

ZIX CORP  
Form DEF 14A  
April 27, 2018  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

**ZIX CORPORATION**

**(Name of registrant as specified in its charter)**

**(Name of person(s) filing proxy statement, if other than the registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.



(4) Date Filed:

**Table of Contents**

**ZIX CORPORATION**

2711 North Haskell Avenue

Suite 2200, LB 36

Dallas, Texas 75204-2960

To our Shareholders,

You are cordially invited to attend the Annual Meeting of Shareholders of Zix Corporation, which will take place Wednesday, June 6, 2018, at 10:00 a.m. Central Time at the Cityplace Conference Center, Turtle Creek I Room, 2711 North Haskell Avenue, Dallas, Texas 75204. Details of the business to be conducted at the Annual Meeting are given in the Official Notice of the Meeting, Proxy Statement and form of proxy that accompany this letter.

Even if you intend to join us in person, we encourage you to vote in advance so that we will know that we have a quorum of shareholders for the meeting. When you vote in advance, please indicate your intention to personally attend the Annual Meeting. Please see the Question and Answer section of the enclosed Proxy Statement for instructions if you plan to personally attend the Annual Meeting.

Whether or not you are able to personally attend the Annual Meeting, it is important that your shares be represented and voted. Your prompt vote over the Internet, by telephone via toll-free number, or by written proxy will save us the expense and extra work of additional proxy solicitation. Voting by any of these methods at your earliest convenience will ensure your representation at the Annual Meeting if you choose not to attend in person. If you decide to attend the Annual Meeting, you will be able to vote in person, even if you have personally submitted your proxy. Please review the instructions on the proxy card or the information forwarded by your bank, broker, or other holder of record concerning each of these voting options.

We appreciate your continued interest in Zix Corporation.

On behalf of the Board of Directors,

Dallas, Texas  
April 27, 2018

Robert C. Hausmann  
*Chairman of the Board*

**Table of Contents**

**ZIX CORPORATION**

2711 North Haskell Avenue

Suite 2200, LB 36

Dallas, Texas 75204-2960

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

The Annual Meeting of Shareholders of Zix Corporation will take place on Wednesday, June 6, 2018, at 10:00 a.m. Central Time at the Cityplace Conference Center, Turtle Creek I Room, 2711 North Haskell Avenue, Dallas, Texas 75204. Registration will begin at 9:30 a.m.

At the meeting, we will ask shareholders to consider and vote on the following proposals:

1. Elect six members of our Board of Directors for a one-year term;
2. Ratify the appointment of Whitley Penn LLP as our independent registered public accountants for the fiscal year ending December 31, 2018;
3. Approve, on an advisory basis, the compensation of our named executive officers;
4. Approve the Zix Corporation 2018 Omnibus Incentive Plan (the "2018 Plan"); and

5. Any other business properly brought before the meeting or any adjournment or postponement thereof. Only shareholders of record at the close of business on April 13, 2018 will be entitled to vote at the meeting. The stock transfer books will not be closed.

By Order of the Board of Directors,

Dallas, Texas  
April 27, 2018

David E. Rockvam  
*Chief Financial Officer*

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS**

**FOR THE SHAREHOLDER MEETING TO BE HELD ON JUNE 6, 2018**

This Proxy Statement, accompanying proxy card and our Annual Report are available at [investor.zixcorp.com](http://investor.zixcorp.com) in a searchable, readable, and printable format and in a cookie-free environment.

**YOUR VOTE IS IMPORTANT.**

**Whether or not you expect to personally attend the meeting, we urge you to vote your shares at your earliest convenience to ensure the presence of a quorum at the meeting. Promptly voting your shares via the Internet, by telephone via toll-free number, or if you received a paper copy of the proxy card, by signing, dating, and returning the proxy card in the enclosed postage-paid envelope will save us the expense and extra work of additional solicitation. Because your proxy is revocable at your option, submitting your proxy now will not prevent you from voting your shares at the meeting if you desire to do so. Please refer to the voting instructions included on your proxy card or the voting instructions forwarded by your bank, broker, or other holder of record.**

Table of Contents

## TABLE OF CONTENTS

<u>Questions and Answers About the Annual Meeting and Voting</u>	i
<u>PROXY STATEMENT</u>	1
<u>Information Concerning Solicitation And Voting</u>	1
<u>General</u>	1
<u>Solicitation of Proxies</u>	1
<u>Purpose of Annual Meeting</u>	2
<u>Record Date and Shares Outstanding</u>	2
<u>Quorum</u>	2
<u>Revocability of Proxies</u>	2
<u>How Your Proxy Will Be Voted</u>	2
<u>Dissenters Rights</u>	2
<u>Tabulation of Votes</u>	3
<u>Vote Required to Approve Proposals</u>	3
<u>Proposal 1</u>	3
<u>Proposal 2</u>	3
<u>Proposal 3</u>	3
<u>Proposal 4</u>	3
<u>Other Matters</u>	3
<u>Effect of Broker Non-Votes</u>	3
<u>Shareholders Proposals</u>	4
<u>Reducing the Costs of Proxy Solicitation</u>	4
<u>Proposals</u>	5
<b><u>Proposal 1 Election of Directors</u></b>	<b>5</b>
<b><u>Proposal 2 Ratification of Appointment of Accountants</u></b>	<b>6</b>
<b><u>Proposal 3 Approve, on an Advisory Basis, the Compensation of our Named Executive Officers</u></b>	<b>7</b>
<b><u>Proposal 4 Approve the 2018 Plan</u></b>	<b>8</b>
<u>OTHER INFORMATION YOU NEED TO MAKE AN INFORMED DECISION</u>	16
<u>Directors</u>	16
<u>Executive Officers</u>	19
<u>SECURITY OWNERSHIP OF DIRECTORS, MANAGEMENT AND CERTAIN BENEFICIAL OWNERS</u>	21
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	22
<u>Corporate Governance</u>	22
<u>Board of Directors</u>	22
<u>Corporate Governance</u>	22
<u>Director Independence</u>	23
<u>Board Leadership Structure</u>	23
<u>Risk Oversight by the Board</u>	23
<u>Political Activities and Contributions</u>	23
<u>Attendance at Board Meetings and Annual Meeting</u>	24
<u>Committees of the Board of Directors</u>	24
<u>Nominating and Corporate Governance Committee</u>	24
<u>Shareholder Nomination of Director Candidates</u>	24
<u>Diversity of Directors</u>	24
<u>Director Qualification Criteria</u>	25

<u>Director Election Procedures</u>	25
<u>Audit Committee</u>	26
<u>Compensation Committee</u>	26
<u>Policies, Procedures, and Practices</u>	27
<u>Compensation Committee Interlocks and Insider Participation</u>	28
<u>Communications with Directors</u>	28
<u>Code of Ethics</u>	28
<u>Independent Registered Public Accountants</u>	28
<u>General</u>	28
<u>Fees Paid to Independent Public Accountants</u>	29
<u>Audit Committee Pre-Approval Policies and Procedures</u>	29



**Table of Contents**

<u>REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS</u>	29
<u>INFORMATION ON THE COMPENSATION OF DIRECTORS</u>	31
<u>General</u>	31
<u>Retainer/Fees</u>	31
<u>Option Awards Upon Initial Election or Appointment</u>	31
<u>2017 Director Compensation Paid</u>	32
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	33
<u>Executive Summary</u>	33
<u>Our Business</u>	33
<u>2017 Financial Performance</u>	33
<u>Non-Binding Advisory Vote on Executive Compensation ( Say on Pay ) and Frequency of Say on Pay</u>	33
<u>Governance and Evolving Compensation Practices</u>	33
<u>Executive Compensation Overview</u>	34
<u>General</u>	34
<u>Independent Compensation Consultant</u>	35
<u>Compensation Philosophy and Objectives</u>	35
<u>Risk Considerations</u>	35
<u>Role of Executive Officers in Compensation Decisions</u>	36
<u>Approval Authority for Certain Compensation Related Matters</u>	36
<u>Competitive Market Information</u>	36
<u>Compensation Analysis Peer Group</u>	36
<u>Executive Officer Base Salaries and Compensation Comparisons</u>	36
<u>Executive Officer Variable Compensation</u>	37
<u>Variable Compensation for Named Executive Officers</u>	38
<u>Equity-based Awards</u>	39
<u>General</u>	39
<u>Policies and Practices</u>	39
<u>2017 Performance-Based Equity Awards</u>	40
<u>Performance Shares for Names Executive Officers</u>	40
<u>Impact of Accounting and Tax Treatments of Compensation</u>	41
<u>Incentive Compensation Recoupment Policy</u>	41
<u>Equity Ownership Guidelines</u>	42
<u>Executive Termination Benefits Agreements</u>	42
<u>Compensation Committee Report</u>	43
<u>2017 EXECUTIVE COMPENSATION</u>	44
<u>Summary Compensation Table</u>	44
<u>2017 Grants of Plan-Based Awards</u>	45
<u>Outstanding Equity Awards at 2017 Fiscal Year-End</u>	46
<u>2017 Option Exercises and Stock Vested</u>	47
<u>Pension Benefits</u>	47
<u>Nonqualified Deferred Compensation</u>	47
<u>Separation Payments and Change in Control Payments</u>	47
<u>General</u>	47
<u>Severance Benefits</u>	47
<u>Accelerated Vesting of Equity-Based Awards</u>	48
<u>Health Benefits Continuation</u>	48
<u>Potential Payments</u>	48
<u>Potential Payments Upon Termination or Change in Control</u>	48

<u>Equity Compensation Plan Information</u>	50
<u>Non-Shareholder-Approved Stock Option Agreements With Employees</u>	50
<u>Non-Shareholder-Approved Stock Option Agreements With Third Parties</u>	50
<u>CEO Pay Ratio</u>	50
<u>Certain Relationships and Related Transactions</u>	51
<u>OTHER MATTERS</u>	52
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	52
<u>Appendix A 2018 Omnibus Incentive Plan</u>	A-1

**Table of Contents**

**Questions and Answers About the Annual Meeting and Voting**

This Question and Answer section provides some background information and brief answers to several questions you might have about the enclosed proposals. We encourage you to read this Proxy Statement in its entirety.

**What is a proxy?**

A proxy is your legal designation of another person, called a proxy holder, to vote the shares that you own. If you designate someone as your proxy holder in a written document, that document is called a proxy.

**When I vote my shares, whom am I designating as my proxy?**

We have designated David E. Rockvam, our Chief Financial Officer, and Geoffrey R. Bibby, our Vice President Marketing, to act as proxy holders at the Annual Meeting as to all shares for which proxy cards are returned or voting instructions are provided by Internet or telephonic voting.

**What is a proxy statement?**

A proxy statement is a document that SEC regulations require us to give you when we ask you to sign a proxy card designating the proxy holders described above to vote on your behalf.

**What is the record date?**

The record date for the Annual Meeting is April 13, 2018. The record date is established by our Board of Directors as required by Texas law. Only shareholders of record at the close of business on the record date are entitled to receive notice of the Annual Meeting and to vote their shares at the meeting.

**What is the difference between a shareholder of record and a shareholder who holds stock in street name, also called a beneficial owner ?**

If your shares are registered in your name at our stock registrar and transfer agent, Computershare Trust Company, N.A., you are a shareholder of record.

If your shares are registered at our stock registrar and transfer agent, Computershare Trust Company, N.A., in the name of a broker, bank, trustee, nominee, or other similar shareholder of record, your shares are held in street name and you are the beneficial owner of the shares.

**What methods can I use to vote?**

*By Written Proxy.* All shareholders may vote by mailing the written proxy card.

*By Telephone and Internet Proxy.* All shareholders of record may vote by telephone from the U.S. using the toll-free telephone number on the proxy card, or by the Internet, using the procedures and instructions described on the proxy card and other enclosures. Street name holders may vote by telephone or the Internet if their bank, broker, or other shareholder of record makes those methods available, in which case the bank, broker, or other shareholder of record will enclose the instructions with the Proxy Statement. The telephone and Internet voting procedures, including the use of control numbers, are designed to authenticate shareholders' identities, to allow shareholders to vote their shares, and to confirm that their instructions have been properly recorded.

*By In- Person Ballot.* Shareholders of record and street name holders may vote in person at the Annual Meeting as described in the following question and answer.

**How do I cast a ballot in person at the Annual Meeting?**

*Shareholders of Record.* You will need to bring a government-issued photo identification card to obtain a ballot to vote in person at the Annual Meeting.

## **Table of Contents**

*Street Name Holders.* You will need to ask your broker or bank for a legal proxy and you will need to bring the legal proxy with you to the meeting. You will not be able to vote your shares at the meeting without a legal proxy. You will also need to bring a government-issued photo identification card to obtain a ballot to vote in person at the Annual Meeting. Please note that if you own shares in street name and you are issued a legal proxy, any previously executed proxy will be revoked and your vote will not be counted unless you appear at the meeting and vote in person.

### **What will occur at the Annual Meeting?**

First, we will determine whether we have a quorum of shares represented at the Annual Meeting to conduct business. If a quorum is not present at the Annual Meeting, we will adjourn or reschedule the meeting. If enough shares are represented at the Annual Meeting to conduct business, then we will vote on the proposals described in this Proxy Statement and any other business properly brought before the meeting or any adjournment or postponement thereof. We know of no other matters that will be presented for consideration at the Annual Meeting. If, however, other matters or proposals are presented and properly come before the meeting, the proxy holders intend to vote all proxies in accordance with their best judgment in the interest of Zix Corporation and our shareholders.

A representative of Whitley Penn LLP, our independent registered public accounting firm, is expected to be present at the Annual Meeting and will be afforded the opportunity to make a statement, if that representative so desires, and to respond to appropriate questions. A representative of Broadridge Financial Solutions, Inc. will count the votes and act as the independent inspector of election.

### **What is a quorum?**

The holders of a majority of the shares who are entitled to vote at the Annual Meeting must be represented at the meeting in person or by proxy to have a quorum for the transaction of business at the meeting and to act on the matters specified in the notice. A shareholder will be deemed to be represented at the Annual Meeting if the shareholder:

Is present in person; or

Is not present in person, but has voted by proxy card before the Annual Meeting; or

Is not present in person, but a broker has cast for the shareholder a discretionary vote on Proposal 2. As of the record date, there were 54,248,627 shares outstanding and entitled to vote at the Annual Meeting, held by or through 413 holders of record. Each share of our common stock is entitled to one vote. Our shareholders are entitled to cast an aggregate of 54,248,627 votes at the Annual Meeting, so a quorum equals 27,124,314 shares of our common stock.

### **What proposals are shareholders being asked to consider at the Annual Meeting?**

At the Annual Meeting, we will ask our shareholders to consider and vote on the following:

Proposal 1 is to elect six members of our Board of Directors for a one-year term;

Proposal 2 is to ratify the appointment of Whitley Penn LLP as our independent registered public accountants for the fiscal year ending December 31, 2018;

Proposal 3 is a vote to approve, on an advisory basis, the compensation of our named executive officers;

Proposal 4 is a vote to approve the 2018 Plan; and

Any other business properly brought before the meeting or any adjournment or postponement thereof.

## **Table of Contents**

### **What are my voting choices on Proposal 1 for director nominees?**

For the vote on the election of the director nominees, shareholders may:

Vote in favor of all nominees;

Vote to withhold votes from all nominees; or

Vote to withhold votes as to specific nominees, and in favor of the remaining nominees.

*The Board recommends that you vote **FOR Proposal 1 and FOR each of the director nominees.***

### **What vote is needed to elect directors?**

The six nominees will be elected who receive a plurality of the FOR votes out of all votes cast (either FOR or WITHHELD) in person or by proxy at the Annual Meeting.

### **What is a plurality of the votes?**

In order to be elected, a director nominee does not have to receive a majority of FOR votes cast out of all votes cast either affirmatively or withheld in person or by proxy at the Annual Meeting. Instead, the six nominees who will be elected are those who receive the most FOR votes of all the votes cast on Proposal 1 in person or by proxy at the meeting.

### **What happens if a director nominee does not receive a majority of FOR votes?**

Under our Director Nomination and Election Policies, each director nominee in an uncontested election tenders his or her conditional resignation to the Corporate Secretary before the Annual Meeting. That resignation offer becomes effective automatically if the tendering director nominee fails to receive a majority of FOR votes cast out of all votes cast either affirmatively or withheld in person or by proxy at the Annual Meeting ( Majority WITHHELD Vote ). The Nominating and Corporate Governance Committee of the Board (the Nominating and Corporate Governance Committee ) then recommends to the Board whether to accept the offered resignation. The Board will, within 90 days after the certification of voting results, decide whether or not to accept the offered resignation. In general, any director nominee who receives a Majority WITHHELD Vote will not participate in the Nominating and Corporate Governance Committee recommendation or the Board decision regarding an offered resignation. If all members of the Nominating and Corporate Governance Committee received a Majority WITHHELD Vote, then the independent directors who did not receive a Majority WITHHELD Vote will appoint a committee among themselves to consider and make a recommendation to the Board with respect to the offered resignations. If three or fewer directors receive a majority of FOR votes cast out of all votes cast either affirmatively or withheld in person or by proxy at the Annual Meeting, then all directors (including those who received a Majority WITHHELD Vote) may participate in the Board's decision whether to accept or not to accept the offered resignations. The Company will promptly disclose the Board's decision in a Current Report on Form 8-K, including the reasons a resignation is not accepted.

### **What are my voting choices on Proposal 2, the ratification of the appointment of Whitley Penn LLP as the Company's independent registered public accounting firm?**

For the vote on the ratification of the appointment of our independent registered public accounting firm, shareholders may:

Vote in favor of the ratification;

Vote against the ratification; or

Abstain from voting on the ratification.

-iii-



**Table of Contents**

*Our Board recommends that you vote FOR Proposal 2.*

**What vote is required to ratify the appointment of the Company's independent registered public accounting firm?**

The proposal to ratify the appointment of our independent registered public accounting firm requires the FOR vote of the holders of a majority of the shares entitled to vote on the proposal and represented in person or by proxy at the Annual Meeting.

**What are my voting choices on Proposal 3, the advisory vote to approve our executive compensation?**

For the advisory vote on executive compensation, shareholders may:

Vote to approve, on an advisory basis, our executive compensation;

Vote against the approval, on an advisory basis, of our executive compensation; or

Abstain from voting on the advisory proposal.

*Our Board recommends that you vote FOR Proposal 3.*

**What vote is required for the advisory approval of the Company's executive compensation?**

The Company's executive compensation will be approved by the shareholders, on an advisory basis, if the votes cast FOR the proposal are a majority of the shares entitled to vote on the proposal and represented in person or by proxy at the Annual Meeting and entitled to vote thereon.

**How often will the Company hold an advisory vote to approve executive compensation?**

At our 2017 Annual Meeting of Shareholders, our shareholders voted, in an advisory vote, on various frequencies for conducting future advisory votes with respect to compensation of our named executive officers, with an annual frequency receiving the most advisory votes that were cast. After considering those voting results and other factors, our Board determined that the Company would hold an annual advisory vote on the compensation of our named executive officers until (a) the next required vote on the frequency of shareholder votes on the compensation of our named executive officers or (b) the Board otherwise determines that a different frequency for such advisory votes is in the best interests of our shareholders.

**What are my voting choices on Proposal 4, the approval of the 2018 Plan?**

For the vote on the approval of the 2018 Plan, shareholders may:

vote to approve the 2018 Plan;

vote against the 2018 Plan; or

abstain from voting on the proposal.

***Our Board recommends that you vote FOR Proposal 4.***

**What vote is required for the approval of the 2018 Plan?**

The proposal to approve the 2018 Plan requires the FOR vote of the holders of a majority of the shares entitled to vote on the proposal and represented in person or by proxy at the Annual Meeting and entitled to vote thereon.

**What if a shareholder does not specify a choice for a matter when returning a proxy?**

Shareholders should specify their choice for each proposal described on the enclosed proxy card. Proxy cards that are signed and returned will be voted FOR proposals described in this proxy statement for which no specific instructions are given.

## **Table of Contents**

### **How are withheld votes, abstentions and broker non-votes counted?**

Both abstentions and broker non-votes are counted as present for purposes of determining the existence of a quorum at the Annual Meeting. Shares voted WITHHELD as to a director nominee on Proposal 1 will have no effect on the election of the nominees, but, for purposes of the Majority WITHHELD Vote and the effectiveness of a nominee's conditional resignation, will count as votes against the indicated nominee. Shares voted ABSTAIN on any of Proposals 2, 3 and 4 will have the same effect as votes cast AGAINST that proposal. Broker non-votes will not be included in vote totals and will not affect the outcome of the vote on the proposals.

### **Why did I receive more than one Proxy Statement?**

If you received more than one Proxy Statement, your shares are probably registered in different names or are in more than one account. Please vote each proxy card that you receive.

