.S. dollar using exchange rates at the balance sheet date. Related translation adjustments are recorded as a component of the accumulated other comprehensive income (loss). Our Consolidated Statement of Comprehensive Loss of international subsidiaries are translated from the local currency to the U.S. dollar using average exchange rates for the period covered by the income statements.

We are exposed to fluctuations in the foreign currency exchange rates as a result of our net investments and operations in Canada, United Kingdom, Switzerland, Germany, Spain and Israel. For the six months ended June 30, 2021, movements in currency exchange rates and the related impact on the translation of the balance sheets of our foreign subsidiaries was the primary cause of our foreign currency translation loss of $201 thousand, net of $13 thousand in income tax benefit.

15. Income Taxes

The operating losses incurred by the Company's U.S. operations in past years and the resulting net operating losses for U.S. Federal tax purposes are subject to a $23.5 million reserve. Any change to this $23.5 million valuation allowance is based on an assessment of future utilization following accounting guidance, which relies largely on historical and projected earnings. For this reason, the Company has recognized its first and second quarter 2021 federal deferred tax provision in full. If in prospective periods we conclude our future U.S. federal taxable estimate established at the end of the year will exceed the prior year estimate, the Company will offset its federal deferred tax provision by reducing its valuation allowance by an equal amount, thereby eliminating from its deferred tax provision federal taxes from the Company's financial statements. The Company will continue to reevaluate the need for its valuation allowance each quarter, following the same assessment methodology described above. An increase or decrease to our valuation allowance could have a significant impact on operating results for each period that it becomes more likely than not that an additional portion of our deferred tax assets will or will not be realized.

16. Acquisitions

Acquisition of CloudAlly

On November 5, 2020, Zix acquired 100% of the equity interest of CloudAlly Ltd. ("CloudAlly") and its parent holding company for a total purchase price of $30.8 million, following a working capital adjustment. The purchase price included cash consideration of $30.4 million, net of cash acquired. The Company used a portion of the proceeds of the Incremental Term Loan (as defined in Note 7) to fund the acquisition of CloudAlly.

Founded in 2011, CloudAlly, based in Israel, is a pioneer of enterprise-grade, software-as-a-service (SaaS) cloud backup and recovery solutions. The company offers a robust suite of award-winning, ISO 27001 certified and GDPR/HIPAA compliant solutions for Microsoft Office 365, Google Workspace (formerly G Suite), SharePoint, OneDrive, Salesforce, Box and Dropbox. CloudAlly is a channel-first provider, serving more than 5,000 customers, 500,000 users and supported by 300 Managed Service Provider (MSP) partners.

The Company incurred $2.0 million in acquisition-related costs which included $1.8 million and $125 thousand recorded within the operating expenses during the twelve months ended December 31, 2020 and the six months ended June 30, 2021, respectively. Revenue from CloudAlly was $2.7 and $5.0 million for the three and six months ended June 30, 2021, and due to the continued integration of the combined business, it was impractical to determine earnings attributable to CloudAlly.

We accounted for the acquisition as the purchase of a business and recorded the excess purchase price as goodwill. The majority of the goodwill balance is expected to be deductible for tax purposes. The intangible assets we acquired from CloudAlly are technology, customer relationships, and trademarks/names which we are each amortizing over a 4 year period. The results of operations and the provisional fair values of the acquired assets and liabilities have been included in the accompanying condensed consolidated financial statements since the CloudAlly acquisition closed on November 5, 2020. Certain estimated values are not yet finalized and subject to revision as additional information becomes available and more detailed analyses are completed.

The following table summarizes the current estimated fair value of acquired assets and liabilities:

(In thousands)		Provisional Fair Value
Assets:		
Current assets	$	1,385
Property and equipment		116
Operating lease assets		5,080
Trademark/Names		200
Technology		6,300
Customer relationships		3,500
Goodwill		23,041
Total assets		39,622
Liabilities:		
Current liabilities	$	654
Deferred revenue		1,400
Operating lease liabilities		5,080
Deferred tax liability		1,646
Total liabilities		8,780
Net assets recorded	$	30,842

Pro Forma Financial Information (Unaudited)

The following unaudited pro forma financial information presents the combined results of operations for the three and six month periods ending June 30, 2021 and 2020, respectively, as though the CloudAlly acquisition that occurred during the reporting period had occurred as of the beginning of the period presented, with adjustments, such as amortization expense of intangible assets and acquisition-related transaction costs, to give effect to pro forma events that are directly attributable to the acquisitions. These unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the respective acquisitions had occurred at the beginning of the period presented, nor are they indicative of future results of operations:

	Three Months Ended June 30,				Six Months Ended June 30,			
(In thousands, except per share data)		2021		2020		2021		2020
Revenues	$	62,858	$	55,284	$	122,888	$	109,666
Net income		(2,917)		(2,460)		(5,236)		(3,866)
Basic income per share attributed to common shareholders	$	(0.10)	$	(0.09)	$	(0.18)	$	(0.15)
Diluted income per share attributed to common shareholders	$	(0.10)	$	(0.09)	$	(0.18)	$	(0.15)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NOTE ON FORWARD-LOOKING STATEMENTS AND RISK FACTORS

Statements in this report which are not purely historical facts or which necessarily depend upon future events, including statements about trends, uncertainties, hopes, beliefs, anticipations, expectations, plans, intentions or strategies for the future, may be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements, including risks and uncertainties related to how privacy and data security law mandates may affect demand for Zix's products, business disruptions, uncertainty and market instability stemming from the COVID-19 pandemic as well as governmental actions related thereto, and those risks additionally described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. Any of these risk factors could have a material adverse effect on our business, financial condition or financial results and reduce the value of an investment in our securities. We may not succeed in addressing these and other risks associated with an investment in our securities, with our business and with our achieving any forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements. All forward-looking statements are based upon information available to us on the date the statements are made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Zix® (the "Company," "we," "our," or "us") is a leading cloud provider of email security, productivity and compliance solutions. Trusted by the nation's most influential institutions in healthcare, finance and government, Zix delivers a superior experience and easy-to-use solutions for email encryption, data loss prevention ("DLP"), advanced threat protection, unified archiving and cloud data backup. As a leading provider of cloud-based cybersecurity, compliance, and productivity solutions for businesses of all sizes, we are focused on the protection of business communication, enabling our customers to better secure data and meet compliance needs. We serve organizations in many industries, with particular emphasis on the healthcare (including multiple major hospitals and several Blue Cross Blue Shield plans), financial services (including several major U.S. Banks), and insurance and government (including the U.S. Securities and Exchange Commission (the "SEC")) sectors.

Our email encryption and DLP capabilities enable the secure exchange of email that includes sensitive information. Through a comprehensive secure messaging service, called Email Encryption (formerly ZixEncrypt), we allow an enterprise to use policy-driven rules to determine which email messages should be sent securely or quarantined for review to comply with regulations or company-defined policies.

The main differentiation for Email Encryption in the marketplace is our exceptional ease of use. The best example of this is our ability to provide transparent delivery of encrypted email. Most email encryption solutions are focused on the sender. They typically introduce an added burden on recipients, often requiring additional user authentication with the creation of a new user identity and password. We designed our solution to alleviate the recipient's burden by enabling the delivery of encrypted email automatically and transparently. Zix enables transparent delivery through (1) The Directory (formerly ZixDirectory®), an email encryption community which is designed to share identities of our tens of millions of members, (2) Zix's patented Best Method of Delivery®, which is designed to deliver email in the most secure, most convenient method possible for the recipient, and (3) policy-based encryption, which automatically encrypts and decrypts messages with sensitive content. Our Email Encryption also addresses a business's greatest source of data loss – corporate email– with an easy, straightforward DLP approach. By focusing strictly on the risks of email, Email Encryption simplifies DLP in comparison to other DLP solutions by decreasing complexity and cost, reducing deployment time and minimizing impact on customer resources and workflow.

Our Email Encryption solution enables DLP capabilities for email by combining proven policy and content scanning capabilities with quarantine functionality. The quarantine system and its intuitive interface allow administrators to (1) easily define policies and create custom lexicons for quarantining email messages, (2) conveniently manage quarantined messages using flexible searching and filtering options, (3) release or delete individual or multiple quarantined messages with one click, (4) review reports that monitor quarantine activities and trends and (5) automate custom notifications informing employees of quarantined messages.

In March 2017, Zix acquired Greenview Data, Inc. ("Greenview"), an email security company. Zix's acquisition of Greenview addresses increasing buyer demand for email security bundles by adding advanced threat protection, antivirus, anti-spam and archiving capabilities to its industry-leading email encryption. Greenview was a good fit for Zix's business based on its employees' expertise in email security and its emphasis on customer success, which align with Zix's reputation for delivering industry-leading solutions and a superior experience.

Through the acquisition of Greenview, Zix launched two new solutions in April 2017 – ZixProtect[SM] and ZixArchive[SM]. ZixProtect is now called Advanced Email Threat Protection while ZixArchive is now called Information Archive. Advanced Email Threat Protection defends organizations from zero-day malware, ransomware, phishing, CEO fraud, W-2 phishing attacks, spam and viruses in email with multi-layer filtering techniques. Accuracy in protecting organizations from email threats is increased further with automated traffic analysis, machine learning and real-time threat analysis. The solution is available as a cloud-based service in a variety of bundles. Information Archive is a low-cost, cloud-based email retention solution that easily enables user retrieval, compliance and eDiscovery. Available as a standalone or add-on solution for other products, Zix's Information Archive includes policy-based retention, automatic indexing and flexible search capabilities for audit and legal requirements. With on-demand access through the cloud, organizations can conveniently share messages with employees, auditors and outside consultants or legal counsel, as well as revoke access when needed.

In April 2018, Zix acquired Erado, a unified archiving company. Erado strengthened Zix's comprehensive archiving solutions with unified archiving, supervision, security, and messaging solutions for customers that demand bundled services. Erado's long standing focus on helping its customers comply with FINRA and SEC regulations helped further strengthen Zix's offerings for customers with compliance requirements. This acquisition also expanded Zix's cloud-based email archiving capabilities into more than 50 content channels, including social media, instant message, mobile, web, audio and video.

On February 20, 2019, Zix acquired AppRiver, a leading provider of cloud-based cybersecurity solutions for Small and Medium Businesses ("SMB"). The combined company creates one of the leading cloud based security solutions providers, particularly for the small and mid-size enterprise market. This acquisition further strengthened that alignment by bolstering our Advanced Threat Protection offerings, expanding our go-to-market channels, and providing a stronger cloud platform to drive even more value for our customers and partners. In addition, we now can directly offer Microsoft's substantial catalog of productivity and Microsoft Office 365 cloud email solutions.

On May 7, 2019, Zix acquired DeliverySlip, expanding our portfolio with additional email encryption, information rights management, e-signatures, and secure file sharing solutions.

On November 5, 2020, Zix acquired CloudAlly, a pioneer of enterprise-grade, software-as-a-service (SaaS) cloud backup and recovery solutions. CloudAlly provides a secure cloud data backup solution for critical business information, including backup services for Microsoft O365 cloud email, Google applications, and Salesforce.

Our business operations and service offerings are supported by the ZixData Center™, which is ISO 27001 certified, SOC2 accredited and SOC 3 certified for applicable services. The operations of the ZixData Center are independently audited annually to maintain ISO 27001 certification covering numerous categories and controls and AICPA SOC3 certification in the areas of security, confidentiality, integrity and availability. Auditors also produce a SOC2 report on the effectiveness of operational controls used over the audit period.

Our company was incorporated as a corporation in Texas in 1988. Originally named Amtech Corporation, we changed our name to ZixIt® Corporation in 1999 when we entered the encrypted email market. In 2002, we became Zix Corporation, and in 2017, the Company rebranded to Zix.

Impacts of COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel strain of the coronavirus ("COVID-19") to be a pandemic. The pandemic has resulted in significant, unpredictable, and rapidly changing impacts on the United States and global economies. The COVID-19 pandemic and government responses have included limiting the operations of non-essential businesses and may result in long-term harm or permanent closures impacting our customers and our vendors. While COVID-19 had a minimal impact to our first and second quarter 2021 financial results, Zix has taken steps to ensure the resilience of our company, while protecting the email security of our customers and the health of our employees, including the following actions:

- Offering healthy email checks and evaluating other efficiency solutions for our customers;
- Working with partners and customers to provide more flexible billing schedules;
- Initially moving over 95% of our employees to remote work arrangements then moving toward a predominantly hybrid approach to work arrangements while maintaining the integrity of our data center operations and providing continued support for our customers;
- Maintaining effective governance and internal controls in a remote work environment;
- Reducing executive salaries and fees to our Board of Directors in 2020;
- Implementing a reduction in force in both 2020 and 2021, completed through both voluntary and involuntary separation;

- Slowing our hiring plans, and reducing planned travel and conference expenses; and
- Continued review and adjustment of other operating expenses for potential savings, including reduction of excess capacities in our network data centers;

We have continued to provide our cloud email security, productivity and compliance solutions services to our customers and vendors during this ongoing pandemic. The full extent of the impact of the COVID-19 pandemic, or variants thereof, on the Company's operational and financial performance is currently uncertain and will depend on many factors outside the Company's control, including, without limitation, the timing, extent, trajectory and duration of the pandemic, the development and availability of effective treatments and vaccines, the imposition of protective public safety measures, and the impact of the pandemic on the global economy, demand for consumer products, and the labor market competition resulting in increased employee turnover. See the additional risk factor regarding COVID-19 included in Part I – Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the year ended December 31, 2020.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in accordance with accounting principles generally accepted in the United States requires the Company's management to make estimates and assumptions that affect the amounts reported in the Company's condensed consolidated financial statements and accompanying notes. These estimates and assumptions take into account historical and forward looking factors that the Company believes are reasonable, including but not limited to the potential impacts arising from COVID-19, or variants thereof, and public and private sector policies and initiatives aimed at reducing its transmission. As the extent and duration of the impacts of COVID-19 remain unclear, the Company's estimates and assumptions may evolve as conditions change. Actual results could differ from these estimates and assumptions. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of the Company's financial condition and results and require management's most subjective judgments.

We describe our significant accounting policies in Note 2, *Summary of Significant Accounting Policies*, of the "Notes to Consolidated Financial Statements" included in our Annual Report on Form 10-K for the year ended December 31, 2020. We discuss our *Critical Accounting Policies and Estimates* in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2020.

Results of Operations

Second Quarter 2021 Summary of Operations

Financial

- Revenue for the quarter ended June 30, 2021, was $62.8 million, compared with $53.3 million for the same period in 2020, representing an 18% increase.
- Gross margin for the quarter ended June 30, 2021, was $28.2 million (or 45% of revenues), compared with $25.1 million (or 47% of revenues) for the comparable period in 2020.
- Net loss for the quarter ended June 30, 2021, was $2.9 million, compared with net loss of $1.9 million in the comparable period in 2020.
- Net loss attributable to common shareholders for the quarter ended June 30, 2021, was $5.3 million, compared with net loss attributable to common shareholders of $4.1 million in the comparable period in 2020. The Company's net loss attributable to common shareholders includes a deemed and accrued dividend to preferred shareholders of $2.4 million and $2.2 million, for the three month periods ended June 30, 2021 and 2020, respectively.
- Net loss per diluted share was $0.10 for the quarter ended June 30, 2021, compared with net loss per diluted share of $0.08 in the comparable period in 2020.
- Ending cash and cash equivalents were $33.9 million on June 30, 2021, compared with $14.1 million on June 30, 2020, and $21.4 million on December 31, 2020.

Operations

- Total billings for the quarter ended June 30, 2021, were $60.0 million, compared with $52.1 million for the same period in 2020, representing a 15% increase.
- The annual recurring revenue value of our customer subscriptions as of June 30, 2021, was $252.4 million, compared with $215.9 million for the same period in 2020, representing an increase of $36.5 million.
- Net cash provided by operations in the six months ended June 30, 2021, was $25.4 million, compared with $9.1 million provided by operations for the same period in 2020, representing a $16.2 million increase.
- As of June 30, 2021, backlog was $82.9 million, compared with $85.0 million as of June 30, 2020, representing a 2% decrease.

Revenues

Our Company provides subscription-based services. The following table sets forth the quarter-over-quarter comparison of the Company's revenues:

	Three Months Ended June 30,		3-month Variance 2021 vs. 2020		Six Months ended June 30,		6-month Variance 2021 vs. 2020	
(in thousands)	**2021**	**2020**	**$**	**%**	**2021**	**2020**	**$**	**%**
Revenues	$ 62,829	$ 53,337	$ 9,492	18%	$ 122,844	$ 105,771	$ 17,073	16%

Our revenue increase is the result of 12% and 11% growth in our core business in the three and six months ended June 30, 2021, respectively, due to continued success in our subscription-based business model with both steady additions to the subscriber base and a high rate of existing customer renewals and the realization of previously contracted revenue in our backlog. Our CloudAlly business, acquired in November 2020, additionally contributed $2.7 million and $5.0 million in revenue to our three and six months ended June 30, 2021, respectively. Additionally, with continued expansion into Europe, our German subsidiary, launched in the second quarter of 2021, contributed $237 thousand of revenue.

Annual Recurring Revenue

We measure the health of our subscriber base by the growth of our Annual Recurring Revenue ("ARR"), which is defined as the aggregate annualized contract value attributable to recurring revenue contracts as of the end of the applicable reporting period. We calculate ARR by determining the annual or monthly revenue of subscription agreements that are active as of the end of the applicable period and multiplying by 1 or 12. ARR aids us in determining to what extent individual customer relationships, considered in the aggregate, are growing or declining in financial magnitude. ARR is summarized in the table below:

	As of June 30,		Variance 2021 vs. 2020	
(in thousands)	**2021**	**2020**	**$**	**%**
Annual Recurring Revenue	$ 252,435	$ 215,914	$ 36,521	17%

Backlog

Our end-user order backlog is comprised of contractually binding agreements that we expect to amortize into revenue as the services are performed. The timing of revenue is affected by both the length of time required to deploy a service and the length of the service contract.

As of June 30, 2021, total backlog was $82.9 million, and we expect approximately 76% of the total backlog, or approximately $63.1 million, to be recognized as revenue during the next twelve months. As of June 30, 2021, the backlog was comprised of the following elements: $44.0 million of deferred revenue that has been billed and paid, $12.2 million billed but unpaid, and approximately $26.7 million of unbilled contracts. The backlog at June 30, 2021, was 2% lower than the $85.0 million backlog at the end of the second quarter 2020, and 1% lower than the ending backlog of $83.4 million at December 31, 2020. Our decrease in backlog is the result of timing of our customer contracts and our continued shift toward a monthly subscription model.

Cost of Revenues

The following table sets forth the quarter-over-quarter comparison of the cost of revenues:

(in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	3-month Variance 2021 vs. 2020 $	3-month Variance 2021 vs. 2020 %	Six Months ended June 30, 2021	Six Months ended June 30, 2020	6-month Variance 2021 vs. 2020 $	6-month Variance 2021 vs. 2020 %
Cost of revenues	$ 34,604	$ 28,258	$ 6,346	22%	$ 67,742	$ 54,337	$ 13,405	25%

Cost of revenues is comprised of costs related to operating and maintaining the ZixData Center, a field deployment team, customer service and support, Microsoft fees associated with the resale of Microsoft Office365 and hosted exchange products, and the amortization of Company-owned, customer-based computer appliances. The increases in 2021 compared to 2020 reflected in the table above result from our sales of Microsoft Office365 and hosted exchange products, which comprise 53% and 54% of total Company revenue earned in the three and six months ended June 30, 2021, respectively.

Research and Development Expenses

The following table sets forth the quarter-over-quarter comparison of our research and development expenses:

(in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	3-month Variance 2021 vs. 2020 $	3-month Variance 2021 vs. 2020 %	Six Months ended June 30, 2021	Six Months ended June 30, 2020	6-month Variance 2021 vs. 2020 $	6-month Variance 2021 vs. 2020 %
Research and development expenses	$ 6,882	$ 5,820	$ 1,062	18%	$ 12,942	$ 11,206	$ 1,736	15%

Research and development expenses consist primarily of salary, benefits, and stock-based compensation for our development staff, independent development contractor expenses, amortization of internally developed software, and other direct and indirect costs associated with enhancing our existing products and services and developing new products and services. The increase in 2021 compared to 2020 reflected in the table above resulted primarily from the amortization of previously capitalized internal use software due to project completions.

Selling and Marketing Expenses

The following table sets forth the quarter-over-quarter comparison of our selling and marketing expenses:

(in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	3-month Variance 2021 vs. 2020 $	3-month Variance 2021 vs. 2020 %	Six Months ended June 30, 2021	Six Months ended June 30, 2020	6-month Variance 2021 vs. 2020 $	6-month Variance 2021 vs. 2020 %
Selling and marketing expenses	$ 15,646	$ 14,458	$ 1,188	8%	$ 30,568	$ 28,799	$ 1,769	6%

Selling and marketing expenses consist primarily of salary, commissions, travel, stock-based compensation and employee benefits for selling and marketing personnel as well as costs associated with promotional activities and advertising. The increase in the three and six months ended June 30, 2021, compared to the same period in 2020, was due primarily to increases in stock-based compensation, additional credit card fees attributable to increased monthly billings, and higher commission expense. Offsets to our increase in these periods include decreases in severance and advertising expense.

General and Administrative Expenses

The following table sets forth the quarter-over-quarter comparison of our general and administrative expenses:

(in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	3-month Variance 2021 vs. 2020 $	3-month Variance 2021 vs. 2020 %	Six Months ended June 30, 2021	Six Months ended June 30, 2020	6-month Variance 2021 vs. 2020 $	6-month Variance 2021 vs. 2020 %
General and administrative expenses	$ 6,745	$ 4,758	$ 1,987	42%	$ 13,120	$ 10,446	$ 2,674	26%

General and administrative expenses consist primarily of salary and bonuses, travel, stock-based compensation and benefits for administrative and executive personnel as well as fees for professional services and other general corporate activities. The increase in the three and six months ended June 30, 2021, compared with the same period in 2020 resulted primarily from increases in our stock based compensation expense and in our salaries and benefits.

Other Income (Expense)

Our other income (expense) consists primarily of interest expense associated with our debt. During the three months ended June 30, 2021 and 2020, we recorded interest expense of $2.2 million and $2.5 million, respectively. During the six months ended June 30, 2021 and 2020, we recorded interest expense of $4.3 million and $5.2 million, respectively. At June 30, 2021, our outstanding debt balance was $211.3 million based on 4.05% effective interest rate during the period. See above Note 7 “Long-term Debt” for additional information regarding our debt.

Provision for Income Taxes

The provision for income taxes was a $352 thousand and a $570 thousand benefit for the three month periods ended June 30, 2021 and 2020, respectively, and a $455 thousand and a $1.4 million benefit for each of the six months ended June 30, 2021 and 2020, respectively. The operating losses incurred by the Company’s U.S. operations in past years and the resulting net operating losses for U.S. Federal income tax purposes are subject to a $23.5 million reserve because of the uncertainty of future taxable income levels sufficient to utilize our net operating losses and credits. Our June 30, 2021, provision benefit of $455 thousand included $772 thousand deferred taxes benefit, offset by state taxes payable based on gross revenues. Our June 30, 2020, provision benefit of $1.4 million included $1.2 million in deferred taxes, and a $337 thousand tax benefit related to the return of federal Alternative Minimum Tax credits, all of which was offset by state taxes then payable based on gross revenues.

No tax penalty-related charges were accrued or recognized for the three month periods ended June 30, 2021 and 2020. Additionally, we have not taken a tax position that would have a material effect on our financial statements or our effective tax rate for the three-month period ended June 30, 2021. We are currently subject to a three-year statute of limitations by major tax jurisdictions.

At June 30, 2021, the Company partially reserved its U.S. net deferred tax assets due to the uncertainty of future taxable income being sufficient to utilize net loss carryforwards prior to their expiration, as noted above. The Company did not reserve $33.4 million of its U.S. net deferred tax assets. The majority of this unreserved portion related to $25.9 million in U.S. net operating losses (“NOLs”) because we believe the Company will generate sufficient taxable income in future years to utilize these NOLs prior to their expiration. The remaining balance consists of $6.0 million relating to temporary differences between GAAP and tax-related expense, Federal R&D credits of $1.9 million, and $978 thousand relating to U.S. state income tax credits and net operating loss carryovers. These items are offset by a $1.4 million Israeli deferred tax liability.

Any reduction or increase to the $23.5 million valuation allowance related to our deferred tax asset would be based on an assessment of future utilization following accounting guidance, which relies largely on historical and projected earnings. For this reason, the Company has recognized its first and second quarter 2021 federal deferred tax provision in full. If in future periods we conclude our future U.S. federal taxable estimate established at the end of the year will either fail to meet or exceed the prior year estimate, the Company will offset its federal deferred tax provision by increasing or reducing its valuation allowance accordingly by an equal amount, thereby eliminating from its deferred tax provision federal taxes from the Company’s financial statements. Significant judgment is required in determining any valuation allowance recorded against the deferred tax asset. In assessing the need for such an allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. The Company will continue to reevaluate the need for its valuation allowance each quarter, following the same assessment methodology described above. An increase or decrease to our valuation allowance could have a significant impact on operating results for each period during which it becomes more likely than not that an additional portion of our deferred tax assets will or will not be realized.

We have determined that utilization of existing net operating losses against future taxable income is not currently subject to limitation by Section 382 of the Internal Revenue Code. Future ownership changes, however, may limit the Company’s ability to fully utilize its existing net operating loss carryforwards against future taxable income. The Company currently has U.S. federal net operating loss carryforwards of approximately $232 million which begin to expire in 2021.

Net Loss

Our net loss for the three months ended June 30, 2021, of $2.9 million was a decline of $1.0 million compared to our net loss of $1.9 million for the same period last year. The decline in our net loss was primarily due to increases in our operating expenses, offset by increased revenue.

Liquidity and Capital Resources

Overview

Based on our performance over the last four quarters and current expectations, including our assessment of the COVID-19 potential impact to our Company, we believe our cash and cash equivalents, cash generated from operations, and availability under our $25 million Revolving Facility (which was undrawn as of June 30, 2021 and available to fund working capital and for other general corporate purposes, including the financing of permitted acquisitions, investments, and restricted payments, subject, in both cases, to the conditions contained in the Credit Agreement) will satisfy our working capital needs, capital expenditure requirements, investment requirements, contractual obligations, commitments, and other liquidity requirements associated with our operations through at least the next twelve months. We plan for and measure our liquidity and capital resources through an annual budgeting process and quarterly reviews, and we will continue to monitor our position to protect our Company against uncertainties related to the COVID-19 pandemic. During the first six months of 2021, net cash provided by operations was $25.4 million, an increase of $16.2 million compared with the $9.1 million of net cash provided by operations in the first six months of 2020. At June 30, 2021, our cash and cash equivalents totaled $33.9 million, an increase of $12.5 million from the December 31, 2020 balance, and we had outstanding debt of $211.3 million.

Sources and Uses of Cash Summary

	Six Months Ended June 30,	
(In thousands)	**2021**	**2020**
Net cash provided by operations	$ 25,356	$ 9,120
Net cash used in investing activities	$ (9,006)	$ (9,316)
Net cash (used in) provided by financing activities	$ (3,638)	$ 956

Our primary source of liquidity from our operations is the collection of revenue in advance from our customers and collection of accounts receivable from our customers, net of the timing of payments to our vendors and service providers.

Our investing activities in the first six months of 2021 consisted of $8.7 million for capital expenditures, which includes $7.6 million in capitalized internal-use software and $1.1 million related to purchases of computer and networking equipment. The Company additional incurred a $339 thousand working capital adjustment for our CloudAlly acquisition completed in November 2020. Our investing activities in the first six months of 2020 consisted of $9.3 million for capital expenditures, which included $7.3 million in capitalized internal-use software, and $2.0 million for computer and networking equipment.

Financing activities in the first six months of 2021 include using $2.4 million in the repurchase of common stock related to the tax impact of vesting restricted awards, $1.1 million for principal payments of our long-term debt, and $363 thousand for payments on our finance leases. This usage was offset by $251 thousand received from the exercise of stock options. Financing activities in the first six months of 2020 included $6.0 million drawn from our Revolving Facility and $334 thousand received from the exercise of stock options. We used $2.6 million in the repurchase of common stock related to the tax impact of vesting restricted awards, $1.1 million for contingent consideration payment associated with our acquisition of Erado, $925 thousand for principal payments of our long-term debt, and $746 thousand for payments on our finance leases.

Options of Zix Common Stock

We have significant stock options outstanding that are currently vested. There is no assurance that any of these options will be exercised; therefore, the extent of future cash inflow from additional option activity is not certain. The following table summarizes the options that were outstanding as of June 30, 2021. The vested shares are a subset of the outstanding shares. The value of the shares is the number of shares multiplied by the exercise price for each share.

	Summary of Outstanding Options			
Exercise Price Range	Outstanding Options	Total Value of Outstanding Options (In thousands)	Vested Options (included in outstanding options)	Total Value of Vested Options (In thousands)
$2.00 - $3.49	180,000	$ 481	180,000	$ 481
$3.50 - $4.99	397,010	1,504	397,010	1,504
$5.00 - $6.49	—	—	—	—
$6.50 - $7.99	100,000	670	12,500	84
$8.00 - $9.50	100,000	803	31,250	251
Total	777,010	$ 3,458	620,760	$ 2,320

Off-Balance Sheet Arrangements

None.

Contractual Obligations, Contingent Liabilities and Commitments

We have not entered into any material, non-cancelable purchase commitments at June 30, 2021.

We have severance agreements with certain employees which would require the Company to pay approximately $6.4 million if all such employees were terminated from employment with our Company following a triggering event (e.g., change of control) as defined in the severance agreements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no material changes to the disclosure on this matter made in our Annual Report on Form 10-K for the year ended December 31, 2020.

ITEM 4. CONTROLS AND PROCEDURES

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company’s “disclosure controls and procedures” (as defined in Rule 13a-15(e)) under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2021.

Changes in Internal Controls over Financial Reporting

During the three months ended June 30, 2021, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

We are subject to legal proceedings, claims, and litigation involving our business. While the outcome of these matters is currently not determinable, and the costs and expenses of resolving these matters may be significant, we currently do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our condensed consolidated financial statements.

ITEM 1A. Risk Factors

See Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020. There have been no material changes in our risk factors from those disclosed in such Annual Report on Form 10-K. The risk factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, should be read in conjunction with the considerations set forth above in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.

(b) None.

(c) Purchases of Equity Securities by the Issuer

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (1)	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2021 to April 30, 2021	5,065	$ 7.90	—	$ —
May 1, 2021 to May 31, 2021	20,980	$ 7.41	—	$ —
June 1, 2021 to June 30, 2021	18,034	$ 7.03	—	$ —
Total	44,079	$ 7.31	—	$ —

1 Of the total number of shares purchased for the one month periods ended April 30, 2021, May 31, 2021 and June 30, 2021, 35,296 shares of Restricted Stock and 8,783 units of RSUs represent shares of Restricted Stock and units of RSUs withheld by us upon the vesting of outstanding Restricted Stock and RSUs. These shares and units were withheld by us to satisfy the minimum statutory tax withholding for the employees for whom Restricted Stock, Performance Stock, RSUs and Performance RSUs vested during the period, which is required upon vesting.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

a. Exhibits

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

Exhibit No.	Description of Exhibits
2.1	Stock Purchase Agreement, dated as of April 2, 2018, by and among Craig Brauff, Julie Lomax Brauff, Shari Wood-Richardson, as Trustee of the Alexandra Brauff Gift Trust U/A 12/21/12, Shari Wood-Richardson, as Trustee of the Courtney Brauff Gift Trust U/A 12/21/12, Julie A. Lomax, as Trustee of the Julie Lomax Gift Trust U/A 12/21/12, and Zix Corporation. Filed as Exhibit 2.1 to Zix Corporation's Current Report on Form 8-K, filed on April 2, 2018, and incorporated herein by reference.
2.2	Securities Purchase Agreement, dated as of January 14, 2019, by and among Zix Corporation, AR Topco, LLC, AppRiver Marlin Blocker Corp., AppRiver Holdings, LLC, AppRiver Marlin Topco, L.P., AppRiver Management Holding, LLC, Marlin Equity IV, L.P. and Marlin Topco GP, LLC, as the sellers' representative. Filed as Exhibit 2.2 to Zix Corporation's Annual Report on Form 10-K for the year ended December 31, 2018, and incorporated herein by reference.
3.1	Restated Articles of Incorporation of Zix Corporation, as filed with the Texas Secretary of State on November 10, 2005. Filed as Exhibit 3.1 to Zix Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, and incorporated herein by reference.
3.2	Second Amended and Restated Bylaws of Zix Corporation, dated November 1, 2016. Filed as Exhibit 3.2 to Zix Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, and incorporated herein by reference.
3.3	Certificate of Designations of Series A Convertible Preferred Stock, as filed with the Texas Secretary of State on February 15, 2019. Filed as Exhibit 3.1 to Zix Corporation's Current Report on Form 8-K, filed on February 22, 2019, and incorporated herein by reference.
3.4	Certificate of Designations of Series B Convertible Preferred Stock, as filed with the Texas Secretary of State on February 15, 2019. Filed as Exhibit 3.2 to Zix Corporation's Current Report on Form 8-K, filed on February 22, 2019, and incorporated herein by reference.
4.1*	Zix Corporation 2021 Omnibus Incentive Plan.
31.1*	Certification of David J. Wagner, President and Chief Executive Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of David E. Rockvam, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of CEO and CFO, pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1*	101. INS Inline XBRL Instance Document – The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document 101. SCH Inline XBRL Taxonomy Extension Schema Document 101. CAL Inline XBRL Calculation Linkbase Document 101. LAB Inline XBRL Taxonomy Label Linkbase Document 101. DEF Inline XBRL Taxonomy Linkbase Document 101. PRE Inline XBRL Taxonomy Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document).

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

ZIX CORPORATION

Date: August 5, 2021

By: /s/ DAVID E. ROCKVAM

David E. Rockvam

Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 4.1

ZIX CORPORATION

2021 OMNIBUS INCENTIVE PLAN

1. *Plan*. Zix Corporation (the "**Company**") established this Zix Corporation 2021 Omnibus Incentive Plan (this "**Plan**") to be effective on June 9, 2021 (the "**Effective Date**"); provided that this Plan has received the requisite shareholder approval described in Section 23 below. This Plan is intended to promote the success, and enhance the value, of the Company by linking the personal interests of employees, officers, directors and consultants of the Company or any Affiliate (as defined below) to those of Company shareholders and by providing such persons with an incentive for outstanding performance. This Plan is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of employees, officers, directors and consultants upon whose judgment, interest and special effort the successful conduct of the Company's operation is largely dependent.

2. *Definitions*. As used herein, the terms set forth below shall have the following respective meanings:

"**Affiliate**" means an entity that directly or through one or more intermediaries controls, is controlled by or is under common control with, the Company, as determined by the Committee.

"**Award**" means the grant of any Option, Stock Appreciation Right, Stock Award, Cash Award or Performance Award, or any other right or interest relating to shares of Common Stock or cash, whether granted singly, in combination or in tandem, to a Participant pursuant to such applicable terms, conditions and limitations as the Committee may establish in order to fulfill the objectives of this Plan.

"**Award Certificate**" means the document, in such form as the Committee prescribes from time to time, setting forth the terms, conditions and limitations of an Award. The Committee may, in its discretion, provide for the use of electronic, internet or other non-paper Award Certificates, and the use of electronic, internet or other non-paper means for the acceptance thereof and other actions thereunder by a Participant.

"**Beneficial Owner**" shall have the meaning given such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

"**Board**" means the Board of Directors of the Company.

"**Cash Award**" means an Award denominated in cash.

"**Cause**" as a reason for a Participant's termination of employment or service shall have the meaning assigned such term in the employment, consulting, severance or similar agreement, if any, between such Participant and the Company or an Affiliate, provided, however, that if there is no such employment, severance or similar agreement in which such term is defined, and unless otherwise defined in the applicable Award Certificate, "Cause" shall mean any of the following acts by the Participant, as determined by the Committee: (i) continued neglect in the performance of duties assigned to the Participant (other than for a reason beyond the control of the Participant) or repeated unauthorized absences by the Participant during scheduled work hours; (ii) material breach by the Participant of any published Company code of conduct or code of ethics, (iii) egregious and willful misconduct, including dishonesty, fraud or continued intentional violation of Company or Affiliate policies and procedures which is reasonably determined to be detrimental to the Company or an Affiliate; (iv) final conviction of a felonious crime; (v) repeated material failure to meet reasonable performance criteria as established by the Company or an Affiliate and communicated to the Participant; or (vi) the commission by the Participant of any act, misdemeanor, or crime reflecting unfavorably upon the Participant, the Company, or an Affiliate. With respect to a Participant's termination of directorship, "Cause" shall mean any of the following acts by the Participant, as determined by the Committee, unless a contrary definition is contained in the applicable Award Certificate: (A) egregious and willful misconduct, (B) final conviction of a felonious crime, or (C) any act or failure to act that constitutes cause for removal of a director under applicable Texas law. The determination of the Committee as to the existence of "Cause" shall be conclusive on the Participant and the Company.

"**Change in Control**" means and includes the occurrence of any one of the following events:

(i) During any consecutive twelve (12)-month period, individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of such Board; provided that any person becoming a director after the beginning of such twelve (12)-month period and whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be an Incumbent Director; provided, further, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to the election or removal of directors ("Election Contest") or other actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board ("Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; or

(ii) Any Person becomes a Beneficial Owner, directly or indirectly, of either (A) thirty percent (30%) or more of the then-outstanding shares of the Company's Common Stock or (B) securities of the Company representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities eligible to vote for the election of directors (the "Company's Voting Securities"); provided, however, that for purposes of this subsection (ii), the following acquisitions of the Company's Common Stock or the Company's Voting Securities shall not constitute a Change in Control: (w) an acquisition directly from the Company, (x) an acquisition by the Company or a Subsidiary, (y) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary, or (z) an acquisition pursuant to a Non-Qualifying Transaction (as defined in subsection (iii) below); or

(iii) The consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or a Subsidiary (but in the case of a Subsidiary, only if Company Voting Securities are issued or issuable) (a "Reorganization"), or the sale or other disposition of all or substantially all of the Company's assets (a "Sale") or the acquisition of assets or stock of another corporation or other entity (an "Acquisition"), unless immediately following such Reorganization, Sale or Acquisition: (x) all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the outstanding Company Common Stock and outstanding Company Voting Securities immediately prior to such Reorganization, Sale or Acquisition beneficially own, directly or indirectly, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Reorganization, Sale or Acquisition (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets or stock either directly or through one or more Subsidiaries, the "Surviving Entity") in substantially the same proportions as their ownership, immediately prior to such Reorganization, Sale or Acquisition, of the outstanding Company Common Stock and the outstanding Company Voting Securities, as the case may be, and (y) no Person (other than (A) the Company or any Subsidiary, (B) the Surviving Entity or its ultimate parent entity, or (C) any employee benefit plan (or related trust) sponsored or maintained by any of the foregoing) is the Beneficial Owner, directly or indirectly, of thirty percent (30%) or more of the total common stock or twenty-five percent (25%) or more of the total voting power of the outstanding voting securities eligible to elect directors of the Surviving Entity, and (z) at least a majority of the members of the board of directors of the Surviving Entity were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization, Sale or Acquisition (any Reorganization, Sale or Acquisition which satisfies all of the criteria specified in (x), (y) and (z) above shall be deemed to be a "Non-Qualifying Transaction").

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time.

"**Committee**" means (i) the Compensation Committee of the Board or (ii) such other committee of the Board as designated by the Board to administer this Plan or (iii) to the extent contemplated hereby, the Board.

"**Common Stock**" means the common stock, par value $0.01 per share, of the Company.

"**Company**" means Zix Corporation, a Texas corporation, or any successor corporation.

"**Director**" means an individual serving as a member of the Board.

"**Dividend Equivalents**" means, with respect to the shares of Common Stock subject to a Stock Award (other than Restricted Stock), an amount equal to all dividends and other distributions (or the economic equivalent thereof) that are payable to shareholders of record during the Restriction Period or other period specified in the Award Certificate on a like number of shares of Common Stock.

"**Effective Date**" means June 9, 2021.

"**Employee**" means an employee of the Company or any of its Subsidiaries.

"**Excepted Shares**" means the shares of Common Stock subject to an Award that are not subject to the minimum Restriction Period or other vesting period as further described in Sections 4 and 9(b) below.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended from time to time.

"**Fair Market Value**" of a share of Common Stock, means as of a particular date:

(i) If shares of Common Stock are listed on a national securities exchange, the closing sales price per share of Common Stock on the consolidated transaction reporting system for the principal national securities exchange on which shares of Common Stock are listed on that date or, in the absence of reported sales on such date, the closing sales price on the immediately preceding date on which sales were reported;

(ii) If shares of Common Stock are not so listed, but are listed or quoted on another securities exchange or market, the closing price per share of Common Stock reported on the principal securities exchange or market on which the shares of Common Stock are traded (as determined by the Committee), or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported or, at the discretion of the Committee, the price prevailing on such principal securities exchange or market at the time of exercise or other relevant event, including the average of the closing bid and asked price on that date, or, if there are no quotations available for such date, on the last preceding date on which such quotations shall be available;

(iii) If shares of Common Stock are not publicly traded, the most recent value determined by an independent appraiser appointed by the Company for such purpose; or

(iv) If none of the preceding paragraphs (i)-(iii) are applicable, Fair Market Value shall be determined by such other method as the Committee determines in good faith to be reasonable and in compliance with Code Section 409A.

"**Good Reason**" (or a similar term denoting constructive termination) has the meaning, if any, assigned such term in the employment, consulting, severance or similar agreement, if any, between a Participant and the Company or an Affiliate; provided, however, that if there is no such employment, consulting, severance or similar agreement in which such term is defined, "Good Reason" shall have the meaning, if any, given such term in the applicable Award Certificate. If not defined in either such document, the term "Good Reason" as used herein shall not apply to a particular Award.

"**Incentive Option**" means an Option that is intended to comply with the requirements set forth in Code Section 422.

"**Independent Contractor**" means an individual providing services to the Company or any of its Subsidiaries, who is not an Employee or Nonemployee Director.

"**Nonemployee Director**" means a Director who is not an Employee or an Independent Contractor.

"**Nonqualified Stock Option**" means an Option that is not an Incentive Option.

“**Option**” means a right to purchase a specified number of shares of Common Stock at a specified price, which is either an Incentive Option or a Nonqualified Stock Option.

“**Participant**” means an Employee, Nonemployee Director or Independent Contractor to whom an Award has been made under this Plan; provided that in the case of the death of a Participant, the term “Participant” refers to a beneficiary or the legal guardian or other legal representative acting in a fiduciary capacity on behalf of the Participant under applicable law and court supervision, if applicable. The foregoing notwithstanding, only employees of the Company, or any parent or subsidiary corporation of the Company (as defined in Code Sections 424(e) and (f)) shall be eligible to be Participants for purposes of receiving any Incentive Stock Options.

“**Performance Award**” means an Award made pursuant to this Plan to a Participant which is subject to the attainment of one or more Performance Goals.

“**Performance Goal**” means a standard established by the Committee, to determine in whole or in part whether a Performance Award shall be earned.

“**Person**” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.

“**Plan**” means this Zix Corporation 2021 Omnibus Incentive Plan, as hereafter amended from time to time.

“**Prior Plan**” means the Zix Corporation 2018 Omnibus Incentive Plan, as amended from time to time.

“**Restricted Stock**” means any Common Stock that is restricted or subject to forfeiture provisions.

“**Restricted Stock Unit**” means a right to receive a share of Common Stock or the value thereof on such terms, conditions and limitations as may be established by the Committee. For the avoidance of doubt, such term includes phantom shares and phantom stock units.

“**Restriction Period**” means a period of time beginning as of the date upon which a Stock Award is made pursuant to this Plan and ending as of the date upon which the Common Stock subject to such Stock Award is deliverable or no longer restricted or such Stock Award is no longer subject to forfeiture provisions.

“**Rule 16b-3**” means Rule 16b-3 promulgated under the Exchange Act, or any successor rule.

“**Stock Appreciation Right**” or “**SAR**” means a right to receive a payment, in cash or Common Stock, equal to the excess of the Fair Market Value or other specified valuation of a specified number of shares of Common Stock on the date the right is exercised over a specified strike price, in each case, as determined by the Committee.

"**Stock Award**" means an Award in the form of shares of Common Stock or units denominated in shares of Common Stock, including Restricted Stock and Restricted Stock Units, it being understood that in no event shall an Option or SAR constitute a Stock Award.

"**Subsidiary**" means (i) in the case of a corporation, any corporation of which the Company directly or indirectly owns shares representing more than fifty percent (50%) of the combined voting power of the shares of all classes or series of capital stock of such corporation which have the right to vote generally on matters submitted to a vote of the shareholders of such corporation and (ii) in the case of a partnership or other business entity not organized as a corporation, any such business entity of which the Company directly or indirectly owns more than fifty percent (50%) of the voting, capital or profits interests (whether in the form of partnership interests, membership interests or otherwise).

3. *Eligibility*. All Employees, Nonemployee Directors and Independent Contractors are eligible for Awards under this Plan in the sole discretion of the Committee.

4. *Common Stock Available for Awards*. Subject to adjustment as provided herein, the aggregate number of shares of Common Stock reserved and available for issuance pursuant to Awards granted under this Plan shall be 5,650,000, all of which may be issued pursuant to Incentive Options. Each share of Common Stock subject to an Award granted under this Plan shall be counted against the above share reserve as one share. If an Award expires or is terminated, cancelled or forfeited, the shares of Common Stock associated with the expired, terminated, cancelled or forfeited Awards shall again be immediately available for additional Awards under this Plan, it being understood that no increase or decrease in the above share reserve shall occur with respect to an Award that can only be settled in cash. Notwithstanding the foregoing, the following shares of Common Stock may not again be made available for issuance as Awards under this Plan: (a) shares of Common Stock not issued or delivered as a result of the net settlement of a stock-settled SAR or Option; (b) shares of Common Stock that are withheld or delivered to satisfy the applicable withholding taxes related to an Award; (c) shares of Common Stock that are used to satisfy the exercise price related to an Option or a SAR; and (d) shares of Common Stock repurchased on the open market with the proceeds of an Option's exercise price. The shares of Common Stock to be delivered under this Plan may be made available from: (i) authorized but unissued shares of Common Stock; (ii) shares of Common Stock held in the treasury of the Company; or (iii) previously issued shares of Common Stock reacquired by the Company, including Common Stock purchased on the open market. Up to five percent (5%) or 282,500 of the shares of Common Stock that are subject to the above share reserve may be granted as Excepted Shares pursuant to Section 9(b) below.

5. *Administration*.

(a) Except as otherwise provided in this Plan with respect to actions or determinations by the Board, this Plan shall be administered by the Committee. To the extent required in order for Awards to be exempt from Section 16 of the Exchange Act by virtue of the provisions of Rule 16b-3, (i) the Committee shall consist of at least two members of the Board who meet the requirements of the definition of "non-employee director" set forth in Rule 16b-3 (b)(3)(i) promulgated under the Exchange Act or (ii) Awards may be granted by the Board.

(b) Subject to the provisions hereof, the Committee shall have full and exclusive power and authority to administer this Plan and to take all actions that are specifically contemplated hereby or are necessary or appropriate in connection with the administration hereof. The Committee shall also have full and exclusive power to interpret this Plan and any Award Certificates thereunder and to adopt such rules, regulations and guidelines for carrying out this Plan as it may deem necessary or proper. The Committee may, in its discretion (i) provide for the extension of the exercisability of an Award in a manner consistent with the Treasury Regulations issued under Code Section 409A or (ii) subject to Section 9 below, accelerate the vesting or exercisability of an Award, eliminate or make less restrictive any restrictions contained in an Award, waive any restriction or other provision of this Plan or an Award or otherwise amend or modify an Award in any manner that is, in either case, (x) not adverse to the Participant to whom such Award was granted or (y) consented to by such Participant. The Committee may make an Award to an individual who it expects to become an Employee, Nonemployee Director or Independent Contractor of the Company or any of its Subsidiaries within the next six (6) months, with such Award being subject to the individual actually becoming an Employee, Nonemployee Director or Independent Contractor, as applicable, within such time period, and subject to such other terms, conditions and limitations as may be established by the Committee. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Award Certificate in the manner and to the extent the Committee deems necessary or desirable to further the purposes of this Plan. Any decision of the Committee in the interpretation and administration of this Plan or any Award Certificate shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. The Board shall have the same powers as the Committee with respect to Awards granted to Nonemployee Directors.

(c) Notwithstanding the foregoing, except in connection with a transaction involving the Company or its capitalization (as provided in Section 15 below), the terms of outstanding Awards may not be amended without approval of the shareholders of the Company to (i) reduce the exercise price of outstanding Options or SARs, (ii) cancel, exchange, substitute, buyout or surrender outstanding Options or SARs in exchange for cash or other Awards at a time when the exercise price per share of the original Options or SARs exceeds the Fair Market Value of one share of Common Stock, (iii) take any other action with respect to an Option or SAR that would be treated as a repricing under the rules and regulations of the principal national securities exchange on which the shares of Common Stock are listed or (iv) permit the grant of any Options or SARs that contains a so-called “reload” feature under which additional Options, SARs or other Awards are granted automatically to the Participant upon exercise of the original Option or SAR.

(d) No member of the Committee or the Board or officer of the Company to whom the Committee has delegated authority in accordance with the provisions of Section 6 below shall be liable for anything done or omitted to be done by him or her, by any member of the Committee or by any officer of the Company in connection with the performance of any duties under this Plan, except for his or her own willful misconduct or as expressly provided by statute.

(e) Awards granted prior to the Effective Date pursuant to the Prior Plan shall continue to be administered in accordance with the terms and conditions of the Prior Plan.

6. *Delegation of Authority*. To the extent permitted under applicable law, the Committee may delegate to the Chief Executive Officer, to one or more other senior officers of the Company or an Affiliate or to other committees of the Board its duties under this Plan pursuant to such terms, conditions and limitations as the Committee may establish, except that the Committee may not delegate to any person the authority to grant Awards to, or take other action with respect to, Participants who are subject to Section 16 of the Exchange Act.

7. *Employee and Independent Contractor Awards*. The Committee shall determine the type or types of Awards to be made under this Plan and shall designate from time to time the Employees and Independent Contractors who are to be the recipients of such Awards. Each Award may be embodied in an Award Certificate, which shall contain such terms, conditions and limitations as shall be determined by the Committee in its discretion and consistent with this Plan, including any treatment upon a Change in Control, and shall be accepted by the Participant to whom the Award is made. Awards may consist of those described in this Section 7 and may be granted singly, in combination or in tandem. Awards may also be made in combination or in tandem with, in replacement of, or as alternatives to, grants or rights under this Plan or any other employee plan of the Company or any of its Subsidiaries, including the plan of any acquired entity. All or part of an Award may be subject to terms, conditions and limitations established by the Committee, which may include, but are not limited to, continued employment or service with the Company, its Affiliates and Subsidiaries, or achievement of specific performance or business objectives. Upon a Participant's termination of employment or service with the Company, its Affiliates and Subsidiaries, any unexercised, deferred, unvested or unpaid Awards shall be treated as set forth in the applicable Award Certificate.

(a) *Stock Option* -- *General*.

i. An Award may be in the form of an Option. An Option awarded pursuant to this Plan may consist of an Incentive Option or a Nonqualified Option. Only Employees may be granted Incentive Options. The price at which a share of Common Stock may be purchased upon the exercise of an Option shall be not less than the Fair Market Value of the Common Stock as of the date of grant. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Options awarded pursuant to this Plan, including the term of any Options and the date or dates upon which they become exercisable, shall be determined by the Committee. The term of Options shall not exceed a period of ten (10) years from the date of grant. Except as otherwise provided in an Award Certificate, any Option (i) that remains outstanding as of the last day of its term, (ii) has an exercise price per share that is less than the Fair Market Value of a share of Common Stock as of such day and (iii) whose exercise is prohibited as of such day pursuant to the operation of the Company's insider trading policy, shall be automatically exercised (without any action on the part of the Participant holding such Option) by (x) foregoing the delivery of shares of Common Stock otherwise deliverable upon the exercise of the Option pursuant to Section 11 below in an amount sufficient to pay the exercise price of the Option and (y) satisfying tax withholding obligations pursuant to Section 12 below by withholding from the shares of Common Stock otherwise deliverable upon the exercise of the Option using the minimum tax rate applicable to the Participant. Each Participant who receives Options that are subject to the foregoing automatic exercise provision shall be deemed to have accepted this automatic exercise provision as a condition of receiving such Options.

ii. In addition, in the event that on the last day of the term of an Option or Stock Appreciation Right, other than an Incentive Stock Option, (i) the exercise of the Option or Stock Appreciation Right is prohibited by applicable law, or (ii) the Shares may not be purchased, or sold by certain employees or directors of the Company due to a “black-out period” of a Company policy or a “lock-up agreement” undertaken in connection with an issuance of securities of the Company, then the term of the Option or Stock Appreciation Right may be extended by the Committee for a period of up to thirty (30) days following the end of the legal prohibition, black-out period, or lock-up agreement, provided that such extension would not cause the Option or Stock Appreciation Right to violate the requirements of Code Section 409A.

(b) *Incentive Stock Options.* To the extent required to comply with Code Section 422, Options granted as Incentive Stock Options shall be subject to the following special terms and conditions:

(1) If an Employee owns or is deemed to own (by reason of the attribution rules under Code Section 424(d)) more than 10% of the combined voting power of all classes of stock of the Company (or any parent or subsidiary corporation of the Company, as defined in Code Sections 424(e) and (f)), any Incentive Stock Option granted to such Employee shall have an exercise price no less than 110% of the Fair Market Value of a Share on the date of grant.

(2) If an Employee owns or is deemed to own (by reason of the attribution rules of Code Section 424) more than 10% of the combined voting power of all classes of stock of the Company (or any parent or subsidiary corporation of the Company, as defined in Code Sections 424(e) and (f)), any Incentive Stock Option granted to such Employee shall have a term of no more than five (5) years from the date of grant.

(3) The aggregate Fair Market Value (determined as of the date of grant) of the Shares with respect to which Incentive Stock Options granted under the Plan and all other option plans of the Company (and any parent or subsidiary corporation of the Company, as defined in Code Section 424) that become exercisable for the first time by the Participant during any calendar year shall not exceed $100,000.

(4) If Shares acquired by exercise of an Incentive Stock Option are disposed of within two years of date of grant or one year following date of exercise and the transfer of such Shares to the Participant, the Participant shall promptly notify the Company in writing of the date and terms of such disposition and provide such other information regarding the disposition as the Committee may require.

(5) With respect to any determination of disability required under the Incentive Stock Option, "disability" shall mean a permanent and total disability within the meaning of Code Section 22(e), as determined by a medical doctor satisfactory to the Committee.

(c) *Stock Appreciation Rights*. An Award may be in the form of a SAR. The per share strike price for a SAR shall be not less than the Fair Market Value of the Common Stock on the date on which the SAR is granted. The terms, conditions and limitations applicable to any SARs awarded pursuant to this Plan, including the term of any SARs, whether the SAR will be settled in cash or stock and the date or dates upon which they become exercisable, shall be determined by the Committee. The term of SARs shall not exceed a period of ten (10) years from the date of grant. Except as otherwise provided in an Award Certificate, any SAR (i) that remains outstanding as of the last day of its term, (ii) has a strike price per share that is less than the Fair Market Value of a share of Common Stock as of such day and (iii) whose exercise is prohibited as of such day pursuant to the operation of the Company's insider trading policy, shall be automatically exercised (without any action on the part of the Participant holding such SAR) and any tax withholding obligations will be satisfied pursuant to Section 12 below by withholding from the cash or shares of Common Stock otherwise deliverable upon the exercise of the SAR using the minimum tax rate applicable to the Participant. Each Participant who receives SARs that are subject to the foregoing automatic exercise provision shall be deemed to have accepted this automatic exercise provision as a condition of receiving such SARs.

(d) *Stock Award*. An Award may be in the form of a Stock Award. The terms, conditions and limitations applicable to any Stock Awards granted pursuant to this Plan shall be determined by the Committee.

(e) *Cash Award*. An Award may be in the form of a Cash Award. The terms, conditions and limitations applicable to any Cash Awards granted pursuant to this Plan shall be determined by the Committee.

(f) *Performance Award*. Without limiting the type or number of Awards that may be made under the other provisions of this Plan, an Award may be in the form of a Performance Award. A Performance Award shall be paid, vested or otherwise deliverable solely on account of the attainment of one or more Performance Goals, either individually or in any combination, established by the Committee and specified in the Award Certificate. Unless otherwise stated, such a Performance Goal need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria). The amount of cash or shares payable or vested pursuant to Performance Awards may be adjusted upward or downward, either on a formula or discretionary basis or any combination, as the Committee determines. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Performance Awards made pursuant to this Plan shall be determined by the Committee.

8. *Director Awards*.

(a) The Board has the sole authority to grant Awards to Nonemployee Directors from time to time in accordance with this Section 8. Such Awards may consist of the forms of Award described in Section 7 above, other than Incentive Options. In addition, such Awards shall be granted subject to such terms, conditions and limitations as specified in Section 7 above, it being understood that such terms, conditions and limitations specified in Section 7 may be further limited pursuant to the terms, conditions and parameters of a plan, program or policy for the compensation of Nonemployee Directors as in effect from time to time.

(b) No Nonemployee Director may be granted during any calendar year Awards having a Fair Market Value determined on the date of grant which, when added to all cash compensation paid to the Nonemployee Director (in his or her capacity as Nonemployee Director) during the same calendar year, would result in the sum of such cash compensation and the Fair Market Value of such Awards being in excess of $1,000,000, it being understood that the extent to which such Awards may be granted may be further limited pursuant to the terms, conditions and parameters of a plan, program or policy for the compensation of Nonemployee Directors as in effect from time to time.

9. *Vesting of Awards*.

(a) *In General*. The minimum Restriction Period or other vesting period with respect to any Award granted hereunder (or any portion thereof) shall be no less than one year; provided, however, that an Award granted to a Nonemployee Director may vest on the earlier of the one-year anniversary of the date of grant or the next annual meeting of the Company's shareholders (provided such vesting period may not be less than fifty (50) weeks after the date of grant); provided further that, notwithstanding the foregoing, an Award with a time-based Restriction Period or other vesting period may become unrestricted and vested in the case of (i) a Participant's death or termination of employment due to disability, (ii) to the extent provided for in a Change in Control under Section 22 hereof, or (iii) in connection with a termination of employment to the extent provided for in the Participant's Employment Termination Benefits Agreement or any other employment, severance, or similar agreement with the Participant.

(b) *Excepted Shares*. The minimum Restriction Period or other vesting period shall not apply to any Award (or portion thereof) comprised of Excepted Shares, it being understood that in order for such Award (or portion thereof) to be so comprised of Excepted Shares, the Award Certificate or other contemporaneous writing as of the date of grant (including a Committee Resolution or minutes from a Committee meeting) must designate the shares of Common Stock (or portion thereof) as Excepted Shares.

(c) *Change in Control*. In the event of a Change in Control, the vesting provisions of Section 22 below shall apply.

10. *Payment of Awards*.

(a) *General*. Payment of Awards may be made in the form of cash or Common Stock, a combination of thereof, or any other form of property as the Committee shall determine. In addition, payment of Awards may include such restrictions, if any, as the Committee shall determine, including, in the case of Common Stock, restrictions on transfer and forfeiture provisions. If payment of an Award is made in the form of Restricted Stock, the right to receive such shares shall be evidenced by book entry registration or in such other manner as the Committee may determine. Any statement of ownership evidencing such Restricted Stock shall contain appropriate legends and restrictions that describe the terms and conditions of the restrictions applicable thereto.

(b) *Dividends; Dividend Equivalents and Interest*. Rights to (i) dividends or other distributions may be extended to and made part of any Award of Restricted Stock and (ii) Dividend Equivalents may be extended to and made part of any other Stock Award (i.e., other than an Award of Restricted Stock), subject in each case to such terms, conditions and limitations as the Committee may establish as set forth in the Award Certificate thereto; provided that, such dividends and Dividend Equivalents with respect to any Stock Award, as applicable, shall be payable, without interest, at the same time, and shall be subject to the same conditions, including vesting conditions, that are applicable to the underlying Stock Award. Accordingly, the right to receive payment of such dividends and Dividend Equivalents with respect to any Stock Award, as applicable, shall be forfeited to the extent that the underlying Stock Award does not vest, is forfeited or is otherwise cancelled. No Dividend Equivalents, dividends or other distributions may be paid in respect of an Award of Options or SARs.

11. *Stock Option Exercise*. The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, and the methods by which shares of Common Stock shall be delivered or deemed to be delivered to Participants. As determined by the Committee at or after the date of Grant, payment of the exercise price of an Option may be made, in whole or in part, in the form of (a) cash or cash equivalents, (b) delivery (by either actual delivery or attestation) of previously-acquired shares of Common Stock based on the Fair Market Value of the shares on the date the Option is exercised, (c) withholding of shares of Common Stock subject to the Option based on the Fair Market Value of the shares on the date the Option is exercised, (d) broker-assisted market sales, or (e) any other “cashless exercise” arrangement.

12. *Taxes*. The Company shall have the right to deduct applicable taxes from any Award payment and withhold, at the time of delivery or vesting of cash or shares of Common Stock, as applicable, under this Plan, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of taxes required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes. The Committee may also permit withholding to be satisfied by (a) the transfer to the Company of shares of Common Stock theretofore owned by the holder of the Award or (b) withholding from the shares otherwise deliverable under the Award, in either case with respect to which withholding is required, up to the maximum tax rate applicable to the Participant, as determined by the Committee and subject to applicable law. If shares of Common Stock are used

to satisfy tax withholding, such shares shall be valued based on their Fair Market Value when the tax withholding is required to be made.

13. *Amendment, Modification, Suspension or Termination*. The Board may amend, modify, suspend or terminate this Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law, except that (a) no amendment or alteration that would adversely affect the rights of any Participant under any Award previously granted to such Participant shall be made without the consent of such Participant unless such amendment is reasonably necessary for purposes of compliance with applicable law and (b) no amendment or alteration shall be effective prior to its approval by the shareholders of the Company to the extent such approval is then required pursuant to Rule 16b-3 in order to preserve the applicability of any exemption provided by such rule to any Award then outstanding (unless the holder of such Award consents) or to the extent shareholder approval is otherwise required by applicable legal requirements.

14. *Assignability*. Unless otherwise determined by the Committee and provided in the Award Certificate, no Award or any other benefit under this Plan constituting a derivative security within the meaning of Rule 16a-1(c) under the Exchange Act shall be pledged, hypothecated, or otherwise encumbered or subject to any lien, obligation, or any liability of a Participant, or assignable or otherwise transferable except by will or the laws of descent and distribution, and any Award or other rights hereunder that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative, except pursuant to a qualified domestic relations order in a form acceptable to the Committee, and the Committee may require that any such transfer be limited to a “Permitted Assignee” as defined in SEC Form S-8. The Committee may prescribe and include in applicable Award Certificates other restrictions on transfer. Any attempted assignment of an Award or any other benefit under this Plan in violation of this Section 14 shall be null and void. A beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all the terms and conditions of the Plan and any Award Agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions the Committee deems necessary or appropriate.

15. *Adjustments*.

(a) The existence of outstanding Awards shall not affect in any manner the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(b) In the event of any subdivision or consolidation of outstanding shares of Common Stock, declaration of a dividend payable in shares of Common Stock or other stock split, the adoption by the Company of any plan of exchange affecting the Common

Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends or dividends payable in Common Stock), (i) the number of shares of Common Stock reserved under this Plan, (ii) the number of shares of Common Stock covered by Awards in the form of Common Stock or units denominated in Common Stock, (iii) the exercise or other price in respect of such Awards and (iv) the appropriate Fair Market Value and other price determinations for such Awards shall each be proportionately adjusted by the Board to reflect such event; provided that such adjustments shall only be such as are necessary to maintain the proportionate interest of the holders of the Awards and preserve, without exceeding, the value of such Awards.

(c) In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Board may make such adjustments to outstanding Awards or other provisions for the disposition of outstanding Awards as it deems equitable, and shall be authorized, in its discretion, (i) to provide for the substitution of a new Award or other arrangement (which, if applicable, may be exercisable for such property or stock as the Board determines) for an outstanding Award or the assumption of an outstanding Award, regardless of whether in a transaction to which Code Section 424(a) applies, (ii) to provide, prior to the transaction, for the waiver of the vesting and exercisability limitations of, or lapse of other restrictions with respect to, the outstanding Award and, if the transaction is a cash merger, to provide for the termination of any portion of the Award that remains unexercised at the time of such transaction or (iii) to provide for the acceleration of the vesting and exercisability of an outstanding Award and the cancellation thereof in exchange for such payment of such cash or property as shall be determined by the Board in its sole discretion, which for the avoidance of doubt in the case of Options or SARs (whether stock- or cash-settled) shall be the excess, if any, of the Fair Market Value of the shares of Common Stock subject to the Option or SAR on such date over the aggregate exercise price of such Award; *provided*, *however*, that no such adjustment shall increase the aggregate value of any outstanding Award. No adjustment or substitution pursuant to this Section 15 shall be made in a manner that results in noncompliance with Code Section 409A, to the extent applicable.

16. *Restrictions*. No Common Stock or other form of payment shall be issued with respect to any Award unless the Company shall be satisfied based on the advice of its counsel that such issuance will be in compliance with applicable federal and state securities laws. It is the intent of the Company that grants of Awards under this Plan comply with Rule 16b-3 with respect to persons subject to Section 16 of the Exchange Act unless otherwise provided herein or in an Award Certificate and that any ambiguities or inconsistencies in the construction of such an Award or this Plan be interpreted to give effect to such intention. Certificates evidencing shares of Common Stock delivered under this Plan (to the extent that such shares are so evidenced) may be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system upon which the Common Stock is then listed or to which it is admitted for quotation and any applicable federal or state securities law. The Committee may cause a legend or legends to be placed upon such certificates (if any) to make appropriate reference to such restrictions. The Committee may also impose such terms, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a Participant, other subsequent transfers by the Participant of any shares of Common Stock issued

as a result of or under an Award, or the exercise of Options and SARs, including without limitation, restrictions under an insider trading policy or share retention or ownership policy.

17. *Unfunded Plan*. Insofar as it provides for Awards of cash, Common Stock or rights thereto, this Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Participants who are entitled to cash, Common Stock or rights thereto under this Plan, any such accounts shall be used merely as a bookkeeping convenience. The Company shall not be required to segregate any assets that may at any time be represented by cash, Common Stock or rights thereto, nor shall this Plan be construed as providing for such segregation, nor shall the Company, the Board or the Committee be deemed to be a trustee of any cash, Common Stock or rights thereto to be granted under this Plan. Any liability or obligation of the Company to any Participant with respect to an Award of cash, Common Stock or rights thereto under this Plan shall be based solely upon any contractual obligations that may be created by this Plan and any Award Certificate, and no such liability or obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company. Neither the Company nor the Board nor the Committee shall be required to give any security or bond for the performance of any obligation that may be created by or under this Plan. This Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974, as amended.

18. *Code Section 409A*.

(a) All Awards under this Plan are intended either to be exempt from, or to comply with the requirements of Code Section 409A, and this Plan and all Awards shall be interpreted and operated in a manner consistent with that intention. Notwithstanding anything in this Plan to the contrary, if any Plan provision or Award under this Plan would result in the imposition of an applicable tax under Code Section 409A, that Plan provision or Award shall be construed or reformed in a manner to avoid imposition of the applicable tax and no such action shall be deemed to adversely affect the Participant's rights to or under an Award. Nevertheless, the tax treatment of the benefits provided under this Plan or any Award is not warranted or guaranteed. Neither the Company, its Affiliates nor their respective directors, officers, employees or advisers (other than in his or her capacity as a Participant) shall be held liable for any taxes, interest, penalties or other monetary amounts owed by any Participant or other taxpayer as a result of this Plan or any Award.

(b) Notwithstanding anything in this Plan or in any Award Certificate to the contrary, to the extent that any amount or benefit that would constitute non-exempt "deferred compensation" for purposes of Code Section 409A ("Non-Exempt Deferred Compensation") would otherwise be payable or distributable, or a different form of payment (e.g., lump sum or installment) of such Non-Exempt Deferred Compensation would be effected, under this Plan or any Award Certificate by reason of the occurrence of a Change in Control, or the Participant's disability or separation from service, such Non-Exempt Deferred Compensation will not be payable or distributable to the Participant, and/or such different form of payment will not be effected, by reason of such circumstance unless the circumstances giving rise to such Change in Control, disability or separation from service meet any description or definition of "change in control event", "disability" or "separation from service", as the case may be, in Code Section 409A and applicable regulations (without giving effect to any elective provisions that may be available under such definition). This provision does not prohibit the vesting of any Award upon a Change in Control, disability or separation from service, however defined. If this provision prevents the payment or distribution of any amount or benefit, or the application of a different form of payment of any amount or benefit, such payment or distribution shall be made at the time and in the form that would have applied absent the Change in Control, disability or separation from service, as applicable.

(c) Notwithstanding anything in this Plan or in any Award Certificate to the contrary, if any amount or benefit that would constitute Non-Exempt Deferred Compensation would otherwise be payable or distributable under this Plan or any Award Certificate by reason of a Participant's separation from service during a period in which the Participant is a Specified Employee (as defined below), then: (i) the amount of such Non-Exempt Deferred Compensation that would otherwise be payable during the six (6)-month period immediately following the Participant's separation from service shall be accumulated (without interest) through and paid or provided on the first day of the seventh (7th) month following the Participant's separation from service (or, if the Participant dies during such period, within thirty (30) days after the Participant's death) (in either case, the "Required Delay Period"); and (ii) the normal payment or distribution schedule for any remaining payments or distributions will resume thereafter. For purposes of this Plan, the term "Specified Employee" has the meaning given such term in Code Section 409A and the Treasury Regulations thereunder; provided, however, that, as permitted in such regulations, the Company's Specified Employees and its application of the six (6)-month delay rule of Code Section 409A(a)(2)(B)(i) shall be determined in accordance with rules adopted by the Board or any committee of the Board, which shall be applied consistently with respect to all nonqualified deferred compensation arrangements of the Company, including this Plan.

19. *Governing Law*. This Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by mandatory provisions of the Code or the securities laws of the United States, shall be governed by and construed in accordance with the laws of the State of Texas.

20. *Clawback*.

(a) To the extent required by applicable law or any applicable securities exchange listing standards, or as otherwise determined by the Committee, Awards and amounts paid or payable pursuant to or with respect to Awards shall be subject to the provisions of any clawback policy implemented by the Company, from time to time, which clawback policy may provide for forfeiture, repurchase or recoupment of Awards and amounts paid or payable pursuant to or with respect to Awards. Notwithstanding any provision of this Plan or any Award Certificate to the contrary, the Company reserves the right, without the consent of any Participant, to, from time to time, adopt and modify any such clawback policies and procedures. By accepting an Award, a Participant is also agreeing to be bound by any existing or future clawback policy adopted by the Company, or any amendment thereto that the Company may thereafter make, and the Participant is further agreeing that all of his or her Award Agreements may be unilaterally amended by the Company without the Participant's consent, to the extent that the Company determines to be necessary or appropriate to comply with or conform to any clawback policy.

(b) If the Participant violates any non-competition, non-solicitation, or non-disclosure covenant or agreement, as determined by the Committee, then (A) any outstanding Award shall be canceled, and (B) the Committee may require the Participant to forfeit and pay over to the Company all or any portion of the gain realized on the exercise of an Option or Stock Appreciation Right and the value realized on the vesting or payment of any other Award previously received by the Participant.

21. *No Right to Employment or Continued Service*. Nothing in this Plan or an Award Certificate shall interfere with or limit in any way the right of the Company or a Subsidiary to terminate any Participant's employment or other service relationship at any time, nor confer upon any Participant any right to continue in the capacity in which he or she is employed or otherwise serves the Company or any Subsidiary. Further, nothing in this Plan or an Award Certificate constitutes any assurance or obligation of the Board to nominate any Nonemployee Director for re-election by the Company's shareholders.

22. *Change In Control.* The provisions of this Section 22 shall apply in the case of a Change in Control, unless otherwise provided in the Award Certificate or any special Plan document or separate agreement with a Participant governing an Award.

(a) With respect to Awards assumed by the Surviving Entity or otherwise equitably converted or substituted in connection with the Change in Control in a manner approved by the Committee or the Board and if within the one-year period after the effective date of the Change in Control, a Participant's employment is terminated without Cause or the Participant resigns for Good Reason, then: (i) all of that Participant's outstanding Options or SARs shall become fully exercisable, (ii) all time-based vesting requirements on his or her outstanding Awards shall be deemed to be satisfied in full, and (iii) all performance-based vesting requirements on his or her outstanding Awards shall be deemed to be satisfied on a pro-rata basis at one hundred percent (100%) of the "target" level. The pro-rata basis that applies to the foregoing shall be based upon the length of time (expressed as a percentage) within an Award's Restriction Period or other vesting period that has elapsed prior to the date of the applicable termination without Cause or resignation for Good Reason. With regard to each Award, a Participant shall not be considered to have resigned for Good Reason unless either (x) the Award Certificate includes such provision or (y) the Participant is party to an employment, consulting, severance or similar agreement with the Company or an Affiliate that includes provisions in which the Participant is permitted to resign for Good Reason. Any Options or SARs shall thereafter continue or lapse in accordance with the other provisions of this Plan and the Award Certificate. To the extent that this provision causes Incentive Options to exceed the dollar limitation set forth in Code Section 422(d), the excess Options shall be deemed to be Nonqualified Stock Options.

(b) Upon the occurrence of a Change in Control, and with respect to any Awards that are not assumed by the Surviving Entity or are not otherwise equitably converted or substituted in connection with the Change in Control in a manner approved by the Committee or the Board: (i) outstanding Options or SARs shall become fully exercisable immediately prior to the Change in Control, (ii) time-based vesting requirements on outstanding Awards shall be deemed to be satisfied in full immediately prior to the Change in Control, and (iii) all performance-based vesting requirements on outstanding Awards shall be deemed to be satisfied on a pro-rata basis at one hundred percent (100%) of the "target" level immediately prior to the Change in Control. The pro-rata basis that applies to the foregoing shall be based upon the length of time (expressed as a percentage) within an Award's Restriction Period or other vesting period that has elapsed prior to the date of the Change in Control. In connection with such Change in Control, the Committee or Board shall take such actions as are appropriate to enable (x) the exercise or deemed exercise of any Options or SARs described in clause (i) above, and (y) the actual or deemed delivery of Common Stock for purposes of clause (i), (ii) and (iii) above. Any payout of a Cash Award in connection with such Change in Control shall be made at such time that is on, prior to or after such Change in Control; provided that such payout shall not occur more than ten (10) days prior to, nor more than sixty (60) days following the date of the Change in Control (unless a later date is required by Section 18 hereof).

23. *Effectiveness; Prior Plan*. This Plan, as established by the Company (and approved by the Board) on March 11, 2021, shall be effective as of the Effective Date, the date on which it shall be approved, if at all, by the shareholders of the Company at the Company's 2021 annual shareholders meeting to be held on or about June 9, 2021. If the requisite shareholder approval occurs pursuant to the preceding sentence, this Plan shall continue in effect for a term of ten (10) years after the Effective Date, unless sooner terminated by action of the Board. If this Plan becomes effective pursuant to the foregoing, this Plan shall be the successor to the Prior Plan, such that, no additional awards shall be granted under the Prior Plan for periods on and after the Effective Date. For the avoidance of doubt, if the shareholders of the Company should fail to so approve this Plan on such date, this Plan shall not be of any force or effect and the Prior Plan shall continue in force and effect.

24. *Non-U.S. Laws*. The Committee shall have the authority to adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or an Affiliate may operate to assure the viability of the benefits from Awards granted to Participants performing services in such countries and to meet the objectives of the Plan.

[*Signature page follows*]

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by its duly authorized officer.

ZIX CORPORATION

By: /s/ David J. Wagner
Name: David J. Wagner
Title: President & CEO

[Signature Page to Zix Corporation 2021 Omnibus Incentive Plan]

Exhibit 31.1

CERTIFICATION

I, David J. Wagner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Zix Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

/s/ DAVID. J. WAGNER
David J. Wagner
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, David E. Rockvam, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Zix Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

/s/ DAVID E. ROCKVAM
David E. Rockvam
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

August 5, 2021

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Ladies and Gentlemen:

The certifications set forth below are being submitted in connection with the Quarterly Report on Form 10-Q (the "Report") of Zix Corporation for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

David J. Wagner, the chief executive officer, and David E. Rockvam, the chief financial officer of Zix Corporation, each certifies that to the best of his knowledge and in the respective capacities as an officer of Zix Corporation:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Zix Corporation.

/s/ DAVID J. WAGNER
Name: David J. Wagner
Title: President and Chief Executive Officer

/s/ DAVID E. ROCKVAM
Name: David E. Rockvam
Title: Chief Financial Officer