

**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 March 31, 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
(State of Incorporation)

75-2216818
(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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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
Common Stock, par value \$0.01 per share

Outstanding at May 4, 2021
56,924,859

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

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

INDEX

	<u>Page Number</u>
PART I — FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets at March 31, 2021 (unaudited) and December 31, 2020	3
Condensed Consolidated Statements of Comprehensive Loss (unaudited) for the three months ended March 31, 2021 and 2020	4
Condensed Consolidated Statement of Stockholders' Equity (unaudited) for the three months ended March 31, 2021 and 2020	5
Condensed Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2021 and 2020	7
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	27
Item 4. Controls and Procedures	27
<u>PART II — OTHER INFORMATION</u>	
Item 1. Legal Proceedings	28
Item 1A. Risk Factors	28
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3. Defaults Upon Senior Securities	28
Item 4. Mine Safety Disclosures	28
Item 5. Other Information	28
Item 6. Exhibits	29

ZIX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value data)

	March 31, 2021 (unaudited)	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,747	\$ 21,362
Receivables, net	16,878	16,831
Prepaid and other current assets	5,024	5,430
Total current assets	45,649	43,623
Property and equipment, net	6,651	7,345
Operating lease assets	12,941	14,259
Intangible assets, net	139,897	144,163
Goodwill	194,988	195,013
Deferred tax assets	32,882	32,554
Deferred costs and other assets	12,449	12,767
Total assets	<u>\$ 445,457</u>	<u>\$ 449,724</u>
LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 19,291	\$ 20,018
Accrued expenses	10,821	10,364
Deferred revenue	40,484	40,447
Current portion of long-term debt	2,205	2,205
Operating lease liabilities, current	5,259	5,156
Finance lease liabilities, current	456	602
Total current liabilities	78,516	78,792
Long-term liabilities:		
Deferred revenue	963	1,079
Noncurrent operating lease liabilities	8,715	10,094
Noncurrent finance lease liabilities	69	114
Long-term debt	209,306	209,658
Total long-term liabilities	219,053	220,945
Total liabilities	297,569	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	117,875	115,552
Total preferred stock	117,875	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; 85,402,761 issued and 56,978,493 outstanding in 2021 and 85,382,484 issued and 57,246,521 outstanding in 2020	782	782
Additional paid-in capital	405,374	401,646
Treasury stock, at cost; 28,424,269 common shares in 2021 and 28,135,963 common shares in 2020	(115,136)	(113,031)
Accumulated deficit	(261,331)	(256,548)
Accumulated other comprehensive income (loss)	324	1,586
Total stockholders' equity	30,013	34,435
Total liabilities, preferred stock and stockholders' equity	<u>\$ 445,457</u>	<u>\$ 449,724</u>

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 March 31,	
	2021	2020
Revenue	\$ 60,015	\$ 52,434
Cost of revenue	33,138	26,079
Gross margin	26,877	26,355
Operating expenses:		
Research and development	6,060	5,386
Selling, general and administrative	21,297	20,029
Total operating expenses	27,357	25,415
Operating income (loss)	(480)	940
Other income (expense):		
Investment and other income (expense)	43	(15)
Interest expense	(2,126)	(2,648)
Total other (expense) income	(2,083)	(2,663)
Loss before income taxes	(2,563)	(1,723)
Income tax benefit	103	870
Net loss	\$ (2,460)	\$ (853)
Deemed and accrued dividends on preferred stock	2,323	2,229
Net loss attributable to common stockholders	\$ (4,783)	\$ (3,082)
Basic loss per share attributable to common stockholders	\$ (0.09)	\$ (0.06)
Diluted loss per common share attributable to common stockholders	\$ (0.09)	\$ (0.06)
Basic weighted average common shares outstanding	54,536,103	53,496,042
Diluted weighted average common shares outstanding	54,536,103	53,496,042
Other comprehensive loss, net of tax		
Foreign currency translation adjustments	(1,262)	(905)
Comprehensive loss	\$ (3,722)	\$ (1,758)

See notes to condensed consolidated financial statements

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

(In thousands, except shares)	Preferred Stock and Stockholders' Equity								
	Preferred Stock		Common Stock		Additional	Treasury	Accumulated	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-In				
					Capital	Stock	Income (Loss)	Equity	
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	<u>100,206</u>	<u>\$ 117,875</u>	<u>85,402,761</u>	<u>\$ 782</u>	<u>\$ 405,374</u>	<u>\$(115,136)</u>	<u>\$ (261,331)</u>	<u>\$ 324</u>	<u>\$ 30,013</u>

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)	\$ 100,206	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	—	—	1,062,983	—	—	—	—	—	—
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	<u>100,206</u>	<u>\$ 108,756</u>	<u>84,954,264</u>	<u>\$ 781</u>	<u>\$ 393,710</u>	<u>\$ (112,083)</u>	<u>\$ 97,124</u>	<u>\$ (706)</u>	<u>\$ 37,522</u>

See notes to condensed consolidated financial statements.

ZIX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Three Months Ended March 31,	
	2021	2020
Operating activities:		
Net loss	\$ (2,460)	\$ (853)
Non-cash items in net loss:		
Depreciation and amortization	9,300	7,792
Amortization of debt issuance costs	200	320
Employee stock-based compensation costs	3,477	1,991
Noncash lease costs	1,154	782
Changes in deferred taxes	(268)	(887)
Changes in operating assets and liabilities:		
Receivables	(179)	(2,947)
Prepaid and other current assets	391	179
Deferred costs and other assets	323	(330)
Accounts payable	(571)	562
Deferred revenue	(95)	1,135
Earn-out payment	(400)	—
Accrued and other liabilities	(198)	(3,337)
Net cash provided by operating activities	10,674	4,407
Investing activities:		
Purchases of property, equipment and internal-use software	(4,979)	(5,007)
Acquisition of business, net of cash acquired	(339)	—
Net cash used in investing activities	(5,318)	(5,007)
Financing activities:		
Proceeds of long-term debt	—	6,000
Proceeds from exercise of stock options	253	117
Repayment of long-term debt	(551)	(460)
Repayment of finance lease liabilities	(201)	(406)
Purchase of treasury shares	(2,105)	(1,785)
Net cash provided by (used in) financing activities	(2,604)	3,466
Effect of exchange rate on cash	(367)	80
Increase in cash and cash equivalents	2,385	2,946
Cash and cash equivalents, beginning of period	21,362	13,349
Cash and cash equivalents, end of period	\$ 23,747	\$ 16,295

See notes to condensed consolidated financial statements.

ZIX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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. The results of operations for the three-month period ended March 31, 2021, 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 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 March 31, 2021, the Company had 777,010 stock options outstanding, 1,411,093 non-vested Restricted Stock awards; 553,277 non-vested Performance Stock awards; 1,444,767 non-vested RSUs; and 748,265 non-vested Performance RSUs. The Company does not currently have shares of common stock available for future award grants within existing incentive plans if all outstanding performance-based stock and RSUs were settled at maximum level. Due in part to the shortage of available shares for grants under our current incentive plans, the Company established the 2021 Ominous Incentive Plan (the “2021 Plan”) to be effective on June 9, 2021, provided the 2021 Plan has received the requisite shareholder approval. Should the 2021 Plan be approved by shareholders, the Company anticipates issuing additional grants during the current year.

Stock Option Activity

The following is a summary of all stock option transactions during the three months ended March 31, 2021:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)
Outstanding at December 31, 2020	842,010	\$ 4.40	5.14
Granted at market price	—	—	
Cancelled or expired	—	—	
Exercised	(65,000)	3.86	
Outstanding at March 31, 2021	<u>777,010</u>	<u>\$ 4.45</u>	<u>5.28</u>
Options exercisable at March 31, 2021	<u>608,260</u>	<u>\$ 3.66</u>	<u>4.16</u>

At March 31, 2021, 777,010 stock options outstanding and 608,260 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 \$2.5 million and \$2.4 million, respectively.

Restricted Stock Activity

The following is a summary of Restricted Stock activity during the three months ended March 31, 2021:

	Restricted Shares	Weighted Average Fair Value
Non-vested restricted stock at December 31, 2020	2,091,382	\$ 7.34
Granted at market price	58,086	7.62
Vested	(720,034)	7.23
Cancelled	(18,341)	6.79
Non-vested restricted stock at March 31, 2021	<u>1,411,093</u>	<u>\$ 7.41</u>

Restricted Stock Unit Activity

The following is a summary of all RSU activity during the three months ended March 31, 2021:

	Restricted Stock Units	Weighted Average Fair Value
Non-vested restricted stock units at December 31, 2020	126,191	\$ 8.52
Granted at market price	1,373,308	7.33
Vested	(27,307)	8.28
Cancelled	(27,425)	8.56
Non-vested restricted stock units at March 31, 2021	<u>1,444,767</u>	<u>\$ 7.39</u>

Performance RSU Activity

The following is a summary of all Performance RSU activity during the three months ended March 31, 2021:

	Performance RSUs	Weighted Average Fair Value
Non-vested performance RSUs at December 31, 2020	69,349	\$ 8.07
Granted at market price	697,588	7.38
Vested	(11,763)	8.99
Forfeited	(6,909)	8.99
Non-vested performance RSUs at March 31, 2021	<u>748,265</u>	<u>\$ 7.40</u>

Performance Stock Activity

The following is a summary of all Performance Stock activity during the three months ended March 31, 2021:

	Performance Stock	Weighted Average Fair Value
Non-vested performance stock at December 31, 2020	851,852	\$ 7.37
Granted at market price	—	—
Vested	(184,947)	7.13
Forfeited	(113,628)	7.11
Non-vested performance stock at March 31, 2021	<u>553,277</u>	<u>\$ 7.50</u>

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 three month period ended March 31, 2021, the total stock-based employee compensation expense (excluding \$328 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 March 31, 2021
Cost of revenues	\$ 250
Research and development	522
Selling, general and administrative	2,705
Stock-based compensation expense	<u>\$ 3,477</u>

A deferred tax asset totaling \$683 thousand and \$391 thousand, resulting from stock-based compensation expense associated with awards relating to the Company's U.S. operations, was recorded for the three month periods ended March 31, 2021 and 2020, respectively. As of March 31, 2021, there was \$27.8 million of total unrecognized stock-based compensation expense related to non-vested stock-based compensation awards granted under the incentive plans. This expense is expected to be recognized over a weighted average period of 2.22 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)	Three Months Ended March 31,	
	2021	2020
Interest payments	\$ 1,724	1,566
Income tax payments	35	44
Non-cash investing and financing activities:		
Accrued and deemed dividends on Series A preferred stock	2,323	2,229

5. Receivables, net

(In thousands)	March 31, 2021	December 31, 2020
Gross accounts receivables	\$ 32,352	\$ 30,188
Allowance for credit losses	(381)	(478)
Unpaid portion of deferred revenue	(15,093)	(12,879)
Note receivable	458	458
Allowance for note receivable	(458)	(458)
Receivables, net	<u>\$ 16,878</u>	<u>\$ 16,831</u>

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 March 31, 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 March 31, 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:

(In thousands)	Three Months ended March 31, 2021	Three Months ended March 31, 2020
Finance lease costs:		
Amortization of right-of-use assets	\$ 215	\$ 378
Interest on lease liabilities	10	29
Operating lease costs	1,481	941
Short-term lease costs	534	400
Variable lease costs	287	217
Total lease costs	<u>\$ 2,527</u>	<u>\$ 1,965</u>

Supplemental cash flow information related to leases are as follows:

(In thousands)	Three Months ended March 31, 2021	Three Months ended March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,416	\$ 973
Operating cash flows related to finance leases	10	29
Financing cash flows related to finance leases	201	406
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	—	365
Finance leases	—	—

Supplemental balance sheet information related to leases are as follows:

(In thousands)	Balance Sheet Classification	March 31, 2021	March 31, 2020
Operating Leases			
Operating lease right-of-use assets	Operating lease assets	\$ 12,941	\$ 9,709
Total operating lease assets		<u>\$ 12,941</u>	<u>\$ 9,709</u>

(In thousands)	Balance Sheet Classification	March 31, 2021
Finance Leases		
Finance lease right-of-use assets		\$ 3,362
Accumulated depreciation - finance leases		(2,680)
Finance lease right-of-use assets, net	Property and equipment, net	<u>\$ 682</u>

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

Weighted Average Remaining Lease Term (Years)	2021	2020
Operating leases	2.93	4.12
Finance leases	1.17	1.78
Weighted Average Discount Rate		
Operating leases	4.33%	5.82%
Finance leases	6.11%	6.15%

Maturities of lease liabilities are as follows:

(In thousands)	Payments Due by Period - Year Ending December 31, 2021				
	Total	Year 1 (1)	Years 2 & 3	Years 4 & 5	Beyond 5 Years
Operating leases	\$ 14,898	\$ 4,265	\$ 8,355	\$ 2,278	\$ —
Less imputed interest	(924)				
Total	<u>\$ 13,974</u>				
Finance leases	\$ 531	\$ 415	\$ 116	\$ —	\$ —
Less imputed interest	(6)				
Total	<u>\$ 525</u>				

(1) Year 1 excluding the three months ended March 31, 2021

In 2020, we entered into an operating lease for an additional data center, which has not yet commenced due to Covid-19 and is expected to be added as a right-of-use asset and a lease liability at a value of approximately \$109 thousand upon commencement. The operating lease will commence in the second quarter of 2021 with a lease term of 3 years.

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 March 31, 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:

- 4.75:1.00 for the fiscal quarters ending September 30, 2020 through March 31, 2021;
- 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 March 31, 2021, the Company had \$206.3 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 prepayment in addition to the quarterly installment.

At March 31, 2021, the Company had an outstanding debt balance of \$201.7 million attributable to the Combined Term Loan based on the 4.00% interest rate in effect during the three-month period ended on March 31, 2021. Included in the balance at March 31, 2020 is \$4.6 million of unamortized debt issuance costs.

Future principal payments under the Combined Term Loan as of March 31, 2021 are as follows:

(In thousands) Year Ending December 31,	Amount
2021	1,579
2022	2,105
2023	2,105
2024	200,533
	<u>206,322</u>

Delayed Draw Term Loan Facility

At March 31, 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 prepayment in addition to the quarterly installment.

At March 31, 2021, the Company had an outstanding debt balance of \$9.8 million attributable to the Delayed Draw Term Loan Facility based on the 3.41% interest rate in effect during the three month period ended March 31, 2021. Included in the balance at March 31, 2021 is \$39 thousand of unamortized debt issuance costs.

Future principal payments under the Delayed Draw Term Loan Facility as of March 31, 2021 are as follows:

(In thousands) Year Ending December 31,	Amount
2021	75
2022	100
2023	100
2024	9,550
	<u>9,825</u>

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 March 31, 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 \$23 thousand of commitment fees for the three month period ended March 31, 2021.

As of March 31, 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 March 31, 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 March 31, 2021, the accretion of the Stated Value of Series A Preferred Stock is valued at \$17.3 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. Our customer contracts historically have ranged from one to three year contracts billed annually. We are increasingly moving to a monthly subscription model. 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 three months ended March 31, 2021, we recorded revenue for our services in the following core industry verticals: 20% healthcare, 17% financial services, 3% government sector, and 60% 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 three months ended March 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 months ended March 31, 2021, we increased our noncurrent deferred contract asset by \$754 thousand resulting from commissions earned by our sales team during the three months ended March 31, 2021. We also amortized \$1.1 million of deferred cost as a selling and marketing expense in the same period. 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 months ended March 31, 2021.

Our contract liabilities consist of deferred revenue representing future customer services which have been billed and collected. The \$79 thousand decrease to our net deferred revenue in the three months ended March 31, 2021, is related to the timing of orders and payments.

Performance obligations

As of March 31, 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 \$55.0 million of revenue related to this backlog during the remainder of 2021, \$19.8 million in 2022, and \$8.1 million in periods thereafter.

Approximately \$27.2 million of our \$60.0 million revenue recognized in the three months ended March 31, 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. The dilutive effect of potential common shares outstanding is included in diluted earnings (loss) per share. The computations for basic and diluted earnings (loss) per share for the three months ended March 31, 2021 and 2020, respectively, are as follows:

	Three Months ended March 31,	
	2021	2020
Basic weighted average common shares	54,536,103	53,496,042
Effect of dilutive securities:		
Employee and director stock options	—	—
Restricted Stock	—	—
RSUs	—	—
Performance RSUs	—	—
Performance Stock	—	—
Series A Preferred Shares	—	—
Series B Preferred Shares	—	—
Dilutive weighted average common shares	54,536,103	53,496,042

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:

	Three Months ended March 31,	
	2021	2020
Stock options to purchase common stock	777,010	809,510
Restricted Stock	1,411,093	2,354,445
RSUs	1,444,767	238,643
Performance RSUs	748,265	77,197
Performance Stock	553,277	723,517
Preferred Stock	19,513,022	18,030,446
Potential dilutive common shares	24,447,434	22,233,758

11. Commitments and Contingencies

We have not entered into any material, non-cancelable purchase commitments at March 31, 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 three month periods ended March 31, 2021 and 2020:

(In thousands)	Three Months ended March 31,	
	2021	2020
Opening balance	\$ 195,013	\$ 171,209
Acquisition adjustments	729	—
Effect of currency translation adjustment	(754)	(832)
Goodwill	<u>\$ 194,988</u>	<u>\$ 170,377</u>

The increase to our goodwill in the three months ended March 31, 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 and Spain. For the three months ended March 31, 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 \$1.3 million, net of \$7 thousand in income tax expense.

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 \$24.2 million reserve. Any reduction to this \$24.2 million valuation allowance is based on an assessment of future utilization following accounting guidance, which relies largely on historical earnings. Using this methodology, and updating the future taxable earnings estimates based on first quarter 2021 actual earnings, the Company believes the deferred tax asset allowance as of December 31, 2020, will remain unchanged at December 31, 2021. For this reason, the Company has recognized its first 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. Adjusting 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 \$158 thousand recorded within the operating expenses during the twelve months ended December 31, 2020 and the three months ended March 31, 2021, respectively. Revenue from CloudAlly was \$2.3 million for the three months ended March 31, 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 goodwill from this transaction is not yet finalized. 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)	<u>Provisional Fair Value</u>
Assets:	
Current assets	\$ 1,385
Property and equipment	116
ROU assets	5,080
Trademark/Names	200
Technology	6,300
Customer relationships	3,500
Goodwill	23,041
Total assets	<u>39,622</u>
Liabilities:	
Current liabilities	\$ 654
Deferred revenue	1,400
Operating lease liabilities	5,080
Deferred tax liability	1,646
Total liabilities	<u>8,780</u>
Net assets recorded	<u>\$ 30,842</u>

Pro Forma Financial Information (Unaudited)

The following unaudited pro forma financial information presents the combined results of operations for the three month periods ending March 31, 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 information 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:

(In thousands, except per share data)	<u>Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
Revenues	\$ 60,060	\$ 54,381
Net income	(2,267)	(1,278)
Basic income per share attributed to common shareholders	<u>\$ (0.08)</u>	<u>\$ (0.07)</u>
Diluted income per share attributed to common shareholders	<u>\$ (0.08)</u>	<u>\$ (0.07)</u>

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 – ZixProtectSM and ZixArchiveSM. 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 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;
- Moving over 95% of our employees to remote 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;
- Implementing a reduction in force of approximately 6%, 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 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 and demand for consumer products. 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 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

First Quarter 2021 Summary of Operations

Financial

- Revenue for the quarter ended March 31, 2021, was \$60.0 million, compared with \$52.4 million for the same period in 2020, representing a 14% increase.
- Gross margin for the quarter ended March 31, 2021, was \$26.9 million (or 45% of revenues), compared with \$26.4 million (or 50% of revenues) for the comparable period in 2020.
- Net loss for the quarter ended March 31, 2021, was \$2.5 million, compared with net loss of \$0.9 million in the comparable period in 2020.
- Net loss attributable to common shareholders for the quarter ended March 31, 2021, was \$4.8 million, compared with net loss attributable to common shareholders of \$3.1 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 \$2.3 million and \$2.2 million, for the three month periods ended March 31 2021 and 2020, respectively
- Net loss per diluted share was \$0.09 for the quarter ended March 31, 2021, compared with net loss per diluted share of \$0.06 in the comparable period in 2020.
- Ending cash and cash equivalents were \$23.7 million on March 31, 2021, compared with \$16.3 million on March 31, 2020, and \$21.4 million on December 31, 2020.

Operations

- Total billings for the quarter ended March 31, 2021, were \$62.3 million, compared with \$55.8 million for the same period in 2020, representing a 12% increase.
- The annual recurring revenue value of our customer subscriptions as of March 31, 2021, was \$243.6 million, compared with \$214.3 million for the same period in 2020, representing an increase of \$29.2 million.
- Net cash provided by operations in the three months ended March 31, 2021, was \$10.7 million, compared with \$4.4 thousand provided by operations for the same period in 2020, representing a \$6.3 million increase
- As of March 31, 2021, backlog was \$82.9 million, compared with \$88.5 million as of March 31, 2020, representing a 6% decrease.

Revenues

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

(in thousands)	Three Months Ended March 31,		3-month Variance 2021 vs. 2020	
	2021	2020	\$	%
Revenues	\$ 60,015	\$ 52,434	\$ 7,581	14%

Our revenue increase is the result of 10% growth in our core business 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 \$2.3 million to our first quarter 2021 revenue. In the first three months of 2021, excluding our CloudAlly business, we categorized our revenue in the following core industry verticals: 20% healthcare, 17% financial services, 3% government sector, and 60% as other. In the first three 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.

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:

(in thousands)	As of March 31,		Variance 2021 vs. 2020	
	2021	2020	\$	%
Annual Recurring Revenue	\$ 243,554	\$ 214,315	\$ 29,239	14%

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 March 31, 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 March 31, 2021, the backlog was comprised of the following elements: \$41.5 million of deferred revenue that has been billed and paid, \$15.1 million billed but unpaid, and approximately \$26.3 million of unbilled contracts. The backlog at March 31, 2021, was 6% lower than the \$88.5 million backlog at the end of the first 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 March 31,		3-month Variance 2021 vs. 2020	
	2021	2020	\$	%
Cost of revenues	\$ 33,138	\$ 26,079	\$ 7,059	27%

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% of total Company revenue earned in the first quarter of 2021.

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 March 31,		3-month Variance 2021 vs. 2020	
	2021	2020	\$	%
Research and development expenses	\$ 6,060	\$ 5,386	\$ 674	13%

Research and development expenses consist primarily of salary, benefits, and stock-based compensation for our development staff, independent development contractor expenses, 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 March 31,		3-month Variance 2021 vs. 2020	
	2021	2020	\$	%
Selling and marketing expenses	\$ 14,922	\$ 14,341	\$ 581	4%

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 months ended March 31, 2021, compared to the same period in 2020, was due primarily to increases in commissions and stock-based compensation expense, offset by decreases in travel and advertising.

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 March 31,		3-month Variance 2021 vs. 2020	
	2021	2020	\$	%
General and administrative expenses	\$ 6,375	\$ 5,688	\$ 687	12%

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 months ended March 31, 2021, compared with the same period in 2020 resulted primarily from increases in our stock based compensation expense.

Other Income (Expense)

Our other income (expense) consists primarily of interest expense associated with our debt. During the three months ended March 31, 2021 and 2020, we recorded interest expense of \$2.1 million and \$2.6 million, respectively associated with this debt. At March 31, 2021, our outstanding debt balance was \$211.5 million based on 3.97% 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 \$103 thousand and an \$870 thousand benefit for the three month periods ended March 31, 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 \$24.2 million reserve because of the uncertainty of future taxable income levels sufficient to utilize our net operating losses and credits. Our March 31, 2021, provision benefit of \$103 thousand included \$279 thousand deferred taxes benefit, offset by state taxes payable based on gross revenues. Our March 31, 2020, provision benefit of \$870 thousand included \$633 thousand 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 \$100 thousand in state taxes then payable based on gross revenues.

No tax penalty-related charges were accrued or recognized for the three month periods ended March 31, 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 March 31, 2021. We are currently subject to a three-year statute of limitations by major tax jurisdictions.

At March 31, 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 \$32.9 million of its U.S. net deferred tax assets. The majority of this unreserved portion related to \$26.3 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 \$5.2 million relating to temporary differences between GAAP and tax-related expense, Federal R&D credits of \$1.9 million, and \$975 thousand relating to U.S. state income tax credits and net operating loss carryovers. These items are offset by a \$1.5 million Israeli deferred tax liability.

Any reduction or increase to the \$24.2 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 earnings. Using this methodology, and updating the future taxable earnings estimates based on first quarter 2021 actual earnings, the Company believes the deferred tax asset allowance as of December 31, 2020, will remain unchanged at December 31, 2021. For this reason, the Company has recognized its first 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. Adjusting 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 March 31, 2021, of \$2.5 million was a decline of \$1.7 million compared to our net loss of \$853 thousand 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 March 31, 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 three months of 2021, net cash provided by operations was \$10.7 million, an increase of \$6.3 million compared with the \$4.4 million of net cash provided by operations in the first three months of 2020. At March 31, 2021, our cash and cash equivalents totaled \$23.7 million, an increase of \$2.4 million from the December 31, 2020 balance, and we had outstanding debt of \$211.5 million.

Sources and Uses of Cash Summary

(In thousands)	Three Months Ended March 31,	
	2021	2020
Net cash provided by operations	\$ 10,674	\$ 4,407
Net cash used in investing activities	\$ (5,318)	\$ (5,007)
Net cash provided by (used in) financing activities	\$ (2,604)	\$ 3,466

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 three months of 2021 consisted of \$5.3 million for capital expenditures, which includes \$4.5 million in capitalized internal-use software, \$459 thousand related to purchases of computer and networking equipment, and \$339 thousand related to our CloudAlly acquisition. Our investing activities in the first three months of 2020 consisted of \$3.9 million in capitalized internal-use software, and \$1.1 million for computer and networking equipment.

Financing activities in the first three months of 2021 include using \$2.1 million in the repurchase of common stock related to the tax impact of vesting restricted awards, \$551 thousand for principal payments of our long-term debt, and \$201 thousand for payments on our finance leases. This usage was offset by \$253 thousand received from the exercise of stock options. Financing activities in the first three months of 2020 included \$6.0 million drawn from our Revolving Facility and \$117 thousand received from the exercise of stock options. We used \$1.8 million in the repurchase of common stock related to the tax impact of vesting restricted awards, \$460 thousand for principal payments of our long-term debt, and \$406 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 March 31, 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.

Exercise Price Range	Summary of Outstanding Options			
	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	\$ 481,000	180,000	\$ 481,000
\$3.50 - \$4.99	397,010	1,503,567	397,010	1,503,567
\$5.00 - \$6.49	—	—	—	—
\$6.50 - \$7.99	100,000	670,000	6,250	41,875
\$8.00 - \$9.50	100,000	803,000	25,000	200,750
Total	777,010	\$ 3,457,567	608,260	\$ 2,227,192

Off-Balance Sheet Arrangements

None.

Contractual Obligations, Contingent Liabilities and Commitments

We have not entered into any material, non-cancelable purchase commitments at March 31, 2021.

We have severance agreements with certain employees which would require the Company to pay approximately \$5.6 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 March 31, 2021.

Changes in Internal Controls over Financial Reporting

During the three months ended March 31, 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

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share (1)</u>	<u>Total Number of Shares Purchased as part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u>
January 1, 2021 to January 31, 2021	8,929	\$ 8.36	—	\$ —
February 1, 2021 to February 28, 2021	26,732	\$ 7.44	—	\$ —
March 1, 2021 to March 31, 2021	252,645	\$ 7.22	—	\$ —
Total	288,306	\$ 7.27	—	\$ —

- 1 Of the total number of shares purchased for the one month periods ended January 31, 2021, February 28, 2021 and March 31, 2021, 219,383 shares of Restricted Stock, 53,594 shares of Performance Stock, 9,031 units of RSUs and 6,298 units of Performance RSUs represent shares of Restricted Stock and Performance Stock as well as units of RSUs and Performance RSUs withheld by us upon the vesting of outstanding Restricted Stock, Performance Stock, RSUs and Performance 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.
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: May 6, 2021

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

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: May 6, 2021

/s/ DAVID. J. WAGNER

David J. Wagner

President and Chief Executive Officer

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: May 6, 2021

/s/ DAVID E. ROCKVAM

David E. Rockvam

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

**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**

May 6, 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