### **What if I want to change my vote?**

You may revoke your vote on any proposal at any time before the Annual Meeting for any reason. To revoke your proxy before the meeting, write to Zix Corporation, Attention: Corporate Secretary, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960. You will need to include a copy of your earlier voted proxy and may be required to provide other information to facilitate the administrative steps actually required to properly revoke your prior proxy and properly record the revocation. You may also come to the Annual Meeting and change your vote in writing. You will need to bring a copy of your earlier voted proxy and may be required to provide other information to facilitate the administrative steps actually required to properly revoke your prior proxy and properly record the revocation.

### **Where will I find the voting results of the Annual Meeting?**

We will announce the preliminary voting results at the Annual Meeting and will publish the preliminary or final voting results in a Current Report on Form 8-K that we will file with the SEC within four business days after the Annual Meeting. If the voting results are not final when that Current Report is filed, we will publish the final voting results in a Current Report on Form 8-K that we will file with the SEC within four business days after the final voting results are determined. You may request a copy of either Current Report at [investor.zixcorp.com](http://investor.zixcorp.com) or by contacting our Investor Relations office at (214) 515-7357.

### **Where can I find additional information? Who can help answer my questions?**

You should carefully review the entire Proxy Statement, which contains important information regarding the proposals, before voting. The section titled WHERE YOU CAN FIND MORE INFORMATION describes additional sources from which to obtain this Proxy Statement, our public filings under the Securities Exchange Act of 1934 and other information about our Company. Additionally, a copy of this Proxy Statement is available on our Company's website at [investor.zixcorp.com](http://investor.zixcorp.com).

If you would like additional copies of this Proxy Statement or other documents that we have filed with the SEC that are incorporated by reference into this Proxy Statement, free of charge, or if you have questions about the proposals or the procedures for voting your shares, please contact: Zix Corporation, Attention: Corporate Secretary, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960, Telephone: (214) 370-2000.



**Table of Contents**

**ZIX CORPORATION**

2711 North Haskell Avenue

Suite 2200, LB 36

Dallas, Texas 75204-2960

**PROXY STATEMENT**

**Annual Meeting of Shareholders**

**June 6, 2018**

**Information Concerning Solicitation And Voting**

**General**

This Proxy Statement is furnished on behalf of the Board of Directors (the Board) of Zix Corporation (we, us, our or the Company) to solicit proxies to be voted at the Annual Meeting of our Shareholders to be held on Wednesday, June 6, 2018, at 10:00 a.m. Central Time, and at any adjournment or postponement of the Annual Meeting for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Shareholders.

Whether or not you personally attend, it is important that your shares be represented and voted at the Annual Meeting. Most shareholders have a choice of voting over the Internet, by using a toll-free telephone number, or by completing a proxy card and mailing it in the postage-paid envelope provided. Check your proxy card or the information forwarded by your bank, broker, or other shareholder of record to determine which voting options are available to you. Please be aware that if you vote over the Internet, you may incur costs such as telecommunication and Internet access charges for which you will be responsible. The Internet voting and telephone voting facilities for shareholders of record will be available until 11:59 p.m., Eastern Time, on June 5, 2018. This Proxy Statement and the accompanying proxy card were first mailed on or about April 27, 2018.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROXY STATEMENT, AND, IF GIVEN OR MADE, THE INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THE DELIVERY OF THIS PROXY STATEMENT SHALL, UNDER NO CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN OUR AFFAIRS SINCE THE DATE OF THIS PROXY STATEMENT.

**Solicitation of Proxies**

The Company is making this solicitation on behalf of our Board. The Company will bear the expense of the preparation, printing and distribution of the enclosed proxy card, Notice of Annual Meeting of Shareholders and this Proxy Statement, and any additional material relating to the Annual Meeting that may be furnished to our shareholders by our Board related to the furnishing of this Proxy Statement. We have engaged Georgeson Inc. to assist in the solicitation of proxy materials from shareholders at a fee of approximately \$7,500 plus reimbursement of reasonable out-of-pocket expenses. Proxies may also be solicited without additional compensation by our officers or employees by telephone, fax, e-mail, or personal interview. We will reimburse banks and brokers who hold shares in their name

or custody, or in the name of nominees for others, for their out-of-pocket expenses incurred in forwarding copies of the proxy materials to those persons for whom they hold those shares. To obtain the necessary representation of shareholders at the Annual Meeting, supplementary solicitations may be made by mail, telephone, fax, e-mail, or personal interview by our officers or employees, without additional compensation, or by selected securities dealers. We anticipate that the cost of those supplementary solicitations, if any, will not be material.

## **Table of Contents**

### **Purpose of Annual Meeting**

The purpose of the Annual Meeting is to obtain approval for the proposals described in this Proxy Statement and to consider any other business properly brought before the Annual Meeting or any adjournment or postponement thereof. At the meeting, we will ask shareholders to consider and vote on the following proposals:

Proposal 1: elect six members of our Board for a one-year term;

Proposal 2: ratify the appointment of Whitley Penn LLP as our independent registered public accountants for the fiscal year ending December 31, 2018;

Proposal 3: approve, on an advisory basis, the compensation of our named executive officers; and

Proposal 4: approve the Zix Corporation 2018 Omnibus Incentive Plan (the 2018 Plan ).

### **Record Date and Shares Outstanding**

Only shareholders who owned shares of our common stock at the close of business on April 13, 2018, referred to in this Proxy Statement as the Record Date, are entitled to notice of, and to vote at, the Annual Meeting. As of the Record Date, 54,248,627 shares of our common stock were outstanding and entitled to vote at the Annual Meeting. Shareholders are entitled to one vote, in person or by proxy, for each share of common stock held in their name on the Record Date.

### **Quorum**

A majority of the outstanding shares of our common stock entitled to vote at the Annual Meeting must be represented, in person or by proxy, at the Annual Meeting to constitute a quorum to conduct business at the meeting. As of the Record Date, there were 54,248,627 shares outstanding and entitled to vote at the Annual Meeting, so we will require a quorum of at least 27,124,314 shares represented at the Annual Meeting in order to conduct business at the meeting.

### **Revocability of Proxies**

You may revoke your proxy at any time before it is exercised. Execution of the proxy will not affect your right to attend the Annual Meeting in person. Revocation may be made before the Annual Meeting by written revocation or through a duly executed proxy bearing a later date sent to Zix Corporation, Attention: Corporate Secretary, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960; or your proxy may be revoked personally at the Annual Meeting by written notice to the Secretary at the Annual Meeting before the voting of the proxy. Any revocation sent to the Company must include the shareholder's name and must be received before the Annual Meeting to be effective.

### **How Your Proxy Will Be Voted**

In the absence of specific instructions to the contrary, shares represented by properly executed proxies received by the Company, including unmarked signed proxies, will be voted FOR each of the proposals that will be considered at the

Annual Meeting. In addition, if any other matters properly come before the Annual Meeting the persons named as proxy holders in the enclosed proxy card will have discretion as to how they will vote the shares they represent. Other than the proposals described in this Proxy Statement, we have not received notice of any matters that may properly be presented at the Annual Meeting.

**Dissenters Rights**

Under Texas law, shareholders are not entitled to dissenters rights with respect to any of the proposals that will be considered at the Annual Meeting.



## **Table of Contents**

### **Tabulation of Votes**

Votes cast at the Annual Meeting will be tabulated by a representative of Broadridge Financial Solutions, Inc. as the independent inspector of election.

### **Vote Required to Approve Proposals**

#### ***Proposal 1***

On Proposal 1, shares may either be voted FOR an individual director nominee or voted WITHHELD as to an individual director nominee. If a quorum is represented at the Annual Meeting, the six nominees who receive the greatest number of FOR votes (also called a plurality of FOR votes) will be elected as directors. Brokers cannot cast discretionary votes in the election of directors, so you must instruct your broker how to vote your shares on Proposal 1. Broker non-votes will not be included in vote totals and will not affect the outcome of the vote on this proposal. A vote WITHHELD as to any director will have no effect on the election of the nominees, but, for purposes of the Majority WITHHELD Vote (as described in the Question and Answer section of this Proxy Statement) and the effectiveness of a nominee's conditional resignation, will be counted as a vote against the election of that director. In the election of directors, shareholders are not entitled to cumulate their votes or to vote for a greater number of persons than the number of nominees named in this Proxy Statement.

#### ***Proposal 2***

On Proposal 2, shares may either be voted FOR the ratification of the appointment of Whitley Penn LLP as the Company's independent auditors for the fiscal year ending December 31, 2018, or voted AGAINST that ratification, or voted to ABSTAIN. If a quorum is represented at the Annual Meeting, the approval of Proposal 2 would require the FOR vote of the holders of a majority of the shares entitled to vote on the proposal and represented in person or by proxy at the Annual Meeting. Because votes to ABSTAIN are counted as shares represented at the meeting, they will have the same effect as votes AGAINST Proposal 2.

#### ***Proposal 3***

On Proposal 3, shares may either be voted FOR the approval, on an advisory basis, of the compensation of our named executive officers, or voted AGAINST that advisory approval, or voted to ABSTAIN. If a quorum is represented at the Annual Meeting, approval of Proposal 3 requires the FOR vote of the holders of a majority of the shares entitled to vote on the proposal and represented in person or by proxy at the Annual Meeting. Broker non-votes will not be included in vote totals and will not affect the outcome of the vote on this proposal. Because votes to ABSTAIN are counted as shares represented at the meeting, they will have the same effect as votes AGAINST Proposal 3.

#### ***Proposal 4***

On Proposal 4, shares may either be voted FOR the approval of the 2018 Plan, or voted AGAINST the approval of that plan, or voted to ABSTAIN. If a quorum is represented at the Annual Meeting, the approval of Proposal 4 would require the FOR vote of the holders of a majority of the shares entitled to vote on the proposal and represented in person or by proxy at the Annual Meeting. Because votes to ABSTAIN are counted as shares represented at the meeting, they will have the same effect as votes AGAINST Proposal 4.

#### ***Other Matters***

An affirmative vote of a majority of the shares represented at the Annual Meeting is generally required for action on any other matters that may properly come before the Annual Meeting. Our bylaws require the affirmative vote of a majority of the shares outstanding (as opposed to a mere majority of shares represented at a meeting) in order to remove a director or amend our bylaws.

**Effect of Broker Non-Votes**

If your shares are held in a brokerage account and you do not instruct your broker how to vote on a particular proposal, your brokerage firm could either:

Vote your shares on that proposal in the broker's discretion, if the rules permit; or

Leave your shares unvoted on that proposal.

## **Table of Contents**

A broker non-vote occurs when a broker or nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker or nominee does not have the discretionary voting power with respect to that proposal and has not received instructions from the beneficial owner. Brokers do not have discretionary authority to vote on Proposals 1, 3 or 4, but they do have the discretionary authority to vote on Proposal 2.

## **Shareholders Proposals**

If you would like to submit a proposal to be included in the Proxy Statement for our 2019 Annual Meeting of Shareholders to be held next year, the submission must be in writing and received by us no later than December 28, 2018. Submissions of shareholder proposals after that date will be considered untimely for inclusion in the Proxy Statement and form of proxy for our 2019 Annual Meeting. A shareholder proposal that does not qualify under SEC Rule 14a-8 for inclusion in our Proxy Statement must be received by the Corporate Secretary at the principal executive offices of the Company no earlier than February 6, 2019 and no later than March 8, 2019.

All notices of proposals, whether or not to be included in our proxy materials, should be sent to our principal executive offices at Zix Corporation, Attention: Corporate Secretary, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960.

## **Reducing the Costs of Proxy Solicitation**

To reduce the expenses of delivering duplicate copies of our annual report to shareholders, this proxy statement and the notice of internet availability of proxy materials, we take advantage of the SEC's householding rules that permit us to deliver only one set of such proxy materials to shareholders who share an address, unless otherwise requested. If you share an address with another shareholder and have received only one set of proxy materials, you may request, and we undertake to deliver promptly upon such request, a separate copy of these materials at no cost to you by contacting Zix Corporation, Attention: Corporate Secretary, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960 or (214) 370-2000. For future Annual Meetings, you may request separate voting materials, or request that we send only one set of proxy materials to you if you are receiving multiple copies, by calling or writing to us at the phone number and address given above.

*Shareholders of Record:* If you vote on the Internet at [www.proxyvote.com](http://www.proxyvote.com), simply follow the prompts for enrolling in the electronic proxy delivery service.

*Beneficial Owners:* If you hold your shares in a brokerage account, you also may have the opportunity to receive copies of these documents electronically. Please check the information provided in the proxy materials mailed to you by your bank, broker or other holder of record regarding the availability of this service.

**Table of Contents****Proposals****PROPOSAL 1 ELECTION OF DIRECTORS**

Our shareholders will vote on the election of six members of our Board at the Annual Meeting. Each director will serve until the next Annual Meeting of Shareholders and until the director's successor is duly elected and qualified, unless earlier removed in accordance with our bylaws.

The nominees for election to our Board are:

<b>Name</b>	<b>Principal Occupation</b>	<b>Director Since</b>
Mark J. Bonney	Consultant	January 2013
Taher A. Elgamel	Chief Technology Officer of Security, Salesforce.com Inc.	July 2011
Robert C. Hausmann	Operating Partner, Thoma Bravo	November 2005
Maribess L. Miller	Consultant	April 2010
Richard D. Spurr	Retired CEO, Zix Corporation	May 2005
David J. Wagner	Chief Executive Officer, Zix Corporation	January 2016

For biographical and other information regarding the nominees for director, please see **OTHER INFORMATION YOU NEED TO MAKE AN INFORMED DECISION** Directors. For information on our directors' compensation, please see **INFORMATION ON THE COMPENSATION OF DIRECTORS**.

Each of the persons nominated for election to our Board has agreed to stand for election. Our Board has no reason to believe that any of the nominees will be unable or unwilling to serve if elected, and to the knowledge of the Board, each of the nominees intends to serve the entire term for which election is sought. Our bylaws provide that the Board may reduce the number of positions on our Board. In addition, our bylaws provide that the Board may fill any vacancy in the Board by the affirmative vote of a majority of the remaining directors.

The six nominees who receive the greatest number of FOR votes (also called a plurality of FOR votes) will be elected as directors. Broker non-votes will not be included in vote totals and will not affect the outcome of the vote on this proposal. A vote WITHHELD as to any director will have no effect on the election of the nominees, but, for purposes of the Majority WITHHELD Vote (as described in the Question and Answer section of this Proxy Statement) and the effectiveness of a nominee's conditional resignation, will be counted as a vote against the election of that director.

**OUR BOARD RECOMMENDS THAT YOU VOTE****FOR PROPOSAL 1 AND FOR EACH DIRECTOR NOMINEE NAMED ABOVE.**

**Table of Contents**

**PROPOSAL 2 RATIFICATION OF APPOINTMENT OF ACCOUNTANTS**

The Audit Committee of the Board (the Audit Committee ) has recommended, and the Board has appointed, Whitley Penn LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018. Services provided to the Company and its subsidiaries by Whitley Penn LLP in fiscal 2017 are described under INDEPENDENT PUBLIC ACCOUNTANTS.

We are asking our shareholders to ratify the appointment of Whitley Penn LLP as our independent registered public accounting firm for the 2018 fiscal year. Although ratification is not required by our bylaws or otherwise, the Board is submitting the appointment of Whitley Penn LLP to our shareholders for ratification as a matter of good corporate practice.

A representative of Whitley Penn LLP will be present at the Annual Meeting to respond to appropriate questions and to make any statements that the firm may desire.

Votes cast FOR Proposal 2 by a majority of the shares of our common stock represented at the Annual Meeting is required to approve Proposal 2. Shares voted to ABSTAIN as to Proposal 2 will be counted as represented at the meeting and will have the same effect as a vote against Proposal 2.

If our shareholders do not approve Proposal 2, the appointment of Whitley Penn LLP will be reconsidered by our Audit Committee and our Board. Even if Proposal 2 is approved, the Audit Committee in its discretion may select a different independent registered public accounting firm if it determines that a change would be in the best interests of the Company and our shareholders and otherwise complies with all regulations of the SEC regarding a change in public accounting firms.

**OUR BOARD RECOMMENDS**

**THAT YOU VOTE FOR PROPOSAL 2.**

**Table of Contents**

**PROPOSAL 3 APPROVE, OMN ADVISORY BASIS, THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

The Dodd-Frank Wall Street Reform and Consumer Protection Act enables the Company's shareholders to vote to approve, on an advisory (nonbinding) basis, the compensation of the Company's named executive officers. The Company seeks your advisory vote and asks that you support the compensation of the named executive officers as disclosed in this proxy statement. Our Board intends to conduct an annual advisory vote on the compensation of the Company's named executive officers, subject to consideration of any alternative outcome with respect to Proposal 4 below.

As described in detail under COMPENSATION DISCUSSION AND ANALYSIS, our compensation program is designed to attract, retain and motivate our executives and drive overall Company performance. We believe that our compensation program, with its balance of short-term incentives and long-term incentives (including both time-based and performance-based equity awards that vest over multiple years), rewards sustained performance that is aligned with long-term shareholder interests.

This proposal, commonly known as a say on pay proposal, gives the Company's shareholders the opportunity to express their views on the compensation of our named executive officers. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the Company's named executive officers described in this proxy statement.

Accordingly, the Board invites you to review carefully the Compensation Discussion and Analysis beginning on page 33 and the tabular and other disclosures on compensation under Executive Compensation beginning on page 44 and to cast a vote to approve the compensation of the Company's named executive officers through the following resolution:

Resolved, that shareholders approve the compensation of the Company's named executive officers, as discussed and disclosed in the Compensation Discussion and Analysis, the executive compensation tables, and any narrative executive compensation disclosure contained in this proxy statement.

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee of the Board (the Compensation Committee) or the Board. The Board and Compensation Committee value the opinions of the Company's shareholders and to the extent there is any significant vote against the named executive officers compensation as disclosed in this proxy statement, the Board will consider the shareholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

At our 2017 Annual Meeting of Shareholders, our shareholders voted, in an advisory vote, on various frequencies for conducting future advisory votes with respect to compensation of our named executive officers, with an annual frequency receiving the most advisory votes that were cast. After considering those voting results and other factors, our Board determined that the Company would hold an annual advisory vote on the compensation of our named executive officers until (a) the next required vote on the frequency of shareholder votes on the compensation of our named executive officers or (b) the Board otherwise determines that a different frequency for such advisory votes is in the best interests of our shareholders.

**OUR BOARD RECOMMENDS**

**THAT YOU VOTE FOR PROPOSAL 3.**



## **Table of Contents**

### **PROPOSAL 4 APPROVAL OF 2018 PLAN**

The Board has unanimously approved the Zix Corporation 2018 Omnibus Incentive Plan (the 2018 Plan ) to replace the Zix Corporation Amended and Restated 2012 Incentive Plan (the Prior Incentive Plan ), subject to shareholder approval at the Annual Meeting, and recommends that the Company s shareholders approve and adopt the 2018 Plan. We intend to reserve 6,000,000 of shares of our common stock for issuance pursuant to awards under the 2018 Plan.

The Company considers the 2018 Plan an essential element of total compensation and believes the 2018 Plan promotes its interests and the interests of its shareholders by: (i) attracting and retaining the services of employees, officers, directors and consultants upon whose judgment, interest and special effort the successful conduct of the Company s operation is largely dependent; and (ii) encouraging the active interest of those persons in the development and financial success of the Company by granting awards designed to provide participants in the 2018 Plan with proprietary interest in the growth and performance of the Company.

A total of 6,300,000 shares of our common stock were authorized for grant under the Prior Incentive Plan. As of March 31, 2018, 482,998 shares remained available for grant under the Prior Incentive Plan. See also Compensation Discussion and Analysis Equity Compensation Plan Information for additional information concerning our equity compensation plan.

If our shareholders approve the 2018 Plan, it will replace the Prior Incentive Plan, such that, (i) no additional grants will be made pursuant to the Prior Incentive Plan, and (ii) any previously granted awards that are outstanding under the Prior Incentive Plan will remain outstanding in accordance with their terms. If our shareholders should fail to approve the 2018 Plan, it will not become effective and the Prior Incentive Plan will continue in force and effect. However, if the 2018 Plan is not approved by our shareholders, we may not be able to continue our equity-based long-term incentive program, and we may be required to increase the cash component of our executive compensation program in order to remain competitive and adequately compensate our employees.

Shareholder approval of the 2018 Plan would also constitute approval for purposes of satisfying the shareholder approval requirements under Section 422 of the Code so that the Compensation Committee or such other committee of our Board that may be designated to administer the 2018 Plan (the Committee ) may grant incentive stock options, or ISOs.

### **Best Practices**

*Independent Oversight.* The Committee, composed solely of independent directors, will approve all grants made under the 2018 Plan other than grants made to non-employee directors which will be approved by our Board. Additionally, the Committee may delegate to other committees of the Board, to the Chief Executive Officer and to our other senior officers its duties under the 2018 Plan pursuant to such conditions or limitations as the Committee may establish; provided, however, that such delegation will not extend to the authority to make awards to participants who are subject to Section 16 of the Exchange Act.

*No Repricing of Options or SARs.* The 2018 Plan prohibits repricing, replacement and regranting of stock options or stock appreciation rights ( SARs ) at lower prices unless approved by our shareholders.

*No Discounted Options or SARs.* Stock options and SARs may not be granted with an exercise price below the closing price of our common stock on the date of grant.



*No Dividends on Options or SARs.* Dividends and dividend equivalents may not be paid or accrued on stock options or SARs.

*Limited Terms for Options and SARs.* Stock options and SARs granted under the 2018 Plan are limited to 10-year terms.

## **Table of Contents**

*No Liberal Share Counting with Respect to Options or SARs.* Shares of our common stock that are (i) not issued or delivered as a result of the net settlement of a stock-settled SAR or option, (ii) withheld or delivered to satisfy the applicable withholding taxes related to an award, (iii) used to satisfy the exercise price related to an option or SAR, or (iv) repurchased on the open market with the proceeds of an option's exercise price will not become available again for awards under the 2018 Plan.

*No Dividends or Dividend Equivalents on Unvested Awards.* The right to receive payment of dividends or dividend equivalents will be forfeited to the extent that an underlying award of restricted stock or restricted stock units do not vest, are forfeited or are otherwise cancelled.

*Annual Limitation on Director Awards and Compensation.* The aggregate grant value of awards and cash compensation paid to any individual non-employee director may not exceed \$1,000,000 in any calendar year. The extent to which such awards may be granted may be further limited pursuant to the terms, conditions and parameters of a plan, program or policy for the compensation of nonemployee directors as in effect from time to time.

*Clawback or Recoupment.* Awards granted under the 2018 Plan will be subject to any clawback policy implemented by the Company.

*No Transferability.* Awards generally may not be transferred, except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order, unless otherwise provided in the applicable award agreement.

*No Evergreen Provision.* Shares of our common stock authorized for issuance under the 2018 Plan will not be replenished automatically. Any additional shares to be issued over and above the amount for which we are seeking authorization must be approved by our shareholders.

*No Automatic Grants.* There are no automatic grants to new participants or reload grants when outstanding awards are exercised, expire or are forfeited.

*No Tax Gross-Ups.* Participants do not receive tax gross-ups under the 2018 Plan.

## **Summary of the 2018 Plan**

A description of the 2018 Plan is set forth below. Because the description of the 2018 Plan in this proxy statement is a summary, it may not contain all the information that may be important to you. The summary is qualified by reference to the 2018 Plan. You should carefully read the 2018 Plan. A copy of the full text of the 2018 Plan is attached hereto as Appendix A to this proxy statement.

### *Eligibility*

Persons eligible for Awards (as defined in the 2018 Plan) are (i) all employees of the Company and its subsidiaries, (ii) non-employee directors and (iii) certain independent contractors. As of March 31, 2018, approximately 239 employees and non-employee directors would be eligible for grants of Awards under the 2018 Plan.

### *Shares Available for Awards*

The aggregate number of shares of our common stock reserved and available for issuance pursuant to Awards granted under the 2018 Plan will be 6,000,000, all of which may be issued as incentive stock options under Section 422 of the Code. The closing price per share of our common stock on March 29, 2018 was \$4.27.

Each share of our common stock subject to an Award granted under the 2018 Plan is counted against the above share reserve as one share. If an Award expires or is terminated, cancelled or forfeited, the shares associated with the expired, terminated, cancelled or forfeited Awards immediately become available for additional Awards under the 2018 Plan, it being understood that no increase or decrease in the above share reserve occurs with respect to an Award that can only be settled in cash. Moreover, the number of shares of common stock reserved for issuance

## **Table of Contents**

under the 2018 Plan is not increased by (i) shares not issued or delivered as a result of the net settlement of a stock-settled SAR or option, (ii) shares that are withheld or delivered to satisfy the applicable withholding taxes related to an Award, (iii) shares that are used to satisfy the exercise price related to an option or SAR, and (iv) shares repurchased on the open market with the proceeds of an option's exercise price.

### *Administration*

The Committee administers the 2018 Plan with respect to Awards to employees and independent contractors and has broad power to take actions thereunder, to interpret the 2018 Plan and to adopt rules, regulations and guidelines for carrying out its purposes. The Board has the sole authority to grant Awards under the 2018 Plan with respect to non-employee directors. The Committee may, in its discretion, among other things: (i) extend the exercisability of an Award in a manner consistent with applicable law or (ii) accelerate the vesting of or eliminate or make less restrictive any restrictions contained in any Award, waive any restrictions or other provision of the 2018 Plan or in any Award or otherwise amend or modify any Award in a manner that is consistent with the minimum vesting periods set forth in the 2018 Plan, and, in each case, that is (x) not adverse to that participant holding the Award or (y) consented to by that participant.

Except in connection with a transaction involving the Company or its capitalization, the terms of outstanding Awards may not be amended without approval of the shareholders of the Company to (i) reduce the exercise price of outstanding options or SARs, (ii) cancel, exchange, substitute, buyout or surrender outstanding options or SARs in exchange for cash or other Awards, (iii) take any other action with respect to a stock option or SAR that would be treated as a repricing under the rules and regulations of the principal national securities exchange on which the shares of our common stock are listed or (iv) permit the grant of any stock options or SARs that contain a so-called reload feature under which additional stock options, SARs or other Awards are granted automatically to the participant upon exercise of the original stock option or SAR.

The Committee also may delegate to other committees of the Board, to the Chief Executive Officer and to our other senior officers its duties under the 2018 Plan to the extent allowed by applicable law.

The Committee will determine the employees and independent contractors to receive Awards and the terms, conditions and limitations applicable to each such Award, which terms, conditions and limitations may, but need not, include continuous service with the Company, achievement of specific business objectives, attainment of specified growth rates, increases in specified indices or other comparable measures of performance.

### *Amendment; Termination*

The Board may amend, modify, suspend or terminate the 2018 Plan for the purpose of addressing any changes in legal requirements or for any other lawful purpose, except that no amendment that would adversely affect the rights of any participant under any Award previously granted to such participant may be made without the consent of such participant unless the amendment is reasonably necessary for such Award to comply with applicable law. In addition, no amendment will be effective prior to its approval by the shareholders of the Company to the extent such approval is required pursuant to Rule 16b-3 in order to preserve the applicability of any exemption provided by such rule to any Award then outstanding (unless the holder of such Award consents) or to the extent shareholder approval is otherwise required by applicable law.

### *Adjustments*

Depending on the transaction described below, the Board either will or may make certain adjustments, including changes to the shares of our common stock subject to outstanding Awards and shares available for grant under the 2018 Plan, in the event of any subdivision, split or consolidation of outstanding shares, any declaration of a stock dividend payable in shares, any recapitalization or capital reorganization of the Company, any consolidation or merger of the Company with another corporation or entity, any adoption by the Company of any plan of exchange affecting the common stock or any distribution to holders of common stock of securities or property (other than normal cash dividends).

---

**Table of Contents***Vesting*

In general, a minimum vesting or restriction period of one year will apply with respect any Award (or any portion thereof) granted under the 2018 Plan; provided an Award granted to a non-employee Director may vest on the earlier of the one-year anniversary of the date of grant or the next annual meeting of the Company's shareholders (as long as the vesting period is not less than fifty (50) weeks after the date of grant). However, the minimum vesting or restriction period may end in connection with a participant's death or termination of employment due to disability or in connection with a Change in Control (as described and defined below). In addition, the minimum vesting or restriction period will not apply to up to 5% of the shares of our common stock (i.e., 300,000 shares) that are reserved for issuance under the 2018 Plan, so long as the award certificate or other contemporaneous writing as of the date of grant designates such shares as not being subject to such minimum vesting or restriction period.

*Change in Control*

A Change in Control generally occurs upon the occurrence of any of the following: (i) during any consecutive 12-month period, individuals who at the beginning of such period were members of the Board ( Incumbent Directors ) cease for any reason to constitute at least a majority thereof, unless the election of each new director was approved by a vote of at least a majority of Incumbent Directors or was a result of an actual or threatened election contest or proxy contest; (ii) any person or group (that is unaffiliated with the Company) becomes the beneficial owner of either 30% or more of the then-outstanding shares of our common stock or securities of the Company representing 25% or more of the combined voting power; (iii) the consummation of a reorganization, merger, sale of substantially all of the Company's assets or similar transaction, unless (x) substantially all beneficial owners of the Company prior to the transaction continue to hold more than 50% of the surviving entity's common stock and total voting power, (y) a majority of the directors of the surviving entity are Incumbent Directors, and (z) no person or group (that is unaffiliated with the Company) is the beneficial owner of either 30% or more of the surviving entity's common stock or securities of the surviving entity representing 25% or more of the total voting power.

Unless otherwise provided in the award certificate or other agreement with a participant, the treatment of a participant's Awards in connection with a Change in Control will depend on (i) whether Awards are assumed by the surviving entity or are otherwise equitably converted or substituted in connection with the Change in Control in a manner approved by the Committee or the Board (a Qualifying Conversion/Assumption ), and (ii) whether a participant's employment is terminated without cause or the participant resigns for good reason with the one-year period after the effective date of the Change in Control (a Qualifying Termination ). In the event a Qualifying Conversion/Substitution does not occur in connection with a Change in Control, then: (x) options and SARs will become fully exercisable immediately prior to the Change in Control, (y) time-based vesting requirements on outstanding Awards will be deemed to be satisfied in full immediately prior to the Change in Control, and (z) all performance-based vesting requirements on outstanding Awards will be deemed to be satisfied on a pro-rata basis at 100% of the target level immediately prior to the Change in Control. In the event a Qualifying Conversion/Substitution occurs in connection with a Change in Control, but a participant incurs a Qualifying Termination, then: (A) such participant's options and SARs will become fully exercisable, (B) time-based vesting requirements on such participant's outstanding Awards will be deemed to be satisfied in full, and (C) all performance-based vesting requirements on such participant's outstanding Awards will be deemed to be satisfied on a pro-rata basis at 100% of the target level.

*Clawback*

Awards under the 2018 Plan will be subject to the provisions of any clawback policy required by applicable law and implemented by the Company, which clawback policy may provide for forfeiture, repurchase and/or recoupment of

Awards and amounts paid or payable pursuant to or with respect to Awards.

*Awards*

At the discretion of the Committee or the Board, as applicable, employees, independent contractors or non-employee directors may be granted Awards under the 2018 Plan in the form of stock options, SARs, restricted stock, restricted stock units, cash awards, performance awards, or any other right or interest relating to shares of our common stock or cash. Such Awards may be granted singly, in combination, or in tandem.

---

**Table of Contents***Options*

Awards may be in the form of options, which are rights to purchase a specified number of shares of our common stock at a specified price not less than that of the fair market value of a share of common stock on the date of grant. An option may be either an incentive stock option ( ISO ) that is intended to comply, or a nonqualified stock option ( NSO ) that is not intended to comply, with the requirements of Section 422 of the Code; provided that independent contractors and non-employee directors cannot be awarded ISOs. The Committee will determine the participants to receive options and the terms, conditions and limitations applicable to each such option. The term of each option may not be longer than a period of 10 years from the date of grant. Except as otherwise provided in an award certificate, any option (i) that remains outstanding as of the last day of its term, (ii) has an exercise price per share that is less than the fair market value of a share of common stock as of such day and (iii) whose exercise is prohibited as of such day pursuant to the operation of the Company's insider trading policy, will be automatically exercised (without any action on the part of the participant holding such option) by (x) foregoing the delivery of shares otherwise deliverable upon the exercise of the option in an amount sufficient to pay the exercise price of the option and (y) satisfying tax withholding obligations by withholding from the shares otherwise deliverable upon the exercise of the option using the minimum tax rate applicable to the participant.

*Stock Appreciation Rights*

Awards may also be in the form of SARs, which are rights to receive a payment, in cash or shares of our common stock, equal to the fair market value or other specified value of a number of shares on the rights exercise date over a specified strike price not less than the fair market value of a share of common stock on the date of grant. The term of each SAR may not be longer than a period of ten (10) years from the date of grant. Except as otherwise provided in an award certificate, any SAR (i) that remains outstanding as of the last day of its term, (ii) has a strike price per share that is less than the fair market value of a share of common stock as of such day and (iii) whose exercise is prohibited as of such day pursuant to the operation of the Company's insider trading policy, will be automatically exercised (without any action on the part of the participant holding such SAR) and any tax withholding obligations will be satisfied by withholding from the cash or shares otherwise deliverable upon the exercise of the SAR using the minimum tax rate applicable to the participant.

*Stock Awards*

Awards may also be in the form of grants of common stock or units denominated in common stock, including restricted stock and restricted stock units ( Stock Awards ). The terms, conditions and limitations applicable to any Stock Award will be determined by the Committee. At the discretion of the Committee, the terms of a Stock Award may include rights to receive dividends or dividend equivalents, which will only be paid if the underlying shares subject to the Award vest pursuant to the terms of the Stock Award.

*Cash Awards*

Awards may also be in the form of grants denominated in cash. The terms, conditions and limitations applicable to any cash awards granted pursuant to the 2018 Plan will be determined by the Committee.

*Performance Awards*

At the discretion of the Committee, any of the above-described Awards may be made in the form of a performance award. A performance award will be paid, vested or otherwise deliverable solely on account of the attainment of one or more performance goals, either individually or in any combination, established by the Committee and specified in



the award certificate.

A performance goal need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria). The amount of cash or shares of our common stock payable or vested pursuant to performance awards may be adjusted upward or downward, either on a formula or discretionary basis or any combination, as the Committee determines.

---

**Table of Contents***Director Award Limits*

No non-employee director may be granted during any calendar year Awards (in his or her capacity as a director) having a fair value determined on the date of grant when added to all cash compensation paid to the non-employee director during the same calendar year in excess of \$1,000,000. The extent to which such Awards may be granted may be further limited pursuant to the terms, conditions and parameters of a plan, program or policy for the compensation of non-employee directors as in effect from time to time.

**U.S. Federal Income Tax Consequences**

The following is a summary of the general rules of current U.S. Federal income tax law relating to the tax treatment of Awards that may be issued under the 2018 Plan. The discussion is general in nature and does not take into account a number of considerations which may apply in light of the particular circumstances of a participant. This summary is not complete and does not attempt to describe any tax consequences arising in the context of the participant's death or the income tax laws of any local, state or foreign country in which the participant's income or gain may be taxable.

*Stock Awards*

**Restricted Stock.** A participant generally recognizes no taxable income at the time of an Award of restricted stock. A participant may, however, make an election under Section 83(b) of the Code to have the grant taxed as compensation income at the date of receipt, with the result that any future appreciation or depreciation in the value of the shares of stock granted may be taxed as capital gain or loss on a subsequent sale of the shares. If the participant does not make a Section 83(b) election, the grant will be taxed as compensation income at the full fair market value on the date the restrictions imposed on the shares expire. Unless a participant makes a Section 83(b) election, any dividends paid to the participant on the shares of restricted stock will generally be compensation income to the participant and deductible by us as compensation expense. In general, we will receive a deduction for U.S. Federal income tax purposes for any compensation income taxed to the participant. To the extent a participant realizes capital gains, as described above, we will not be entitled to any deduction for federal income tax purposes.

**Restricted Stock Units.** A participant who is granted restricted stock units will recognize no income upon grant of the restricted stock units. At the time the underlying shares of common stock (or cash in lieu thereof) are delivered to a participant, the participant will recognize compensation income equal to the full fair market value of the shares received. We will generally be entitled to a deduction for U.S. Federal income tax purposes that corresponds to the compensation income recognized by the participant.

*Options; Stock Appreciation Rights*

Options granted under the 2018 Plan may constitute ISOs within the meaning of Section 422 of the Code, while other options granted under the 2018 Plan may constitute NSOs. Grants of options to non-employee directors and independent contractors are NSOs. The Code provides for tax treatment of options qualifying as ISOs that may be more favorable to participants than the tax treatment accorded NSOs. Generally, upon the exercise of an ISO, the optionee will recognize no taxable income for U.S. Federal income tax purposes, although the difference between the exercise price of the ISO and the fair market value of the stock at the date of exercise is an addition to income in determining alternative minimum taxable income and such amount may be sufficient in amount to subject the optionee to the alternative minimum tax. On the sale of shares acquired by exercise of an ISO (assuming that the sale does not occur within two years of the grant date or within one year of the exercise date), any gain will be taxed to the optionee as long-term capital gain. Except with respect to death or disability, an optionee has three months after termination of employment in which to exercise an ISO and retain favorable tax treatment at exercise. No deduction is

available to the Company upon the grant or exercise of an ISO (although a deduction may be available if the participant disposes of the shares so purchased before the applicable holding periods expire).

---

**Table of Contents**

In contrast, upon the exercise of an NSO, the optionee recognizes ordinary taxable income on the exercise date in an amount equal to the excess of the fair market value of the shares purchased over the exercise price. Upon the sale of such shares by the optionee, any difference between the fair market value at the date of sale and the fair market value at the date of exercise will be treated generally as capital gain or loss. Subject to the limitations discussed below, upon exercise of an NSO, the Company is entitled to a tax deduction in an amount equal to the ordinary taxable income recognized by the participant.

Participants do not recognize taxable income upon the grant of a SAR. Upon the exercise of a SAR, the participant will recognize ordinary income in an amount equal to the cash or fair market value of the shares received at the date of exercise of the SAR. The participant's tax basis in any shares received on the exercise of a SAR will generally equal the fair market value of such shares on the date of exercise. Subject to the limitations discussed below, the Company will be entitled to a deduction for U.S. Federal income tax purposes that corresponds as to timing and amount with the taxable income recognized by the participant under the foregoing rules.

***Deductibility; Excise Taxes***

*Code Section 162(m).* In general, a U.S. Federal income tax deduction is allowed to the Company in an amount equal to the ordinary taxable income recognized by a participant with respect to Awards granted under the 2018 Plan, provided that such amount constitutes an ordinary and necessary business expense of the Company, that such amount is reasonable and that the Company satisfies any withholding obligations with respect to the participant's ordinary taxable income. Following the enactment of the Tax Cuts and Jobs Act, beginning with the 2018 calendar year, the \$1 million annual deduction limitation under Section 162(m) applies to compensation paid to any individual who serves as the Chief Executive Officer, Chief Financial Officer or qualifies as one of the other three most highly compensated executive officers in 2017 or any later calendar year. See also Compensation Discussion and Analysis Impact of Accounting and Tax Treatments of Compensation for a more robust discussion of Section 162(m) of the Internal Revenue Code.

*Change in Control.* The acceleration of the exercisability or the vesting of an Award upon the occurrence of a change in control may result in an excess parachute payment within the meaning of Section 280G of the Code. A parachute payment occurs when an employee receives payments contingent upon a change in control that exceed an amount equal to three times his or her base amount. The term base amount generally means the average annual compensation paid to such employee during the five calendar years preceding calendar year in which the change in control occurs. An excess parachute payment is the excess of all parachute payments made to the employee on account of a change in control over the employee's base amount. If any amount received by an employee is characterized as an excess parachute payment, the employee is subject to a 20% excise tax on the amount of the excess, and the Company is denied a tax deduction with respect to such excess.

*Code Section 409A.* Section 409A of the Code generally provides that any deferred compensation arrangement must satisfy specific requirements, both in operation and in form, regarding (i) the timing of payment, (ii) the advance election of deferrals, and (iii) restrictions on the acceleration of payment. Failure to comply with Section 409A of the Code may result in the early taxation (plus interest) to the participant of deferred compensation and the imposition of a 20% penalty on the participant on such deferred amounts included in the participant's taxable income. The Company intends to structure Awards under the 2018 Plan in a manner that is designed to be exempt from or comply with Section 409A of the Code.

**Future Benefits Under the 2018 Plan**

The allocation of some of the shares that would become available for issuance under the 2018 Plan is not currently determinable as such allocation depends on future decisions to be made by the Committee or the Board in their sole discretion, subject to applicable provisions of the 2018 Plan. No Awards have been granted that are contingent on the approval of the 2018 Plan. Therefore, it is not possible to determine the benefits that will be received in the future by participants in the 2018 Plan or the benefits that would have been received by such participants if the 2018 Plan had been in effect in the year ended December 31, 2017. Certain tables in this proxy statement set forth information with respect to prior awards granted to our named executive officers under the Prior Incentive Plan currently in effect.

**Table of Contents**

In 2018, the Company currently expects to award each non-employee director restricted stock units as described in more detail under Director Compensation. Because future Awards are in the discretion of the Board and the Committee, the number of shares subject to future Awards could increase or decrease and the type and terms of future Awards could change as well, all without the need for future shareholder approval.

The Board believes that the approval of the 2018 Plan is in the best interest of the Company and its shareholders. The Board therefore recommends a vote for the 2018 Plan, and it is intended that the proxies not marked to the contrary will be so voted. Because approval of the 2018 Plan will increase the number of shares available for issuance to all directors and executive officers of the Company, each of the directors and executive officers of the Company has an interest and may benefit from the approval of the 2018 Plan.

**OUR BOARD RECOMMENDS**

**THAT YOU VOTE FOR PROPOSAL 4**

-15-

**Table of Contents****OTHER INFORMATION YOU NEED TO MAKE AN INFORMED DECISION****Directors**

The following table indicates the names of our director nominees and their ages and positions:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Mark J. Bonney <sup>(4)(6)</sup>	64	Independent Director
Taher A. Elgamal <sup>(1)(5)</sup>	62	Independent Director
Robert C. Hausmann <sup>(2)(6)</sup>	55	Chairman of the Board; Independent Director
Maribess L. Miller <sup>(3)(5)</sup>	65	Independent Director
Richard D. Spurr	64	Non-Employee Director
David J. Wagner	53	Chief Executive Officer

- (1) Chair of the Nominating and Corporate Governance Committee
- (2) Chair of the Compensation Committee
- (3) Chair of the Audit Committee
- (4) Member of the Nominating and Corporate Governance Committee
- (5) Member of the Compensation Committee
- (6) Member of the Audit Committee

**Mark J. Bonney** joined our Board in January 2013. He currently serves as President and CEO of On Board Advisors, LLC, a strategic advisory firm. Until its sale in August 2017, he served as President and CEO and a director of MRV Communications, Inc., a supplier of network equipment to the telecommunications industry. Mr. Bonney served as an independent director of MRV from April 2013 until joining the management team in August 2014. Since August 2017, he has served as a director of SeaChange International, Inc., a provider of products and services that enable the aggregation, licensing, distribution and management of video across multiple platforms for the global cable, telecommunications, mobile and media markets. He also served as a director of Sigma Designs, Inc., a provider of high performance system-on-a-chip semiconductor solutions enabling the convergence of the smart home, from August 2012 through August 2015. He was executive vice president and CFO of Direct Brands, Inc., a direct to consumer media company from 2010 to 2012, vice president and general manager of the Authentication Solutions Group of JDS Uniphase Corporation ( JDSU ) an optical technologies and telecommunications firm, from 2008 to 2010 and executive vice president and CFO of American Bank Note Holographics, Inc., ( ABNH ) an optical security device company from 2005 to 2008, before the company's sale to JDSU. Mr. Bonney also served as an outside director and chairman of the audit committee of ABNH from 2003 until 2005. Mr. Bonney has also held executive roles with technology companies, including president, COO and a director of Axsys Technologies, Inc., a manufacturer of components and subsystems for aerospace, defense, data storage, medical and other high technology applications from 1999 to 2002 and CFO of Zygo Corporation, a manufacturer of metrology measurement and control systems and optical components for semiconductor, data storage and industrial markets from 1993 to 1999. He received a master's degree from the University of Hartford and a bachelor's degree from Central Connecticut State University.

Our Board selected Mr. Bonney to serve as a director because of his experience as a Chief Executive Officer, Chief Operating Officer and a Chief Financial Officer of several middle market publicly-traded companies. This experience and his experience as a director of four publicly traded technology companies allow Mr. Bonney to contribute to the Board's deliberations across a broad array of issues as well as providing the Board with meaningful experience in discharging its oversight of corporate governance, operations and financial performance.

**Taher A. Elgamal** was elected to our Board in July 2011. Dr. Elgamal currently serves as CTO Security at Salesforce.com, Inc., a provider of enterprise cloud computing solutions. He is also co-founder and Chairman of IdentityMind, Inc. and serves as a director of Intelligent Fiber Optic Systems Corporation and Vindicia, Inc. Dr. Elgamal



---

**Table of Contents**

has also held executive roles at technology and security companies, including as CEO of First Information Security (data security) from 2012 to 2013, CSO of Axway, Inc. (data security) from 2008 to 2011, CTO of Tumbleweed Communications (email encryption) from 2006 to 2008, CTO of Securify, Inc. from 2001 to 2004, CEO and president of Securify, Inc. from 1998 to 2001 and chief scientist of Netscape Communications from 1995 to 1998. Dr. Elgamal is a recipient of the RSA Conference 2009 Lifetime Achievement Award, and he is recognized as the father of SSL, the Internet security standard Secure Sockets Layer. Dr. Elgamal was issued several patents in online security, payments and data compression. He received a bachelor's degree in electrical engineering from Cairo University, a master's degree in electrical engineering from Stanford University and a doctorate in electrical engineering from Stanford University.

Our Board selected Dr. Elgamal to serve as a director because of his expertise in cybersecurity and encryption technologies. In addition, his experience working with data security firms contributes to the Board's oversight of the Company's cybersecurity risks as well as its marketing strategy. His experience as an executive and director at public and private information technology companies adds to the Board's understanding of many matters facing the Company, including personnel management, business operations and corporate governance.

**Robert C. Hausmann** was elected to our Board in November 2005, was elected Lead Independent Director in December 2012 and non-executive Chairman of the Board in December 2014. In October 2017, Mr. Hausmann became an Operating Partner with Thoma Bravo, a private equity investment firm. Since April 2018, Mr. Hausmann has served as a member of the board of directors and member of the audit and compensation committees of Nintex Global Ltd., a developer of workflow automation software. Since January 2018, Mr. Hausmann has served as a member of the board of directors and member of the audit committee of Motus, LLC, a developer of a cloud-based platform for the automation of mobile workforce activities. Since June 2017, Mr. Hausmann has served as a member of the board of directors and a member of the audit committee of Riskconnect, Inc., a global provider of integrated risk management technology solutions. Since September 2016, Mr. Hausmann has served as a member of the board of directors and member of the audit committee of T2 Systems, Inc., a technology-focused parking management systems provider. Mr. Hausmann was co-founder, a director and Chief Financial Officer of TetraSun, Inc., a solar cell R&D and Manufacturing company that was sold to First Solar, Inc. in 2013. Prior to co-founding TetraSun, Mr. Hausmann was a consultant to public and private companies with respect to operational and financial management matters, including Sarbanes-Oxley and systems and process re-engineering. He also served as Vice President and Chief Financial Officer of Securify, Inc. (computer security monitoring) from September 2002 through June 2005. From September 1999 through September 2002, Mr. Hausmann served as Vice President and Chief Financial Officer of Resonate, Inc. (network traffic management) and managed that company's initial public offering. Prior to these positions, he served as Operations Partner and Chief Financial Officer of Mohr, Davidow Ventures, a Silicon Valley-based venture capital partnership; and as the Chief Financial Officer of Red Brick Systems, Inc., where Mr. Hausmann managed the company's initial public offering. Mr. Hausmann earned a Master of Business Administration degree from Santa Clara University and a Bachelors of Arts degree in Finance and Accounting from Bethel University.

Our Board selected Mr. Hausmann to serve as a director because of his experience as Chief Financial Officer of two publicly-traded companies and two private companies and as Chief Financial Officer of one of Silicon Valley's premiere venture capital firms, which contributes to the Board's resources in overseeing the Company's financial and accounting matters, including public company reporting and disclosure. His consulting work at public and private companies, principally in the information technology industry, brings to the Board valuable experience and perspective on a variety of matters facing the Company, including financial markets, operations, corporate governance, compliance and systems and process re-engineering.

**Maribess L. Miller** was elected to our Board in April 2010. Ms. Miller was a member of the public accounting firm PricewaterhouseCoopers LLP from 1975 until 2009, including serving as the North Texas Market Managing Partner from 2001 until 2009; as Southwest Region Consumer, Industrial Products and Services Leader from 1998 until 2001; and as Managing Partner of that firm's U.S. Healthcare Audit Practice from 1995 to 1998. Since July 2014, Ms. Miller has served as a member of the board of directors for Triumph Bancorp, Inc. (NASDAQ: TBK) and is currently chair of the Nominating and Governance committee and member of the audit committee. Ms. Miller is also a member of the board of directors and chair of the audit committee for Midmark Corporation, a privately-held medical supply company. She served on the Texas State Board of Public Accountancy from 2009 until 2015, is past Board Chair for the Texas Health Institute and serves on the boards of the TCU Neeley School of Business and the North Texas Chapter of the National Association of Corporate Directors. She graduated cum laude with a Bachelor's degree in Accounting from Texas Christian University. Ms. Miller is a Certified Public Accountant.

---

**Table of Contents**

Our Board selected Ms. Miller to serve as a director because of her extensive experience in auditing and consulting with companies in various fields, including healthcare and technology companies, which allows her to contribute valuable perspective and insights about the Company's operations. In addition, Ms. Miller has special expertise in public company accounting and financial reporting. She brings to our Board and the Audit Committee invaluable technical understanding of public company accounting and internal control over financial reporting.

**Richard D. Spurr** was elected to our Board in May 2005 and served as Chairman of the Board from February 2006 until December 2014. He joined our Company in January 2004 as President and Chief Operating Officer. In March 2005, Mr. Spurr was promoted to Chief Executive Officer and he served in that position until his retirement from the Company in January of 2016. Prior to joining the Company, he served as Senior Vice President, Worldwide Sales, Marketing and Business Development for Securify, Inc. (information security). From 1997 to 2001 he served in several senior executive positions at Entrust, Inc. (information technology security) including VP of Sales, Marketing, Business Development and Professional Services, helping to take this technology company from an early stage to and beyond the initial public offering. From 1991 to 1996, he served in several senior executive positions at SEER Technologies, Inc. (information technology) and from 1974 to 1990, he worked for IBM Corporation (information technology) where, as Regional Manager, he was responsible for over 1,000 employees, and as group director in Tokyo, where he managed a \$1.2 billion Asia Pacific business. Mr. Spurr earned a Bachelor of Arts degree from the University of Notre Dame.

Our Board selected Mr. Spurr to serve as a director because, as the Company's former Chief Executive Officer, he has extensive knowledge of our business, thus providing our Board with important insights. In addition, he brings over 30 years of experience in building and managing sales, marketing, business development and service operations in global information technology businesses.

**David J. Wagner** was elected to our Board in January 2016. He joined our Company in January 2016 as President and Chief Executive Officer ( CEO ). Prior to joining the Company, Mr. Wagner held leadership roles at Entrust for 20 years. From 2013 through 2015, Mr. Wagner served as President of Entrust, where he led the successful integration of Entrust after its acquisition by Datacard. Mr. Wagner delivered revenue growth and led the re-investment strategy to move Entrust solutions to the cloud. He also served as Chief Financial Officer of Entrust from 2003 to 2013. Before joining Entrust, Mr. Wagner held various finance and accounting positions at Nortel Networks from 1991 through 1995 and at Raytheon Systems from 1986 to 1991. Mr. Wagner is a graduate of The Pennsylvania State University where he received an undergraduate degree in accounting and a master's of business administration.

Our Board selected Mr. Wagner to serve as a director because, as the Company's Chief Executive Officer, his direct, day-to-day knowledge of and interaction with all aspects of our business, including shareholders, employees and customers, is unique among the directors and provides our Board with important insights into our Company's business. In addition, he brings his sales, marketing and strategy development and implementation experience gained through his executive experience in the global security industry.

**Table of Contents****Executive Officers**

The following table indicates the names of our Executive Officers and their ages and positions. Officers serve at the discretion of our Board.

<b>Name</b>	<b>Age</b>	<b>Position</b>
David J. Wagner	53	Chief Executive Officer and President
David E. Rockvam	49	Vice President and Chief Financial Officer
Justin K. Ferguson <sup>1</sup>	40	Vice President, General Counsel and Corporate Secretary
Kelly P. Haggerty	51	Vice President, Product Management and Strategy
David J. Robertson	59	Vice President, Engineering

**David J. Wagner** was elected to our Board in January 2016. He joined our Company in January 2016 as President and CEO. Prior to joining the Company, Mr. Wagner held leadership roles at Entrust for 20 years. From 2013 through 2015, Mr. Wagner served as President of Entrust, where he led the successful integration of Entrust after its acquisition by Datacard. Mr. Wagner delivered revenue growth and led the re-investment strategy to move Entrust solutions to the cloud. He also served as Chief Financial Officer of Entrust from 2003 to 2013. Before joining Entrust, Mr. Wagner held various finance and accounting positions at Nortel Networks from 1991 through 1995 and at Raytheon Systems from 1986 to 1991. Mr. Wagner is a graduate of The Pennsylvania State University where he received an undergraduate degree in accounting and a master's of business administration.

**David E. Rockvam** has served as our Chief Financial Officer ( CFO ) since June 27, 2016. Mr. Rockvam brings a wealth of experience in the data security market and more than 20 years of experience in investor relations, financial planning, and business and corporate development. Prior to his role at Zix, he served in several executive roles during 18 years with Entrust, including Chief Investor Relations Officer and CFO of Asia Digital Media, an Entrust joint venture. He also held executive roles at Entrust such as General Manager of Entrust Certificate Services, Chief Marketing Officer, and SVP of Product Marketing. Mr. Rockvam began his career at Nortel Networks, where he served in various financial leadership positions. He earned a master of business administration from The University of Texas at Dallas and an undergraduate degree from Texas Tech University.

**Justin K. Ferguson** served as Vice President, General Counsel and Corporate Secretary from November 2015 until March 2018. From August 2011 until joining the Company, Mr. Ferguson served in various executive capacities at GENBAND including Senior Vice President, Director of Legal and Corporate Secretary. He was previously an attorney at the law firms Weil, Gotshal & Manges LLP and Baker Botts L.L.P. Mr. Ferguson received a Juris Doctorate degree, summa cum laude, from Texas Tech University School of Law and a Bachelor of Business Administration degree, magna cum laude, from Texas Tech University. He is a member of the State Bar of Texas and received the highest score on the Texas Bar Examination in the year that he was licensed.

**Kelly P. Haggerty** has served as Vice President, Product Management and Strategy since April 12, 2016. Mr. Haggerty has more than 20 years of experience in the software security market. Prior to his role at Zix, he served as Chief Product Officer for, and consultant to, IID, a Software as a Service (SaaS) Security company. For eight years, he held several leadership roles for McAfee (now Intel Security), including Vice President of Product Management for the Security Management Business Unit from 2010 to 2014 and Vice President of the SaaS Business Unit from 2008 to 2010. In addition, he held leadership roles in product management and product marketing at SurfControl (acquired by Websense) and Elron Software. He earned his bachelor's degree in economics from Christopher Newport University with an emphasis on international business.

- <sup>1</sup> Mr. Ferguson submitted his resignation as Vice President, General Counsel and Corporate Secretary of the Company. Mr. Ferguson's resignation became effective as of March 23, 2018. Mr. Ferguson resigned from the Company in order to take a similar position at a larger company in the Dallas area.

**Table of Contents**

*David J. Robertson* has served as our Vice President, Engineering since March 2002. Mr. Robertson has over 35 years of experience in the internet and telecommunications industries, with specific expertise in hosted network architecture, security technology, communication protocols, software systems and wireless infrastructure. From 1981 through 2000, he was employed by Nortel Networks (telecommunications), where he held technology Vice President positions in the Wireless, Carrier and Enterprise Divisions. From 2001 to 2002, he participated in creating technology startup companies with STARTech Early Ventures (venture capital). He has been a participant in several industry standards-setting groups and serves with the City of Richardson Chamber of Commerce. He holds a Bachelor of Science degree in Electrical Engineering from the University of Waterloo, Canada, and a Master's degree in Engineering from Carleton University, Canada.

Table of Contents

**SECURITY OWNERSHIP OF DIRECTORS, MANAGEMENT AND CERTAIN  
BENEFICIAL OWNERS**

The following table sets forth as of March 31, 2018 (unless otherwise indicated) the shares of our common stock that were beneficially owned by each director, by each executive officer, by all of our directors and executive officers as a group, and by all persons known by us to beneficially own more than 5% of our outstanding common stock. We do have equity ownership guidelines for our directors and executive officers as described in the section of this Proxy Statement titled Equity Ownership Guidelines .

<b>Beneficial Owner<sup>(2)</sup></b>	<b>Amount and Nature of Beneficial Ownership<sup>(1)</sup></b>	
	<b>Total Beneficial Ownership</b>	<b>Percent of Class<sup>(3)</sup></b>
Mark J. Bonney <sup>(4)</sup>	98,623	*
Taher A. Elgamal <sup>(5)</sup>	80,495	*
Robert C. Hausmann <sup>(6)</sup>	124,602	*
Maribess L. Miller <sup>(7)</sup>	76,026	*
Richard D. Spurr <sup>(8)</sup>	126,865	*
David J. Wagner <sup>(9)</sup>	600,198	1.1%
David E. Rockvam <sup>(10)</sup>	262,429	*
Justin K. Ferguson <sup>(11)</sup>	45,704	*
Kelly P. Haggerty <sup>(12)</sup>	184,311	*
David J. Robertson <sup>(13)</sup>	433,404	*
BlackRock Inc. <sup>(14)</sup>	4,158,359	7.5%
Renaissance Technologies <sup>(15)</sup>	3,617,591	6.5%
<b>TOTAL</b>	<b>9,808,607</b>	<b>18.1%</b>
All directors and executive officers as a group (10 persons)	2,032,657	3.7%

\* Denotes ownership of less than 1%.

(1) Reported in accordance with the beneficial ownership rules of the SEC. Unless otherwise noted, each shareholder listed in the table has both sole voting and sole investment power over the common stock shown as beneficially owned, subject to community property laws where applicable.

(2) Unless otherwise noted, the address for each beneficial owner is c/o Zix Corporation, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960.

(3) Percentages are based on the total number of shares of our common stock outstanding at March 31, 2018, which was 54,258,295 shares. Shares of our common stock that were not outstanding but could be acquired upon exercise of an option or other convertible security within 60 days of March 31, 2018 are deemed outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by a particular person. However, those shares are not deemed to be outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by any other person.

(4)

- Includes purchased shares and shares that Mr. Bonney has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of March 31, 2018.
- (5) Includes restricted stock and shares that Dr. Elgamal has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of March 31, 2018.
  - (6) Includes purchased shares, restricted stock and shares that Mr. Hausmann has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of March 31, 2018.



---

## **Table of Contents**

- (7) Includes purchased shares, restricted stock and shares that Ms. Miller has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of March 31, 2018.
- (8) Includes purchased shares and shares that Mr. Spurr has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of March 31, 2018.
- (9) Includes purchased shares, restricted stock and 112,500 shares that Mr. Wagner has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of March 31, 2018.
- (10) Includes restricted stock and 43,750 shares that Mr. Rockvam has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of March 31, 2018.
- (11) Consists of shares of restricted stock held by Mr. Ferguson as of March 31, 2018. Mr. Ferguson resigned as Vice President, General Counsel and Corporate Secretary on March 23, 2018.
- (12) Includes restricted stock and 25,000 shares that Mr. Haggerty has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of March 31, 2018.
- (13) Includes purchased shares, restricted stock and 260,000 shares that Mr. Robertson has the right to acquire under outstanding stock options that are currently exercisable or that become exercisable within 60 days of March 31, 2018.
- (14) As reported in Schedule 13G filed on January 23, 2018, Blackrock, Inc., 55 East 52nd Street, New York, New York 10055, has sole voting power with respect to 4,039,159 shares and sole dispositive power with respect to 4,158,359 shares.
- (15) As reported in Schedule 13G filed on February 14, 2018, Renaissance Technologies LLC, 800 Third Avenue, New York, New York 10022, has sole voting power with respect to 3,388,900 shares, sole dispositive power with respect to 3,414,298 shares and shared dispositive power with respect to 203,293 shares.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires that our directors and executive officers, and certain persons who beneficially own more than 10% of a registered class of our equity securities, file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other securities. Directors, executive officers, and 10%-or-greater shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file with the SEC.

Based solely on a review of the forms filed during or with respect to fiscal year 2017 and written representations from the reporting persons, the Company believes that its executive officers and directors filed all required reports on a timely basis.

## **Corporate Governance**

### **Board of Directors**

Our business is managed under the direction of our Board. As of April 27, 2018 our Board consists of six members. The names of our six current Board members, their professional experience and attributes are described in this Proxy Statement and in our 2017 Annual Report on Form 10-K.

### **Corporate Governance**

Our principal corporate governance documents are available on our website at [www.zixcorp.com/corporate-governance](http://www.zixcorp.com/corporate-governance). We are in compliance with applicable corporate governance requirements, including those of the Sarbanes-Oxley Act of 2002, the Dodd Frank Wall Street Reform and Consumer Protection Act, and the NASDAQ Listing Rules. We will continue to monitor our policies and procedures to ensure compliance with

developing

-22-

## **Table of Contents**

standards in the corporate governance area. Our Board has also designated our Corporate Secretary as the Company's Chief Governance Officer and looks to this officer to keep the Board informed of both developing and current corporate governance matters.

## **Director Independence**

Our Board has determined that all of our Board members other than Richard D. Spurr and David J. Wagner are independent as defined in the NASDAQ Listing Rules. The NASDAQ independence definition includes a series of objective tests, that the subject director is not an employee of the Company and has not engaged in various types of business dealings with the Company. In addition, as further required by the NASDAQ Listing Rules, our Board has made a subjective determination as to each independent director that no relationships exist which, in the opinion of our Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

## **Board Leadership Structure**

The Board believes that the independent oversight of management is an important function of an effective board of directors. The independent members of our Board have determined that the most effective Board leadership structure for our Company at the present time is to have separate individuals in the roles of Chairman of the Board and CEO. Accordingly, Mr. Hausmann currently serves as non-executive Chairman of the Board and Mr. Wagner currently serves as CEO. Our Board believes this structure has strong investor support and demonstrates the Company's commitment to sound corporate governance. The Board retains the authority to modify this structure. The Board elected Mr. Hausmann as non-executive Chairman of the Board in December 2014. Among other roles, the non-executive Chairman advises the CEO about his relationship and communication with the Board, acts as the principal liaison between the independent members of the Board and the CEO, sets the agendas (in consultation with the CEO) and serves as the chairman at meetings of the Board and private sessions of the independent Board members and coordinates the work of the Board's committees. The Board believes this governance structure allows the CEO to focus his time and energy on operating and managing the Company, leverages the experience and perspectives of the Chairman and promotes balance between the independent Directors' oversight of our Company and the CEO's management of the business on a day-to-day basis.

## **Risk Oversight by the Board**

Our management is responsible for assessing and managing the various risks our Company faces. Our Board is responsible for overseeing management in this effort. For example, the Board as a whole oversees management's plans and strategies for dealing with strategic business risks and cybersecurity risks. In exercising its oversight responsibilities, our Board allocates some areas of focus to its standing committees. Specifically, our Audit Committee has oversight responsibility for financial and compliance risks, such as accounting, finance, internal controls, tax, legal and other compliance matters, in addition to overseeing compliance with our Code of Conduct and Code of Ethics. Our Nominating and Corporate Governance Committee oversees succession planning and compliance with our corporate governance principles. Our Compensation Committee is responsible for overseeing and monitoring our executive compensation programs and monitoring and assessing the interplay between those programs and risks in our business.

Throughout the year, our CEO, CFO and General Counsel and other officers review and discuss various risks with the Board and its committees. Our Board has also designated our General Counsel as the Company's Chief Compliance Officer and looks to this officer to keep the Board apprised of material developments with respect to the compliance-related risks that the Company faces, as well as the Company's efforts to manage those risks.

**Political Activities and Contributions**

The Company provides to policymakers, directly and by participating in business and industry associations, information and opinions on matters related to its business. The Company's activity in this respect is principally to offer comments on legislative or regulatory initiatives dealing with privacy or cyber security. The Company has no intention to directly use shareholder funds for advocacy in elections for any public office or to contribute shareholder funds to any third party for that purpose.

---

**Table of Contents**

**Attendance at Board Meetings and Annual Meeting**

Our Board meets during the year to monitor and assess our performance, review significant developments, review and discuss our long-term business strategies and act on matters requiring Board approval. Our Board met on 14 occasions during 2017. Each of the current directors attended at least 75% of the aggregate of all meetings of our Board and its committees held in 2017 during periods in which that director served on the Board and those committees. Directors typically attend our Annual Meeting of Shareholders. All of our directors attended our 2017 Annual Meeting of Shareholders.

**Committees of the Board of Directors**

Our Board has three standing committees: Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. These committees devote attention to specific subjects and to assist our Board in discharging its business and risk oversight and governance responsibilities. Each committee's charter is available on our website at [www.zixcorp.com/corporate-governance](http://www.zixcorp.com/corporate-governance).

**Nominating and Corporate Governance Committee**

Our Nominating and Corporate Governance Committee comprises Taher A. Elgamal (chair) and Mark J. Bonney. Our Board has determined that each member of the Nominating and Corporate Governance Committee qualifies as independent in accordance with the NASDAQ Listing Rules. Under its charter, which is available on our website at [www.zixcorp.com/corporate-governance](http://www.zixcorp.com/corporate-governance), the committee's principal responsibilities include: establishing the criteria for nominating new directors; identifying suitable individuals under those criteria who are qualified to serve as directors; recommending to the Board qualified nominees for election as directors; and developing and recommending to the Board corporate governance principles or practices that the Committee believes should be adopted or implemented by the Company, the Board or its committees. There is no third party that we currently pay to assist in identifying or evaluating potential director nominees. The Nominating and Corporate Governance Committee met on 5 occasions during 2017.

***Shareholder Nomination of Director Candidates***

Our Board and Nominating and Corporate Governance Committee will consider director nominations suggested by shareholders in accordance with the Company's bylaws and the Director Nomination and Election Policies that have been adopted by our Board and are available on our website at [www.zixcorp.com/corporate-governance](http://www.zixcorp.com/corporate-governance).

A shareholder desiring to nominate a person for election to our Board must send a written notice to our principal executive offices at Zix Corporation, Attention: Corporate Secretary, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960. Shareholder nominations for the 2018 Annual Meeting must be received no earlier than February 6, 2018, and not later than March 8, 2018. The written notice must contain the information required by section 1.12 of our bylaws, including all information required to be disclosed in solicitations of proxies for election of directors and as otherwise required pursuant to Regulation 14A under the Securities Exchange Act of 1934. The final selection of director nominees is within the sole discretion of our Board.

***Diversity of Directors***

Our Board and Nominating and Corporate Governance Committee believe that the Board should include directors with diversity of education, experience, skills, qualities, backgrounds and other attributes. The Board does not follow any ratio or formula to determine the appropriate mix of directors, but instead uses its judgment to identify nominees

whose education, experience, skills, qualities, backgrounds and other attributes, taken as a whole, will contribute to the diversity of the Board.

**Table of Contents**

***Director Qualification Criteria***

As described in our Director Nomination and Election Policies, the criteria considered by our Nominating and Corporate Governance Committee and Board in evaluating director candidates include the following characteristics:

**Integrity**

The candidate's ability to objectively analyze complex business problems and develop creative solutions.

The candidate's business and financial sophistication.

The candidate's availability and ability to participate in Board activities and fulfill the responsibilities of a director, including attendance at, and active participation in, meetings of the Board and its committees.

The candidate's ability to work well with the other directors and senior management of the Company.

The candidate's ability to meet the independence criteria that have been adopted by the Board.

Such other objective or subjective criteria as the Nominating and Corporate Governance Committee or the Board may deem appropriate from time to time.

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

The candidate must meet additional independence requirements in accordance with applicable rules and regulations.

The candidate must have the ability to read and understand fundamental financial statements, including a company's balance sheet, statement of operations and statement of cash flows.

At least one member of the Audit Committee must meet the requirements of an audit committee financial expert under SEC rules and regulations.

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

The extent to which the candidate possesses pertinent technological, political, business, financial or social/cultural expertise and experience.

The extent of the candidate's commitment to increasing shareholder value.

The candidate's achievement in education, career and community.

The candidate's past or current service on boards of directors of public or private companies, charitable organizations and community organizations.

The extent of the candidate's familiarity with issues affecting the Company's business and industry.

The candidate's expected contribution to the Board's desired balance and diversity.

The Nominating and Corporate Governance Committee will evaluate a nominated candidate and, after consideration of the director qualification criteria set forth in our Director Nomination and Election Policies (as summarized above), will determine whether or not to proceed with the candidate. These procedures have not been materially modified since the disclosure of our Director Nomination and Election Policies in the proxy statement related to our 2014 Annual Meeting of Shareholders. These procedures do not create a contract between our Company, on the one hand, and a Company shareholder(s) or a candidate recommended by a shareholder(s), on the other hand. We reserve the right to change these procedures at any time, consistent with the requirements of applicable law, rules and regulations, and the discretion of our Board. There are no material differences in the procedures for evaluating new director nominees based on whether they are recommended by a security holder or by our Board.

### ***Director Election Procedures***

Our Director Nomination and Election Policies include a so-called "plurality plus" requirement with respect to the election of our directors. Accordingly, each director nominee in an uncontested election tenders his or her conditional resignation to the Corporate Secretary before the election. If a director nominee receives a Majority WITHHELD Vote in the election, that director's resignation offer becomes effective automatically. The Nominating and Corporate Governance Committee then recommends to the Board whether to accept the offered resignation. Within 90 days after the certification of voting results in the election, the Board will decide whether or not to accept the offered resignation. In general, any director nominee who receives a Majority WITHHELD Vote will not participate in the Nominating and Corporate Governance Committee recommendation or the Board decision regarding an offered resignation. If all members of the Nominating and Corporate Governance Committee received a Majority WITHHELD Vote, then the independent directors who did not receive a Majority WITHHELD Vote will appoint a committee among themselves to consider and make a recommendation to the Board with respect to the



## **Table of Contents**

offered resignations. If three or fewer directors receive a majority of FOR votes cast out of all votes cast in the election, then all directors (including those who received a Majority WITHHELD Vote) may participate in the Board's decision whether to accept or not to accept the offered resignations. The Company will promptly disclose the Board's decision in a Current Report on Form 8-K, including the reasons a resignation is not accepted.

## **Audit Committee**

Our Audit Committee is comprised of Maribess L. Miller (chair), Mark J. Bonney and Robert C. Hausmann. Our Board determined that all three members of the Audit Committee satisfy the independence and other requirements for audit committee membership required by the NASDAQ Listing Rules and the SEC, and that each has sufficient knowledge in reading and understanding our financial statements to serve on the Audit Committee. Our Board also determined that all three members of the Audit Committee qualify as an audit committee financial expert under SEC rules.

Under its charter, which is available on our website at [www.zixcorp.com/corporate-governance](http://www.zixcorp.com/corporate-governance), our Audit Committee's principal responsibilities include, among others: assisting the Board with its oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, the selection and engagement of our independent auditors, assessing and monitoring the qualifications and independence of our independent auditors; overseeing our systems of internal control over financial reporting and disclosure controls and procedures; preparing an audit committee report to be included in our annual proxy statement as required by the Securities and Exchange Commission (the SEC); establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; engaging independent counsel and other advisers, as necessary, to carry out its duties; and reporting regularly to the Board as appropriate and performing such other purposes and responsibilities as may be delegated or assigned to the Audit Committee by the Board. The Audit Committee met on 9 occasions during 2017.

## **Compensation Committee**

Our Compensation Committee consists of Robert C. Hausmann (chair), Taher A. Elgamal and Maribess L. Miller. Our Board has determined that each member of the Compensation Committee qualifies as independent in accordance with the NASDAQ Listing Rules. All of the independent directors on our Board ultimately approve the compensation payable to our executives and directors, but the Board has established the Compensation Committee to assist it in compensation decisions. The Compensation Committee met on 9 occasions during 2017.

The Compensation Committee operates under a written charter that is available on our website at [www.zixcorp.com/corporate-governance](http://www.zixcorp.com/corporate-governance). Under its charter, the Compensation Committee's primary responsibilities include, among other things, the following:

Establish and review the Company's overall management compensation philosophy and policies;

Directly review and approve corporate goals and objectives relevant to the compensation of the CEO and other executive officers, including annual and long-term performance goals and objectives;

Evaluate the performance of the CEO and other executive officers in light of those goals and objectives; and determine and approve the compensation of the CEO and other executive officers based on that evaluation, including incentive-based cash compensation and equity-based compensation;

Review and authorize any employment, compensation, benefit or severance agreement with any executive officer (and any amendments or modifications thereto);

Administer and oversee any equity-based or other compensation plan or program as to which the Board has delegated such responsibility to the Compensation Committee; and

**Table of Contents**

Review and make recommendations to the Board with respect to the Company's director compensation philosophy and policies.

The Compensation Committee's charter provides that the Compensation Committee, in its sole discretion, has the authority to retain a compensation consultant. Paradox Compensation Advisors ( Paradox ), was retained directly by the Compensation Committee to provide periodic advice, analysis and consultation to the Compensation Committee through May 2017. Beginning in June 2017, the Committee engaged Meridian Compensation Partners, LLC ( Meridian ) as its independent compensation consultant. Neither Paradox nor Meridian provided any services directly to the Company or to management.

The Compensation Committee has evaluated the independence of its advisors in light of SEC rules and NASDAQ Listing Rules, which require consideration of the following factors:

Whether any other services are provided to the Company by the consultant or firm;

The fees paid by the Company as a percentage of the consulting firm's total revenue;

The policies or procedures maintained by the consulting firm that are designed to prevent a conflict of interest;

Any business or personal relationships between the individual consultants involved in the engagement and a member of the Compensation Committee;

Any company stock owned by the individual consultants involved in the engagement; and

Any business or personal relationships between our executive officers and the consulting firm or the individual consultants involved in the engagement.

The Compensation Committee discussed these considerations and concluded that its engagement of its advisors and the services provided to the Compensation Committee by its advisors did not raise any conflict of interest.

***Policies, Procedures, and Practices***

Our processes and procedures for the consideration and determination of executive and director compensation are as follows:

Our Compensation Committee requests recommendations from the CEO with respect to the elements of compensation for the members of management that are direct reports to the CEO.

Our Compensation Committee consults with and meets with the CEO as required to discuss his recommendations, meets in executive session, or discusses among themselves, as appropriate, in order to formulate a recommendation regarding the compensation of our executives to our Board (excluding the CEO).

Our Compensation Committee then makes a recommendation to our Board (excluding the CEO).

Our Board members (excluding the CEO) consult and meet with the CEO and the members of the Compensation Committee as required to discuss the latter's recommendation, meet in executive session, or discuss among themselves, as appropriate, to reach a decision.

The decision of our Board members (excluding the CEO) is communicated to the CEO.

As required by NASDAQ Listing Rules, the CEO does not participate in discussions or decisions regarding his own compensation.

For the consideration and determination of director compensation, our Board typically refers the matter to the Compensation Committee in order for it to review the matter and make a recommendation to the entire Board.

## **Table of Contents**

The Compensation Committee has the authority to create one or more subcommittees of two or more of its members. The Compensation Committee may delegate any of its responsibilities to a subcommittee so long as such delegation is not otherwise inconsistent with law and applicable rules and regulations of the SEC and NASDAQ.

### ***Compensation Committee Interlocks and Insider Participation***

During 2017, the Compensation Committee was composed entirely of independent directors. None of the members of the Compensation Committee is or was, during 2017 or previously, an officer or employee of our Company or any of our subsidiaries and none had any relationship requiring disclosure under Item 404 of the SEC's Regulation S-K. During 2017, none of our executive officers served as a member of a Board of Directors or compensation committee of any other entity that had one or more executive officers serving as a member of our Board or Compensation Committee.

### **Communications with Directors**

Shareholders interested in communicating with our Board of Directors may do so by writing to our executive offices at Zix Corporation, Attention: Corporate Secretary, 2711 North Haskell Avenue, Suite 2200, LB 36, Dallas, Texas 75204-2960. Our Corporate Secretary will review all shareholder communications. Those that appear to contain subject matter reasonably related to matters within the purview of our Board will be forwarded, as appropriate, to the Board, committee or individual Board member.

### **Code of Ethics**

We have a Code of Conduct and Code of Ethics, which applies to all of our employees, officers and directors, including our CEO and senior financial officials. It is available on our website at [www.zixcorp.com/corporate-governance](http://www.zixcorp.com/corporate-governance). The Code of Conduct and Code of Ethics affirms that we expect all directors, officers and employees to uphold our standards of ethical behavior and compliance with the law and to avoid conflicts of interest between the Company and their personal and professional affairs. It establishes procedures for the confidential reporting of suspected violations of the Code of Conduct and Code of Ethics. It also sets forth procedures to receive, retain, and treat complaints received regarding accounting, internal control, auditing or compliance matters and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting, internal control, auditing or compliance matters. Our Code of Conduct and Code of Ethics also addresses conflicts between the interests of our directors or officers and our Company or its shareholders. Any waiver of our Code of Conduct and Code of Ethics must be approved by the Board, or a committee of the Board, as applicable, and must be in compliance with applicable law. Any waiver of our Code of Conduct and Code of Ethics will be publicly disclosed by posting information about the waiver on our website at [www.zixcorp.com/corporate-governance](http://www.zixcorp.com/corporate-governance).

### **Independent Registered Public Accountants**

#### **General**

Whitley Penn LLP has been appointed by the Audit Committee as our independent registered public accounting firm for fiscal year 2018. Also, Whitley Penn LLP was selected by the Audit Committee as our independent registered public accounting firm the previous twelve consecutive fiscal years. Whitley Penn's service in that role in each of those years was ratified by our shareholders.

A representative of Whitley Penn LLP is expected to be present at the 2018 Annual Meeting, and will have the opportunity to make a statement and to respond to appropriate questions.

**Table of Contents****Fees Paid to Independent Public Accountants**

Following is a summary of Whitley Penn's professional fees billed to us for the years ended December 31, 2016 and December 31, 2017:

	<b>2016</b>	<b>2017</b>
Audit Fees	191,643 <sup>(1)</sup>	213,445 <sup>(1)</sup>
Audit-Related Fees	14,526 <sup>(2)</sup>	17,716 <sup>(2)</sup>
Tax Fees		
All Other Fees		
<b>Total Fees</b>	<b>\$ 206,169</b>	<b>\$ 231,161</b>

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

(2) Audit-related fees consist of required audits of our employee benefit plan.

**Audit Committee Pre-Approval Policies and Procedures**

Our Audit Committee is required to pre-approve the audit and non-audit services to be performed by Whitley Penn LLP in order to assure that the provision of services does not impair the auditor's independence. Annually, Whitley Penn LLP presents to our Audit Committee the services that are expected to be performed by the independent auditor for the succeeding fiscal year. Our Audit Committee reviews and, as it deems appropriate, pre-approves those services. The services and estimated fees are to be presented to our Audit Committee for consideration in the following categories: Audit, Audit-Related, Tax and All Other (each as defined in Schedule 14A under the Securities Exchange Act of 1934). For each service listed in those categories, our Audit Committee receives detailed documentation indicating the specific services to be provided. The term of any pre-approval is 12 months from the date of pre-approval, unless our Audit Committee specifically provides for a different period. Our Audit Committee reviews, on at least an annual basis, the services provided by Whitley Penn LLP and the fees incurred for those services. Our Audit Committee may also revise the list of pre-approved services and related fees from time-to-time, based on subsequent determinations. All of the services provided by Whitley Penn LLP in 2017 were approved in accordance with the Audit Committee's pre-approval policies, and all of the services expected to be provided by Whitley Penn LLP in 2018 have been pre-approved by our Audit Committee.

**REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

The Audit Committee oversees, pursuant to its written charter, which was adopted by the Board, the Company's internal control over financial reporting. The Audit Committee also has the sole authority and responsibility to select, evaluate, compensate and replace our independent registered public accountants. The Company's independent registered public accounting firm is responsible for auditing the Company's financial statements. The activities of the Audit Committee are in no way designed to supersede or alter the responsibilities of the independent registered public accounting firm.

Management has the primary responsibility for our financial statements and our reporting processes, including our systems of internal control. In fulfilling its oversight responsibilities, the Audit Committee reviewed with management for inclusion in our 2017 Annual Report on Form 10-K, the audited consolidated financial statements of the Company, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the consolidated financial statements.

The Audit Committee has reviewed and discussed with management and the independent accounting firm, as appropriate, the audited financial statements and management's report on internal control over financial reporting and the independent accounting firm's related opinions. The Audit Committee has discussed with the independent registered public accounting firm, Whitley Penn LLP, the required communications specified by auditing standards together with guidelines established by the SEC and the Sarbanes-Oxley Act.



**Table of Contents**

The Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by the applicable requirements of the Public Company Accounting Oversight Board, regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and has discussed with Whitley Penn LLP the firm's independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for 2017 filed with the SEC.

April 27, 2018

Respectfully submitted by the Audit Committee,

Mark J. Bonney

Robert C. Hausmann

Maribess L. Miller, Chair

*This Report will not be deemed to be incorporated by reference in any filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this Report by reference.*

---

**Table of Contents**

**INFORMATION ON THE COMPENSATION OF DIRECTORS**

**General**

A director who is an employee of the Company receives no additional compensation for his or her services as a director. A director who is not an employee (a non-employee director) receives compensation for his or her services as described in the following paragraphs. All directors are reimbursed for reasonable expenses incurred in connection with attendance at Board and committee meetings.

**Retainer/Fees**

Each non-employee director receives an annual retainer for service as a director. The amount and form of the retainer are fixed from time to time by the Board taking competitive benchmarking into account.

For 2017, the annual retainer was \$112,000 (the Annual Retainer ). Subject to the election of the director otherwise, the Annual Retainer is paid 60% in cash ( Cash Portion ) and 40% in the form of stock options ( Equity Portion ). Non-employee directors have the one-time option to increase the Equity Portion (with a corresponding decrease in the Cash Portion) and, subject to compliance with the Company's stock ownership guidelines, to increase the Cash Portion (with a corresponding decrease in the Equity Portion). Each non-employee director also has the option (the Restricted Stock Right ) to receive any whole percentage above 0% and up to 50% of the Equity Portion in a one-time grant of restricted stock, rather than stock options. For 2018, this one-time grant may also be made in restricted stock units. In the event any non-employee director exercises his or her Restricted Stock Right, the option component of the Equity Portion will be reduced by a corresponding amount. All such options and restricted stock vest quarterly over a period of one year.

The non-executive Chairman of the Board also received an additional annual fee of \$24,000, payable in cash, and each non-employee director serving as a chair of one of the standing Board committees received an additional annual fee, also payable in cash, as follows:

Audit Committee - \$14,000

Compensation Committee - \$10,000

Nominating & Corporate Governance Committee - \$7,500

Each non-employee director received an annual fee of \$5,000, payable in cash, for service on each standing committee of the Board (committee chairs will not receive this fee).

All of the cash fees described above were paid in four quarterly installments. All of the equity awards described above were granted in the first quarter of 2017.

Non-employee directors do not receive additional compensation for attending board or committee meetings.

**Option Awards Upon Initial Election or Appointment**

New directors generally receive a grant of options pursuant to our incentive plan following their initial election or appointment to the Board.

**Table of Contents****2017 Director Compensation Paid**

The following table sets forth the cash and non-cash compensation paid to our non-employee directors who served in calendar year 2017:

**2017 Director Compensation**

Name	Fees Earned or Paid in Cash <sup>(1)</sup>	Restricted Stock Awards <sup>(2)</sup>	Option Awards <sup>(3)</sup>	Change in Pension Value and Nonqualified Non-Equity Deferred Compensation <sup>(4)</sup>		All Other Compensation <sup>(5)</sup>	Total
				Earning	Compensation		
Mark J. Bonney <sup>(4)</sup>	\$ 66,000	\$ 28,000	\$ 28,000				\$ 122,000
Taher A. Elgamal	\$ 79,700	\$ 22,399	\$ 22,400				\$ 124,499
Robert C. Hausmann <sup>(5)</sup>	\$ 139,800	\$ 5,600	\$ 5,600				\$ 151,000
Maribess L. Miller	\$ 131,000						\$ 131,000
Richard D. Spurr <sup>(6)</sup>	\$ 112,000						\$ 112,000

- (1) See the discussion above for an explanation of the components of cash compensation paid to our directors in 2017.
- (2) Mr. Bonney was granted 5,645 shares of restricted stock. Mr. Elgamal was granted 4,516 shares of restricted stock. Mr. Hausmann was granted 1,129 shares of restricted stock. Ms. Miller was not granted any shares of restricted stock. Mr. Spurr was not granted any shares of restricted stock. The fair market value of the shares of restricted stock was \$4.96 on the grant date.
- (3) Mr. Bonney was granted 15,375 stock options. Mr. Elgamal was granted 12,300 stock options. Mr. Hausmann was granted 3,075 stock options. Ms. Miller was not granted any stock options. Mr. Spurr was not granted any stock options. The fair market value of the stock options was \$1.82 on the grant date.
- (4) Fees earned in cash by Mr. Bonney were paid to On Board Advisors, LLC.
- (5) Fees earned in cash by Mr. Hausmann were paid to Business Services Group, LLC.
- (6) Mr. Spurr resigned as Chief Executive Officer on January 19, 2016. In connection with his resignation, Mr. Spurr received certain compensation and benefits as further described in the section titled "Retirement and Resignation of Named Executive Officers" in our proxy statement for the 2017 Annual Meeting of Shareholders filed with the SEC on April 27, 2017.

---

**Table of Contents****COMPENSATION DISCUSSION AND ANALYSIS****Executive Summary****Our Business**

The Company offers email encryption, advanced threat protection, archiving, Bring-Your-Own-Device ( BYOD ) security, and data loss prevention ( DLP ) to meet business data protection and compliance needs. Our customers can purchase any of these solutions on a standalone basis or as a bundled offering for business communication protection. We primarily serve organizations in the healthcare, financial services, insurance and government sectors, including significant federal financial regulators, such as all members of the *Federal Financial Institutions Examination Council* ( FFIEC ), divisions of the U.S. Treasury, the U.S. Securities and Exchange Commission ( SEC ), more than 30% of U.S. banks, more than 30% of Blue Cross Blue Shield plans and more than 1,200 U.S. hospitals.

**2017 Financial Performance**

In 2017, we delivered record annual revenue of \$65.7 million, which constitutes growth of 9% year-over-year. Net Income determined in accordance with generally accepted accounting principles ( GAAP ) was (\$8.1) million in 2017, compared to \$5.8 million in 2016. The 2017 earnings included a one-time non-cash charge due to the future effect of the lower U.S. corporate income tax rate resulting from the 2017 tax reform legislation (effective January 1, 2018). At December 31, 2017, the Company adjusted its deferred tax balances to reflect the new tax rate that resulted in tax expense of \$12.5 million. Cash flow from operations for the full year ended December 31, 2017, was \$18.2 million up 19% from \$15.3 million for the full year ended December 31, 2016. Cash and cash equivalents at 2017 year-end was \$33.0 million. We spent \$3.8 million on share repurchases during 2017. We also spent \$8.2 million for the purchase of Greenview Data and EMS technology to enter the email Advanced Threat Protection and email Archiving markets and to provide our customers a broader end-to-end encryption solution. We delivered (\$0.15) of GAAP diluted earnings per share in 2017, due to the future effect of the lower U.S. corporate income tax rate resulting from the 2017 tax reform legislation (effective January 1, 2018), which was down from \$0.11 in 2016.

**Non-Binding Advisory Vote on Executive Compensation ( Say on Pay ) and Frequency of Say on Pay**

In 2017, our stockholders approved, on an advisory basis, the compensation programs for our named executive officers. Advisory votes in favor of these programs were cast by over 98.75% of the shares of Common Stock present in person or represented by proxy and entitled to vote at the 2017 Annual Meeting of Stockholders. Our stockholders also voted 81.47% in favor of our conducting advisory Say-on-Pay votes on an annual basis, which was the frequency recommended by our Board because it would provide our stockholders with the opportunity to provide more current feedback regarding our compensation programs and policies. The Board and our Compensation Committee (also referred to as the Committee in this Compensation Discussion and Analysis) took the results of these votes into account when evaluating the compensation programs for our named executive officers in 2017 and when determining the frequency with which we will provide our stockholders an opportunity to cast a Say-on-Pay vote. Based in part on the level of support from our stockholders, our Compensation Committee elected not to make any material changes to the compensation programs for our named executive officers during 2017 and to provide our stockholders with an annual opportunity to cast an advisory vote on the compensation programs for our named executive officers.

**Governance and Evolving Compensation Practices**

The Compensation Committee and the Board are mindful of evolving practices in executive compensation and corporate governance. In response, we have adopted certain policies and practices that are in keeping with best

practices in many areas. For example:

The Compensation Committee engages an independent compensation consultant to evaluate our executive compensation practices in comparison to a peer group.

-33-

**Table of Contents**

We do not provide excessive executive perquisites or extraordinary relocation benefits to our named executive officers.

We do not provide tax gross-ups for excise taxes triggered as a result of change-in-control severance.

Our incentive plans and our executive termination benefit agreements which provide for payments to executives if their employment is terminated under specified circumstances ( ETBAs ) have double-trigger vesting for equity awards in the context of a change in control if the awards are assumed by the acquiring company, whereby participants would receive accelerated vesting only if the change in control is coupled with their termination without cause or voluntary resignation for good reason.

Our incentive plans expressly prohibit repricing of options (directly or indirectly) without prior shareholder approval.

Our Policy on the Prevention of Insider Trading prohibits various types of transactions involving Company stock or securities, including short sales, options trading, hedging, margin purchases and pledges.

Our stock ownership guidelines require our executive officers to align their long-term interests with those of our stockholders.

Our executive compensation is subject to recoupment or clawback under applicable law and in accordance with the Company s Incentive Recoupment Policy.

**Executive Compensation Overview**

A significant portion of the 2017 compensation of our named executive officers was directly affected by our financial results and stock price, both in the amount of cash compensation earned and the value of outstanding long-term equity awards.

For 2017, compensation designed for our executive officers consisted of:

Base salary;

Short-term cash awards conditioned upon achieving objective performance targets;

Long-term equity in the form of time and performance-based restricted stock; and

Ability to participate generally in all group health and welfare benefit programs and tax-qualified retirement plans on the same basis as applicable to all of our employees.

As described in more detail below, short-term cash performance awards under our 2017 Variable Compensation Plan ( VCP ) were tied to achieving pre-established target levels under three objective performance measures: revenue, new first year orders and adjusted earnings before interest, taxes, depreciation and amortization ( Adjusted EBITDA ). The Company achieved a portion of the 2017 targets established under the three metrics and the Committee used its negative discretion to adjust downward the payout under the 2017 VCP. Accordingly, the named executive officers received a portion of the target payout with respect to the 2017 VCP.

Long-term incentive awards granted to officers in 2017 were awarded 25% in performance-based restricted stock and 75% in time-based restricted stock. For 2018, this mix was changed for the Chief Executive Officer (also referred to as the CEO in this Compensation Discussion and Analysis) so that his award was granted 50% in performance-based restricted stock and 50% in time-based restricted stock.

### **General**

The Compensation Committee administers the cash and non-cash compensation programs applicable to our executive officers. The Board generally reviews and ratifies compensation decisions made by the Compensation Committee.



---

## **Table of Contents**

The Compensation Committee makes all decisions about executive officer compensation after discussion with our Chief Executive Officer about his direct reports. The Compensation Committee has often refined compensation recommendations made by the Chief Executive Officer. As a general matter, the Board reviews and ratifies the executive officer compensation decisions made by the Compensation Committee. Our Chief Executive Officer's compensation is determined solely by the Compensation Committee, which, consistent with NASDAQ requirements, is comprised exclusively of independent directors, and the Chief Executive Officer does not participate in discussions or decisions surrounding his compensation.

During 2017, our named executive officers were David J. Wagner, Justin K. Ferguson, Kelly P. Haggerty, David J. Robertson, and David E. Rockvam (collectively, named executive officers, or NEOs). Justin K. Ferguson resigned as General Counsel effective March 23, 2018. The compensation paid in 2017 to our NEOs, as set forth below in the Summary Compensation Table, primarily consisted of base salary, restricted stock, payout with respect to the 2017 VCP. NEOs also received partial match contributions to the Company-sponsored 401(k) plan (which we offer on a non-discriminatory basis to all 401(k) plan participants) and Company-funded life insurance benefits (which we offer on a non-discriminatory basis to all full-time employees). We have no non-qualified deferred compensation arrangements, defined benefit retirement plans or meaningful NEO perquisites.

### **Independent Compensation Consultant**

The Committee retained Paradox as its independent compensation consultant through May of 2017. Beginning in June 2017, the Committee engaged Meridian as its independent compensation consultant. Paradox and Meridian provided executive and director compensation consulting services to the Committee, including advice regarding the design and implementation of compensation programs, market information, regulatory updates and analyses and trends on executive compensation and benefits. Interactions between Paradox and Meridian and management were generally limited to discussions on behalf of the Committee or as required to compile information at the Committee's direction. During 2017, neither Paradox nor Meridian provided any other services to the Company. Based on these factors and its own evaluation of both Paradox's and Meridian's independence pursuant to the requirements approved and adopted by the SEC, the Committee has determined that the work performed by Paradox and Meridian does not raise any conflicts of interest.

### **Compensation Philosophy and Objectives**

Our Board and Compensation Committee believe that an effective executive compensation program is one that, among other things, accomplishes the following goals:

Attracts and retains executives (i) with the experience, skills, and knowledge that our Company seeks and requires and (ii) that are committed to achieving our goals;

Rewards the achievement of specific, objective performance metrics established by our Compensation Committee; and

Motivates management to increase long-term shareholder value.

Our Board and Compensation Committee seek to implement and maintain a compensation plan for our executive officers that is fair, reasonable, and competitive, and that attracts and retains talented and qualified personnel. Our

Board believes that equity awards supplement the cash base salary and motivate the recipient to work to achieve long term value for our shareholders. Our Board also believes that equity awards, variable compensation awards, and ETBAs are crucial to recruiting (and retaining) the services of qualified and talented personnel.

**Risk Considerations**

The Board and Compensation Committee reviewed with management the design and operation of our compensation programs for all employees, including executive officers, for the purpose of determining whether such programs might encourage inappropriate risk-taking that could have a material adverse effect on the Company. After conducting its evaluation, the Board concluded that the Company's compensation programs do not encourage employees to take risks that are reasonably likely to have a material adverse effect on the Company.

**Table of Contents****Role of Executive Officers in Compensation Decisions**

Our Board, the Compensation Committee and our management each play a role in our compensation process. The Compensation Committee reviews and approves our executive compensation practices, which the Board then reviews and customarily ratifies. The CEO does not participate in discussions or decisions about his own compensation. Our Board has delegated to our management the authority to make certain compensation related decisions for employees who are not executive officers.

**Approval Authority for Certain Compensation Related Matters**

Compensation decisions affecting the CEO and other NEOs are approved by the Compensation Committee, which is comprised solely of independent directors, and are separately ratified by the Board, except that the CEO does not participate in any discussions or decisions related to the CEO's own compensation.

**Competitive Market Information**

The Compensation Committee periodically engages a compensation consultant to evaluate the Company's compensation for various selected positions, including the named executive officers, in order to assist the Compensation Committee in setting executive compensation that is market competitive. This study was considered by the Compensation Committee and Board when setting executive compensation for 2016 and 2017.

After consideration of business models, company revenue and market capitalization of other companies in the Company's technology industry segment, Paradox, the compensation consultant used by the Company at the time the study was last conducted and the Compensation Committee chose a group of 19 peer companies as compensation analysis comparators for the 2016 study. This group consisted of the following companies:

***Compensation Analysis Peer Group***

Actua	FireEye
American Software	Five9
Apigee	GlobalScape
Asure Software	Glowpoint
Bridgeline	Netsol Technologies
Brightcove	Proofpoint
Carbonite	Q2 Holdings
Digimarc	Qualus
Digital Turbine	Sciqest

Falconstor Software

Data from the compensation analysis peer group was evaluated with respect to base salary, actual total cash (base salary + last actual bonus), long-term incentive values, and total direct compensation (base salary + last actual bonus + total long-term incentive values).

***Executive Officer Base Salaries and Compensation Comparisons***

Our executive officers' salaries are, in general, established by the Compensation Committee by (i) reference to each executive's position with our Company and (ii) a subjective assessment of the cost to us of hiring executives with comparable experience and skills. For 2017, the Compensation Committee also considered the 2016 executive compensation study prepared by Paradox. We believe this approach offers our executives, including our named executive officers, a reasonable base salary as subjectively determined by our Compensation Committee following a recommendation by our CEO. In connection with this process, the Board ratifies NEO base salary determinations made by the Compensation Committee, and the CEO's base salary is determined and ratified without any input or participation by the CEO. The amount of compensation awarded to each of the executive officers relates primarily to the experience, responsibilities and performance of each executive officer, as well as to a subjective assessment of compensation paid by similar companies for comparable positions.

Base salaries for all named executive officers remained unchanged for 2017.

**Table of Contents*****Executive Officer Variable Compensation***

We believe that variable compensation, based on the Company's achievement of objective performance measures, is an important component of an executive's overall compensation package and helps to attract and retain executives with the skills, experience, and knowledge we seek. Furthermore, we believe a variable compensation element motivates the recipient to achieve financial and business objectives established by our Board and enables the recipient to share in the success of our business endeavors.

The Company's executive officers, other than executives whose primary function is sales, typically are eligible to receive awards under VCPs approved by our Compensation Committee for each calendar year. Each executive officer is provided a total variable compensation opportunity, with payment conditioned upon the Company meeting objective performance targets under various metrics that are established by the Compensation Committee. Achievement of the target level of performance, and payment of the associated variable compensation opportunity, is determined separately by the Compensation Committee for each performance metric. Therefore, the Company need not meet the performance targets under all of the metrics in order to pay variable compensation. For 2017, our Compensation Committee approved a VCP with metrics based on three objective performance measures:

Revenue

New first year orders

Non-GAAP Adjusted EBITDA. Adjusted EBITDA adds back stock-based compensation and certain litigation and consulting expenses.

The 2017 VCP established a minimum performance goal, a target performance goal and an upside performance goal for each of the three objective metrics. The achievement of the minimum performance goal for a given performance metric would result in the payment of 50% of the 2017 VCP payment opportunity allocated to that performance metric, the achievement of the target performance goal for a performance metric would result in the payment of 100% of the 2017 VCP payment opportunity allocated to that performance metric, and the achievement of the upside performance goal for a performance metric would result in the payment of 150% of the 2017 VCP payment opportunity allocated to that performance metric. Any percentage level achievement between the minimum performance goal and target performance goal for a performance metric and between the target performance goal and upside performance goal would result in the payment of a portion of the 2017 VCP payment opportunity allocated to that performance metric determined by interpolation on a straight-line basis.

Each metric was given a 33.3% weighting. As indicated in the table below, the Company achieved varying levels of the 2017 performance metrics for a weighted average actual achievement of 99%. However, the Committee used its negative discretion to adjust the weighted average payout from 99% to 71.6% of the 2017 VCP.

**Table of Contents****Variable Compensation for Named Executive Officers**

Performance Metrics	Weight	2017 Metric Levels*			2017 Actual Achievement	2017 Actual %	2017 Achievement %
		Minimum	Target	Maximum			Per the Plan
Revenue	33.3%	\$ 62.5	\$ 64.5-\$67.0	\$ 69.0	\$ 65.7	102%	100%
New First Year Orders	33.3%	\$ 8.7	\$ 9.7-\$10.5	\$ 11.5	\$ 9.3	96%	82%
Adjusted EBITDA**	33.3%	\$ 16.1	\$ 18.0	\$ 19.9	\$ 18.2	101%	104%

2017

Performance

Metrics

(Cont d)	Weight	Minimum Goal	Minimum Payout	Target Goal	Target Payout	Maximum Goal	Maximum Payout
Revenue	33.3%	97%	50%	100%	100%	107%	150%
New First Year Orders	33.3%	90%	50%	100%	100%	119%	150%
Adjusted EBITDA**	33.3%	90%	50%	100%	100%	111%	150%

Weighted

Weighted

Average

Average

Achievement

Actual

Per the

Achievement

Plan

Weighted Average Payout %

99%

95%

71.6%

\* Dollar amounts in millions.

\*\* For a detailed description of how the Company uses non-GAAP metrics and arrived at Adjusted EBITDA for the full year 2017, see our fourth quarter earnings release and Form 8-K dated February 20, 2018.

The 2017 VCP 100% targets in Revenue, Adjusted EBITDA and New First Year Orders were based on detailed internal budget forecasts and were calculated by applying the same methodology used to determine the actual Adjusted EBITDA reported quarterly in our earnings release.

**Table of Contents**

The table below sets forth the variable compensation amounts payable to our named executive officers at 100% target achievement under the 2017 VCP and the amounts actually paid using the Committee's negative discretion.

Name	Year	Amount Payable at		Weighted Average Payout Percentage	Amount Actually Paid
		100% Target Achievement	Target % of Base Salary		
David J. Wagner	2017	\$ 250,000	71%	71.58%	\$ 178,953
David E. Rockvam	2017	\$ 92,750	35%	71.58%	\$ 66,392
Justin K. Ferguson	2017	\$ 92,750	35%	71.58%	\$ 66,392
Kelly P. Haggerty	2017	\$ 84,000	35%	71.58%	\$ 60,128
David J. Robertson	2017	\$ 98,000	35%	71.58%	\$ 70,150

**Equity-based Awards***General*

In recent years, we have awarded time-based and performance-based restricted stock and restricted stock units to our executives as a means of retaining and motivating them over the longer-term (and to attract potential executives to accept employment with us). In 2017, we awarded restricted stock to Messrs. Wagner, Ferguson, Haggerty, Robertson and Rockvam, 75% of which was time-based and 25% of which was performance-based (the 2017 Equity Grants). The time-based portion of the 2017 Equity Grants vest ratably and annually over three years (one-third each year) and the performance-based portion of the 2016 Equity Grants vest ratably and annually over three years (one-third each year) subject to achievement of the annual performance conditions for each tranche. The annual performance conditions for each tranche of the performance-based awards are set annually each year.

We have historically offered an equity element to executive compensation for the following reasons:

Equity-based awards motivate the award recipient to work to achieve the financial and business metrics that our Board establishes from time-to-time because it enables the equity recipient to share in the success of our Company's business, as that success is reflected in our stock price.

Equity awards align the recipient's interest with the stockholders' interests and promote a long-term focus on shareholder value creation.

Equity-based awards are crucial to recruiting and retaining the services of qualified and talented personnel (i.e., the award recipient).

We have no non-qualified deferred compensation arrangements and no pension plans; accordingly, our Board believes that equity-based awards are a primary means by which our executives anticipate accumulating value for retirement.

Equity awards, to the extent made, are granted to our executive officers based on the following factors:

The impact of the individual's role to our Company;

The individual's experience, skills and/or knowledge in fulfilling that role;

The value of grants in employee retention and motivation for future performance;

An assessment of peer companies' equity-based compensation for similarly-situated executives; and

Achieving parity among our executive officers.

***Policies and Practices***

The Board generally considers and makes equity-based compensation awards to each of our executive officers on an annual basis. The Board generally grants equity awards in the first quarter of each year, following the public announcement of the Company's financial performance for the prior calendar year.



**Table of Contents**

All stock options granted by the Company have an exercise price equal to or greater than the market price of our common stock on the day of the grant.

**2017 Performance-Based Equity Awards**

For 2017, our Compensation Committee approved a performance metric of revenue for the vesting of the first tranche of the 2017 performance-based restricted stock and any other tranches of performance based restricted stock eligible for vesting in 2017 ( 2017 Performance Share Metric ). The 2017 Performance Share Metric included a minimum performance goal and a target performance goal for the revenue performance metric. The achievement of the minimum performance goal would result in the vesting of 50% of the portion of the performance-based restricted stock eligible for vesting in 2017, and the achievement of the target performance goal would result in the vesting of 100% of the portion of the performance-based restricted stock eligible for vesting in 2017. Any percentage level achievement between the minimum performance goal and target performance goal would result in the vesting of a portion of the performance-based restricted stock eligible for vesting in 2017 determined by interpolation on a straight-line basis. The 2017 performance results do not affect the vesting of the 2018 and 2019 tranches of the performance-based equity award. The performance goals for these tranches will be established at the beginning of each year.

As indicated in the table below, the Company met a 100% achievement of the 2017 Performance Share Metric which resulted in the vesting of 100% of the portion of the performance-based restricted stock eligible for vesting in 2017.

**Performance Shares for Named Executive Officers**

2017					
Performance			2017 Metric Levels*	2017 Actual	2017 Actual %
Metric	Weight	Minimum	Target	Achievement*	Achievement
Revenue	100%	\$ 62.50	\$ 64.50	\$ 65.70	101.90%

2017					
Performance					
Metric		Minimum	Minimum	Target	Target
(Cont d)	Weight	Goal	Payout	Goal	Payout
Revenue	100%	97%	50%	100%	100%

	Actual	Achievement Per the
	Achievement	Plan
	101.90%	100%
		Vesting %**
		100%

\* Dollar amounts in millions.

\*\*

The maximum vesting percentage for each applicable tranche is 100% which is achieved once the target performance goal has been met.

The 100% target performance goal for the 2017 Performance Share Metric identified in the table above was based on detailed internal budget forecasts and was calculated by applying the same methodology used to determine the actual revenue reported quarterly in our earnings release.

**Table of Contents**

The table below sets forth the performance-based restricted stock vesting to our named executive officers at 100% target achievement of the 2017 Performance Share Metric, and the shares or units actually vested.

Name	Year	2015 Grant:			Amount Vested	Vesting Percentage
		Units Vesting at 100% Target	Restricted Stock Vesting at 100% Target	2016 Grant: Restricted Stock Vesting at 100% Target		
David J. Wagner	2017		20,833	14,815	35,648	100%
David E. Rockvam	2017			5,556	5,556	100%
Justin K. Ferguson	2017			3,334	3,334	100%
Kelly P. Haggerty	2017			3,334	3,334	100%
David J. Robertson	2017	6,666	6,667	3,334	16,667	100%

- (1) Represents the final one-third of the total performance-based restricted stock units granted in 2015 by the Company to the executive officer that vested in 2017.
- (2) Represents one-third of the total performance-based restricted stock granted in 2016 by the Company to the executive officer. The remaining portion of the performance-based restricted stock granted in 2016 will be eligible for vesting in 2018 if the Company meets the approved performance goals in 2018.
- (3) Represents one-third of the total performance-based restricted stock granted in 2017 by the Company to the executive officer. The remaining portion of the performance-based restricted stock granted in 2017 will be eligible for vesting in 2018 and 2019 if the Company meets the approved performance goals in 2018 and 2019, respectively.

**Impact of Accounting and Tax Treatments of Compensation**

The Compensation Committee considers the anticipated accounting and tax treatment to the Company and the participants in its review and establishment of compensation programs and payments, but the tax and accounting treatment of the salary compensation, variable compensation, stock options or stock awards paid or awarded to our executives generally is not a material factor in determining the magnitude of compensation payable to our executives or the relative mix of these elements in their compensation packages.

Section 162(m) of the Internal Revenue Code ( Section 162(m) ) generally limits the deductibility of compensation paid to certain covered employees including the chief executive officer and each of the three other highest-paid executive officers (other than, until recently, the chief financial officer) to \$1,000,000 per annum. The recently-signed Tax Cuts and Jobs Act, among other things, expands the number of covered employees to include the chief financial officer (and they remain covered employees for all future years) and eliminates entirely the exception to Section 162(m) s deduction limits for certain qualified performance-based compensation (subject to the grandfathering of certain preexisting, written arrangements that were in effect as of November 2, 2017). Several classes of our preexisting compensation arrangements, including certain equity grants to our executive officers, were designed to meet the previous requirements for deductibility, though deductibility of compensation was only one factor that the Compensation Committee and Board take into account in setting executive pay.

Although tax deductibility of compensation is advantageous and the Compensation Committee may continue to administer our preexisting compensation arrangements in a way that is intended to preserve their deductibility (subject to additional guidance from the U.S. Internal Revenue Service regarding the grandfathering described above), such arrangements may or may not continue to qualify as qualified performance-based compensation under Section 162(m). Further, given that, the primary objective of our compensation programs is meeting the compensation objectives set forth above, the Compensation Committee and the Board reserve the right to issue awards that are not intended to or will not be deductible under Section 162(m).

**Incentive Compensation Recoupment Policy**

Pursuant to our incentive compensation recoupment policy, if the Board determines that any bonus, incentive award or equity award received by an executive officer was based on any financial results or financial metrics that

## **Table of Contents**

were achieved as a result of that officer's misconduct that resulted in material noncompliance by the Company with SEC financial reporting requirements or intentional fraudulent or illegal conduct, we will seek to recover from that executive officer such incentive compensation (in whole or in part) as the Board deems appropriate under the circumstances and as permitted by law. This policy is in addition to the requirements of Section 304 of the Sarbanes-Oxley Act of 2002 that are applicable to our CEO and CFO.

## **Equity Ownership Guidelines**

In order to align the interests of our named executive officers and directors with our stockholders, and to promote a long-term focus on shareholder value creation, our Board has adopted stock ownership guidelines for our directors and executive officers. Under these guidelines, our non-employee directors are expected to attain and hold an ownership position in our common stock that is equal to three times the value of the annual retainer amount each of them receives for service on our Board. Our CEO is expected to attain and hold an ownership position that is equal to three times, and our other NEOs are expected to attain and hold ownership positions that are equal to one times, his or her current base salary. Types of ownership that count toward attainment of these requirements include stock holding in any Company-sponsored plan, direct holdings, indirect holdings, such as shares owned jointly with, or separately by, a person's immediately family members, and shares underlying vested and unvested restricted shares, restricted stock units and stock options. The value of any share is measured by the closing price of our common stock on the NASDAQ on the date of determination or the date of acquisition, whichever is greater.

Non-employee directors and executive officers have five years from the later of (i) the date of his or her election to the Board or appointment to office, as applicable or (ii) January 1, 2016 to meet the applicable ownership requirement. In the event an executive officer's annual base salary or a non-employee director's annual retainer fees are increased, he or she will have two years from the time of the effectiveness of such increase to acquire any additional shares necessary to satisfy the guidelines. Compliance with the ownership guidelines is reviewed annually by the Compensation Committee. Based on the current holdings of our non-employee directors and named executive officers, all of them are either in compliance with these guidelines or are expected to become compliant with these guidelines within the phase-in period described above.

## **Executive Termination Benefits Agreements (ETBAs)**

We have agreements (ETBAs) with certain of our executive officers and other key executives which provide for payments to those executives if their employment is terminated under specified circumstances. The Board believes that these ETBAs encourage employee retention and provide legal consideration supporting the enforceability of confidentiality, non-competition and non-solicitation obligations undertaken by our executives. See Severance Benefits for a summary of these ETBAs and the benefits potentially payable in certain scenarios.

**Table of Contents**

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed with management the foregoing Compensation Discussion and Analysis. Based on this review and discussion, the Compensation Committee has recommended to our Board that the Compensation Discussion and Analysis be included in our proxy statement for the 2018 Annual Meeting of Shareholders (and incorporated by reference into our 2017 Annual Report on Form 10-K).

April 27, 2018

Respectfully submitted by the Compensation Committee,

Taher A. Elgamal  
Robert C. Hausmann, Chair  
Maribess L. Miller

Affirmed by non-member independent director,

Mark J. Bonney

-43-

Table of Contents**2017 EXECUTIVE COMPENSATION**

The following narrative, tables and footnotes describe the total compensation earned during fiscal year 2017 by our named executive officers.

**Summary Compensation Table**

The following table sets forth the compensation during the last three years paid to or earned by the Company's CEO, CFO and the three other most highly compensated executive officers who were serving as executive officers as of the end of 2017.

Name and Principal Position	Year	Salary	Bonus	Stock Awards <sup>(1)</sup>	Option Awards <sup>(2)</sup>	Non-Equity Incentive Plan Compensation		All Other Compensation <sup>(4)</sup>	Total
						(3)	(4)		
<b>David J. Wagner</b> Chief Executive Officer and President	2017	\$ 350,000		\$ 881,779		\$ 178,953	\$ 10,151	\$ 1,420,883	
	2016	\$ 334,070		\$ 451,250	\$ 291,940	\$ 185,148	\$ 9,545	\$ 1,271,953	
	2015								
<b>David E. Rockvam</b> Vice President and Chief Financial Officer	2017	\$ 265,000		\$ 330,668		\$ 66,392	\$ 7,248	\$ 669,308	
	2016	\$ 136,577		\$ 394,000	\$ 163,970	\$ 35,380	\$ 2,352	\$ 732,279	
	2015								
<b>Justin K. Ferguson</b> Vice President, General Counsel and Secretary	2017	\$ 265,000		\$ 198,405		\$ 66,392	\$ 7,266	\$ 537,063	
	2016	\$ 265,000	\$ 25,000			\$ 68,690	\$ 5,682	\$ 364,372	
	2015	\$ 44,167	\$ 25,000	\$ 518,000		\$ 13,549	\$ 187	\$ 600,903	
<b>Kelly P. Haggerty</b> Vice President, Product Management and Strategy	2017	\$ 240,000		\$ 198,405		\$ 60,128	\$ 9,337	\$ 507,870	
	2016	\$ 173,692		\$ 377,000		\$ 44,996	\$ 4,390	\$ 600,078	
	2015								
<b>David J. Robertson</b> Vice President, Engineering	2017	\$ 280,000		\$ 198,405		\$ 70,150	\$ 8,969	\$ 557,524	
	2016	\$ 277,500		\$ 144,400		\$ 72,578	\$ 10,552	\$ 505,030	
	2015	\$ 265,000		\$ 155,200		\$ 82,830	\$ 11,565	\$ 514,595	

- (1) Justin K. Ferguson received a \$50,000 new hire bonus, 50% of which was paid in each of 2015 and 2016. Mr. Ferguson resigned as Vice President, General Counsel and Corporate Secretary on March 23, 2018.
- (2) The stated amount is the aggregate grant date fair value of (i) stock awards, such as restricted stock and restricted stock units, and (ii) stock options awarded. These amounts were computed in accordance with the requirements of FASB ASC Topic 718. The assumptions underlying the computation of the fair market value of these options (and the corresponding compensation expense during calendar years 2015, 2016 and 2017) are set forth in Footnote 3, "Stock Options and Stock-based Employee Compensation" to our Audited Financial Statements included in our 2017 Annual Report on Form 10-K.
- (3) The stated amounts represent annual incentive compensation paid based on the achievement of the predetermined performance objectives approved by our Board.
- (4) Includes 401(k) Company contribution (which we offer on a non-discriminatory basis to all 401(k) plan participants) and life insurance premiums paid by the Company (which we offer on a non-discriminatory basis to

all full-time employees) for the benefit of the named person.



**Table of Contents****2017 Grants of Plan-Based Awards**

The following table sets forth the plan-based awards granted to named executive officers pursuant to Company plans during 2017.

Name	Grant Date of Equity Based Awards	Award Type	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)		Estimated Future Payouts Under Incentive Plan Awards	All Other Stock Awards: Number of Shares of Stock or Units (3)	Grant Date Fair Value of Stock and Option Awards (\$)
			Minimum	Target (#)	Target (2)	(4)	
David J. Wagner	02/13/17	Restricted Stock Cash Incentive	\$ 125,000	\$ 250,000	44,445	133,333	\$ 881,779
David E. Rockvam	02/13/17	Restricted Stock Cash Incentive	\$ 46,375	\$ 92,750	16,667	50,000	\$ 330,668
Justin K. Ferguson	02/13/17	Restricted Stock Cash Incentive	\$ 46,375	\$ 92,750	10,000	30,000	\$ 198,400
Kelly P. Haggerty	02/13/17	Restricted Stock Cash Incentive	\$ 42,000	\$ 84,000	10,000	30,000	\$ 198,400
David J. Robertson	02/13/17	Restricted Stock Cash Incentive	\$ 49,000	\$ 98,000	10,000	30,000	\$ 198,400

- (1) The target and maximum amounts were established by the independent members of the Board pursuant to our 2017 VCP. The 2017 VCP provided that the amounts to be paid would be based on the achievement of pre-determined performance objectives stated in the VCP. See Compensation Discussion and Analysis Executive Officer Variable Compensation above for more information pertaining to the performance metrics that were used to determine the eligibility for VCP payments in 2017.
- (2) Reflects performance based restricted stock granted under the Company's Amended and Restated 2012 Incentive Plan. Such restricted stock will vest up to one-third each year the Company meets the approved performance goals in 2017-2019.
- (3) Reflects restricted stock issued under the Company's Amended and Restated 2012 Incentive Plan that vest annually on a pro-rata basis through the third anniversary of the grant date. However, Mr. Haggerty's and Mr. Rockvam's new hire grant vests annually on a pro-rata basis through the fourth anniversary of the grant date.
- (4) The stated amount is the aggregate fair market value of the equity grant on the grant date computed in accordance with the requirements of FASB ASC Topic 718. The assumptions underlying the computation of the fair market value are set forth in Footnote 3, Stock Options and Stock-based Employee Compensation to our audited financial statements included in our 2017 Annual Report on Form 10-K.



**Table of Contents****Outstanding Equity Awards at 2017 Fiscal Year-End**

The following table sets forth information regarding outstanding equity awards granted to the named executive officers as of December 31, 2017.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (1)	Number of Securities Underlying Unexercised Options (1)	Option Exercise Price	Option Grant Date	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (2)	Market Value of Shares or Units of Stock That Have Not Vested	Shares, Units or Other Rights That Have Not Vested (3)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested
David J. Wagner	87,500	112,500	\$ 3.61	2/18/16	02/17/26	41,667 133,333	\$ 182,501 \$ 583,999	41,666 44,445	\$ 82,497 \$ 194,669
David E. Rockvam	31,250	68,750	\$ 3.94	07/28/16	07/27/26	75,000 50,000	\$ 328,500 \$ 219,000	16,667	\$ 73,001
Justin F. Ferguson						50,000 30,000	\$ 219,000 \$ 131,400	10,000	\$ 43,800
Kelly P. Haggerty						75,000 30,000	\$ 328,500 \$ 131,400	10,000	\$ 43,800
David J. Robertson	80,000		\$ 2.05	02/18/10	02/17/20				
	40,000		\$ 3.86	07/28/11	07/27/21				
	40,000		\$ 2.93	03/08/12	03/07/22				
	100,000		\$ 2.49	07/26/12	07/25/22	10,000	\$ 43,800		
						6,667	\$ 29,201	6,666	\$ 29,197
						13,334	\$ 58,403	13,333	\$ 58,399
						30,000	\$ 131,400	10,000	\$ 43,800

(1) Option grants made prior to June 2012 vest quarterly on a pro-rata basis through the third anniversary of the grant date. Options granted after June 2012 vest quarterly on a pro-rata basis through the fourth anniversary of the grant date.

- (2) The restrictions on these time-based restricted stock and restricted stock unit grants lapse annually on a pro-rata basis through either the third or fourth anniversaries of the grant date.
- (3) The restrictions on these performance-based restricted stock and restricted stock unit grants lapse annually for three years based on attainment of specific criteria as set by the Compensation Committee each year.

**Table of Contents****2017 Option Exercises and Stock Vested**

The following table presents information concerning stock options exercised by the named executive officers in 2017 and stock awards held by our named executive officers that vested in 2017.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
David J. Wagner			20,833	\$ 106,457
David E. Rockvam			25,000	\$ 136,250
Justin K. Ferguson			25,000	\$ 117,500
Kelly P. Haggerty			25,000	\$ 135,750
David J. Robertson	93,750	\$ 132,689	38,333	\$ 196,482

**Pension Benefits**

We have no Company-sponsored plans that provide for specified retirement payments and benefits to any Company employees.

**Nonqualified Deferred Compensation**

We have no Company-sponsored plans that are intended to provide for the payment of nonqualified deferred compensation to any Company employees.

**Separation Payments and Change in Control Payments*****General***

We have agreements (ETBAs) with certain of our executive officers and other key executives which provide for payments to those executives if their employment is terminated under specified circumstances. The Board believes that these ETBAs encourage employee retention and provide legal consideration supporting the enforceability of confidentiality, non-competition and non-solicitation obligations undertaken by our executives. These ETBAs, and the benefits potentially payable in certain scenarios, are summarized in the text and table below.

***Severance Benefits***

Our ETBAs provide for separation payments if the executive's employment is terminated other than for cause, or, following 24 months after a change in control, the executive resigns for good reason, as those terms are defined in the agreement. The separation payment is equal to 12 months base salary for the named executive officers (based on the executive's highest base salary during the term of his or her employment), plus an amount equal to the payout level for the executive's performance-based compensation under the relevant plan, as if a change in control had occurred. For the VCP, such amount would be prorated based on the date of separation during the performance measurement period.

For purposes of the ETBAs, good reason includes a material diminution in the authority, duties or responsibilities of the executive or the person to whom the executive reports, a material diminution in the executive's base salary, a

material change in the geographic location at which the employee must perform services, a material diminution in the budget over which the executive retains authority, or a material breach of the agreement by the Company. The executive may not resign for good reason unless he or she provides adequate notice to the Company affording it an opportunity to remedy the situation giving rise to the good reason event.

The separation payments would be made over a 12-month period for the named executive officers with ETBAs.

**Table of Contents*****Accelerated Vesting of Equity-Based Awards***

Under the ETBAs, if the executive's employment is terminated other than for cause, with or without a change in control, or the executive resigns for good reason within two years following a change in control, all of that executive's unvested stock options, restricted stock and restricted stock units will immediately vest. For awards subject to performance-based vesting requirements, performance will be deemed to have been achieved at the target level (if the termination occurs during the first half of the performance period) or the greater of target and actual performance as of the date of the change in control (if the termination occurs during the second half of the performance period). The Board believes these vesting acceleration provisions encourage employee retention and in the case of a pending change in control transaction motivate the employee to exert efforts to see that the change in control transaction is consummated.

***Health Benefits Continuation***

Under the ETBAs, the Company will pay the cost of continuation of health benefits for 12 months for the executive officers upon a termination without cause, or, following 24 months after a change in control, a resignation for good reason, as stated in the agreements. The payment will be equal to the cost of 12 months COBRA health insurance coverage, in excess of the amount the executive would have had to pay for such coverage if he or she remained an employee during such period. For executives who reside outside the U.S., a \$1,500 per month payment would be made in lieu of such COBRA amount.

***Potential Payments***

The table below summarizes the value of potential payments and benefits that our named executive officers would receive if they had terminated employment on December 31, 2017 under the circumstances shown, or if a change in control of the Company had occurred on December 31, 2017. The table excludes (1) amounts that would be paid in the normal course of continued employment, such as accrued but unpaid salary and (2) vested account balances in our 401(k) Plan that are generally available to all of our employees. Actual amounts to be paid can only be determined at the time of such executive's termination of service.

**Potential Payments Upon Termination or Change in Control**

Name	Benefit	Termination	Resignation	Change in	Voluntary	Death/Disability
		Without Cause With or Without a Change in Control	for Good Reason Following a Change in Control	Control (Absent Cause Termination or Resignation for Good Reason)	Termination (without Good Reason)	
David J. Wagner	Severance Pay <sup>(1)</sup>	\$ 375,000	\$ 375,000			
	Variable Compensation Plan Pro Rata Payment <sup>(2)</sup>	\$ 250,000	\$ 250,000	\$ 250,000		
	Stock Option Vesting	\$ 86,625	\$ 86,625		<sup>(4)</sup>	

	Acceleration <sup>(3)</sup> Stock Restriction Lapses	\$ 1,143,666	\$ 1,143,666	(4)
	Health Care Benefits(COBRA) <sup>(1)</sup>	\$ 20,445	\$ 20,445	
David E. Rockvam	Severance Pay <sup>(1)</sup>	\$ 275,000	\$ 275,000	
	Variable Compensation Plan Pro Rata Payment <sup>(2)</sup>	\$ 92,750	\$ 92,750	\$ 92,750
	Stock Option Vesting			
	Acceleration <sup>(3)</sup> Stock Restriction Lapses	\$ 30,250	\$ 30,250	(4)
	Health Care Benefits (COBRA) <sup>(1)</sup>	\$ 620,501	\$ 620,501	(4)
		\$ 20,451	\$ 20,451	



**Table of Contents**

Justin K. Ferguson	Severance Pay <sup>(1)</sup>	\$ 275,000	\$ 275,000	
	Variable Compensation Plan Pro Rata Payment <sup>(2)</sup>	\$ 92,750	\$ 92,750	\$ 92,750
	Stock Option Vesting			
	Acceleration <sup>(3)</sup>			(4)
	Stock Restriction Lapses Health Care Benefits (COBRA) <sup>(1)</sup>	\$ 394,200	\$ 394,200	(4)
Kelly P. Haggerty	Severance Pay <sup>(1)</sup>	\$ 250,000	\$ 250,000	
	Variable Compensation Plan Pro Rata Payment <sup>(2)</sup>	\$ 84,000	\$ 84,000	\$ 84,000
	Stock Option Vesting			
	Acceleration <sup>(3)</sup>			(4)
	Stock Restriction Lapse Health Care Benefits <sup>(1)</sup>	\$ 503,700	\$ 503,700	(4)
David J. Robertson	Severance Pay <sup>(1)</sup>	\$ 290,000	\$ 290,000	
	Variable Compensation Plan Pro Rata Payment <sup>(2)</sup>	\$ 98,000	\$ 98,000	\$ 98,000
	Stock Option Vesting			
	Acceleration <sup>(3)</sup>			(4)
	Stock Restriction Lapses Health Care Benefits (COBRA) <sup>(1)</sup>	\$ 394,200	\$ 394,200	(4)

- (1) Severance and health care benefits continuation would be paid over 12 months to all named executive officers.
- (2) Variable Compensation Plan payments would be made pro rata based on the date of separation. The level of performance is deemed to be at least the 100% target performance level for each metric, or the greater of target or the actual performance level if separation occurs in the last six months of the performance measurement period. Assumes payout at 100% target performance level for each metric.
- (3) Value determined based upon the difference between our stock price on December 31, 2017 of \$4.38 and the exercise price of unvested options, if positive, multiplied by the number of options that would become vested upon the termination of employment and/or change in control.
- (4) Assumes that the stock options, restricted stock, and restricted stock units are assumed by the acquiror in a change in control. If the acquiror does not assume or equitably convert the awards, or issue substitute awards, then the vesting would accelerate, and the value of such acceleration would be the same as provided in the first column of this table.

**Table of Contents****Equity Compensation Plan Information**

The following table provides information about our equity compensation arrangements that have been approved by our shareholders, as well as equity compensation arrangements that have not been approved by our shareholders, as of December 31, 2017:

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</b>
Equity compensation plans approved by shareholders	1,017,294	\$ 2.74	1,215,406
Equity compensation plans not approved by shareholders	4,020	\$ 1.95	
<b>Total</b>	<b>1,021,314</b>	<b>\$ 2.74</b>	<b>1,215,406</b>

A description of the material terms of our equity arrangements that have not been approved by our shareholders follows:

***Non-Shareholder-Approved Stock Option Agreements With Employees***

As of December 31, 2017, option grants to employees were outstanding covering 4,020, shares under our 2001 Employee Stock Option Plan, which was not approved by our shareholders. These options have an exercise price of \$1.95 per share. The exercise price of all of these options was the fair market value of our common stock or greater on the date of grant, and the vesting periods ranged from immediately vested to vesting pro-rata over three years.

***Non-Shareholder-Approved Stock Option Agreements With Third Parties***

From time-to-time, we may grant stock options to advisory board members, consultants, contractors, and other third parties for services provided to our Company. At December 31, 2017, no options were outstanding under non-shareholder approved arrangements to non-employees.

***CEO Pay Ratio***

In accordance with the Dodd-Frank Act and applicable SEC rules, we are providing the following information about the relationship of our Chief Executive Officer's compensation to the compensation of our median employee. For 2017:

the total annual compensation of our median employee was \$96,583.28

the total annual compensation of our Chief Executive Officer, as reported in the Summary Compensation Table presented elsewhere in this Proxy Statement, was \$1,420,883

the ratio of our Chief Executive Officer's total annual compensation to the median employee total annual compensation was 14 to 1

To identify our median employee, we compared the total gross compensation of our employees based on 12-month trailing payroll data as of December 31, 2017. Compensation used for identifying our median employee was based on gross wages from the annual W-2 forms issued to employees. We have 232 full time employees, of which 223 are U.S. employees and 9 are non-U.S. employees. In identifying our median employee, we excluded our non-U.S. employees and we did not make any cost-of-living adjustments.

The SEC's rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their employee populations and compensation practices. As a result, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies have different employee populations and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

**Table of Contents**

**Certain Relationships and Related Transactions**

There have been no transactions since January 1, 2017, between the Company and any related person required to be reported under SEC Regulation S-K, Item 404(a). Todd R. Spurr, the son of our Director and former CEO, is employed as a Director of Channel and Customer Success in our sales department. Todd Spurr's employment with us pre-dates his father's employment with us. Todd Spurr's compensation is comprised of a base salary and commissions and is commensurate with other similarly-situated employees.

Our Audit Committee Charter provides that the Audit Committee reviews and addresses conflicts of interest of directors and officers. Unless otherwise approved by another independent body of the Board in accordance with NASDAQ Listing Rule 5630, the Audit Committee reviews, discusses with management and, if deemed advisable, the Company's independent auditor, and determines whether to approve any transactions or courses of dealing with related parties. Transactions or courses of dealing with related parties includes all transactions required to be disclosed under Item 404 of Regulation S-K.

**Table of Contents**

**OTHER MATTERS**

We know of no other matters that will be presented for consideration at the Annual Meeting of Shareholders. If any other matters properly come before the Annual Meeting of Shareholders, it is the intention of the persons named as proxy holders in the accompanying proxy card and voting instructions to vote the relevant shares in their discretion. Discretionary authority with respect to other matters is granted by signing and returning the enclosed proxy card or by otherwise providing voting instructions.

**WHERE YOU CAN FIND MORE INFORMATION**

You may read and copy any reports, statements or other information that we file with the SEC directly from the SEC. You may either:

Read and copy any materials we have filed with the SEC at the SEC's Public Reference Room maintained at 100 F Street, N.E., Washington, D.C. 20549; or

Visit the SEC's website at [www.sec.gov](http://www.sec.gov), which contains reports, proxy and information statements, and other information regarding us and other issuers that file electronically with the SEC.

You may obtain more information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

You should rely only on the information contained (or incorporated by reference) in this Proxy Statement. We have not authorized anyone to provide you with information that is different from what is contained in this Proxy Statement. This Proxy Statement is dated April 27, 2018. You should not assume that the information contained in this Proxy Statement is accurate as of any date other than that date (or as of an earlier date if so indicated in this Proxy Statement).

Our Annual Report to shareholders, including our Annual Report on Form 10-K for the year ended December 31, 2017 (excluding exhibits), is being mailed together with this Proxy Statement and is available on our website at [investor.zixcorp.com](http://investor.zixcorp.com) in accordance with the SEC's notice and access regulations. The Annual Report does not constitute any part of the proxy solicitation material.

**Please date, sign and return the proxy card at your earliest convenience in the enclosed envelope. No postage is required for mailing in the United States. We would appreciate the prompt return of your proxy card, as it will save the expense of further mailings.**

By Order of the Board of Directors,

Dallas, Texas  
April 27, 2018

David E. Rockvam  
*Chief Financial Officer*

**Table of Contents**

**Appendix A**

**ZIX CORPORATION  
2018 OMNIBUS INCENTIVE PLAN**

A-1

---

**Table of Contents**

**ZIX CORPORATION**

**2018 OMNIBUS INCENTIVE PLAN**

1. *Plan.* Zix Corporation (the **Company**) established this Zix Corporation 2018 Omnibus Incentive Plan (this **Plan**) to be effective on June 6, 2018 (the **Effective Date**); provided that this Plan has received the requisite shareholder approval described in Section 23 below. This Plan is intended to promote the success, and enhance the value, of the Company by linking the personal interests of employees, officers, directors and consultants of the Company or any Affiliate (as defined below) to those of Company shareholders and by providing such persons with an incentive for outstanding performance. This Plan is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of employees, officers, directors and consultants upon whose judgment, interest and special effort the successful conduct of the Company's operation is largely dependent.

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

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

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

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

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

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

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

**Cause** as a reason for a Participant's termination of employment or service shall have the meaning assigned such term in the employment, consulting, severance or similar agreement, if any, between such Participant and the Company or an Affiliate, provided, however, that if there is no such employment, severance or similar agreement in which such term is defined, and unless otherwise defined in the applicable Award Certificate, **Cause** shall mean any of the following acts by the Participant, as determined by the Committee: (i) continued neglect in the performance of duties assigned to the Participant (other than for a reason beyond the control of the Participant) or repeated unauthorized absences by the Participant during scheduled work hours;

---

**Table of Contents**

(ii) material breach by the Participant of any published Company code of conduct or code of ethics, (iii) egregious and willful misconduct, including dishonesty, fraud or continued intentional violation of Company or Affiliate policies and procedures which is reasonably determined to be detrimental to the Company or an Affiliate; (iv) final conviction of a felonious crime; or (v) repeated material failure to meet reasonable performance criteria as established by the Company or an Affiliate and communicated to the Participant. With respect to a Participant's termination of directorship, **Cause** shall mean any of the following acts by the Participant, as determined by the Committee, unless a contrary definition is contained in the applicable Award Certificate: (A) egregious and willful misconduct, (B) final conviction of a felonious crime, or (C) any act or failure to act that constitutes cause for removal of a director under applicable Texas law. The determination of the Committee as to the existence of **Cause** shall be conclusive on the Participant and the Company.

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

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

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

(iii) The consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or a Subsidiary (a **Reorganization**), or the sale or other disposition of all or substantially all of the Company's assets (a **Sale**) or the acquisition of assets or stock of another corporation or other entity (an **Acquisition**), unless immediately following such Reorganization, Sale or Acquisition: (x) all or substantially all of the individuals and



**Table of Contents**

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

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

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

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

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

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

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

**Effective Date** means June 6, 2018.

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

**Table of Contents**

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

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

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

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

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

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

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

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

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

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

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

**Table of Contents**

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

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

**Participant** means an Employee, Nonemployee Director or Independent Contractor to whom an Award has been made under this Plan; provided that in the case of the death of a Participant, the term Participant refers to a beneficiary or the legal guardian or other legal representative acting in a fiduciary capacity on behalf of the Participant under applicable law and court supervision.

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

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

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

**Plan** means this Zix Corporation 2018 Omnibus Incentive Plan, as hereafter amended from time to time.

**Prior Plan** means the Zix Corporation Amended and Restated 2012 Incentive Plan, as amended from time to time.

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

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

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

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

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

---

**Table of Contents**

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

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

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

4. *Common Stock Available for Awards.* Subject to adjustment as provided herein, the aggregate number of shares of Common Stock reserved and available for issuance pursuant to Awards granted under this Plan shall be 6,000,000, all of which may be issued pursuant to Incentive Options. Each share of Common Stock subject to an Award granted under this Plan shall be counted against the above share reserve as one share. If an Award expires or is terminated, cancelled or forfeited, the shares of Common Stock associated with the expired, terminated, cancelled or forfeited Awards shall again be immediately available for additional Awards under this Plan, it being understood that no increase or decrease in the above share reserve shall occur with respect to an Award that can only be settled in cash. Notwithstanding the foregoing, the following shares of Common Stock may not again be made available for issuance as Awards under this Plan: (a) shares of Common Stock not issued or delivered as a result of the net settlement of a stock-settled SAR or Option; (b) shares of Common Stock that are withheld or delivered to satisfy the applicable withholding taxes related to an Award; (c) shares of Common Stock that are used to satisfy the exercise price related to an Option or a SAR; and (d) shares of Common Stock repurchased on the open market with the proceeds of an Option's exercise price. The shares of Common Stock to be delivered under this Plan may be made available from: (i) authorized but unissued shares of Common Stock; (ii) shares of Common Stock held in the treasury of the Company; or (iii) previously issued shares of Common Stock reacquired by the Company, including Common Stock purchased on the open market. Up to five percent (5%) or 300,000 of the shares of Common Stock that are subject to the above share reserve may be granted as Excepted Shares pursuant to Section 9(b) below.

5. *Administration.*

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

---

**Table of Contents**

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

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

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

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

6. *Delegation of Authority.* To the extent permitted under applicable law, the Committee may delegate to the Chief Executive Officer, to one or more other senior officers of

---

**Table of Contents**

the Company or an Affiliate or to other committees of the Board its duties under this Plan pursuant to such terms, conditions and limitations as the Committee may establish, except that the Committee may not delegate to any person the authority to grant Awards to, or take other action with respect to, Participants who are subject to Section 16 of the Exchange Act.

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

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

(b) *Stock Appreciation Rights.* An Award may be in the form of a SAR. The per share strike price for a SAR shall be not less than the Fair Market Value of the Common Stock on the date on which the SAR is granted. The terms, conditions and limitations applicable to any SARs awarded pursuant to this Plan, including the term of any SARs, whether the SAR will be

---

**Table of Contents**

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

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

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

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

8. *Director Awards.*

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

(b) No Nonemployee Director may be granted during any calendar year Awards having a Fair Market Value determined on the date of grant which, when added to all cash

---

**Table of Contents**

compensation paid to the Nonemployee Director (in his or her capacity as Nonemployee Director) during the same calendar year, would result in the sum of such cash compensation and the Fair Market Value of such Awards being in excess of \$1,000,000, it being understood that the extent to which such Awards may be granted may be further limited pursuant to the terms, conditions and parameters of a plan, program or policy for the compensation of Nonemployee Directors as in effect from time to time.

**9. *Vesting of Awards.***

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

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

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

**10. *Payment of Awards.***

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

(b) *Dividends; Dividend Equivalents and Interest.* Rights to (i) dividends or other distributions may be extended to and made part of any Award of Restricted Stock and (ii) Dividend Equivalents may be extended to and made part of any other Stock Award (i.e., other than an Award of Restricted Stock), subject in each case to such terms, conditions and limitations as the Committee may establish as set forth in the Award Certificate thereto; provided that, such dividends and Dividend Equivalents with respect to any Stock Award, as applicable, shall be payable, without interest, at the same time, and shall be subject to the same conditions, including vesting conditions, that are applicable to the underlying Stock Award. Accordingly, the right to receive payment of such dividends and Dividend Equivalents with respect to any Stock Award, as applicable, shall be forfeited to the extent that



**Table of Contents**

the underlying Stock Award does not vest, is forfeited or is otherwise cancelled. No Dividend Equivalents, dividends or other distributions may be paid in respect of an Award of Options or SARs.

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

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

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

**Table of Contents**

14. *Assignability.* Unless otherwise determined by the Committee and provided in the Award Certificate, no Award or any other benefit under this Plan constituting a derivative security within the meaning of Rule 16a-1(c) under the Exchange Act shall be assignable or otherwise transferable except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order in a form acceptable to the Committee. The Committee may prescribe and include in applicable Award Certificates other restrictions on transfer. Any attempted assignment of an Award or any other benefit under this Plan in violation of this Section 14 shall be null and void.

15. *Adjustments.*

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

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

(c) In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Board may make such adjustments to outstanding Awards or other provisions for the disposition of outstanding Awards as it deems equitable, and shall be authorized, in its discretion, (i) to provide for the substitution of a new Award or other arrangement (which, if applicable, may be exercisable for such property or stock as the Board determines) for an outstanding Award or the assumption of an outstanding Award, regardless of whether in a transaction to which Code Section 424(a) applies, (ii) to provide, prior to the transaction, for the waiver of the vesting and exercisability limitations of, or lapse of other restrictions with respect to, the outstanding Award and, if the transaction is a cash merger, to provide for the termination of any portion of the Award that remains unexercised at the time of such transaction or (iii) to provide for the acceleration of the vesting and exercisability of an outstanding Award and the cancellation thereof in exchange for such payment of such cash or property as shall be determined by the Board in its sole discretion, which for the avoidance of doubt in the case of Options or SARs (whether stock- or cash-settled) shall be the excess, if any,

---

**Table of Contents**

of the Fair Market Value of the shares of Common Stock subject to the Option or SAR on such date over the aggregate exercise price of such Award; *provided, however*, that no such adjustment shall increase the aggregate value of any outstanding Award. No adjustment or substitution pursuant to this Section 15 shall be made in a manner that results in noncompliance with Code Section 409A, to the extent applicable.

16. *Restrictions.* No Common Stock or other form of payment shall be issued with respect to any Award unless the Company shall be satisfied based on the advice of its counsel that such issuance will be in compliance with applicable federal and state securities laws. It is the intent of the Company that grants of Awards under this Plan comply with Rule 16b-3 with respect to persons subject to Section 16 of the Exchange Act unless otherwise provided herein or in an Award Certificate and that any ambiguities or inconsistencies in the construction of such an Award or this Plan be interpreted to give effect to such intention. Certificates evidencing shares of Common Stock delivered under this Plan (to the extent that such shares are so evidenced) may be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system upon which the Common Stock is then listed or to which it is admitted for quotation and any applicable federal or state securities law. The Committee may cause a legend or legends to be placed upon such certificates (if any) to make appropriate reference to such restrictions. The Committee may also impose such terms, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a Participant, other subsequent transfers by the Participant of any shares of Common Stock issued as a result of or under an Award, or the exercise of Options and SARs, including without limitation, restrictions under an insider trading policy or share retention or ownership policy.

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

18. *Code Section 409A.*

(a) All Awards under this Plan are intended either to be exempt from, or to comply with the requirements of Code Section 409A, and this Plan and all Awards shall be interpreted and operated in a manner consistent with that intention. Notwithstanding anything in this Plan to the contrary, if any Plan provision or Award under this Plan would result in the

---

**Table of Contents**

imposition of an applicable tax under Code Section 409A, that Plan provision or Award shall be construed or reformed in a manner to avoid imposition of the applicable tax and no such action shall be deemed to adversely affect the Participant's rights to or under an Award. Nevertheless, the tax treatment of the benefits provided under this Plan or any Award is not warranted or guaranteed. Neither the Company, its Affiliates nor their respective directors, officers, employees or advisers (other than in his or her capacity as a Participant) shall be held liable for any taxes, interest, penalties or other monetary amounts owed by any Participant or other taxpayer as a result of this Plan or any Award.

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

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

---

**Table of Contents**

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

20. *Clawback.* To the extent required by applicable law or any applicable securities exchange listing standards, or as otherwise determined by the Committee, Awards and amounts paid or payable pursuant to or with respect to Awards shall be subject to the provisions of any clawback policy implemented by the Company, from time to time, which clawback policy may provide for forfeiture, repurchase or recoupment of Awards and amounts paid or payable pursuant to or with respect to Awards. Notwithstanding any provision of this Plan or any Award Certificate to the contrary, the Company reserves the right, without the consent of any Participant, to, from time to time, adopt and modify any such clawback policies and procedures.

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

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

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

---

**Table of Contents**

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

23. *Effectiveness; Prior Plan.* This Plan, as established by the Company (and approved by the Board) on April 6, 2018, shall be effective as of the Effective Date, the date on which it shall be approved, if at all, by the shareholders of the Company at the Company's 2018 annual shareholders meeting to be held on June 6, 2018. If the requisite shareholder approval occurs pursuant to the preceding sentence, this Plan shall continue in effect for a term of ten (10) years after the Effective Date, unless sooner terminated by action of the Board. If this Plan becomes effective pursuant to the foregoing, this Plan shall be the successor to the Prior Plan, such that, no additional awards shall be granted under the Prior Plan for periods on and after the Effective Date. For the avoidance of doubt, if the shareholders of the Company should fail to so approve this Plan on such date, this Plan shall not be of any force or effect and the Prior Plan shall continue in force and effect.

**Table of Contents**

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

ZIX CORPORATION

By:

Title:

A-18

**Table of Contents**



**Table of Contents**