UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 Or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _________________ to ________________________

Commission File Number: 001-33852

VirnetX Holding Corporation

(Exact name of registrant as specified in its charter)

Delaware	**77-0390628**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
5615 Scotts Valley Drive, Suite 110	
Scotts Valley, California	**95066**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (831) 438-8200

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

Title of Class	Name of Exchange on Which Registered
Common Stock, par value $0.0001 per share	NYSE Amex Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2010, was $229,626,990 based upon the closing price of the common shares of the Registrant on June 30, 2010. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

49,547,952 shares of Registrant's Common Stock were outstanding as of March 10, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of this Annual Report on Form 10-K incorporate by reference information from the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Registrant's 2011 Annual Meeting of Stockholders for the year ended December 31, 2010.

VirnetX Holding Corporation

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Statement regarding forward-looking statements

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our current liquidity, future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "expect" and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in "Risk Factors" and elsewhere in this Annual Report on Form 10-K. These risks are not exhaustive. Other sections of the Annual Report on Form 10-K include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur and actual results could differ materially from those projected in the forward-looking statements.

As used herein, "we," "us," "our," or the "Company" means VirnetX Holding Corporation and its wholly-owned subsidiaries, including VirnetX, Inc., collectively, on a consolidated basis.

PART I

Item 1. *Business.*

The Company

We are developing and commercializing software and technology solutions for securing real-time communications over the Internet. Our patented GABRIEL Connection Technology™ combines industry standard encryption protocols with our patented techniques for automated domain name system, or DNS, lookup mechanisms, enabling users to create a secure communication link using secure domain names. We also intend to establish the exclusive secure domain name registry in the United States and other key markets around the world. Our software and technology solutions provide the security platform required by next-generation Internet-based applications such as instant messaging, or IM, voice over Internet protocol, or VoIP, mobile services, streaming video, file transfer and remote desktop. Our technology generates secure connections on a "zero-click" or "single-click" basis, significantly simplifying the deployment of secure real-time communication solutions by eliminating the need for end users to enter any encryption information.

We currently have twelve patents in the United States and sixteen foreign patents, as well as several pending U.S. and foreign patent applications. Our portfolio includes a number of patents that describe unique systems and methods for securing real-time communications over the Internet, as well as related services such as the establishment and maintenance of a secure domain name registry. Our software and technology solutions also have additional applications in operating systems and network security. On December 2, 2009, we declared to the 3GPP (3rd Generation Partnership Project) that our U.S. and foreign patents are or may be essential to Long Term Evolution (LTE) and 4G wireless specifications. We believe that we hold patents relevant for compliance with the 3GPP Series 33 specifications that define security requirements for LTE/4G networks. Our employees include the core development team behind our patent portfolio, technology and software. This team has worked together for over ten years and is the same team that invented and developed this technology while working at Science Application International Corporation, or SAIC. SAIC is a FORTUNE 500® scientific, engineering and technology applications company that uses its deep domain knowledge to solve problems of vital importance to the nation and the world, in national security, energy and the environment, critical infrastructure and health. We acquired the majority of this patent portfolio in 2006, and it now serves as the foundation of our planned licensing and service offerings. We expect to derive the majority of our revenue from license fees and royalties associated with this technology. We also intend to continue our research and development efforts to further strengthen and expand our patent portfolio. Please see Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Operations – Research and Development Expenses for a description of our research and development expenses for the past two fiscal years. Over time, we plan to leverage our patent portfolio to develop a product suite that can be sold to enterprise customers and developers.

Our primary source of income since our inception has been from the Settlement and License Agreement we entered into with Microsoft Corporation, our first licensee, on May 14, 2010, or the Settlement and License Agreement. Pursuant to the Settlement and License Agreement, Microsoft paid us $200,000,000 in June 2010. As a result we dismissed the two patent infringement lawsuits we had initiated against Microsoft in February 2007 and March 2010 and granted Microsoft a worldwide, irrevocable, nonexclusive, non-sub licensable fully paid up license for our patents. The Settlement and License Agreement with Microsoft will not impact our plans to operate a secure domain name service.

On August 11, 2010, we initiated a lawsuit by filing a complaint against Aastra, Apple, Cisco, NEC in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that these parties infringe on certain of our patents. We seek damages and injunctive relief. On January 12, 2011, we initiated a lawsuit by filing a complaint against Siemens and Mitel in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that these companies infringe two of our patents. We seek damages and injunctive relief.

We intend to license our patents and our GABRIEL Connection Technology™ to original equipment manufacturers, or OEMs, within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets. The beta testing of our GABRIEL Connection Technology has now become part of our Secure Domain Name Initiative, or SDNI, that was announced on April 13, 2010. We have been in active discussions with leading 4G/LTE companies (domain infrastructure providers, chipset manufacturers, service providers, and others) to participate in a design pilot program for delivering to end-users and consumers of the Internet and mobile devices the needed and necessary security requirements for the next generation 4G/LTE wireless networks. We expect that the design pilot program will implement our patented Secure Domain Name and our GABRIEL Connection Technology™.

We also intend to license our technology and software, including our secure domain name registry service, to communication service providers as well as to system integrators. We believe that the market opportunity for our software and technology solutions is large and expanding.

Industry Overview

The Internet is increasingly evolving into a rich medium used by individuals and businesses to conduct commerce, share information and engage in real-time communications including email, text messaging, IM, and voice and video calls. This communications experience is richer and more complex than ever before. Session initiation protocol, or SIP, was developed to enable the convergence of voice and data networks and today is the predominant industry standard for establishing multimedia communications over the Internet such as voice, video, instant messaging, presence information and file transfer. SIP, as well as other real-time collaboration protocols such as XMPP, use DNS lookup as its primary means of connecting Internet devices but is an open architecture that remains inherently unsecure.

We believe that accessing a diversity of services from a single device, anytime and anywhere, and the ability to access these same services from a range of devices are emerging as key market requirements. The portions of the IP-telephony, mobility, fixed-mobile convergence and unified communications markets that could benefit from our software and technology solutions are forecasted by Infonetics to grow from approximately $59 billion of worldwide revenues in 2006 to approximately $162 billion by 2011, representing a compound annual growth rate, or CAGR, of approximately 22%. We believe that this growing trend represents a significant opportunity for VirnetX to license its technology and software, and establish its secure domain name registry.

IP Telephony

IP telephony includes technologies that use Internet Protocol's packet-switched connections to exchange voice, fax, and other forms of information traditionally carried over the dedicated circuit-switched connections of the public switched telephone network, or PSTN. The adoption of IP telephony has helped businesses significantly lower network operating costs by using a common network for voice and data. As the workforce becomes increasingly dispersed, mobile features enabled by Internet protocol-based communications such as presence, unified messaging, peer-to-peer applications, find me/follow me, white-boarding and document sharing have become more commonplace. However, the development of the related security infrastructure has lagged behind, leaving next-generation networks vulnerable to a multitude of threats including man-in-middle, eavesdropping, domain hijacking, distributed denial of service, or DDoS, spam over Internet telephony, or SPIT, and spam over instant messaging, or SPIM. These threats continue to highlight the need for securing next-generation networks. As the use of IP telephony systems extends beyond the boundaries of an organization's private network, security is likely to become an even bigger concern. Worldwide revenue from IP telephony products like IP-PBX including IP phones, service provider VoIP and IMS equipment, VoIP gateways and hosted VoIP services for businesses is forecasted by Infonetics to grow from approximately $15 billion in 2006 to approximately $43 billion in 2011, representing a CAGR of approximately 23%. We believe our unique and patented solution provides the robust security platform required for providing on-demand secure communication links between enterprises intending to communicate securely without manually configuring the connections. We believe a standard security solution such as ours will further accelerate the adoption of IP telephony products in the market and allow enterprises to take full advantage of these rich content applications and real-time communications over the Internet, thereby significantly increasing their return on investment.

Fixed-Mobile Convergence

Fixed-mobile convergence is an environment where wired and wireless phones work together with Internet Protocol to deliver services (voice, video, data and combinations thereof) uniformly across multiple access networks, including, among others, WiMAX, WiFi, cellular and fixed. We believe that worldwide revenue for fixed-mobile convergence infrastructure equipment will grow from approximately $9 million in 2006 to over $406 million in 2011, representing a CAGR of approximately 114%. Additionally, according to a thought leadership paper entitled "Road to Full Convergence" published by Fixed-Mobile Convergence Alliance, or FMCA, an alliance of leading operators representing a customer base of over 850 million customers, consumers increasingly feel the need to be connected and have real-time access to media streams, blogs and breaking news. During the past ten years, users have become increasingly technologically sophisticated and are now demanding greater functionality from the Internet. Today, the Internet is used for commerce, accessing content, social networking, online dating and a number of other forms of media-rich, real-time communication and collaboration. Mobile devices like dual mode (cellular/WiFi) phones lie at the center of this transition and have become the device with the closest proximity and relationship to the user. We believe that accessing a diversity of services from a single device, anytime and anywhere, and the ability to access the same services from a range of devices, is emerging as a key market requirement. Worldwide total dual mode cellular/WiFi phone revenue was approximately $17 billion in 2006 and is expected to grow to approximately $76 billion in 2011, representing a CAGR of approximately 35%. The strong projected growth for converged cellular/WiFi phones and related services in enterprise and consumer market segments represents a significant opportunity for VirnetX's technology, and software to become the industry standard for securing real-time communication.

IP Mobility

Smartphones are multi-functional devices that handle a wide variety of business-critical applications and support increasingly complex functions including enhanced data processing, Internet access, e-mail access, calendars and scheduling, contact management and the ability to view electronic documents. Users have continual access to these applications while on the move making them an increasingly essential business tool for the mobile worker. These devices enable mobile workers to have similar functionality inside or outside the office thereby increasing employee efficiency. However, it is critical that this mobile environment have the same level of security as an enterprise's internal network. Worldwide revenue from IP mobility products like smartphones and mobile data cards is expected to grow from approximately $26 billion in 2006 to approximately $41 billion by 2011, representing a CAGR of approximately 10%. We believe in order to realize the full functionality of IP mobility, several challenges including security must be overcome. When users are mobile, connections and data need to cross multiple network boundaries, each of which poses a security threat. Wireless networks present unique threats because rogue users can enter the enterprise network through wireless access points that may not be sufficiently protected as part of an organization's IT security protocols. Providing authenticated access to the wireless networks and enterprise applications through the wireless domain are important requirements and represent a significant market opportunity for VirnetX's patented technology and secure domain names to provide users fully authenticated secure access on a "zero-click" or "single-click" basis.

Unified Communications

The need to enhance productivity is putting increasing demand on instant access to, and the management of, rapidly expanding real-time information. Mobile collaboration, and the ability to conduct business whether inside or outside of the office, are high priorities. Business and consumer users are nomadic and expect instant access everywhere. The ability to establish multiple secure simultaneous network connections and provide IP sessions with security and encryption will be critical to widespread deployment of next-generation networks. A shortcoming of this new communications environment is that the various modes of communication operate independently from one another and do not integrate easily, if at all. As the number of devices grows, individual points of contact multiply and communication becomes more sophisticated and increasingly vulnerable.

The idea behind unified communications is to organize the array of communication methodologies, integrating the various fragmented ways individuals communicate today into a single communications experience, ultimately increasing utility and productivity. The basic components comprising unified communications include: a directory for storing addresses, various modes of communication with each user/contact (desk phone, mobile phone, IM, etc.), message storage for all messages regardless of communication method and secure presence of a user's status for each mode of communication (available, away, busy, etc.). Worldwide unified communications market generated approximately $377 million in revenue in 2006 and is forecasted to grow rapidly over the next few years generating approximately $813 million in revenue in 2011, representing a CAGR of approximately 17%. We believe the growth in unified communication products may not reach its full potential due to the lack of transparent and seamless security as users hesitate to place their presence information online for all to see and as organizations block access due to the lack of credentials verified by a neutral third party. Our solutions help address these concerns and should enable significant growth in the unified communications market.

Our Solutions

Our software and technology solutions, including our secure domain name registry, our patents and our GABRIEL Connection Technology™ are designed to secure all types of real-time communications over the Internet. Our technology uses industry standard encryption methods with our patented DNS lookup mechanisms to create a secure communication link between users intending to communicate in real time over the Internet. Our technology can be built into network infrastructure, operating systems or silicon chips developed for a communication or computing device to secure real-time communications over the Internet between numerous devices. Our technology automatically encrypts data allowing organizations and individuals to establish communities of secure, registered users and transmit information between multiple devices, networks and operating systems. These secure network communities, which we call secure private domains, or SPDs, are designed to be fully-customizable and support rich content applications such as IM, VoIP, mobile services, streaming video, file transfer and remote desktop in a completely secure environment. Our approach is a unique and patented solution that provides the robust security platform required by these rich content applications and real-time communications over the Internet. The key benefits and features of our technology include the following:

- **Automatic and seamless to the user**. After a one-time registration, users connect securely on a "zero-click" or "single-click" basis.

- **Secure data communications**. Users create secure networks with people they trust and communicate over a secure channel.

- **Control of data at all times**. Users can secure and customize their unified communication and collaboration applications such as file sharing and remote desktop with policy-based access and secure presence information.

- **Authenticated users**. Users know they are communicating with authenticated users with secure domain names.

- **Application-agnostic technology**. Our solution provides security at the IP layer of the network by using patented DNS lookup mechanisms to make connections between secure domain names, thereby obviating the need to provide application specific security.

Competitive Strengths

We believe the following competitive strengths will enable our success in the marketplace:

- **Unique patented technology**. We are focused on developing innovative technology for securing real-time communications over the Internet, and establishing the exclusive secure domain name registry in the United States and other key markets around the world. Our unique solutions combine industry standard encryption methods and communication protocols with our patented techniques for automated DNS lookup mechanisms. Our technology and patented approach enables users to create a secure communication link by generating secure domain names. We have a portfolio comprised of twelve patents in the United States and sixteen foreign patents, as well as several pending U.S. and foreign patent applications. Our portfolio includes patents and pending patent applications in the United States and other key markets that support our secure domain name registry service for the Internet.

- **Scalable licensing business model**. We are actively engaged in pursuing licensing agreements with OEMs, service providers and system integrators within the IP-telephony, mobility, fixed-mobile convergence and unified communications end-markets.

- **Highly experienced research and development team**. Our research and development team is comprised of nationally recognized network security and encryption technology scientists and experts that have worked together as a team for over ten years. During their careers, this team has developed several cutting-edge technologies for U.S. national defense, intelligence and civilian agencies, many of which remain critical to our national security today. Prior to joining VirnetX, our team worked for SAIC during which time they invented the technology that is the foundation of our technology, and software. Based on the collective knowledge and experience of our development team, we believe that we have one of the most experienced and sophisticated groups of security experts researching vulnerability and threats to real-time communication over the Internet and developing solutions to mitigate these problems.

Our Strategy

Our strategy is to become the market leader in securing real-time communications over the Internet and to establish our GABRIEL Communications Technology™ as the industry standard security platform. Key elements of our strategy are to:

- Implement a technology licensing program to commercialize our intellectual property, including our GABRIEL Connection Technology™.

- Establish VirnetX as the exclusive universal registry of secure domain names and to enable our customers to act as registrars for their users and broker secure communication between users on different registries.

- Leverage our existing technology to develop a suite of products that can be sold directly to end-user enterprises.

On December 2, 2009, we declared to the 3GPP (3rd Generation Partnership Project) that we believe our U.S. and foreign patents are or may be essential to Long Term Evolution (LTE) and 4G wireless specifications. We believe that we hold the patents relevant to compliance with the 3GPP Series 33 specifications that define security requirements for LTE/4G networks.

License and Service Offerings

We plan to offer a diversified portfolio of license and service offerings focused on securing real-time communications over the Internet, including:

- **VirnetX technology licensing**: Customers who want to develop their own implementation of the VirnetX code module for supporting secure domain names, or who want to use their own techniques that are covered by our patent portfolio for establishing secure communication links, will purchase a technology license. We anticipate that these licenses would typically include an initial license fee, as well as an ongoing royalty. We expect that these licenses will include a one-time delivery of Gabriel software development kit including object libraries, sample code, testing and quality assurance tools and the supporting documentation necessary for a customer to implement of the techniques we have developed.

- **GABRIEL Connection Technology™ Software Development Kit or SDK**: OEM customers who want to adopt the GABRIEL Connection Technology™ as their solution for establishing secure connections using secure domain names within their products will purchase an SDK license. The software development kit consists of object libraries, sample code, testing and quality assurance tools and the supporting documentation necessary for a customer to implement our technology. These tools are comprised of software for a secure domain name connection test server, a relay test server and a registration test server. We expect that customers would pay an up-front license fee to purchase an SDK license and a royalty fee for every product shipped with the embedded VirnetX code module.

- **Secure domain name registrar service**: Customers, including service providers, telecommunication companies, ISPs, system integrators and OEMs could purchase a license to our secure domain name registrar service. We would provide the software suite and technology support to enable such customers to provision devices with secure domain names and facilitate secure connections between registered devices. This suite includes the following server software modules:

  - **Registrar server software**: We anticipate that our registrar server software would enable customers to operate as a secure domain name registrar that provisions devices with secure domain names. The registrar server software is designed to provide an interface for our customers to register new virtual private domains and sub-domain names. This server module must be enrolled with the VirnetX secure domain name master registry to obtain its credentials before functioning as an authorized registrar.

  - **Connection server software**: We anticipate that our connection server software would allow customers to provide connection services to enrolled devices. The connection services include registration of presence information for authenticated users and devices, presence information query request services, enforcement of policies and support for communication with peers behind firewalls.

- **Relay server software**: We anticipate that our relay server software would allow customers to dynamically maintain connections and relay data to private IP addresses for network devices that reside behind firewalls. Secure domain name registrar service customers will enter into a technology licensing and revenue sharing agreement with VirnetX whereby we will typically receive an up-front licensing fee for the secure domain name registrar technology, as well as ongoing annual royalties for each secure domain name issued by the customer.

- **Secure domain name master registry and connection service**: As part of enabling the secure domain name registrar service, we expect that we will maintain and manage the secure domain name master registry. This service is expected to enroll all secure domain name registrar customers and generate the credentials required to function as an authorized registrar. It also is expected to provide connection services and universal name resolution, presence information and secure connections between authorized devices with secure domain names.

- **Technical support services**: We intend to provide high-quality technical support services to licensees and customers for the rapid customization and deployment of GABRIEL Connection Technology™ in an individual customer's products and services.

Our research and development team was the team responsible for inventing the claimed subject matter of the patents that form the foundation of our technology. This team has worked together for over ten years. We intend to leverage this experience and continue investing in research and development and, over time, expect to strengthen and expand our patent portfolio, technology, and software. While we are currently focused on securing real-time communications over the Internet and establishing the first and only secure domain name registry, we believe our existing and future intellectual property portfolio will extend to additional areas including, among others, network security and operating systems for fixed and mobile devices.

Customers

Our primary source of revenue since inception has been from the Settlement and License Agreement we entered into with Microsoft Corporation, our first licensee, on May 14, 2010, or the Settlement and License Agreement. Pursuant to the Settlement and License Agreement, Microsoft paid us $200,000,000 in June 2010. As a consequence, we dismissed the two patent infringement lawsuits we initiated against Microsoft in February 2007 and March 2010 and granted Microsoft a worldwide, irrevocable, nonexclusive, non-sub licensable fully paid up license under our patents. The Settlement and License Agreement with Microsoft will not impact our plans to operate a secure domain name service.

We are currently focused on commercializing our technology and are actively offering our GABRIEL Connection Technology™ to original equipment manufacturers, or OEMs, within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets.

We also intend to provide technology licenses and software offerings, including our secure domain name registry service, to communication service providers as well as to system integrators.

Marketing and Sales

We plan to employ a leveraged, partner-oriented, marketing strategy for our technology licenses and software offerings. We expect the marketing strategy will primarily be focused on OEMs.

We plan to directly market our domain name registry services to our service provider and system integrator customers. We hope to leverage our relationship with SAIC to extend our offering to departments and agencies within the federal government. SAIC is a FORTUNE 500® scientific, engineering, and technology applications company that uses its deep domain knowledge to solve problems of vital importance to the nation and the world, in national security, energy and the environment, critical infrastructure, and health.

We intend to build a sales force that will be responsible for managing accounts and pursuing technology licensing and sales opportunities with new customers.

Competition

We believe our technology and solutions will compete primarily against various proprietary security solutions. We group these solutions into three main categories:

- Proprietary or home-grown application specific security solutions have been developed by vendors and integrated directly into their products for our target markets including IP-telephony, mobility, fixed-mobile convergence, and unified communications. These proprietary solutions have been developed due to the lack of standardized approaches to securing real-time communications. This approach has led to corporate networks that are isolated and, as a result, restrict enterprises to using these next-generation networks within the boundaries of their private network. These solutions generally do not provide security for communications over the Internet or require network administrators to manually exchange keys and other security parameters with each destination network outside their corporate network boundary. The cost-savings and other benefits of IP-based real-time communications are significantly limited by this approach to securing real-time communications.

- A session border controller, or SBC, is a device used in networks to exert control over the signaling and media streams involved in establishing, conducting and terminating VoIP calls. A traditional firewall or network address translation, or NAT, device typically block information like endpoint IP addresses and port numbers required by signaling protocols, such as SIP and XMPP, to reach and communicate with their intended destination. SBCs are used in physical networks to address these limitations and enable real-time session traffic to cross the boundaries created by firewalls and other NAT devices and enable VoIP calls to be established successfully. However, SBCs must decrypt and analyze every single data packet for the information to be transmitted successfully, thereby preventing end-to-end encryption. This network design results in SBCs becoming a single point of congestion on the network, as well as a single point of failure. SBCs are also limited to the physical network they secure.

- SIP firewalls, or SIP-aware firewalls, and application layer gateways, manage and protect the traffic, flow and quality of VoIP and other SIP-related communications. They perform real-time network address translation, dynamic firewall functions, support multiple signaling protocols, and media functionality, allowing secure interconnection and the flow of IP media streams across multiple networks. While SIP firewalls assist in analyzing SIP traffic transmitted over the corporate network to filter out various threats, they do not necessarily encrypt the traffic. As a result, this traffic is not entirely secure from end-to-end nor is it protected against threats like man-in-middle and eavesdropping.

Intellectual Property and Patent Rights

Our intellectual property is primarily comprised of trade secrets, patented know-how, issued and pending patents, copyrights and technological innovation.

We have a portfolio comprised of twelve patents in the United States and sixteen foreign patents, as well as several pending U.S. and foreign patent applications. Our portfolio includes a number of patents that describe unique systems and methods for securing real-time communications over the Internet, as well as related services such as the establishment and maintenance of a secure domain name registry. Our software and technology solutions also have additional applications relating to operating systems and network security.

We have included a list of our U.S. patents below. Each patent below is publicly accessible on the Internet website of the U.S. Patent and Trademark Office at www.uspto.gov. The term of each of our issued U.S. and foreign patents will expire during the period from 2019 to 2024.

U.S. Patent Number Link to Patent	Title of Patent
6,502,135	Agile network protocol for secure communications with assured system availability
6,618,761	Agile network protocol for secure communications with assured system availability
6,826,616	Method for establishing secure communication link between computers of virtual private network
6,834,310	Preventing packet flooding of a computer on a computer network
6,839,759	Method for establishing secure communication link between computers of virtual private network without user entering any cryptographic information
6,907,473	Agile network protocol for secure communications with assured system availability
7,010,604	Agile network protocol for secure communications with assured system availability
7,133,930	Agile network protocol for secure communications with assured system availability
7,188,180	Method for establishing secure communication link between computers of virtual private network
7,209,479	Third party VPN certification
7,418,504	Agile network protocol for secure communications using secure domain names
7,490,151	Establishment of a secure communication link based on a domain name service (DNS) request

Notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings, the information set forth on the United States Patent and Trademark Office, or the USPTO Website, shall not be deemed to be a part of or incorporated by reference into any such filings. The Company does not warrant the accuracy, or completeness or adequacy of the USPTO Website, and expressly disclaims liability for errors or omissions on such website.

Assignment of Patents

Most of our issued patents were acquired by our principal operating subsidiary, VirnetX, Inc., from Science Applications International Corporation, or SAIC, pursuant to an Assignment Agreement dated December 21, 2006, and a Patent License and Assignment Agreement dated August 12, 2005, as amended on November 2, 2006, including documents prepared pursuant to the November amendment, and as further amended on March 12, 2008. We are required to make payments to SAIC based on the revenue generated from our ownership or use of the patents we acquired from SAIC. Royalty amounts vary depending upon the type of revenue generating activities, and certain royalty categories are subject to maximums and other limitations. With respect to revenue-generating activities within our field of use, minimum annual royalty payments of $50,000 were due beginning in 2008 but as of June 30, 2010 we have met our maximum royalty payment. Under certain circumstances, SAIC is entitled to receive a portion of the proceeds from revenues, monies or any form of consideration paid to VirnetX for certain acquisitions of VirnetX or from the settlement of certain patent infringement claims we assert on others.

Government Regulation

The laws governing online secure communications remain largely unsettled, even in areas where there has been legislative action. It may take years to determine whether and how existing laws governing intellectual property, privacy and libel apply to online communications and media. Such legislation may interfere with the growth in use of online secure communications and decrease the acceptance of online secure communications as a viable solution, which could adversely affect our business.

Due to the Internet's popularity and increasing use, new laws regulating secure communications may be adopted. These laws and regulations may cover, among other things, issues relating to privacy, pricing, taxation, telecommunications over the Internet, content, copyrights, distribution and quality of products and services. We intend to comply with all new laws and regulations as they are adopted.

The U.S. government has controlled the authoritative domain name system, or DNS, root server since the inception of the Internet. On July 1, 1997, the President of the United States directed the U.S. Secretary of Commerce to privatize the management of the domain name system in a manner that increases competition and facilitates international participation in its management.

On September 29, 2006, the U.S. Department of Commerce extended its delegation of authority by entering into a new agreement with the Internet Corporation for Assigned Names and Numbers, or ICANN, a California non-profit corporation headquartered in Marina Del Rey, California. ICANN is responsible for managing the accreditation of registry providers and registrars that manage the assignment of top level domain names associated with the authoritative DNS root directory. Although it is possible to create and manage other DNS root directories privately without accreditation from ICANN, the possibility of conflicting name and number assignments makes it less likely that users would widely adopt a top level domain name associated with an alternative DNS root directory provided by a non-ICANN-accredited registry service.

We are currently evaluating whether we will apply to become an ICANN-accredited registry provider with respect to one or more customized gTLDs, or create our own alternative DNS root directory to manage the assignment of non-standard secure domain names. We have not yet begun discussions with ICANN and we cannot assure you that we will be successful in obtaining ICANN accreditation for our registry service on terms acceptable to us or at all. Whether or not we obtain accreditation from ICANN, we will be subject to the ongoing risks arising out of the delegation of the U.S. government's responsibilities for the domain name system to the U.S. Department of Commerce and ICANN and the evolving government regulatory environment with respect to domain name registry services.

Employees

As of December 31, 2010, we had 11 full-time employees.

Corporate Overview and History

PASW, Inc. was incorporated in the State of California in November 1992. PASW, Inc. reincorporated in the State of Delaware in March 2007. From inception until January 2003, PASW, Inc. was engaged in the business of developing and licensing software that enabled Internet and web based communications. In January 2003, PASW, Inc. sold all of its operating assets and became a publicly traded company with limited operations.

VirnetX, Inc., which we refer to throughout this Annual Report on Form 10-K as VirnetX, was incorporated in the State of Delaware in August 2005. In November 2006, VirnetX acquired certain patents from SAIC. In July 2007, we effected a reverse merger between PASW, Inc. and VirnetX, which became our principal operating subsidiary. As a result of this merger, the former security holders of VirnetX came to own a majority of our outstanding common stock. On October 29, 2007, we changed our name from PASW, Inc. to VirnetX Holding Corporation.

Available Information

We file or furnish various reports, such as registration statements, periodic and current reports, proxy statements and other materials with the SEC. Our Internet website address is www.virnetx.com. You may obtain, free of charge on our Internet website, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information we post is intended for reference purposes only; none of the information posted on our website is part of this report or incorporated by reference herein.

In addition to the materials that are posted on our website, you may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and other information statements, and other information regarding issuers, including us, that file electronically with the SEC. The Internet address of the SEC's Internet site is http://www.sec.gov.

Item 1A. ***Risk Factors.***

You should carefully consider the following material risks in addition to the other information set forth in the Annual Report on this Form 10-K before making any investment in the offered securities. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of these risk factors occurs, you could lose substantial value or your entire investment in the offered securities.

Risks Related To Existing and Future Litigation

Our litigation against Aastra, Apple, Cisco, NEC, Siemens and Mitel is ongoing, and we expect such litigation and the appeals process to be time-consuming and costly, which may adversely affect our financial condition and our ability to operate our business.

On August 11, 2010, we initiated a lawsuit by filing a complaint against Aastra, Apple, Cisco, NEC in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that these parties infringe on certain of our patents. We seek damages and injunctive relief. On January 12, 2011, we initiated a lawsuit by filing a complaint against Siemens and Mitel in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that these companies infringe two of our patents. We seek damages and injunctive relief.

We cannot assure you that any of these lawsuits will result in a final outcome that is favorable to our company or our stockholders.

We expect to allocate a significant amount of our existing cash on hand towards the fees and expenses associated these litigation matters. We anticipate that these legal proceedings could continue for several years and may require significant expenditures for legal fees and other expenses. In the event we are not successful through appeal and do not subsequently obtain monetary and injunctive relief, these litigation matters may significantly reduce our financial resources and have a material impact on our ability to continue our operations. The time and effort required of our management to effectively pursue these litigation matters may adversely affect our ability to operate our business, since time spent on matters related to the lawsuits will take away from the time spent on managing and operating our business.

While we believe Aastra, Apple, Cisco, NEC, Siemens and Mitel infringe our patents, we can provide no assurance that we will be successful in our lawsuit through appeal.

We believe that Aastra, Apple, Cisco, NEC, Siemens and Mitel infringe on certain of our patents, but obtaining and collecting a judgment against these parties may be difficult or impossible. Patent litigation is inherently risky and the outcome is uncertain. Aastra, Apple, Cisco, NEC, Siemens and Mitel are all large, well-financed companies with substantially greater resources than us. We believe that these parties will devote a substantial amount of resources in an attempt to prove that either their products do not infringe our patents or that our patents are not valid and are unenforceable. At this time, we cannot predict the final outcome of these litigation matters.

We may commence additional legal proceedings against third parties who we believe are infringing on our intellectual property rights, and if we are forced to litigate to defend our intellectual property rights, or to defend claims by third parties against us relating to intellectual property rights, legal fees and court injunctions could adversely affect our financial condition or end our business.

Disputes regarding the ownership of technologies and intellectual property rights are common and we may have intellectual property infringement claims against other parties in addition to our claims against Aastra, Apple Inc., Cisco, NEC, Siemens and Mitel. If we commence actions against additional parties, we may incur significant expense and commit significant management time, which may adversely affect our financial condition and results of operations. Moreover, there can be no assurance that we would be successful in any additional legal proceedings and the existence and outcome of any such litigation could harm our business. In addition, commencing lawsuits may lead to potential counterclaims which may preclude our ability to develop and commercialize products.

Risks Related to Our Business and Our Industry

We may or may not be able to capitalize on potential market opportunities related to our licensing strategy or our patent portfolio.

In order to capitalize on our patent portfolio, our business strategy calls for us to enter into licensing relationships with the leading companies in our target market in order to reach a larger end-user base than we could reach through direct sales and marketing efforts. Although we entered into a Settlement and License Agreement with Microsoft Corporation, there can be no assurance that we will be able to continue to capitalize on our patent portfolio or any potential market opportunity in the foreseeable future. Our inability to generate licensing revenues associated with the potential market opportunity could result from a number of factors, including, but not limited to:

- we may not be successful in entering into licensing relationships with our targeted customers on commercially acceptable terms; and
- challenges to the validity of certain of our patents underlying our licensing opportunities.

We can provide no assurance that we will be successful in pursuing our business plan of commercializing our technology.

We expect to depend on our intellectual property licensing fees and royalties for the majority of our revenues. Our ability to generate licensing fees and royalties is dependent on mainstream market adoption of real-time communications based on Session Initiation Protocol or using DNS lookup protocols as well as customer adoption of our GABRIEL Communication Technology™ and our secure domain name registry. We cannot assure you that we will succeed in building a profitable business based on our business plan.

There has been increased competition for security solutions in the real-time communications industry, as more companies seek to provide products and services similar to our proposed products and services, and because larger and better-financed competitors may affect our ability to operate our business and achieve profitability, our business may fail.

We expect competition for our products and services to be intense. We expect to compete directly against other companies offering similar security products and services that will compete directly with our proposed products and services. We also expect that we will compete against established vendors within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets. These companies may incorporate other competitive technologies into their product offerings, whether developed internally or by third parties. For the foreseeable future, substantially all of our competitors are likely to be larger, better-financed companies that may develop products superior to our proposed products, which could create significant competitive advantages for those companies. Our future success depends on our ability to compete effectively with our competitors. As a result, we may have difficulty competing with larger, established competitors. Generally, these competitors have:

- substantially greater financial, technical and marketing resources;
- a larger customer base;
- better name recognition; and

- more expansive product offerings.

These competitors are likely to command a larger market share than us, which may enable them to establish a stronger competitive position, in part, through greater marketing opportunities. Further, our competitors may be able to respond more quickly to new or emerging technologies and changes in user preferences and to devote greater resources to developing and operating networks of affinity websites. These competitors may develop products or services that are comparable or superior. If we fail to address competitive developments quickly and effectively, we may not be able to remain a viable entity.

If we are not able to adequately protect our patented rights, our operations would be negatively impacted.

Our ability to compete largely depends on the superiority, uniqueness and value of our technology and intellectual property. To protect our intellectual property rights, we rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with our employees and third parties, and protective contractual provisions. Further, we can give no assurances that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against us or that any such assertions or prosecutions will not materially adversely affect our business.

Regardless of whether these or any future claims are valid or can be successfully asserted, defending against such claims could cause us to incur significant costs, could jeopardize or substantially delay a successful outcome in any future litigation, and could divert resources away from our other activities. In addition, assertion of infringement claims could result in injunctions that prevent us from distributing our products. In addition to challenges against our existing patents, any of the following could also reduce the value of our intellectual property now, or in the future:

- our applications for patents, trademarks and copyrights relating to our business may not be granted and, if granted, may be challenged or invalidated;

- issued trademarks, copyrights, or patents may not provide us with any competitive advantages;

- our efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology; or

- our efforts may not prevent the development and design by others of products or technologies similar to or competitive with, or superior to those we develop.

In addition, we may not be able to effectively protect our intellectual property rights in certain foreign countries where we may do business in the future or from which competitors may operate. While we have numerous pending foreign patents, obtaining such patents will not necessarily protect our technology or prevent our international competitors from developing similar products or technologies. Our inability to adequately protect our patented rights would have a negative impact on our operations and revenues.

In addition, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights in Internet-related businesses are uncertain and still evolving. Because of the growth of the Internet and Internet related businesses, patent applications are continuously and simultaneously being filed in connection with Internet-related technology. There are a significant number of U.S. and foreign patents and patent applications in our areas of interest, and we believe that there has been, and is likely to continue to be, significant litigation in the industry regarding patent and other intellectual property rights.

The burdens of being a public company may adversely affect our ability to pursue litigation.

As a public company, our management must devote substantial time, attention and financial resources to comply with U.S. securities laws. This may have a material adverse effect on management's ability to effectively and efficiently pursue litigation as well as our other business initiatives. In addition, our disclosure obligations under U.S. securities laws require us to disclose information publicly that will be available to future litigation opponents. We may, from time to time, be required to disclose information that will have a material adverse affect on our litigation strategies. This information may enable our litigation opponents to develop effective litigation strategies that are contrary to our interests.

When we attempt to implement our secure domain name registry services business, we may be subject to government and industry regulation and oversight which may impede our ability to achieve our business strategy.

The U.S. government has historically controlled the authoritative domain name system, or DNS, root server since the inception of the Internet. On July 1, 1997, the President of the United States directed the U.S. Secretary of Commerce to privatize the management of the domain name system in a manner that increases competition and facilitates international participation in its management.

On September 29, 2006, the U.S. Department of Commerce extended its delegation of authority by entering into a new agreement with the Internet Corporation for Assigned Names and Numbers, or ICANN, a California non-profit corporation headquartered in Marina Del Rey, California. ICANN is responsible for managing the accreditation of registry providers and registrars that manage the assignment of top level domain names associated with the authoritative DNS root directory. Although other DNS root directories are possible to create and manage privately without accreditation from ICANN, the possibility of conflicting name and number assignments makes it less likely that users would widely adopt a top level domain name associated with an alternative DNS root directory provided by a non-ICANN-accredited registry service.

We are currently evaluating whether we will apply to become an ICANN-accredited registry provider with respect to one or more customized gTLDs, or create our own alternative DNS root directory to manage the assignment of non-standard secure domain names. We have not yet begun discussions with ICANN and we cannot assure you that we will be successful in obtaining ICANN accreditation for our registry service on terms acceptable to us or at all. Whether or not we obtain accreditation from ICANN, we will be subject to the ongoing risks arising out of the delegation of the U.S. government’s responsibilities for the domain name system to the U.S. Department of Commerce and ICANN and the evolving government regulatory environment with respect to domain name registry services.

The laws governing online secure communications are largely unsettled, and if we become subject to various government regulations, costs associated with those regulations may materially adversely affect our business.

The current regulatory environment for our services remains unclear. We can give no assurance that our planned product offerings will be in compliance with local, state and/or U.S. federal laws or other laws. Further, we can give no assurance that we will not unintentionally violate such laws or that such laws will not be modified, or that new laws will be enacted in the future which would cause us to be in violation of such laws.

VoIP services are not currently subject to all of the same regulations that apply to traditional telephony. The U.S. Federal Communications Commission has imposed some traditional telephony requirements on VoIP such as disability access requirements and other obligations. It is possible that federal and state legislatures may seek to impose increased fees and administrative burdens on VoIP, data and video providers. Such regulations could result in substantial costs depending on the technical changes required to accommodate the requirements, and any increased costs could erode the pricing advantage over competing forms of communication and adversely affect consumer adoption of VoIP products generally.

The use of the Internet and private IP networks to provide voice, video and other forms of real-time, two-way communications services is a relatively recent development. Although the provisioning of such services is currently permitted by U.S. law and is largely unregulated within the United States, several foreign governments have adopted laws and/or regulations that could restrict or prohibit the provisioning of voice communications services over the Internet or private IP networks. More aggressive domestic or international regulation of the Internet in general, and Internet telephony providers and services specifically, may materially and adversely affect our business, financial condition, operating results and future prospects, particularly if increased numbers of governments impose regulations restricting the use and sale of IP telephony services.

In addition to regulations addressing Internet telephony and broadband services, other regulatory issues relating to the Internet in general could affect our ability to provide our planned security solutions. Congress has adopted legislation that regulates certain aspects of the Internet, including online content, user privacy, taxation, liability for third-party activities and jurisdiction. In addition, a number of initiatives pending in Congress and state legislatures would prohibit or restrict advertising or sale of certain products and services on the Internet, which may have the effect of raising the cost of doing business on the Internet generally.

If we experience security breaches, we could be exposed to liability and our reputation and business could suffer.

We will retain certain confidential customer information in our secure data centers and secure domain name registry. It will be critical to our business strategy that our facilities and infrastructure remain secure and are perceived by the marketplace to be secure. Our secure domain name registry operations will also depend on our ability to maintain our computer and telecommunications equipment in effective working order and to reasonably protect our systems against interruption, and potentially depend on protection by other registrars in the shared registration system. The secure domain name servers that we will operate will be critical hardware to our registry services operations. Therefore, we expect to have to expend significant time and money to maintain or increase the security of our facilities and infrastructure.

Security technologies are constantly being tested by computer professionals, academics and “hackers.” Advances in the techniques for attacking security solutions could make some or all of our products obsolete or unmarketable. Likewise, if any of our products are found to have significant security vulnerabilities, then we may need to dedicate engineering and other resources to eliminate the vulnerabilities and to repair or replace products already sold or licensed to our customers. Despite our security measures, our infrastructure may be vulnerable to physical break-ins, computer viruses, attacks by hackers or similar disruptive problems. It is possible that we may have to expend additional financial and other resources to address such problems. Any physical or electronic break-in or other security breach or compromise of the information stored at our secure data centers and domain name registration systems may jeopardize the security of information stored on our premises or in the computer systems and networks of our customers. In such an event, we could face significant liability and customers could be reluctant to use our services. Such an occurrence could also result in adverse publicity and therefore adversely affect the market’s perception of the security of electronic commerce and communications over IP networks as well as of the security or reliability of our services.

Our business greatly depends on the growth of IM, VoIP, mobile services, streaming video, file transfer and remote desktop and other next-generation Internet-based applications.

Next-generation Internet-based applications such as instant messaging, or IM, voice over Internet protocol, or VoIP, mobile services, streaming video, file transfer and remote desktop may not continue to gain widespread market acceptance. The Internet may ultimately prove not to be a viable commercial marketplace for such applications for a number of reasons, including:

- unwillingness of consumers to shift to VoIP and use other such next-generation Internet-based applications;
- refusal to purchase security products to secure information transmitted through such applications;
- perception by the licensees of unsecure communication and data transfer;
- lack of concern for privacy by licensees and users;
- limitations on access and ease of use;
- congestion leading to delayed or extended response times;
- inadequate development of Internet infrastructure to keep pace with increased levels of use; and
- increased government regulations.

If the market for IM, VoIP, mobile services, streaming video, file transfer and remote desktop does not grow as anticipated, our business would be adversely affected.

The success of our products that secure IM, VoIP, mobile services, streaming video, file transfer and remote desktop, among other real-time communications applications, depends on the growth in the number of users, which in turn depends on the Internet gaining more widespread acceptance as the basis for these real-time communications applications. These real-time communications applications are still in early stages of market acceptance and we cannot assure you that they will continue to develop a broader audience. For example, potential new users may view VoIP as unattractive relative to traditional telephone services for a number of reasons, including the need to purchase computer headsets or the perception that the price advantage for VoIP is insufficient to justify the perceived inconvenience.

While the use of IM and other next-generation Internet-based applications has grown rapidly in personal and professional use, there can be no assurance that users will pay to secure their use of such applications.

Many services such as Microsoft, Yahoo! and America Online offer IM free of charge. However, security solutions for these services are not free, and OEMs may not want to adopt such security solutions if users of IM do not see the value and do not want to pay for such security solutions. If personal and professional users of IM and other next-generation Internet-based solutions do not want to pay for the security solutions, we will have difficulty marketing and selling our products and technologies.

We expect that we will experience long and unpredictable sales cycles, which may impact our operating results.

We expect that our sales cycles will be long and unpredictable due to a number of uncertainties such as:

- the need to educate potential customers about our patent rights and our product and service capabilities;
- customers' willingness to invest potentially substantial resources and modify their network infrastructures to take advantage of our products;
- customers' budgetary constraints;
- the timing of customers' budget cycles; and
- delays caused by customers' internal review processes.

We expect that we will be substantially dependent on a concentrated number of customers. If we are unable to establish, maintain or replace our relationships with customers and develop a diversified customer base, our revenues may fluctuate and our growth may be limited.

We expect that in the future, a significant portion of our revenues will be generated from a limited number of customers. Substantially all of our income during fiscal year 2010 was from the payments to us resulting from the Settlement and License Agreement we entered into with Microsoft. There can be no guarantee that we will be able to obtain additional customers, or if we do so, to sustain our revenue levels from these prospective customers. If we are not able to establish, maintain or replace the limited group of prospective customers that we anticipate may generate a substantial majority of our revenues in the future, or if they do not generate revenues at the levels or at the times that we anticipate, our ability to maintain or grow our revenues will be adversely affected.

If we do not successfully develop our planned products and services in a cost-effective manner to customer demand in the rapidly evolving market for Internet and IP-based communications services, our business may fail.

The market for communications services is characterized by rapidly changing technology, evolving industry standards, changes in customer needs and frequent new service and product introductions. We are currently focused on developing products to provide security solutions for real-time communications. Our future success will depend, in part, on our ability to use new technologies effectively, to continue to develop our technical expertise, to enhance our existing services and to develop new services that meet changing customer needs on a timely and cost-effective basis. We may not be able to adapt quickly enough to changing technology, customer requirements and industry standards. If we fail to use new technologies effectively, to develop our technical expertise and new services, or to enhance existing services on a timely basis, either internally or through arrangements with third parties, our product and service offerings may fail to meet customer needs, which would adversely affect our revenues and prospects for growth.

In addition, if we are unable, for technological, legal, financial or other reasons, to adapt in a timely manner to changing market conditions or customer requirements, we could lose customers, strategic alliances and market share. Sudden changes in user and customer requirements and preferences, the frequent introduction of new products and services embodying new technologies and the emergence of new industry standards and practices could render our existing products, services and systems obsolete. The emerging nature of products and services in the technology and communications industry and their rapid evolution will require that we continually improve the performance, features and reliability of our products and services. Our success will depend, in part, on our ability to:

- design, develop, launch and/or license our planned products, services and technologies that address the increasingly sophisticated and varied needs of our prospective customers; and

- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

The development of our planned products and services and other patented technology involves significant technological and business risks and requires substantial expenditures and lead time. We may be unable to use new technologies effectively. Updating our technology internally and licensing new technology from third-parties may also require us to incur significant additional expenditures.

If our products do not gain market acceptance, we may not be able to fund future operations.

A number of factors may affect the market acceptance of our planned products or any other products we develop or acquire, including, among others:

- the price of our products relative to other products that seek to secure real-time communication;
- the perception by users of the effectiveness of our products;
- our ability to fund our sales and marketing efforts; and
- the effectiveness of our sales and marketing efforts.

If our products do not gain market acceptance, we may not be able to fund future operations, including the development of new products and/or our sales and marketing efforts for our current products, which inability would have a material adverse effect on our business, financial condition and operating results.

We may incur significant expenses and damages because of liability claims.

An actual or perceived breach of our security solutions could result in a product liability claim against us. A substantial product liability claim against us could harm our operating results and financial condition. In addition, any actual or perceived breach of our security solution, whether or not caused by the failure of one of our products, could hurt our reputation and cause potential customers to turn to our competitors' products.

Our products are highly technical and may contain undetected errors, which could cause harm to our reputation and adversely affect our business.

Our products are highly technical and complex and, when deployed, may contain errors or defects. Despite testing, some errors in our products may only be discovered after a product has been installed and used by customers. Any errors or defects discovered in our products after commercial release could result in failure to achieve market acceptance, loss of revenue or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. In addition, we could face claims for product liability, tort or breach of warranty, including claims relating to changes to our products made by our channel partners. The performance of our products could have unforeseen or unknown adverse effects on the networks over which they are delivered as well as on third-party applications and services that utilize our services, which could result in legal claims against us, harming our business. Furthermore, we expect to provide implementation, consulting and other technical services in connection with the implementation and ongoing maintenance of our products, which typically involves working with sophisticated software, computing and communications systems. We expect that our contracts with customers will contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and adversely affect the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be adversely impacted.

Malfunctions of third-party communications infrastructure, hardware and software expose us to a variety of risks we cannot control.

In addition, our business will also depend upon the capacity, reliability and security of the infrastructure owned by third parties that we will use to deploy our offerings. We have no control over the operation, quality or maintenance of a significant portion of that infrastructure or whether or not those third parties will upgrade or improve their equipment. We depend on these companies to maintain the operational integrity of our connections. If one or more of these companies is unable or unwilling to supply or expand its levels of service to us in the future, our operations could be severely interrupted. Also, to the extent the number of users of networks utilizing our future products suddenly increases, the technology platform and secure hosting services which will be required to accommodate a higher volume of traffic may result in slower response times or service interruptions. System interruptions or increases in response time could result in a loss of potential or existing users and, if sustained or repeated, could reduce the appeal of the networks to users. In addition, users depend on real-time communications; outages caused by increased traffic could result in delays and system failures. These types of occurrences could cause users to perceive that our solution does not function properly and could therefore adversely affect our ability to attract and retain licensees, strategic partners and customers.

System failure or interruption or our failure to meet increasing demands on our systems could harm our business.

The success of our license and service offerings will depend on the uninterrupted operation of various systems, secure data centers and other computer and communication networks that we establish. To the extent the number of users of networks utilizing our future products suddenly increases, the technology platform and hosting services which will be required to accommodate a higher volume of traffic may result in slower response times, service interruptions or delays or system failures. Our systems and operations will also be vulnerable to damage or interruption from:

- power loss, transmission cable cuts and other telecommunications failures;
- damage or interruption caused by fire, earthquake, and other natural disasters;
- computer viruses or software defects; and
- physical or electronic break-ins, sabotage, intentional acts of vandalism, terrorist attacks and other events beyond our control.

System interruptions or failures and increases or delays in response time could result in a loss of potential or existing users and, if sustained or repeated, could reduce the appeal of the networks to users. These types of occurrences could cause users to perceive that our solution does not function properly and could therefore adversely affect our ability to attract and retain licensees, strategic partners and customers.

Any significant problem with our systems or operations could result in lost revenue, customer dissatisfaction or lawsuits against us. A failure in the operation of our secure domain name registration system could result in the inability of one or more registrars to register and maintain secure domain names for a period of time. A failure in the operation or update of the master directory that we plan to maintain could result in deletion or discontinuation of assigned secure domain names for a period of time. The inability of the registrar systems we establish, including our back office billing and collections infrastructure, and telecommunications systems to meet the demands of an increasing number of secure domain name requests could result in substantial degradation in our customer support service and our ability to process registration requests in a timely manner.

Our ability to sell our solutions will be dependent on the quality of our technical support, and our failure to deliver high-quality technical support services could have a material adverse effect on our sales and results of operations.

If we do not effectively assist our customers in deploying our products, succeed in helping our customers quickly resolve post-deployment issues and provide effective ongoing support, or if potential customers perceive that we may not be able achieve to the foregoing, our ability to sell our products would be adversely affected, and our reputation with potential customers could be harmed. In addition, as we expand our operations internationally, our technical support team will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. As a result, our failure to deliver and maintain high-quality technical support services to our customers could result in customers choosing to use our competitors' products instead of ours in the future.

Telephone carriers have petitioned governmental agencies to enforce regulatory tariffs, which, if granted, would increase the cost of online communication, and such increase in cost may impede the growth of online communication and adversely affect our business.

Use of the Internet has over-burdened existing telecommunications infrastructures, and many high traffic areas have begun to experience interruptions in service. As a result, certain local telephone carriers have petitioned governmental agencies to enforce regulatory tariffs on IP telephony traffic that crosses over the traditional telephone networks. If any of these petitions or the relief that they seek is granted, the costs of communicating via online could increase substantially, potentially adversely affecting the growth in the use of online secure communications. Any of these developments could have an adverse effect on our business.

The departure of Kendall Larsen, our Chief Executive Officer and President, and/or other key personnel could compromise our ability to execute our strategic plan and may result in additional severance costs to us.

Our success largely depends on the skills, experience and efforts of our key personnel, including Kendall Larsen, our Chief Executive Officer and President. We have no employment agreements with any of our key executives that prevent them from leaving us at any time. In addition, we do not maintain key person life insurance for any of our officers or key employees. The loss of Mr. Larsen, or our failure to retain other key personnel, would jeopardize our ability to execute our strategic plan and materially harm our business.

We will need to recruit and retain additional qualified personnel to successfully grow our business.

Our future success will depend in part on our ability to attract and retain qualified operations, marketing and sales personnel as well as engineers. Inability to attract and retain such personnel could adversely affect our business. Competition for engineering, sales, marketing and executive personnel is intense, particularly in the technology and Internet sectors and in the regions where our facilities are located. We can provide no assurance that we will attract or retain such personnel.

Growth of internal operations and business may strain our financial resources.

We may need to significantly expand the scope of our operating and financial systems in order to build our business. Our growth rate may place a significant strain on our financial resources for a number of reasons, including, but not limited to, the following:

- the need for continued development of the financial and information management systems;
- the need to manage relationships with future licensees, resellers, distributors and strategic partners;

- the need to hire and retain skilled management, technical and other personnel necessary to support and manage our business; and
- the need to train and manage our employee base.

The addition of new infrastructure services, networks, vertical categories and affinity websites and the attention they demand, may also strain our management resources. We cannot give you any assurance that we will adequately address these risks and, if we do not, our ability to successfully expand our business could be adversely affected.

Failing to maintain effective internal control over financial reporting could cause our costs to increase and could cause our stock price to decline.

On January 25, 2011 the Audit Committee of our Board of Directors determined that the previously filed financial statements for the fiscal quarter ended September 30, 2009, the fiscal year ended December 31, 2009, the fiscal quarter ended March 31, 2010, the fiscal quarter ended June 30, 2010 and the fiscal quarter ended September 30, 2010 should no longer be relied upon and needed to be restated to adjust the accounting for certain derivative instruments (the Series I Warrants issued by the Company in a private placement transaction in September 2009). We also determined that we did not maintain effective control over our accounting for the Series I Warrants and that a material weakness existed with respect to our reporting of complex, non-routine transactions (the Series I Warrants), as of the end of the periods covered by the Form 10-K and Form 10-Qs that included the financial statements referenced above and as of the end of the period covered by this Form 10-K. Although we subsequently restated all such financial statements, we do not believe that we are currently maintaining effective control over our disclosure controls and procedures and internal control over financial reporting as regards this issue, and we may in the future identify deficiencies regarding the design and effectiveness of our system of internal control over financial reporting that we engage in pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, as part of our periodic reporting obligations. Such deficiencies could include those arising from our lack of technical accounting expertise in the interpretation of complex, non-routine transactions, which we may not be able to remediate in time to meet the continuing reporting deadlines imposed by Section 404 and the costs of which may harm our results of operations. In addition, if we continue to fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that our management can conclude in the future that we have effective internal controls. We also may not be able to retain an independent registered public accounting firm with sufficient resources to attest to and report on our internal controls in a timely manner. Moreover, our registered public accounting firm may not agree with our management's future assessments and may deem our controls ineffective if we are unable to remediate on a timely basis. If in the future we continue to be unable to assert that we maintain effective internal controls, our investors could lose confidence in the accuracy and completeness of our financial reports which could cause our stock price to decline.

If we expand into international markets, our inexperience outside the United States would increase the risk that our international expansion efforts will not be successful, which would in turn limit our prospects for growth.

We may explore expanding our business to outside the United States. Expansion into international markets requires significant management attention and financial resources. In addition, we may face the following risks associated with any expansion outside the United States:

- challenges caused by distance, language and cultural differences;
- legal, legislative and regulatory restrictions;
- currency exchange rate fluctuations;
- economic instability;
- longer payment cycles in some countries;

The Company may not be able to successfully manage the rapid growth of the Company's business.

The Company experienced significant growth during fiscal 2010 primarily as a result of the income it recognized pursuant to the Settlement and License Agreement with Microsoft. This growth places additional demands on the Company's managerial, administrative and operational resources. Failure to manage growth effectively could have a material adverse effect on the Company's prospects and the Company's business, results of operations and financial condition.

We are subject to financial reporting and other requirements for which our accounting, internal audit and other management systems and resources may not be adequately prepared.

Beginning with our annual report on this Form 10-K for the fiscal year ending December 31, 2010, we were required by SEC rules to include a report of management on the Company's internal control over financial reporting in our annual reports. In addition, our independent registered public accounting firm auditing our financial statements was required to provide an attestation report on our internal control for fiscal 2010.

The Company was not an accelerated filer prior to fiscal 2011 and therefore was not required to have an attestation report from our independent registered public accounting firm on our internal controls. We expect that these reporting and other obligations will increase for the Company in fiscal 2011 and going forward as a result of our change in status from a smaller reporting company to an accelerated filer for the 2011 fiscal year. We expect that these expanded reporting and other obligations, specifically the requirements as an "accelerated filer," will place significant demands on our management, administrative, operational, internal audit and accounting resources and cause us to incur significant expenses. If we are unable to accomplish these objectives in a timely and effective fashion, our ability to comply with the financial reporting requirements and other rules that apply to reporting companies could be impaired.

- credit risk and higher levels of payment fraud;
- potentially adverse tax consequences; and
- other higher costs associated with doing business internationally.

These risks could harm our international expansion efforts, which would in turn harm our business prospects.

Our business and ability to grow are subject to risks associated with the ongoing financial crisis and weak global economy.

The continuing turmoil in the financial markets and weak global economy impacts our ability to enter into licensing and other customer agreements. Further, these conditions and uncertainty about future economic conditions make it challenging for us to forecast our operating results, make business decisions and identify the risks that may affect our business, financial condition and results of operations. If we are not able to timely and appropriately adapt to changes resulting from the difficult macroeconomic environment, our business, financial condition, and results of operations may be significantly negatively affected.

Risks Related to Our Stock

We do not intend to pay regular future dividends on our common stock and thus stockholders must look to appreciation of our common stock to realize a gain on their investments.

Although we paid a special cash dividend to holders of our common stock with a record date of July 1, 2010, we do not have any plans to continue paying dividends in the foreseeable future. Instead, we currently intend to retain any future earnings for funding growth. Our future dividend policy is within the discretion of our board of directors and will depend upon various factors, including our business, financial condition, results of operations, capital requirements, and investment opportunities. Accordingly, stockholders must look solely to appreciation of our common stock to realize a gain on their investment. This appreciation may not occur.

The exercise of our outstanding warrants or stock options may result in a dilution of our current stockholders' voting power and an increase in the number of shares eligible for future resale in the public market which may negatively impact the market price of our stock.

The exercise of some or all of our outstanding warrants could significantly dilute the ownership interests of our existing stockholders. As of December 31, 2010, we had outstanding warrants to purchase an aggregate of 1,090,444 shares of common stock. To the extent outstanding warrants are exercised, additional shares of common stock will be issued, and such issuance may dilute existing stockholders and increase the number of shares eligible for resale in the public market. Additionally, the issuance of up to 3,326,897 shares of common stock issuable upon exercise of vested stock options and other stock awards outstanding as of December 31, 2010 pursuant to our stock incentive plan may further dilute our existing stockholders' voting interest.

In addition to the dilutive effects described above, the exercise of those securities would lead to a potential increase in the number of shares eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of our shares.

The fair value of accounting for our Series I Warrants as derivative liabilities may materially impact our results of our operations in future periods.

In connection with the restatement of our financial results to correct the accounting for the Series I Warrants, we recorded the Series I Warrants as a derivative liability in accordance with ASC 815-40, "Derivatives and Hedging – Contracts in Entity's Own Equity." These derivative liabilities are reported at fair value each reporting period with changes in the fair value recognized as gain or loss during each reporting period. An increase in our stock price or measure of our stock price volatility, for example, will generally result in an increase in the fair value of our warrant liability and a non-cash charge during the period of such increase, and could materially and negatively impact our results of operations in future periods.

Trading in our common stock is limited and the price of our common stock may be subject to substantial volatility, particularly in light of the instability in the financial and capital markets.

Our common stock is listed on NYSE Amex, but its daily trading volume has been limited, sporadic and volatile. Over the past years the market price of our common stock has experienced significant fluctuations. Between December 31, 2009 and December 31, 2010, the reported last sale price for our common stock has ranged between $2.94 and $18.65 per share. The price of our common stock may continue to be volatile as a result of a number of factors, including, but not limited to, the following:

- developments in any then-outstanding litigation;
- quarterly variations in our operating results;
- large purchases or sales of common stock;
- actual or anticipated announcements of new products or services by us or competitors;
- general conditions in the markets in which we compete; and
- economic and financial conditions.

Because ownership of our common shares is concentrated, investors may have limited influence on stockholder decisions.

As of December 31, 2010, our executive officers and directors beneficially owned approximately 20% of our then outstanding common stock. In addition, a group of stockholders that, as of December 31, 2007, held 4,766,666 shares, or approximately 12% of our then outstanding common stock, have entered into a voting agreement with us that requires them to vote all of their shares of our voting stock in favor of the director nominees approved by our Board of Directors at each director election going forward, and in a manner that is proportional to the votes cast by all other voting shares as to any other matters submitted to the stockholders for a vote. However, we cannot be certain how many shares of our common stock this group of stockholders currently owns. Because of their beneficial ownership interest, our officers and directors could significantly influence stockholder actions of which you disapprove or that are contrary to your interests. This ability to exercise significant influence could prevent or significantly delay another company from acquiring or merging with us.

Securities analysts may not cover our common stock and this may have a negative impact on our common stock's market price.

The trading market for our common stock may depend on the research and reports that securities analysts publish about us or our business. We do not have any control over these analysts. There is no guarantee that securities analysts will cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect our common stock's market price. If we are covered by securities analysts, and our stock is downgraded, our stock price would likely decline. If one or more of these analysts ceases to cover us or fails to publish regularly reports on us, we could lose or fail to gain visibility in the financial markets, which could cause our stock price or trading volume to decline.

Our protective provisions could make it difficult for a third party to successfully acquire us even if you would like to sell your shares to them.

We have a number of protective provisions that could delay, discourage or prevent a third party from acquiring control of us without the approval of our Board of Directors. Our protective provisions include:

- **A staggered Board of Directors**: This means that only one or two directors (since we have a five-person Board of Directors) will be up for election at any given annual meeting. This has the effect of delaying the ability of stockholders to effect a change in control of us since it would take two annual meetings to effectively replace at least three directors which represents a majority of the Board of Directors.

- **Blank check preferred stock**: Our Board of Directors has the authority to establish the rights, preferences and privileges of our 10,000,000 authorized, but unissued, shares of preferred stock. Therefore, this stock may be issued at the discretion of our Board of Directors with preferences over your shares of our common stock in a manner that is materially dilutive to existing stockholders. In addition, blank check preferred stock can be used to create a "poison pill" which is designed to deter a hostile bidder from buying a controlling interest in our stock without the approval of our Board of Directors. We have not adopted such a "poison pill;" but our Board of Directors has the ability to do so in the future, very rapidly and without stockholder approval.

- **Advance notice requirements for director nominations and for new business to be brought up at stockholder meetings**: Stockholders wishing to submit director nominations or raise matters to a vote of the stockholders must provide notice to us within very specific date windows and in very specific form in order to have the matter voted on at a stockholder meeting. This has the effect of giving our Board of Directors and management more time to react to stockholder proposals generally and could also have the effect of disregarding a stockholder proposal or deferring it to a subsequent meeting to the extent such proposal is not raised properly.

- **No stockholder actions by written consent**: No stockholder or group of stockholders may take actions rapidly and without prior notice to our Board of Directors and management or to the minority stockholders. Along with the advance notice requirements described above, this provision also gives our Board of Directors and management more time to react to proposed stockholder actions.

- **Super majority requirement for stockholder amendments to the By-laws**: Stockholder proposals to alter or amend our By-laws or to adopt new By-laws can only be approved by the affirmative vote of at least 66 2/3% of the outstanding shares.

- **Elimination of the ability of stockholders to call a special meeting of the stockholders**: Only the Board of Directors or management can call special meetings of the stockholders. This could mean that stockholders, even those who represent a significant block of our shares, may need to wait for the annual meeting before nominating directors or raising other business proposals to be voted on by the stockholders.

In addition, the provisions of Section 203 of the Delaware General Corporate Law govern us. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

These and other provisions in our amended and restated certificate of incorporation, our By-laws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

Our principal executive offices are located at 5615 Scotts Valley Drive, Suite 110, Scotts Valley, California 95066. We lease this property from a third party for a term that ends in 2012. We have no other properties and believe that our office facility is suitable and appropriately supports our current business needs.

Item 3. ***Legal Proceedings.***

On August 11, 2010, we filed a complaint against Aastra USA, Inc., Aastra Technologies Ltd., Apple Inc., Cisco Systems, Inc., NEC Corporation, and NEC Corporation of America in the United States District Court for the Eastern District of Texas, Tyler Division. The complaint includes allegations of patent infringement regarding five patents owned by VirnetX. In this complaint we are seeking both damages and injunctive relief.

On January 12, 2011, we filed a complaint against Siemens AG, Siemens Corporation, Siemens Communications, Inc., Siemens Enterprise Communications, Inc., Mitel Networks Corporation and Mitel Networks, Inc., in the United States District Court for the Eastern District of Texas, Tyler Division. The complaint includes allegations of patent infringement regarding two patents owned by VirnetX, U.S. Patent Nos. 6,502,135 and 7,418,504. In this complaint we are seeking both damages and injunctive relief.

One or more potential intellectual property infringement claims may also be available to us against certain other companies who have the resources to defend against any such claims. Although we believe these potential claims are worth pursuing, commencing a lawsuit can be expensive and time-consuming, and there is no assurance that we will prevail on such potential claims. In addition, bringing a lawsuit may lead to potential counterclaims which may preclude our ability to commercialize our initial products, which are currently in development.

Currently, we are not a party to any other pending legal proceedings, and are not aware of any proceeding threatened or contemplated against us by any governmental authority or other party.

Item 4. ***Reserved.***

PART II

Item 5. ***Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Market Information

Our common stock currently trades under the symbol "VHC" on the NYSE Amex Stock Exchange. Before the New York Stock Exchange acquired the American Stock Exchange in 2008, our common stock had traded under the "VHC" symbol on the American Stock Exchange since December 26, 2007. Before then our common stock traded in the over-the-counter market on the Nasdaq OTC Bulletin Board under the symbols "VNXH," and "PASW." Those common stock warrants that we issued in our January 2009 public offering that are still outstanding trade under the symbols "VHCOZ" and "VHCOL" on the OTC Bulletin Board.

The following table shows the price range of our common stock, as reported on the NYSE Amex Stock Exchange, for each quarter ended during the last two fiscal years.

Quarter Ended	High	Low
3/31/09	$ 1.49	$ 1.06
6/30/09	$ 1.79	$ 1.10
9/30/09	$ 3.52	$ 1.22
12/31/09	$ 3.90	$ 1.95
3/31/10	$ 7.99	$ 2.94
6/30/10	$ 7.09	$ 4.03
9/30/10	$ 15.05	$ 5.42
12/31/10	$ 20.00	$ 11.61

The closing price of our common stock on the NYSE Amex Stock Exchange on March 10, 2011 was $12.46 per share.

Holders

As of March 10, 2011, we had 64 stockholders of record.

Dividends

On June 15, 2010, the Company's Board of Directors declared a special cash dividend of $0.50 per share of the Company's common stock to holders of record on July 1, 2010. We currently intend to retain all available funds and any future earnings to support the operation of and to finance the growth and development of our business. We do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

On April 17, 1998, when we operated under the name PASW, Inc., we adopted an equity incentive program. Under this program, we may grant incentive stock options, non-statutory stock options, stock appreciation rights, stock bonuses and rights to acquire restricted stock to employees, directors and consultants (except for incentive stock options which may only be granted to employees). The number of shares of common stock initially reserved for issuance under this program was 150,580 shares post-split. As of December 31, 2010, there were no outstanding options or rights under this program and we do not intend to grant any equity incentives in the future under this plan.

In connection with the merger between VirnetX Holding Corporation and VirnetX, our Board of Directors approved our adoption of the VirnetX 2005 Stock Plan, as amended, to cover grants of stock options and stock purchase rights to our employees and consultants. Our Board of Directors renamed this stock plan the VirnetX Holding Corporation 2007 Stock Plan. The total number of shares of our common stock reserved for issuance under the VirnetX Holding Corporation 2007 Stock Plan is 11,624,469, of which as of December 31, 2010, there were 1,103,478 shares remaining available for future grants. To the extent that any award granted under the 2007 Stock Plan should expire, become unexercisable or is otherwise forfeited, the shares subject to such award will again become available for issuance under the 2007 Plan.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a) (c)
Equity compensation plans approved by security holders	5,920,835	3.23	1,103,478
Equity compensation plans not approved by security holders	—		—
Total	5,920,835	3.23	1,103,478

On February 24, 2010 the Compensation Committee granted an additional 345,250 options to the employees of VirnetX Inc. In September 2009, we closed a private placement of 2,380,942 shares of our common stock at a purchase price of $3.17 per share. In addition to shares of common stock, we also issued (i) Series I warrants to purchase an additional 3,246,959 shares of our common stock with an exercise price of $3.93 per share (subject to adjustment and including (x) 627,923 shares of our common stock issuable pursuant to the anti-dilution protections in the Series I Warrants, and (y) 238,094 shares of our common stock issuable to the placement agent of the September 2009 transaction) (the “Series I Warrants”), (ii) Series II warrants to purchase up to an additional 2,419,045 shares of our common stock, subject to adjustment as described below, on an automatic cashless exercise basis with an exercise price of $0.01 per share (the “Series II Warrants”) and (iii) Series III warrants to purchase approximately an additional 2,380,942 shares of common stock with an exercise price of $2.52 per share (the “Series III Warrants” and together with the Series I Warrants and the Series II Warrants, the “Warrants”). We filed a registration statement on Form S-1 (File No. 333-162145) to cover the common stock issued and the shares of common stock issuable upon exercise of the Warrants.

The Series I Warrants are rights to purchase an aggregate of approximately 3,246,959 shares of the Company’s common stock over a 5-year term at an exercise price equal to 125% of the price per share paid in the private placement (i.e., $3.93 per share), subject to antidilution protection that could reduce the exercise price to 100% of the closing price on September 2, 2009 (i.e., $3.17 per share) if the Company completes other financings while the Series I Warrants are outstanding at a price per share less than the exercise price per share of the Series I Warrants. The Series I Warrants were not exercisable until six months following the closing of the private placement and expire on fifth anniversary of the closing of the private placement. Aside from the antidilution adjustment associated with the exercise price premium, the Series I Warrants are not subject to any further adjustments with respect to the exercise price or number of shares covered. In connection with the September 2009 private placement, we issued one of the Series I Warrants to purchase 238,094 shares of our common stock with an exercise price of $3.93 per share to the placement agent in the private placement. The warrant issued to the placement agent in September 2009 will expire 5 years after issuance.

The Series II Warrants provided the investors pricing protection for the private placement with a floor price of $1.25 per share. In the event the market price of our common stock declined between the closing of the private placement and the earlier of (i) the date the registration statement was declared effective and (ii) the date Rule 144 became available for resale of the Shares (i.e., generally 6 months after the closing of the private placement) (such date that is the earlier of clause (i) and (ii) above is referred to in this registration statement as the "Warrant Exercise Date"), the Series II warrants would be automatically exercised on a cashless exercise basis and a number of additional shares would be issued to the investors who participated in the private placement in order to effectively reduce the per share purchase price paid in the private placement to the greater of (i) 80% of the 15-day volume weighted average trading price per share of the Company's common stock immediately following the Warrant Exercise Date and (ii) $1.25 per share. As such, the greatest number of shares that could be issued pursuant to the Series II Warrants was approximately 2,419,045 shares. At the Warrant Exercise Date, the Series II Warrants would either be automatically exercised on a cashless exercise basis if the Company's stock price was lower at the Warrant Exercise Date as described above, or they would expire unexercised. The adjustment associated with the Series II Warrants did not affect either the exercise price or number of shares covered by either the Series I Warrants or the Series III Warrants. On January 14, 2010 the Series II Warrants expired unexercised and terminated without any additional shares being issued to the private placement investors.

At the Warrant Exercise Date, the Series III Warrants provided the investors a 60-day right to purchase an additional $6.0 million of common stock from the Company at $2.52 per share. The Series III Warrants were not subject to any adjustments with respect to the exercise price or number of shares covered. As of February 20, 2010, all Series III Warrants have been exercised in full.

The foregoing descriptions of the Series I Warrant, the Series II Warrant, the Series III Warrant, and the placement agent warrant are summaries only and are qualified in their entirety by reference to Exhibits 4.1, 4.2, and 4.3 filed as exhibits to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 3, 2009.

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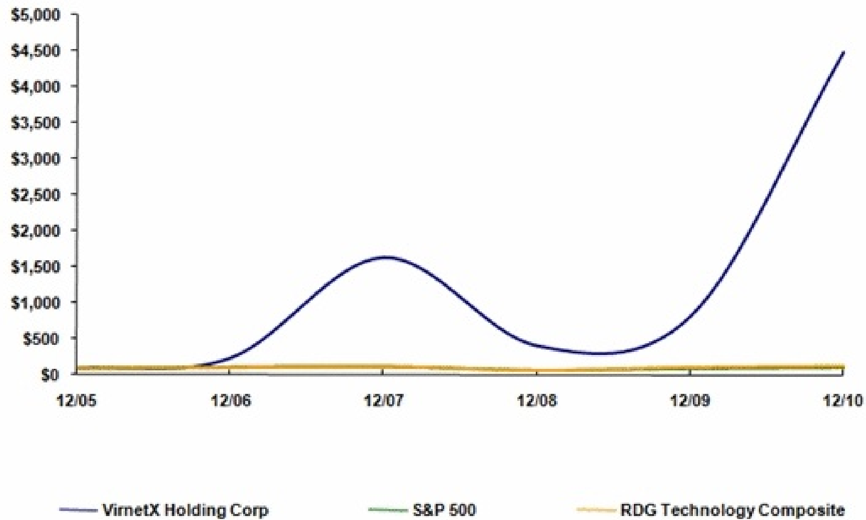
Performance Graph



The stock price performance reflected on this graph is not necessarily indicative of future stock price performance.

	12/05	12/06	12/07	12/08	12/09	12/10
VirnetX Holding Corp	**$ 100.00**	**$ 241.67**	**$ 1,633.33**	**$ 411.11**	**$ 816.67**	**$ 4471.64**
S&P 500	**$ 100.00**	**$ 115.80**	**$ 122.16**	**$ 76.96**	**$ 97.33**	**$ 111.99**
RDG Technology Composite	**$ 100.00**	**$ 109.07**	**$ 125.31**	**$ 71.12**	**$ 114.36**	**$ 129.26**

Item 6. *Selected Financial Data*.

You should read the selected consolidated financial data set forth below in conjunction with our consolidated financial statements, the notes to our consolidated financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of results to be expected for future periods.

	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
Consolidated Statement of Operations Data:					
Revenue	$ 68,185	$ 26,306	$ 133,744	$ 74,866	$ —
Gain on settlement	(200,000,000)	—	—	—	—
Other operating expenses	95,383,105	13,114,131	12,355,332	8,725,210	1,407,675
Net operating expenses	(104,616,895)	13,114,131	12,355,332	8,725,210	1,407,675
Income tax expense	34,062,436	—	—	—	—
Net (loss) income	41,416,893	(12,524,373)	(12,072,180)	(8,692,164)	(1,401,339)
Earnings (loss) per share	$ 0.91	$ (0.33)	$ (0.35)	$ (0.36)	$ (0.08)
Dividends declared per common share	$ 0.50	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 34,634,533	$ 2,011,470	$ 457,155	$ 8,589,447	139,997
Investments available for sale	43,456,803	—	—	—	—
Total assets	$ 81,694,120	$ 2,241,605	$ 978,982	$ 9,279,166	195,123
Long-term obligation	—	120,000	160,000	204,000	—
Stockholders' equity (deficit)	$ 59,452,966	$ (8,707,812)	$ (894,351)	$ 8,495,376	$ 107,737

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

This Annual Report on Form 10-K, including this Management's Discussion and Analysis of Financial Condition and Results of Operations contains "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a "safe harbor" for statements about future events, products and future financial performance that are based on the beliefs of, estimates made by and information currently available to our management. Except for the historical information contained herein, the outcome of the events described in these forward-looking statements is subject to risks and uncertainties. See "Risk Factors" for a discussion of these risks and uncertainties. The following discussion should be read in conjunction with and is qualified in its entirety by reference to our consolidated financial statements and accompanying notes included elsewhere in this Annual Report on Form 10-K. Actual results and the outcome or timing of certain events may differ significantly from those stated or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A of Part I "Risk Factors" and other factors from time to time described in our other filings with the Securities and Exchange Commission, or SEC. For this purpose, using the terms "believe," "expect," "expectation," "anticipate," "can," "should," "would," "could," "estimate," "appear," "based on,""hope", "may," "intended," "potential," "indicate," "are emerging" and "possible" or similar statements are forward-looking statements that involve risks and uncertainties that could cause our actual results and the outcome and timing of certain events to differ materially from those stated or implied by these forward-looking statements. By making forward-looking statements, we have not assumed any obligation to, and you should not expect us to, update or revise those statements because of new information, future events or otherwise.

Company Overview

We are an internet security software and technology company. Our software and technology solutions, including our secure domain name registry and GABRIEL Connection Technology(TM), are designed to facilitate secure communications and to create a secure environment for real-time communication applications such as instant messaging, VoIP, smart phones, eReaders and video conferencing. We acquired several patents through our principal operating subsidiary, VirnetX, from Science Applications International Corporation, or SAIC. SAIC is a FORTUNE 500® scientific, engineering and technology applications company that uses its deep domain knowledge to solve problems of vital importance to the nation and the world, in national security, energy and the environment, critical infrastructure, and health.

To date, our primary source of significant income has been from the Settlement and License Agreement we entered into with Microsoft Corporation, our first licensee, on May 14, 2010, or the Settlement and License Agreement. Pursuant to the Settlement and License Agreement, Microsoft paid us $200,000,000 in June 2010 and we dismissed the two patent infringement lawsuits we initiated against Microsoft in February 2007 and March 2010 and granted Microsoft a worldwide, irrevocable, nonexclusive, non-sub licensable fully paid up license under our patents. We are currently involved in litigation against Aastra, Apple, Cisco, NEC, Siemens and Mitel with respect to our allegations that these companies infringes on certain of our patents and are seeking both damages and injunctive relief. We expect to use a significant portion of the proceeds we received from the Settlement and License Agreement to fund the costs and expenses of these litigation matters and if we are not successful, we may substantially deplete our capital resources and our ability to fund future operations. Although we believe these potential claims are worth pursuing, commencing a lawsuit can be expensive and time-consuming, and there is no assurance that we will prevail on such potential claims. In addition, bringing a lawsuit may lead to potential counterclaims which may preclude our ability to commercialize our initial products, which are currently in development. We also believe that we may derive revenues in the future from licensing our software and technology solutions and we are currently endeavoring to develop certain marketable products. We expect to continue to incur significant expenses, including but not limited to those we expect to incur in our patent infringement litigation matters against Aastra, Apple, Cisco, NEC, Siemens and Mitel, and we do not currently have any sources of revenue from our continuing operations. If we are unsuccessful in these matters or in developing certain marketable products, we may be unable to successfully complete our business plans, our business may fail and you could lose some or all of your investment in our securities.

We are subject to numerous risks including: the uncertainty that our technology licensing program development efforts will produce revenue bearing licenses for us; the uncertainty that our development initiatives will produce successful commercial products as well as the marketing and customer acceptance of such products; competition from larger, better funded organizations; dependence on key personnel; uncertain patent protection; and dependence on corporate partners and collaborators. See “Risk Factors” for additional information.

Developments from the Year Ended December 31, 2010

Warrants

On January 14, 2010, the Series II Warrants expired unexercised and terminated without any additional shares of common stock being issued to private placement investors.

As of February 24, 2010, all Series III Warrants issued had been exercised in full and we issued 2,380,942 shares of our common stock. The aggregate cash exercise proceeds from the Series III Warrants totaled $6,000,000. After payment of fees and commissions, we received net proceeds of approximately $5,400,000.

On February 24, 2010, we exercised in full our rights to call the $2.00 warrants issued by us in connection with our 2009 public offering. As of March 12, 2010, we had received proceeds in the amount of $2,000,000.

Litigation

On March 16, 2010, a jury awarded us a $105,750,000 verdict against Microsoft for infringing two of our patents. The jury also found that Microsoft’s patent infringement was willful.

On March 17, 2010, we filed a new complaint against Microsoft alleging infringement of our U.S. Patent Nos. 6,502,135 and 7,188,180 by Microsoft’s Windows 7 and Windows Server 2008 R2 software products.

On May 14, 2010 we announced that our wholly-owned VirnetX, Inc. (“VirnetX”), entered into a Settlement and License Agreement with Microsoft Corporation (“Microsoft”) to settle all claims asserted by VirnetX against Microsoft in two lawsuits filed by VirnetX in the United States District Court for the Eastern District of Texas, Tyler Division. Under the Settlement and License Agreement, Microsoft has agreed to pay VirnetX $200,000,000 in cash in exchange for dismissing both lawsuits and a worldwide, irrevocable, nonexclusive, non-sublicensable fully paid up license under VirnetX’s patents. The Settlement and License Agreement will not impact VirnetX’s plans to operate a universal Secure Domain Name Service.

On May 25, 2010 and June 1, 2010, the United States District Court for the Eastern District of Texas, Tyler Division entered two Orders of Dismissal (the "Dismissals") whereby all claims asserted by VirnetX, Inc. (the "Company"), the wholly-owned operating subsidiary of VirnetX Holding Corporation, against Microsoft Corporation ("Microsoft") with respect to the lawsuits filed by the Company against Microsoft were dismissed with prejudice.

On May 18, 2010, Microsoft filed Notices of Non-Participation with the United States Patent and Trademark Office, whereby Microsoft stated that it would not participate further in the *Inter Partes* Reexamination of certain of the Company's patents, which Microsoft previously filed on November 25, 2009. The United States Patent and Trademark Office issued an Office action on June 16, 2010 confirming the patentability of the claims of the patents subject to reexamination, and closing prosecution of the reexamination procedures.

On August 11, 2010, we filed a complaint against Aastra USA, Inc., Aastra Technologies Ltd., Apple Inc., Cisco Systems, Inc., NEC Corporation, and NEC Corporation of America in the United States District Court for the Eastern District of Texas, Tyler Division. The complaint includes allegations of patent infringement regarding five patents owned by VirnetX. In its complaint, VirnetX seeks both damages and injunctive relief.

Special Dividend

On June 15, 2010, the Board approved the declaration of a special cash dividend of $0.50 per share of the Company's common stock (the "Dividend") payable on or about July 15, 2010 to stockholders of record on July 1, 2010. In connection with the Dividend, the Board of Directors of the Company also approved a cash distribution to holders of stock options under the Company's 2007 Stock Plan. The Company's principal executive officer and principal financial officer received gross payments of approximately $438,000 and $196,000, respectively, in connection with the cash distribution to stock option holders.

Holders of warrants to purchase shares of the Company's common stock did not receive any cash payment pursuant to the Dividend unless and until such holders exercise their warrants. Holders of the Company's Series I Warrants pursuant to the Company's private placement transaction that closed on September 11, 2009 received notice of the Dividend and the related adjustment to each Series I Warrant's exercise price. Holders of the Company's $3.00 and $4.00 warrants to purchase shares of the Company's common stock issued pursuant to the Company's public offering that closed on January 30, 2009 also received notice of the Dividend, but, pursuant to the terms of the $3.00 and $4.00 warrants, there was no adjustment to each such warrant's exercise price. The $3.00 and $4.00 warrants expired, if not earlier exercised, on July 30, 2010.

Board of Directors

On June 16, 2010, Edmund "Gif" Munger resigned from the Board and formally retired from active service with the Company, effective July 9, 2010.

Effective July 9, 2010, the Board elected Dr. Robert Short III to fill the vacancy on the Board left by Mr. Munger's resignation. Dr. Short has been the Chief Scientist for the Company since May 2006.

Recent Developments

On January 12, 2011, VirnetX Holding Corporation filed a complaint against Siemens AG, Siemens Corporation, Siemens Communications, Inc., Siemens Enterprise Communications, Inc., Mitel Networks Corporation and Mitel Networks, Inc., in the United States District Court for the Eastern District of Texas, Tyler Division. The complaint includes allegations of patent infringement regarding two patents owned by VirnetX, U.S. Patent Nos. 6,502,135 and 7,418,504. In its complaint, VirnetX seeks both damages and injunctive relief.

On January 25, 2011, the Audit Committee determined that the previously filed financial statements for the following periods should no longer be relied upon:

- the fiscal quarter ended September 30, 2009 included in its quarterly report on Form 10-Q as filed with the Securities and Exchange Commission (“SEC”) on November 9, 2009 (the “2009 Form 10-Q”);
- the fiscal year ended December 31, 2009 included in its annual report on Form 10-K as filed with the SEC on March 31, 2010 (the “Form 10-K”) along with the related audit report from its independent registered public accounting firm;
- the fiscal quarter ended March 31, 2010 included in its quarterly report on Form 10-Q as filed with the SEC on May 7, 2010 (the “1Q 2010 Form 10-Q”);
- the fiscal quarter ended June 30, 2010 included in its quarterly report on Form 10-Q as filed with the SEC on August 9, 2010 (the “2Q 2010 Form 10-Q”); and
- the fiscal quarter ended September 30, 2010 included in its quarterly report on Form 10-Q as filed with the SEC on November 8, 2010 (the “3Q 2010 Form 10-Q” and, collectively with the 2009 Form 10-Q, the 1Q 2010 Form 10-Q and the 2Q 2010 Form 10-Q, the “Form 10-Qs”).

VirnetX restated the Form 10-K and Form 10-Qs, which were filed with the Securities and Exchange Commission on January 31, 2011, to adjust the accounting for certain derivative instruments (the Series I Warrants issued by the Company in a private placement transaction in September 2009) in such financial statements, which were previously recorded as equity instruments (the “Restatements”).

In connection with the Restatements, we performed a re-assessment of the Series I Warrants to purchase 2,619,036 shares of common stock that were issued in connection with its September 2009 private placement and has concluded that the Series I Warrants are liabilities within the scope of Accounting Standards Codification Topic 815-40, “*Derivatives and Hedging – Contracts in Entity’s Own Equity*” (“ASC 815-40”), because the Series I Warrants contain a provision requiring a weighted average adjustment to the exercise price of the Series I Warrants in the event the Company issues common stock, or securities convertible into or exercisable for common stock, at a price per share lower than such exercise price. Accordingly, the Series I Warrants should have been accounted for as a derivative liability, measured at fair value, with changes in fair value recognized as gain or loss for each reporting period thereafter.

The Restatement did not impact the Company's previously reported cash, cash equivalents, short-term investments or cash flows.

In connection with the Restatements, the Company’s Chief Executive Officer and Chief Financial Officer re-evaluated, with the participation of management, the effectiveness of the Company’s disclosure controls and procedures and internal control over financial reporting, and concluded that the Company did not maintain effective disclosure controls and procedures or internal controls over financial reporting for the reasons discussed in Part II, Item 9A “Disclosure Controls and Procedures” of this Form 10-K.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The critical accounting policies we employ in the preparation of our consolidated financial statements are those which involve impairment of long-lived assets, income taxes, fair value of financial instruments and stock-based compensation.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable and collection is reasonably assured. If any of these criteria are not met, we defer recognizing the revenue until such time as all criteria are met.

Depending on the complexity of the underlying revenue arrangement and related terms and conditions, significant judgments, assumptions and estimates may be required to determine when substantial delivery of contract elements will occur, whether any significant ongoing obligations exist subsequent to contract execution, whether amounts due are collectible and the appropriate period or periods in which, or during which, the completion of the earning process occurs. Depending on the magnitude of specific revenue arrangements, if different judgments, assumptions and estimates are made regarding contracts executed in any specific period, our periodic financial results may be materially affected.

Impairment of Long-Lived Assets

We identify and record impairment losses on long-lived assets used in operations when events and changes in circumstances indicate that the carrying amount of an asset might not be recoverable, but not less than annually. Recoverability is measured by comparison of the anticipated future net undiscounted cash flows to the related assets' carrying value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the projected discounted future net cash flows arising from the asset.

Income Taxes

Income tax expense is computed using an asset and liability method and using expected annual effective tax rates. Under this method, deferred income tax assets and liabilities result from temporary differences in the financial reporting bases and the income tax reporting bases of assets and liabilities. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefit that, based on available evidence, is not expected to be realized. When it appears more likely than not that deferred taxes will not be realized, a valuation allowance is recorded to reduce the deferred tax asset to its estimated realizable value. For net deferred tax assets we consider estimates of future taxable income, including tax planning strategies in determining whether our net deferred tax assets are more likely than not to be realized.

Effective January 1, 2007, we have adopted, Accounting for Uncertainty in Income Taxes using the prospective method. The adoption did not have a material impact on our financial statements.

Implementation of FASB ASC 815-40-15 "Derivatives and Hedging-Contracts in Entity's Own Equity-Scope and Scope Exceptions"

In June 2008, the FASB ratified guidance included in ASC 815-40-15 "Derivatives and Hedging-Contracts in Entity's Own Equity-Scope and Scope Exceptions," which provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. ASC 815-40-15 contains provisions describing conditions when an instrument or embedded feature would be considered indexed to an entity's own stock for purposes of evaluating the instrument or embedded feature under FASB ASC Topic 815 "Derivatives and Hedging," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts. Under the provisions of ASC 815-40-15 the embedded Series I Warrants are not considered indexed to our stock. As a result of the antidilution protection in the Series I Warrants and the application of ASC 815-40-15, effective September, 2009, the Warrants were required to be accounted for as derivative instruments. Accordingly, effective September 2009, Company's Series I Warrant Conversion Feature and Investor Warrants are recognized as liabilities in our consolidated balance sheet.

Stock-Based Compensation

We account for share-based compensation in accordance with the fair value method, which requires the measurement and recognition of compensation expense in the statement of operations for all share-based payment awards made to employees and directors including employee stock options based on estimated fair values. Using the modified retrospective transition method of adopting this standard, the financial statements presented herein reflect compensation expense for stock-based awards as if the provisions of this standard had been applied from the date of our inception.

In addition, we record stock and options granted to non-employees at fair value of the consideration received or the fair value of the equity investments issued as they vest over the performance period.

New Accounting Pronouncements

In September 2006, the FASB established a framework for measuring fair value in accordance with United States Generally Accepted Accounting Principles ("GAAP") and expanded disclosure about fair value measurements including valuing securities in markets that are not active. The Company adopted the framework for measuring fair value effective January 1, 2009 with the exception of the application of the framework to non-recurring, non-financial assets and non-financial liabilities. The adoption of the framework for measuring fair value did not have a significant impact on the Company's results of operations or financial position.

In June 2008, the FASB issued guidance requiring that unvested instruments granted in share-based payment transactions that contain non-forfeitable rights to dividends or dividend equivalents are participating securities subject to the two-class method of computing earnings per share. This guidance is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption did not have a material effect on the Company's consolidated financial statements.

In April 2009, the FASB required disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements, effective for interim reporting periods ending after June 15, 2009, and required those disclosures in summarized financial information at interim reporting periods. The Company adopted the new disclosure guidance over fair value of financial instruments, and adoption did not have a material effect on the Company's consolidated financial statements.

In June 2009, the FASB established the Accounting Standards Codification (“Codification”) as the single source of authoritative GAAP to be applied by nongovernmental entities, except for the rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. While not intended to change GAAP, the Codification significantly changes the way in which the accounting literature is referenced and organized. The codification was adopted as of August 31, 2009. Adoption did not have a material effect on the Company’s consolidated financial statements.

In January 2010, the FASB required new disclosures about fair value of financial instruments for interim and annual reporting periods. These new disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuance and settlement of Level 3 financial instruments, which are effective for interim and annual reporting periods in fiscal years beginning after December 15, 2010. Adoption is not expected to have a material effect on the Company’s consolidated financial statements.

Operations

Revenue - Royalties

Revenue generated for the twelve months ended December 31, 2010 was $68,185 compared to $26,306 for the twelve months ended December 31, 2009. Our revenue was solely limited to the royalties earned under our single license agreement through our Japanese subsidiary. We expect the revenue from this license to decrease substantially in the future. We do not intend to seek additional licenses or other revenue through our Japanese subsidiary.

Gain on Settlement

In May 2010, we entered into a Settlement and License Agreement with Microsoft. Pursuant to the Settlement and License Agreement, Microsoft paid us $200,000,000 in June 2010 and we dismissed the two patent infringement lawsuits we initiated against Microsoft in February 2007 and March 2010 and granted Microsoft a worldwide, irrevocable, nonexclusive, non-sub licensable fully paid up license under our patents.

We recorded the $200,000,000 lump sum payment as gain on settlement as a result of litigation. We originally classified this payment as revenue. Upon further analysis, the Company could not practically and objectively separate any settlement portion from the revenue element as discussed under the guidance of ASC Topic 605. As a result, the Company now classifies the amount as a gain on settlement. This settlement satisfies all past litigation and disputes between the Company and Microsoft and there are no future obligations that the Company would need to perform to earn this settlement payment. That is, the license and settlement agreement represents fully paid up licenses by both the Company and Microsoft for which no future payment or delivery is required. Accordingly, the Company recognized the entire settlement amount in its 2010 operating results.

Research and Development Expenses

Research and development costs include expenses paid to outside development consultants and compensation-related expenses for our engineering staff. Research and development costs are expensed as incurred.

Our research and development expenses increased from $864,058 for the twelve months ended December 31, 2009 to $2,412,109 for the twelve months ended December 31, 2010. This increase is primarily due to increased costs related to engineering activities for product development, salary increases for all of our employees and the bonuses that were paid to our employees in 2010.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include management and administrative personnel, as well as outside legal, accounting, and consulting services.

Our selling, general and administrative expenses increased by $21,514,149 to $33,764,222 for 2010 from $12,250,073 for the year ended December 31, 2009. The increase was primarily due to increased legal fees, approximately $16,000,000 for the contingent fees on the Microsoft settlement and an increase of $2,000,000 in other legal fees in 2010 over 2009. A bonus of approximately $2,000,000 was paid to the employees and directors after the license agreement was signed account for most of the rest of the increased expenses. Legal fees represent approximately 76% of general and administrative expenses for 2010 compared to 55% in 2009.

Royalty expense was $59,206,774 for 2010, compared to no royalty expenses in 2009, all due to the amounts paid to SAIC in royalty payments following the execution of the settlement and license agreement was signed with Microsoft. The royalty expense has hit its maximum under the settlement and license agreement and will be paid in future periods only in certain circumstances.

Other Income/Expenses

The company recognized $30,515,799 in non-cash loss related to the periodic revaluation of its Series I Warrants in fiscal 2010. This loss is a result of the Company's stock price increasing and making the outstanding warrants more valuable. There were no derivative instruments in the prior year. We recognized $1,310,048 in interest in 2010 compared to $5,074 in 2009.

Liquidity and Capital Resources

As of December 31, 2010, our cash and cash equivalents totaled $34,634,533 and our short-term investments totaled $43,456,803 compared to $2,011,470 and zero, respectively, as of December 31, 2009. The increase in our cash and cash equivalents and short-term investments for the fiscal year ended December 31, 2010 over the fiscal year ended December 31, 2009 is primarily due to the cash we received from the payments under the Settlement and License Agreement with Microsoft discussed below and our investments of such amounts.

We recognized an unrealized loss on our investments of $984,266 for the fiscal year ended December 31, 2010 compared to no gain or loss on our investments for the fiscal year ended December 31, 2009 because we did not have any investments available for sale as of December 31, 2009. We have determined that this loss is temporary because the fair value of our investment securities is below the carrying value primarily due to changes in interest rates and we anticipate that this loss will be reversed over the securities' remaining lives, as demonstrated by improved valuations in fiscal 2011.

Before entering into the Microsoft Settlement, we allocated a large part of our cash and cash equivalents to the fees and expenses associated with the Microsoft litigation. We expect that our cash and cash equivalents as of December 31, 2010 to be sufficient to fund our operations and provide working capital for general corporate purposes and legal expenses, including the expenses for the new complaints against Aastra USA, Inc., Aastra Technologies Ltd., Apple Inc., Cisco Systems, Inc., NEC Corporation, NEC Corporation of America, Siemens and Mitel for at least the next 36 months. Other than the anticipated expenses associated with the new complaints, the Company does not currently have any material commitments for capital expenditures.

While we do not expect a significant increase in income in the near term similar to that associated with the gain on settlement recognized during the twelve months ended December 31, 2010 as a result of the Settlement and License Agreement, we do expect to derive the majority of our future income from license fees and royalties associated with our technology, software and Secure domain name registry in the United States and other markets around the world over the long term.

Investors should not expect the Company to receive settlements/income for the new complaints unless and until the new complaints are resolved in the Company's favor and there is no assurance that the Company will prevail on such potential claims.

Off-Balance Sheet Arrangements

As of December 31, 2010, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

Our exposure to market risk due to changes in interest rates relates primarily to the increase or decrease in the value of the $43,456,803 investments available for sale in our investment portfolio. Our risk associated with fluctuating interest rates is limited to our investments in interest rate sensitive financial instruments. Under our current investment policy, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to increase the safety and preservation of our invested principal funds by limiting the percentage of funds invested in any one instrument and investing in short term debt securities that generally have a maturity of less than six months. We mitigate default risk by investing primarily in investment grade securities. A 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments. Changes in interest rates over time will increase or decrease our interest income.

Item 8. ***Financial Statements and Supplementary Data*.**

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
VirnetX Holding Corporation

We have audited the accompanying consolidated balance sheets of VirnetX Holding Corporation (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income (loss), and cash flows for the years ended December 31, 2010 and 2009. VirnetX Holding Corporation's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VirnetX Holding Corporation, Inc. as of December 31, 2010 and 2009, and the consolidated results of their operations, stockholders' equity (deficit) and comprehensive income (loss) and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), VirnetX Holding Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2011 expressed an adverse opinion.

/s/ Farber Hass Hurley LLP

Granada Hills, California
March 15, 2011

VirnetX Holding Corporation

CONSOLIDATED BALANCE SHEETS

	As of December 31, 2010	As of December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,634,533	$ 2,011,470
Investments available for sale	43,456,803	—
Accounts receivable, net	2,691	6,842
Current deferred tax benefit	1,734,570	—
Prepaid expenses and other current assets	87,215	43,863
Total current assets	79,915,812	2,062,175
Property and equipment, net	25,464	23,430
Intangible and other assets	108,000	156,000
Long term deferred tax benefit	1,644,844	—
Total assets	$ 81,694,120	$ 2,241,605
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 518,976	$ 4,478,325
Income tax liability	7,357,830	—
Current portion of long-term obligation	—	40,000
Derivative liability	14,364,350	6,311,091
Total current liabilities	22,241,156	10,829,416
Long-term obligation, net of current portion	—	120,000
Commitments and contingencies	—	—
Stockholders' equity (deficit):		
Preferred stock, par value $0.0001 per share		
Authorized: 10,000,000 shares at December 31, 2010 and 2009, respectively		
Issued and outstanding: 0 shares at December 31, 2010 and 2009, respectively		
Common stock, par value $0.0001 per share		
Authorized: 100,000,000 shares at December 31, 2010 and 2009, respectively		
Issued and outstanding: 49,341,028 shares and 39,750,927 shares, at December 31, 2010 and 2009, respectively	4,934	3,975
Additional paid-in capital	78,187,376	26,860,747
Accumulated deficit	(17,755,080)	(35,572,534)
Accumulated other comprehensive loss	(984,266)	—
Total stockholders' equity (deficit)	59,452,964	(8,707,812)
Total liabilities and stockholders' equity	$ 81,694,120	$ 2,241,605

The accompanying notes are an integral part of these consolidated financial statements

VirnetX Holding Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2010	Year Ended December 31, 2009
Revenue - Royalties	$ 68,185	$ 26,306
Operating expenses:		
Royalty expense	59,206,774	–
Research and development	2,412,109	864,058
General, selling and administrative	33,764,222	12,250,073
Gain on settlement	(200,000,000)	–
Total operating expenses	(104,616,895)	13,114,131
Income (loss) from operations	104,685,080	(13,087,825)
Gain (loss) on change in value of embedded derivative and warrants	(30,515,799)	558,378
Interest income, net	1,310,048	5,074
Income (loss) before taxes	75,479,329	(12,524,373)
Income taxes	34,062,436	–
Net Income (loss)	$ 41,416,893	$ (12,524,373)
Basic earnings (loss) per share:	$ 0.91	$ (0.33)
Diluted earnings (loss) per share:	$ 0.84	$ (0.33)
Weighted average shares outstanding basic	45,452,550	37,911,340
Weighted average shares outstanding dilutive	49,066,704	37,911,340
Dividends declared per common share	$ 0.50	–

The accompanying notes are an integral part of these consolidated financial statements

VirnetX Holding Corporation

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS)

	Series A Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Capital	Deficit	(Expense)	(Deficit)
Balance at December 31, 2008	**—**	**—**	**34,899,985**	**$ 3,489**	**$22,150,321**	**$ (23,048,161)**	**—**	**$ (894,351)**
Stock issued for cash at $1.50 per share, net	—	—	2,470,000	247	3,273,416	—	—	3,273,663
Stock issued for cash at $2.52 per share, net	—	—	2,380,942	239	5,400,001	—	—	5,400,240
Deferred offering costs	—	—	—	—	(125,238)	—	—	(125,238)
Stock-based compensation	—	—	—	—	3,031,717	—	—	3,031,717
Derivative liability	—	—	—	—	(6,869,470)	—	—	(6,869,470)
Net loss	—	—	—	—	—	(12,524,373)	—	(12,524,373)
Balance at December 31, 2009	**—**	**—**	**39,750,927**	**$ 3,975**	**$26,860,747**	**$ (35,572,534)**		**$ (8,707,812)**
Stock issued on cash exercise of warrants at $2.52 per share, net	—	—	2,380,943	238	5,394,985	—	—	5,394,985
Stock issued on cash exercise of warrants at $2.00 per share, net	—	—	1,233,741	123	2,354,026	—	—	2,354,026
Stock issued on cash exercise of warrants at $3.00 per share, net	—	—	1,235,000	123	3,750,590	—	—	3,750,590
Stock issued on cash exercise of warrants at $4.00 per share, net	—	—	1,235,000	123	4,944,800	—	—	4,944,800
Stock issued on cash exercise of warrants at $1.80 per share, net	—	—	220,000	22	396,000	—	—	396,000
Stock issued on cash exercise of warrants at $4.80 per share, net	—	—	228,648	23	1,097,510	—	—	1,097,510
Stock issued on cash exercise of warrants at $3.93-$3.59 per share, net	—	—	1,787,620	179	6,593,133	—	—	6,593,133
Stock issued for cash exercise of options, net	—	—	1,269,149	128	1,403,900	—	—	1,404,859
Stock-based compensation	—	—	—	—	3,380,876	—	—	3,380,876
Deferred tax benefit related to stock-based compensation					527,951		—	527,951
Fees and commissions	—	—	—	—	(979,682)	—	—	(979,682)
Derivative liability	—	—	—	—	22,462,540	—	—	22,462,540
Unrealized loss on available for sale investments, net							(984,266)	(984,266)
Dividend	—	—	—	—		(23,599,439)	—	(23,599,439)
Net Income	—	—	—			41,416,893	—	41,416,893
Balance at December 31, 2010			**49,341,028**	**4,934**	**78,187,376**	**(17,755,080)**	**(984,266)**	**59,452,964**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended	
	December 31, 2010	December 31, 2009
Net income/(loss)	$ 41,416,893	$ (12,524,373)
Unrealized loss on investments, net	(984,266)	-
Comprehensive income/(loss)	$ 40,432,627	$ (12,524,373)

The accompanying notes are an integral part of these consolidated financial statements

VirnetX Holding Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2010	Year Ended December 31, 2009
Cash flows from operating activities:		
Net Income (loss)	$ 41,416,893	$ (12,524,373)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized loss on investments	(984,266)	—
Stock-based compensation	3,380,876	3,031,717
Change in value of derivative liability	30,515,799	(558,378)
Depreciation and amortization	59,066	63,113
Deferred tax benefit	(2,851,462)	—
Changes in assets and liabilities:		
Receivables and other current assets	(39,200)	140,296
Other assets	—	94,263
Accounts payable and accrued liabilities	3,398,479	2,808,992
Net cash provided by (used in) operating activities	74,896,185	(6,944,370)
Cash flows from investing activities:		
Purchase of property and equipment	(13,100)	(5,980)
Purchase of investments	(43,456,803)	—
Net cash used in investing activities	(43,469,903)	(5,980)
Cash flows from financing activities:		
Payment of dividend	(23,599,439)	—
Payment of royalty obligation less imputed interest	(160,000)	(44,000)
Proceeds from exercise of options	1,341,432	—
Proceeds from exercise of warrants	23,614,788	—
Proceeds from sales of common stock	—	8,548,665
Net cash provided by financing activities	1,196,781	8,504,665
Net increase in cash and cash equivalents	32,623,063	1,554,315
Cash and cash equivalents, beginning of period	2,011,470	457,155
Cash and cash equivalents, end of period	$ 34,634,533	$ 2,011,470
Supplemental disclosure of cash flow information:		
Cash paid during the year for taxes	$ 29,556,069	$ 2,173
Cash paid during the year for interest	$ 10,000	$ 6,000

The accompanying notes are an integral part of these consolidated financial statements

VirnetX Holding Corporation
NOTES TO FINANCIAL STATEMENTS

Note 1 Formation and Business of the Company

VirnetX Holding Corporation ("we," "us," "our" or the "Company") is a company focused on commercializing a patent portfolio for providing solutions for secure real-time communications such as instant messaging, or "IM," and voice over internet protocol, or "VoIP."

In July 2007 we effected a merger between PASW, Inc., a company which had at the time of the merger, publicly traded common stock with limited operations, and VirnetX, Inc., which became our principal operating subsidiary. As a result of this merger, the former security holders of VirnetX, Inc. came to own a majority of our outstanding common stock.

Our principal business activities to date are our efforts to commercialize our patent portfolio. We also conduct the remaining activities of PASW, Inc., which are generally limited to the collection of royalties on certain internet-based communications by a wholly owned Japanese subsidiary of PASW pursuant to the terms of a single license agreement. The revenue generated by this agreement is not significant.

The company is no longer considered to be in the development stage as principal operations have commenced and significant income has been recognized. As such, the cumulative amounts and other disclosure required for development stage companies are omitted in the December 31, 2010 statements.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of VirnetX Holding Corporation and all wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been performed pursuant to the terms of the agreement, (iii) amounts are fixed or determinable and (iv) collectability of amounts is reasonably assured. If any of these criteria are not met, the Company defers recognizing the revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require the Company to make judgments, assumptions and estimates based upon current information and historical experience.

The Company expects future royalty revenues from technology license agreements with original equipment manufacturers, or OEMs, within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets. The Company will recognize royalty revenues upon notification by its licensees and when deemed collectible. The terms of the royalty agreements generally require licensees to give the Company notification.

The Company is planning to license its technology, including Gabriel Connection Technology to various original equipment manufacturers, or OEMs, within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets, who use these technologies in the development and manufacturing of their own products. Such licensing agreements may cover the license of part, or all, of our patent portfolio, with or without our technology software components. The contractual terms of the agreements generally will provide for payments over an extended period of time. For the licensing agreements with fixed royalty payments, the Company will generally recognize revenue from these arrangements as amounts become due. For the licensing agreements with variable royalty payments which can be based on either a percentage of sales or number of units sold, the Company will recognize royalty revenue at the time that the licensees' sales occur. The Company's licensees, however, do not report and pay royalties owed for sales in any given quarter until after the conclusion of that quarter. As the Company is unable to estimate the licensees' sales in any given quarter to determine the royalties due to the Company, it will recognize royalty revenues based on royalties reported by licensees during the quarter and when other revenue recognition criteria are met.

Depending on the complexity of the underlying revenue arrangement and related terms and conditions, significant judgments, assumptions and estimates may be required to determine when substantial delivery of contract elements will occur, whether any significant ongoing obligations exist subsequent to contract execution, whether amounts due are collectible and the appropriate period or periods in which, or during which, the completion of the earning process occurs. Depending on the magnitude of specific revenue arrangements, if different judgments, assumptions and estimates are made regarding contracts executed in any specific period, our periodic financial results may be materially affected.

Gain and Loss from Derivative Liability

In accordance with FASB ASC 815-40-15 "*Derivatives and Hedging-Contracts in Entity's Own Equity-Scope and Scope Exceptions*", the Company is required to account for the Series I Warrants as derivative liabilities. The Company is required to mark to market in each reporting quarter the value of the embedded derivative and Series I Warrants. The Company revalues these derivative liabilities at the end of each reporting period. The periodic change in value of the derivative liabilities is recorded as either non-cash derivative gain (if the value of the embedded derivative and Series I Warrants decrease) or as non-cash derivative loss (if the value of the embedded derivative and Series I Warrants increase). Although the values of the embedded derivative and Series I warrants are affected by interest rates, the remaining contractual exercise period and the Company's stock volatility, the primary cause of the change in the values will be the price of the Company's Common Stock. If the stock price goes up, derivative liability will generally increase and if the stock price goes down derivative liability will generally decrease.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with original maturities of three months or less at the date of purchase to be cash equivalents.

Investments

Investments are classified as held-for-sale and are recorded at fair market value. Unrealized gain and losses are reported as other comprehensive income. Realized gains and losses are included in income in the period they are realized. The Company's investments consist of debt securities with maturity dates primarily less than nine months.

Property and Equipment

Property and equipment are stated at historical cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the accelerated and straight line methods over the estimated useful lives of the assets, which range from five to seven years. Repair and maintenance costs are charged to expense as incurred.

Concentration of Credit Risk and Other Risks and Uncertainties

Our cash and cash equivalents are primarily maintained at two financial institutions in the United States. Our investements available for sale are primarily held at one financial institution, but no one of the debt instruments exceed five percent of the total investments. Deposits held with these financial institutions may exceed the amount of insurance provided on such deposits. The interest earning cash balances are insured by the Federal Deposit Insurance Corporation as of the date of this report up to $250,000. During the year ended December 31, 2010 we had, at times, funds that were uninsured. The uninsured balance at December 31, 2010 was in excess of $9,900,000. We have not experienced any losses on our deposits of cash and cash equivalents.

Intangible Assets

We record intangible assets at cost, less accumulated amortization. Amortization of intangible assets is provided over their estimated useful lives, which can range from 3 to 15 years, on either a straight line basis or as revenue is generated by the assets.

Impairment of Long-Lived Assets

We identify and record impairment losses on intangible and other long-lived assets used in operations when events and changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Recoverability is measured by comparison of the anticipated future net undiscounted cash flows to the related assets' carrying value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the projected discounted future net cash flows arising from the asset.

Research and Development

Research and development costs include expenses paid to outside development consultants and compensation related expenses for our engineering staff. Research and development costs are expensed as incurred.

Income Taxes

Income tax expense is computed using an asset and liability method and using expected annual effective tax rates. Under this method, deferred income tax assets and liabilities result from temporary differences in the financial reporting bases and the income tax reporting bases of assets and liabilities. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefit that, based on available evidence, is not expected to be realized. When it appears more likely than not that deferred taxes will not be realized, a valuation allowance is recorded to reduce the deferred tax asset to its estimated realizable value. For net deferred tax assets we consider estimates of future taxable income, including tax planning strategies in determining whether our net deferred tax assets are more likely than not to be realized.

Effective January 1, 2007, we have adopted, Accounting for Uncertainty in Income Taxes using the prospective method. The adoption did not have a material impact on our financial statements.

Implementation of FASB ASC 815-40-15 "Derivatives and Hedging-Contracts in Entity's Own Equity-Scope and Scope Exceptions"

In June 2008, the FASB ratified guidance included in ASC 815-40-15 "Derivatives and Hedging-Contracts in Entity's Own Equity-Scope and Scope Exceptions," which provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. ASC 815-40-15 contains provisions describing conditions when an instrument or embedded feature would be considered indexed to an entity's own stock for purposes of evaluating the instrument or embedded feature under FASB ASC Topic 815 "Derivatives and Hedging," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts.

Under the provisions of ASC 815-40-15 the embedded Series I Warrants are not considered indexed to our stock. As a result of the antidilution protection in the Series I Warrants and the application of ASC 815-40-15, effective September, 2009, the Warrants were required to be accounted for as derivative instruments. Accordingly, effective September 2009, Company's Series I Warrant Conversion Feature and Investor Warrants are recognized as liabilities in our consolidated balance sheet.

Fair Value of Financial Instruments

Carrying amounts of our financial instruments, including cash and cash equivalents, accounts payable, notes payable and accrued liabilities approximate their fair values due to their short maturities. The carrying amount of our minimum royalty payment obligation approximates fair value because it is recorded at a discounted calculation.

Stock-Based Compensation

Our accounting for share-based compensation is in accordance with the fair value method which requires the measurement and recognition of compensation expense in the statement of operations for all share-based payment awards made to employees and directors including employee stock-options based on estimated fair values. Using the modified retrospective transition method of adopting this standard, the financial statements presented herein reflect compensation expense for stock-based awards as if the provisions of this standard had been applied from the date of inception.

In addition, as required we record stock and options granted to non-employees at fair value of the consideration received or the fair value of the equity instruments issued as they vest over the performance period.

Earnings Per Share

Basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of outstanding common shares during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding including potentially dilutive securities such as options, warrants and convertible debt. Since we incurred a loss in the prior period, any common stock equivalents have been excluded in 2009 because their effect would be anti-dilutive.

New Accounting Pronouncements

In September 2006, the FASB established a framework for measuring fair value in accordance with United States Generally Accepted Accounting Principles ("GAAP") and expanded disclosure about fair value measurements including valuing securities in markets that are not active. The Company adopted the framework for measuring fair value effective January 1, 2009 with the exception of the application of the framework to non-recurring, non-financial assets and non-financial liabilities. The adoption of the framework for measuring fair value did not have a significant impact on the Company's results of operations or financial position.

In June 2008, the FASB issued guidance requiring that unvested instruments granted in share-based payment transactions that contain nonforfeitable rights to dividends or dividend equivalents are participating securities subject to the two-class method of computing earnings per share. This guidance is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption did not have a material effect on the Company's consolidated financial statements.

In April 2009, the FASB required disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements, effective for interim reporting periods ending after June 15, 2009, and required those disclosures in summarized financial information at interim reporting periods. The Company adopted the new disclosure guidance over fair value of financial instruments, and adoption did not have a material effect on the Company's consolidated financial statements.

In June 2009, the FASB established the Accounting Standards Codification ("Codification") as the single source of authoritative GAAP to be applied by nongovernmental entities, except for the rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. While not intended to change GAAP, the Codification significantly changes the way in which the accounting literature is referenced and organized. The codification was adopted as of August 31, 2009. Adoption did not have a material effect on the Company's consolidated financial statements.

In January 2010, the FASB required new disclosures about fair value of financial instruments for interim and annual reporting periods. These new disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances and settlements of Level 3 financial instruments, which are effective for interim and annual reporting periods in fiscal years beginning after December 15, 2010. Adoption is not expected to have a material effect on the Company's consolidated financial statements.

Reclassifications

The Company has reclassified certain amounts in its financial statements for fiscal year 2009 to conform to the fiscal year 2010 presentation.

Note 3 Gain on Settlement

In June 2010, the Company received $200,000,000 from Microsoft related to a licensing agreement that granted Microsoft a worldwide, irrevocable, nonexclusive, non-sub licensable fully paid up license. Pursuant to the agreement, the Company also agreed to dismiss the lawsuits and any damages. This amount was originally classified as revenue. Upon further analysis, the Company could not practically and objectively separate any settlement portion from the revenue element as discussed under the guidance of ASC Topic 605. As a result, the Company now classifies the amount as a gain on settlement.

Note 4 Property

Our major classes of property and equipment were as follows:

	December 31	
	2010	**2009**
Office furniture	$ 21,810	$ 21,810
Computer Equipment	75,716	62,616
Total	97,526	84,426
Less accumulated depreciation	(72,062)	(60,996)
	$ 25,464	$ 23,430

Depreciation expense for the years ended December 31, 2010 and 2009 was $11,066 and $15,113, respectively.

Note 5 Patent Portfolio

As of December 31, 2010, we had twelve issued U.S. and sixteen issued foreign technology related patents, in addition to pending U.S. and foreign patent applications. The term of our issued U.S. and foreign patents runs through the period 2019 to 2024. Most of our issued patents were acquired by our principal operating subsidiary, VirnetX, Inc., from Science Applications International Corporation, or SAIC, pursuant to an Assignment Agreement dated December 21, 2006, and a Patent License and Assignment Agreement dated August 12, 2005, as amended on November 2, 2006, including documents prepared pursuant to the November amendment, and as further amended on March 12, 2008. We are required to make payments to SAIC based on the revenue generated from our ownership or use of the patents we acquired from SAIC. Royalty amounts vary depending upon the type of revenue generating activities, and certain royalty categories are subject to maximums and other limitations. With respect to revenue-generating activities within our field of use, minimum annual royalty payments of $50,000 were due beginning in 2008 but as of June 30, 2010 we have met our maximum royalty payment. Under certain circumstances, SAIC is entitled to receive a portion of the proceeds from revenues, monies or any form of consideration paid to VirnetX for certain acquisitions of VirnetX or from the settlement of certain patent infringement claims of ours.

We recorded a related asset equal in amount to the liability as an intangible asset which will be amortized over the expected revenue generating period of our agreement with SAIC. Amortization expense was $48,000 in 2010 and 2009.

As of December 31, 2010, the expected amortization of the intangible assets is as follows:

2011	$ 48,000
2012	48,000
Thereafter	12,000
Total	$ 108,000

Note 6 Commitments

We lease our office facility under a non-cancelable operating lease that was amended in 2008 and ends in 2012. We recognize rent expense on a straight-line basis over the term of the lease. Rent expense for the years ended December 31, 2010 and 2009 were $51,807.

For the Year	Minimum Required Lease Payments in Period
2011	$ 59,242
2012	30,202
Total	$ 89,444

Note 7 Stock Plan

In 2005, VirnetX, Inc. adopted the 2005 Stock Plan (the "Plan"), which was assumed by us upon the closing of the transaction between VirnetX Holding Corporation and VirnetX, Inc. on July 5, 2007. Our Board of Directors renamed this Plan the VirnetX Holding Corporation 2007 Stock Plan and our stockholders approved the Plan at our 2008 annual stockholders' meeting. The Plan provides for the issuance of up to 11,624,469 shares of our common stock. To the extent that any award should expire, become unexercisable or is otherwise forfeited, the shares subject to such award will again become available for issuance under the Plan. The Plan provides for the granting of stock options and stock purchase rights to our employees and consultants. Stock options granted under the Plan may be incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may only be granted to our employees (including officers and directors). Nonqualified stock options ("NSO") and stock purchase rights may be granted to our employees and consultants.

The Plan will expire 10 years after it was approved by our Board of Directors. Options may be granted under the Plan with an exercise price determined by our Board of Directors, provided, however, that the exercise price of an ISO or NSO granted to one of our Named Executive Officers shall not be less than 100% fair market value of the shares at the date of grant and the exercise price of an ISO granted to a 10% shareholder shall not be less than 110% of the fair market value of the shares on the date of grant.

Activity under the Plan is as follows:

	Options Outstanding		
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2008	2,651,392	4,468,595	$ 2.98
Restricted stock granted	—	—	—
Options granted	(1,317,195)	1,317,195	1.18
Options exercised	—	—	—
Options cancelled	83,032	—	—
Balance at December 31, 2009	1,417,229	5,785,790	$ 2.57
Restricted stock granted	—	—	—
Options granted	(345,250)	345,250	5.53
Options exercised		(1,269,149)	1.11
Options cancelled	31,500	(31,500)	5.48
Balance at December 31, 2010	1,103,478	4,830,391	$ 3.14

Note 8 Stock-Based Compensation

We account for equity instruments issued to employees in accordance with the fair value method which requires that such issuances be recorded at their fair value on the grant date. The recognition of the expense is subject to periodic adjustment as the underlying equity instrument vests.

Stock-based compensation expense is included in general and administrative expense for each period as follows:

Stock-Based Compensation by Type of Award	Year Ended December 31, 2010	Year Ended December 31, 2009
Restricted stock	$ —	$ —
Employee stock options	3,380,876	3,031,717
Total stock-based compensation	$ 3,380,876	$ 3,031,717

As of December 31, 2010, the unrecorded deferred stock-based compensation balance related to stock options was $4,026,507, which will be amortized as expense over an estimated weighted average vesting amortization period of approximately 1.2 years.

The fair value of each option grant was estimated on the date of grant using the following weighted average assumptions:

	Year Ended December 31, 2010	Year Ended December 31, 2009
Volatility	110 %	120 %
Risk-free interest rate	3.66 %	2.93 %
Expected life	7.0 years	6.6 years
Expected dividends	0 %	0 %

Based on the Black-Scholes option pricing model, the weighted average estimated fair value of employee stock options granted was $4.83 and $1.06 during the year ended December 31, 2010 and 2009, respectively.

The expected life was determined using the simplified method outlined in FASB codification topic 718, taking the average of the vesting term and the contractual term of the option. Expected volatility of the stock options was based upon historical data and other relevant factors, such as the volatility of comparable publicly-traded companies at a similar stage of life cycle. We have not provided an estimate for forfeitures because we have no history of forfeited options and believe that all outstanding options at December 31, 2010 will vest. In the future, the Company may change this estimate based on actual and expected future forfeiture rates.

The following table summarizes activity under the equity incentive plans for the indicated periods:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2008	4,468,595	2.98	—	—
Options granted	1,317,195	1.18	—	—
Options exercised	—	—	—	—
Options cancelled	—	—	—	—
Outstanding at December 31, 2009	5,785,790	2.57	—	—
Options granted	345,250	5.53	—	—
Options exercised	(1,269,149)	1.11	—	—
Options cancelled	(31,500)	5.48	—	—
Outstanding at December 31, 2010	4,830,391	$ 3.14	7.15	$ 56,566,634

Intrinsic value is calculated at the difference between the market price of the Company's stock on the last trading day of the year ($14.85) and the exercise price of the options. For options exercised, the intrinsic value is the difference between market price and the exercise price on the date of exercise.

The following table summarizes information about stock options outstanding at December 31, 2010:

	Options Outstanding			Options Vested and Exercisable		
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$0.24	705,772	5.22	$ 0.24	705,772	5.22	$ 0.24
4.20	1,327,899	6.56	4.20	1,177,493	6.56	4.20
5.88-6.47	797,026	7.00	6.04	575,270	7.00	6.04
1.74-6.20	371,250	7.56	3.62	215,417	7.50	4.06
1.15- 1.58	1,314,694	8.26	1.18	563,831	8.27	1.19
5.48-6.03	313,750	9.18	5.54	89,115	9.25	5.55
	4,830,391	7.15	$ 3.14	3,326,898	6.77	$ 3.20

Note 9 Warrants

In 2007 and 2009 we issued warrants to purchase shares of our common stock in public and private securities offerings.

Warrant Activity as of the Year Ended December 31, 2010

Original Number of Warrants Issued	Exercise Price per Common Share	Exercisable at December 31, 2009	Became Exercisable	Exercised	Terminated / Cancelled / Expired	Adjustment	Exercisable at December 31, 2010	Termination
300,000	$ 4.80	300,000	—	(270,000)	—	—	30,000	December 2012
1,235,000	$ 2.00(1)	1,235,000	—	(1,233,741)	(1,259)	—	—	n/a
1,235,000	$ 3.00(1)	1,235,000	—	(1,235,000)	—	—	—	n/a
1,235,000	$ 4.00(1)	1,235,000	—	(1,235,000)	—	—	—	n/a
220,000	$ 1.80	220,000	—	(220,000)	—	—	—	n/a
2,619,036	$ 3.93(2)	—	2,619,036(2)	(212,926)	—	(2,406,110)	—	n/a
	$ 3.59(2)	—	2,406,110	(1,586,695)	—	241,029	1,060,444	March 2015
2,419,023(2)	$ 0.01(3)	—	—	—	(3)	—	—	n/a
2,380,942	$ 2.52	2,380,942	—	(2,380,942)	—	—	—	n/a
Total		6,605,942	5,025,146	(8,374,304)	(1259)	(2,165,081)	1,090,444	

(1) Subject to call by us under certain conditions.
(2) Represents the exercise price and number of shares of common stock issuable as adjusted to reflect the impact of the Company's payment of a special cash dividend to stockholders of record on July 1, 2010.
(3) These warrants were exercisable under certain conditions. Those conditions were not met, and accordingly, these warrants terminated.

Note 10 Earnings Per Share

Basic earnings per share are based on the weighted average number of shares outstanding for a period. Diluted earnings per share are based upon the weighted average number of shares and potentially dilutive common shares outstanding. Potential common shares outstanding principally include stock options, warrants, restricted stock and other equity awards under our stock plan. During 2009, the Company has incurred losses; therefore the effect of any common stock equivalent would be anti-dilutive during that period.

The table below sets forth the basic loss per share calculations (in 000s, except per share information).

	Period Ended December 31,	
	2010	**2009**
Net income (loss)	$ 41,417	$ (12,524)
Weighted average number of shares outstanding	45,453	37,911
Diluted weighted average number of shares outstanding	49,067	—
Basic earnings (loss) per share	$ 0.91	$ (0.33)
Diluted earnings (loss) per share	$ 0.84	$ (0.33)

For the years ended December 31, 2010 and 2009, there were the following stock equivalents:

	2010	**2009**
Options	4,830,391	5,785,790
Warrants	1,090,444	12,271,946

Note 11 Preferred Stock

Our Amended and Restated Certificate of Incorporation, as amended in October 2007, authorizes us to issue 10,000,000 shares of $0.0001 par value per share preferred stock having rights, preferences and privileges to be designated by our Board of Directors. There were no shares of preferred stock outstanding at December 31, 2010.

Note 12 Common Stock

Each share of common stock has the right to one vote. The holders of common stock are entitled to receive dividends whenever funds are legally available and when declared by our Board of Directors, subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. On June 15, 2010, the Company's Board of Directors declared a special cash dividend of $0.50 per share of the Company's common stock to holders of record on July 1, 2010. Our restated articles of incorporation authorize us to issue up to 100,000,000 shares of $.0001 par value common stock.

Note 13 Employee Benefit Plan

We sponsor a defined contribution, 401k plan, covering substantially all our employees. The Company's matching contribution to the plan in 2010 was approximately $36,400 and $36,000 in 2009.

Note 14 Income Taxes

The Company had pre-tax income during the twelve months ended December 31, 2010 for the first time since inception. The components of income tax expense for the periods ended December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Current:		
Federal	$ 27,822,487	$ —
State	9,608,862	—
Foreign	10,502	—
	37,441,851	—
Deferred:		
Federal	(3,379,415)	—
State	—	—
Foreign	—	—
	(3,379,415)	—
Total provision for income taxes	$ 34,062,436	$ —

A reconciliation of the United States federal statutory income tax rate to the Company's effective income tax rate is as follows:

	December 31, 2010	December 31, 2009
United States federal statutory rate	35%	35%
State taxes, net of federal benefit	8.28%	—
Valuation allowance	(9.69)%	(33.96)%
Warrants	14.15%	(2.07)%
Other	(3.64)%	1.03%
Total	44.10%	0.00%

Deferred tax assets (liabilities) consist of the following:

	December 31, 2010	December 31, 2009
Deferred Tax Assets:		
Reserves and accruals	$ 53,009	$ —
State tax	3,326,406	—
R&D credits and other credits	225,068	500,000
Net operating loss carry forward	371,615	10,500,000
Stock Based Compensation	3,109,253	—
Gross Deferred Tax Assets	7,085,351	11,000,000
Deferred Tax Asset Valuation Allowance	(3,687,657)	(11,000,000)
Total Deferred Tax Asset	3,397,694	—
Deferred Tax Liability		
Depreciation & Amortization	(18,280)	—
Total Deferred Tax Liability	(18,280)	—
Total	$ 3,379,414	$ —

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of deferred assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Based on the available objective evidence, management believes it is more likely than not that the net deferred tax assets will not be fully realizable for the year ended December 31, 2010. Accordingly, management has released a partial valuation allowance against its net deferred tax assets at December 31, 2010. The net change in the total valuation allowance for the year ended December 31, 2010 was a decrease of $7,312,343.

At December 31, 2010, the Company has federal and state net operating loss carryforwards of approximately $912,000 and $912,000, respectively, expiring beginning in 2026 and 2012, respectively.

At December 31, 2010, the Company has federal research and development credit carryforwards of approximately $225,000 expiring beginning in 2023.

Internal Revenue Code section 382 places a limitation (the "Section 382 Limitation") on the amount of taxable income can be offset by net operating ("NOL") carryforwards after a change in control (generally greater than 50% change in ownership) of a loss corporation. California has similar rules. The Company's capitalization described herein may have resulted in such a change. Generally, after a control change, a loss corporation cannot deduct NOL carryforwards in excess of the Section 382 Limitation. Management has done a high level analysis on the utilization of its NOL carryforwards against taxable income in future periods and determined on a more likely than not basis it will be able to use all of its NOLs before they expire.

Effective January 1, 2009, the Company adopted new accounting guidance for income taxes, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is now required to recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The adoption of the new accounting guidance did not impact the Company's financial condition, results of operations, or cash flows.

The Company's tax years for 2005 and forward are subject to examination by the U.S. tax authorities and various state tax authorities. These years are open due to net operating losses and tax credit unutilized from such years.

We are required to recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. As a result, we have reduced our gross deferred tax assets by $128,000 and $0 at December 31, 2010 and 2009, respectively for certain tax benefits which we judge may not be sustained upon examination, and we have provided an offset through equal reduction in the valuation allowance.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefit as a component of income tax expense. The Company did not have associated accrued interest or penalties nor was any interest expense or penalties recognized during the 12 months ended December 31, 2010.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits are as follows:

	December 31, 2010	December 31, 2009
Balance at the beginning of the year	$ —	$ —
Additions based on tax positions related to the current year	—	—
Additions (reductions) for tax positions of prior years	128,000	—
Settlements	—	—
Lapse of applicable statute of limitations	—	—
Balance at the end of the year	$ 128,000	$ —

Note 15 Fair Value Measurement

All investments are stated at fair value or amounts that closely approximate fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

The Company utilizes market data or assumptions that the Company believes market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable.

The Company primarily applies the income and market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs.

A fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Level 2 measurements utilize observable inputs in markets other than active markets.

Certificate of deposits: Valued at face value plus accrued interest

Corporate bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

Warrants: Beginning September 2009, the Company carried its embedded Series I Warrants on its balance sheet as liabilities carried at fair value determined by using the Binomial valuation model. As of December 31, 2010, the assumptions used in the valuation of the embedded derivation of the Series I Warrants with an exercise price of $3.59, as well as the Company's stock price of $14.85, discount rate of 2.01%, and volatility of 123%. As of December 31, 2009, the assumptions used in the calculation of the embedded derivation of the Series I Warrants with an exercise price of $3.93, as well as the Company's stock price of $2.94, discount rate of 2.69%, and volatility of 121%.

The following tables set forth by level, within the fair value hierarchy, the financial instruments at fair value as of December 31, 2010:

	Assets at Fair Value as of December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Certificates of deposit	$ 3,971,472	—	—	$ 3,971,472
Corporate Bonds:				
Domestic	32,538,282	—	—	32,538,282
Foreign	6,947,049	—	—	6,947,049
Total Corporate Bonds	39,485,331	—	—	39,485,331
Total Investments at Fair Value	$ 43,456,803	—	—	$ 43,456,803

The following table presents the derivative instrument related to warrants that are carried at fair value as of December 31, 2010 and December 31, 2009:

	Fair Value Measurements at December 31, 2010			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrants	$ 14,364,350	$ —	$ —	$ 14,364,350
Total	$ 14,364,350	$ —	$ —	$ 14,364,350

The following table sets forth a summary of changes in the fair value of the Company's Level 3 derivative instrument for the year ended December 31, 2010:

	Fair Values Measurements Using Significant Unobservable Inputs (Level 3)
Balance December 31, 2009	$ 6,311,091
Net loss included in earnings	30,515,799
Settlements	(22,462,540)
Balance December 31, 2010	$ 14,364,350

	Fair Value Measurements at December 31, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrants	$ 6,311,091	$ —	$ —	$ 6,311,091
Total	$ 6,311,091	$ —	$ —	$ 6,311,091

The following table sets forth a summary of changes in the fair value of the Company's Level 3 derivative for the year ended December 31, 2009:

	Fair Values Measurements Using Significant Unobservable Inputs (Level 3)
Balance December 31, 2008	$ —
Net effect of implementing liability accounting for warrants	6,869,470
Net gain included in earnings	(558,379)
Settlements	0
Balance December 31, 2009	$ 6,311,091

Note 16 Litigation

We believe that Aastra, Apple, Cisco, NEC, Siemens and Mitel infringe on certain of our patents, but obtaining and collecting a judgment against these parties may be difficult or impossible. Patent litigation is inherently risky and the outcome is uncertain. Aastra, Apple, