



**ZIX CORPORATION  
BOARD OF DIRECTORS PROCEDURES  
AND  
CORPORATE GOVERNANCE OVERVIEW  
(Dated February 4, 2008)**

**Purpose**

The Board of Directors (the "Board") of Zix Corporation ("ZixCorp" or the "Company") has adopted these procedures, which are intended to provide a framework for the governance of the Company.

**Board of Directors and Company Management**

*Role of Board.* The Board is elected by the stockholders to oversee Company management and to ensure that the long-term interests of the stockholders are being served. Directors should exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company in a manner consistent with their fiduciary duties. In considering the best long-term and short-term interests of the Company, where appropriate, the directors may consider the needs and concerns of stakeholders and interested parties other than stockholders, including employees, suppliers, customers and communities in which the company conducts business, and other pertinent factors.

*Relationship Between the Board and Company Management.* The business of the Company is conducted by its employees under the direction of the Company's chief executive officer (CEO), and subject to the direction, oversight, and monitoring by the Board of Directors. In particular, in performing its direction, oversight, and monitoring roles, the Board oversees the activities of the CEO, oversees the activities of the chief financial officer (CFO) through the Audit Committee, and oversees the activities of the chief legal officer and corporate compliance officer through the Nominating and Corporate Governance Committee.

Non-employee directors shall have full access to senior management of the Company and other employees on request to discuss the business and affairs of the Company, subject to reasonable advance notice to the Company and reasonable efforts to avoid disruption to the Company's management, business and operations. The Board expects that there will be regular opportunities for directors to meet not only with the CEO, but with the Company's chief financial officer, chief legal officer, and other members of management at Board and committee meetings and in other formal or informal settings.

*Authority to Retain Advisors.* The Board expects that information regarding the Company's business and affairs will normally be provided to the Board by the Company's management and staff and by the Company's independent auditors. However, the Board has the authority to retain such outside advisors, including accountants, legal counsel, or

other experts, as it deems appropriate. The fees and expenses of any such advisors shall be paid by the Company.

## **Board Structure**

*Board Size and Composition.* The size of the Board is to provide for sufficient diversity of skill sets and experience among non-employee directors while also facilitating substantive discussions in which each director can participate meaningfully. The Board size shall be as prescribed by the Board from time to time, subject to any limitations set forth in the Company's by-laws.

*Qualifications; Background Check.* The Board maintains separate guidelines entitled "Director Qualifications," which describe the desired qualifications for non-employee directors. A background check, covering at a minimum criminal matters and confirmation of work experience and education, shall be performed for prospective Board members. The results of the check shall be provided to the entire Board of Directors. No person shall be nominated or appointed to the Board of Directors until the background check has been performed and any anomalies approved by a majority of the entire Board of Directors.

*Independent Directors.* As required by applicable NASD rules, a majority of the Board shall consist of directors whom the Board has determined to be independent. The Board shall determine independence on the basis of the standards specified in the corporate governance rules of the NASD, and other facts and circumstances the Board considers relevant.

*Selection of Nominees.* The Board, with appropriate involvement of the Board's Nominating & Corporate Governance Committee ("NCGC"), shall nominate a slate of director candidates for election at each annual meeting of shareholders. The Board shall also elect directors to fill vacancies, including vacancies created as a result of any increase in the size of the Board, between annual meetings. In addition, the Board or the committee may retain a third party to identify prospective directors. The Board maintains separate guidelines entitled "Nominating Committee Procedures for Director Selection," which describes the NCGC's processes, including its process for Company shareholders to recommend nominees to the Board.

*Election of Directors.* All directors shall stand for election at the annual meeting of shareholders. The NCGC will consider director nominations suggested by stockholders, in accordance with the Committee's "Nominating Committee Procedures for Director Selection."

*Chairman and CEO.* The Company's chief executive officer currently serves as Chairman of the Board. The Board retains the authority to separate those functions if it deems such action appropriate.

*Lead Non-employee Directors.* The Board shall consider from time to time whether or not to designate a lead non-employee director.

*Term Limits.* Directors are not subject to term limits. As a general matter, the Company expects its Board members to be willing to serve for at least three, one-year terms.

*Service with Other Entities, including Other Directorships.* Each director shall at least annually report to the Board's NCGC as to:

- such member's service or affiliation (as a board member, employee, consultant, significant stockholder, or otherwise with another business enterprise, whether public or private, profit or not-for-profit, or other status;
- any offer received by a member to serve or otherwise be affiliated with any competitor of the Company; and
- such member's other business or professional affiliations or responsibilities.

The members of the NCGC shall provide the same report with respect to themselves to the entire Board.

The Board's NCGC (or Board, as applicable) shall at least annually review all directors' service on these other boards and their business or professional affiliations or responsibilities. The primary, but not necessarily the sole, focus of this review shall be (a) whether this service or other business or professional affiliations or responsibilities materially detracts from the director's ability to devote the necessary time and attention to the Company and (b) whether it creates a reasonable perception of impropriety or a reasonable perception that the director has a conflict of interest that renders the director unable to fulfill the director's fiduciary duties to both the Company and the other entity in question. An affirmative determination to the effect of (a) or (b) shall be considered by the NCGC (and Board) in determining whether or not to re-nominate that board member for re-election to the Board in subsequent years.

Furthermore, a director shall not accept offers to serve or otherwise be affiliated with any competitor of the Company, unless such service is pre-approved in writing by the NCGC, or Board, as the case may be.

*Removal of Directors.* Subject to compliance with applicable laws, any director may be removed from the Board by vote of the Board, as provided in the Company's bylaws. A director should consider offering to resign if the director is advised that the Board is considering whether or not to remove the director from the Board as provided in the Company's bylaws.

*Conflicts of Interest.* Directors must disclose to other directors any potential conflicts of interest they may have with respect to any matter under discussion and, if appropriate, refrain from voting on a matter in which they may have a conflict. Specifically, pursuant to NASDAQ Rule 4350(h), if there is a proposed transaction between the Company and a "related person" that is required to be publicly reported under SEC Rule Regulation S-K, Item 404(a), the following procedures shall apply:

- such transaction shall be reviewed and approved by a majority of the disinterested director members of the Company's Board of Directors;

- the director that is the “related person” in the transaction shall be permitted to provide information to the Board relating to the transaction in question, either verbally or in writing;
- the disinterested directors shall be afforded an opportunity to meet and discuss the transaction in question in executive session (i.e., without the presence of the “related person” director); and
- the director that is the “related person” in the transaction shall refrain from voting on the matter.

*Former Officers.* In general, it is the Board’s policy that former officers of the Company should not continue to serve on the Board after they no longer hold an officer position. When a Company officer who serves on the Board voluntarily or involuntarily separates from service with the Company, they will be deemed to have tendered his or her resignation from the Board concurrently with the separation from service. A majority of the remaining members of the Board shall determine whether or not to accept the former officer’s resignation. Applicable severance or employment agreements between the Company and any officer affected by this policy are to include appropriate provisions to the foregoing effects.

## **Board Meetings**

*Number of Regular Meetings.* The Board of Directors shall hold regular meetings each year as often as it deems appropriate. The Board normally holds four regular meetings per year. Additional meetings may be scheduled as requested by the Company’s CEO or by a majority of the incumbent directors. The Board of Directors may fix its own rules of procedure. The Board endeavors to establish its schedule of Board meetings for the forthcoming year by December 31 of the preceding year.

*Agenda and Board Materials.* An agenda for each Board meeting and materials shall, to the extent practicable in light of the timing of matters that require Board attention, be distributed to each director approximately two days prior to each meeting. The Chairman shall be responsible for establishing and providing an agenda for the Board meetings. Any director may request the inclusion of specific agenda items, and specific matters shall be included in the agenda as directed by a majority of the members of the Board.

*Meeting Attendance.* Each director is expected to make every reasonable effort to attend each Board meeting and each meeting of any committee on which he or she sits. Attendance in person is preferred but attendance by teleconference is permitted. The Board maintains separate guidelines describing the fees to be paid to non-employee directors for attending Board meetings and for annual Board and committee service.

*Director Preparedness.* Information and data that is important to the directors’ understanding of the business to be discussed at meetings will be distributed in advance of meetings to the extent practicable, except when such material is too sensitive to be put in writing. Each director is expected to be familiar with the meeting agenda, have reviewed the materials distributed in advance of the meeting, and be prepared to participate meaningfully in the meeting.

*Confidentiality.* The proceedings and deliberations of the Board and its committees are confidential. Each director shall maintain the confidentiality of information received in connection with his or her service as a director.

*Non-Employee Director Executive Sessions.* The Board of Directors will schedule regular executive sessions where non-management directors (i.e., directors who are not company officers) shall meet without management participation. An executive session of the non-employee directors shall normally be held at each of the Board's regularly scheduled quarterly meetings. The Chair of the Board's NCGC shall act as the chair of the executive sessions, unless the non-employee directors select another person to act as chair for a particular session. Any non-employee director may raise issues for discussion at an executive session.

### **Board Interaction with Third Parties**

Except in unusual circumstances or as required by committee charters or as requested by senior management, directors are expected to follow the principle that senior management, as opposed to individual directors, provides the public voice of the Company. Directors receiving inquiries from institutional investors, the press or others should refer them to the chief executive officer or other appropriate officer of the Company. Management shall coordinate all contacts between Board members and outside constituencies, such as the press, customers, analysts, or the financial community.

### **Code of Conduct and Code of Ethics**

The Board has adopted a "Code of Conduct and Code of Ethics for the Company" to define the standards of conduct and ethics that govern how the Company conducts its business. Each director is expected to be familiar with and to adhere to these standards. In general, directors are expected to be mindful of their fiduciary obligations to the Company and avoid any action, position, or interest that conflicts with an interest of the Company or gives the appearance of a conflict or the appearance of impropriety. The NCGC, in consultation with the Audit Committee, shall review any issues arising under the applicable standards of business conduct with respect to any director and shall report its findings to the full Board. The Board must approve any waivers to the Code of Conduct and Code of Ethics for directors or executive officers.

### **Director Orientation and Director Continuing Education**

The General Counsel of the Company will establish, or identify and provide access to, appropriate orientation programs, sessions or materials for newly elected directors of the company for their benefit either prior to or within a reasonable period of time after their initial election or appointment to the Board. In any event, each new director will, within 60 days of election, spend a day at corporate headquarters for personal briefing by senior management regarding the company's strategic plans, its financial statements and its key policies and practices.

All Board members are encouraged to obtain director education training. In particular, a member of each of the Board's Audit Committee, Compensation Committee, and NCGC shall attend at least one director education program annually. Participation in continuing

director education opportunities shall be reimbursed by the Company, subject to compliance with the Company's customary expense reimbursement policies. Likewise, the Company's general counsel shall attend at least one director education program or corporate compliance/ethics program annually at the Company's expense.

## **Committee Matters**

*Committees.* The Board of Directors will at all times maintain a standing Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee (the Nominating and Corporate Governance Committee may be separated into two committees). These committees must operate in accordance with applicable law, their respective charters as adopted and amended from time to time by the Board of Directors and the applicable rules of the Securities and Exchange Commission and NASDAQ. The Board of Directors may also establish such other committees as it deems appropriate and delegate to those committees any authority to the extent permitted by applicable law, the Company's by-laws and applicable NASDAQ rules.

*Audit Committee.* All members of the Audit Committee are to be independent under the NASDAQ listing standards and applicable Securities and Exchange Commission rules. At least one member of the Audit Committee shall be an audit committee financial expert within the meaning of the Securities and Exchange Commission and NASDAQ regulation.

*Compensation Committee.* All members of the Compensation Committee are to be independent under the NASDAQ listing standards and applicable Securities and Exchange Commission rules. The Compensation Committee meets at least annually outside the presence of the Company's chief executive officer to discuss the chief executive officer's compensation.

*Nominating and Corporate Governance Committee.* All members of the NCGC are to be independent under the NASDAQ listing standards and applicable Securities and Exchange Commission rules.

*Committee Charters.* Each of the standing committees shall have a written charter outlining its responsibilities. Charters shall be adopted by the Board based on the recommendation of the applicable committee.

The Audit Committee charter shall provide that (a) it shall meet in executive session with the Company's chief legal officer at least annually; (b) it shall meet in executive session with the Company's independent auditing firm at least annually to review the Audit Committee procedures and the Audit Committee charter; and (c) it shall meet at least annually with the Company's outside legal counsel to review the Audit Committee's procedures and the Audit Committee charter.

*Committee Assignments and Rotation.* Membership of each committee shall be determined by the Board. Consideration shall be given to rotating committee memberships from time to time. However, the Chair of the Audit Committee may not serve more than seven consecutive years.

*Committee Funding.* The Company shall provide each Board committee with sufficient funds to discharge the committee's responsibilities in accordance with its charter. All Board committees are authorized to retain counsel and special or expert advisors of their own choice at the Company's expense.

*Committee Self-Evaluation.* At least annually, each of the Board committees shall conduct an evaluation of its performance and effectiveness, and shall consider whether any changes to the committee's charter are appropriate.

*Committee Reports.* The Chair of each Board committee shall report from time to time to the full Board on the activities of his or her committee, including the results of the committee's self-evaluation and any recommended changes to the committee's charter.

*Authority to Retain Advisors.* The Board expects that information regarding the Company's business and affairs will normally be provided to the Board by the Company's management and staff and by the Company's independent auditors. However, the Board has the authority to retain such outside advisors, including accountants, legal counsel, or other experts, as it deems appropriate in the performance of its duties. The fees and expenses of any such advisors shall be paid by the Company.

### **Communication by Shareholders with Non-Employee Directors**

The Board has adopted procedures for shareholders to communicate with the non-employee directors. Contact information and a description of the procedures for handling these communications are to be published in the proxy statement for each annual meeting of shareholders and posted on the Company's Internet site as required by applicable law and NASDAQ requirements.

### **Annual Board Self-Evaluation and other Annual Assessments**

The Board of Directors will conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively. The Board of Directors, or its designee, will prepare or cause to be prepared a report regarding the conclusions of that evaluation. The full Board of Directors will discuss the evaluation report to determine what, if any, action could improve performance of the Board of Directors and its committees. The Board of Directors, with the assistance of the NCGC, as appropriate, will review these procedures at least annually to determine whether any changes are appropriate.

The Board has also determined other matters ("Annual Director Responsibilities") that are to be assessed and reviewed annually.

### **CEO Performance and Compensation Review; Executive Compensation**

*CEO Compensation.* At least annually, the non-employee directors shall, in conjunction with the Board's Compensation Committee, meet in executive session and review the performance and compensation of the chief executive officer, chief operating officer, and chairman, as applicable, in light of the Company's goals and objectives. Unless otherwise directed by the Board, no later than the last regularly scheduled Board meeting of the

calendar year, the Company's management is generally expected to provide to the Board recommendations for Company goals and objectives and the management variable compensation plan for the following calendar year. The non-employee directors shall, acting in conjunction with the Board's Compensation Committee, endeavor to establish the following calendar year's compensation to be paid to the Company's chief executive officer, chief operating officer, and chairman, as applicable, and the other members of the Company's senior management, except for those senior management compensation decisions that have been delegated to the CEO or his designee as provided in the "Approval Authority Matrix for Certain Compensation Related Matters" adopted by the Board, no later than December 31 preceding the calendar year in question.

*Approval Authority Matrix for Executive Compensation Related Matters.* The Board has adopted an approval authority matrix ("Approval Authority Matrix for Certain Compensation Related Matters") for certain compensation related matters that defines the respective responsibility between the CEO and the Board with respect to establishing the salaries and variable compensation of the CEO, the CEO's direct reports that are reporting persons for purposes of Section 16(a) of the Securities Exchange Act of 1934, the CEO's other direct reports, and the Company's "rank and file" employees.

### **Compensation of Directors**

The non-employee directors are compensated for their service on the Board with cash and stock option grants, as described below.

The non-employee directors receive a per meeting cash payment fee for attending in person at Board meetings and a smaller per meeting cash payment fee for attending telephonic Board meetings. Additionally, the non-employee directors receive an annual cash payment for serving as chair of a Board committee (assuming attendance of at least two-thirds of the meetings) and an annual cash payment for serving as a member (i.e., not the chair) of a Board committee (assuming attendance of at least two-thirds of the meetings). The amount of these fees is disclosed in the Company's annual proxy statement to shareholders or otherwise from time-to-time in the Company's public filings with the SEC.

Pertaining to stock option grants, when a non-employee director is first elected or appointed to the Board, the director is granted nonqualified options to purchase 25,000 shares of our common stock. These options vest quarterly and pro-rata over one year from the grant date, and the exercise price is 100% of the common stock price on the grant date. Also, on an annual basis, each non-employee director that has served on the Board for at least six months as of the first business day in January will be granted nonqualified options to purchase a number of shares of our common stock equal to the greater of (i) one-half of one percent of the number of our outstanding shares (measured as of the prior December 31) or (ii) 200,000 shares, divided by the greater of (i) five or (ii) the number of non-employee directors that have served on the Board for at least 6 months as of the grant date; provided that, the number of shares of common stock covered by any such January option grant shall not exceed 40,000 shares. The options will vest quarterly and pro-rata over three years from the grant date and the option exercise price will be 100% of our common stock price on such day. Finally, also on an annual basis, when a non-employee director is first appointed or elected to serve on the

Board's Audit Committee, the Compensation Committee, or the NCGC, or their respective successors-in-interest, or on the day the non-employee director is first appointed (or, if later, the date the committee first becomes active) to serve on another eligible committee of the Board, then such director shall be granted for annual service on each such committee, nonqualified options to purchase 5,000 shares of common stock, if serving as the chair of the committee, or 3,000 shares of common stock, if serving as a member but not the chair of the committee. The options will vest quarterly and pro-rata over three years from the grant date and the option exercise price will be 100% of our common stock price on such day.

## **Corporate Compliance and Ethics**

*Corporate Compliance Program.* The Board is responsible for requiring the Company to adopt a corporate compliance program for the purpose of detecting and preventing employee (and director) misconduct. The NCGC, in coordination with the Audit Committee, shall primarily be responsible for overseeing the operation of the Company's corporate compliance program, including the activities of the Company's chief compliance officer. The Company's chief legal officer shall be the Company's chief compliance officer, unless otherwise specified by the Board. The NCGC, in coordination with the Audit Committee (which is generally responsible for accounting, internal accounting controls, and auditing matters), shall inquire of the Company's chief compliance officer and other members of Company management about significant risks or exposures and assess the steps management has taken to minimize such risks. The NCGC, in coordination with the Audit Committee, shall discuss with management and oversee the Company's underlying policies with respect to risk assessment and risk management of matters other than those pertaining to accounting, internal accounting controls, and auditing matters. The NCGC shall review and concur in the appointment, replacement, reassignment, or dismissal of the Company's chief compliance officer.

*Code of Conduct and Code of Ethics.* The Board has adopted the "Code of Conduct and Code of Ethics" to define the standards of conduct and ethics that govern how the Company conducts its business. See "**Code of Conduct and Code of Ethics**" above.

*Confidential Hotline for Accounting and Auditing Irregularities.* The Board has adopted a "whistleblower policy" ("Confidential Hotline for Accounting or Auditing Irregularities") and has also established a "hotline" regarding the reporting of improper financial transactions relating to accounting, internal accounting controls or audit matters.

*Review of Company Public Announcements.* The Board has adopted procedures ("Review of Company Public Announcements") pertaining to the approval process relating to the quarterly earnings releases and annual earnings press releases, other substantive releases, and the Company's quarterly filing on Form 10-Q and Annual Filing on Form 10-K.

*Transactions in the Company's securities.* The Board has appointed a "trading compliance committee" ("Trading Compliance Committee") which is responsible for reviewing the Company's insider trading policy, monitor compliance with the policy, and recommend revisions as appropriate from time- to-time.

*Company Financial Restatements.* The Board has adopted procedures (“Company Financial Restatements”) pertaining to actions the Board may take if as a result of a restatement of the Company’s financial statements, an executive received more compensation than the executive would have received absent the incorrect financial statements or if the Company is required to prepare an accounting restatement to correct an accounting error on an interim or annual financial statement included in a report on Form 10-Q or Form 10-K due to material non-compliance with any financial reporting requirement under the federal securities laws and the restatement was caused by the misconduct of any officer or employee.

*Stock Option Grant Practices.* The Board has adopted procedures (“Stock Option Grant Policies”) pertaining to the grant of Company issued stock options to employees and third parties.

*Corporate Therapeutics.* In connection with the resolution of certain shareholder derivative litigation matters in 2008, the Board has adopted certain corporate therapeutics (“Gazda Corporate Therapeutics”).

#### **Amendment, Modification And Waiver of Policies; No Contract Right Created**

These procedures may be amended, modified or waived by the Board, subject to the disclosure and other provisions of the Securities and Exchange Act of 1934, the rules promulgated thereunder and the applicable rules of the NASDAQ.

These procedures do not create a contract between the Company, on the one hand, and a Board member, on the other hand. The Board reserves the right to change these procedures at any time, consistent with the requirements of applicable law and rules and regulations and the procedures of the Board. These procedures create no right to continued service on the Board.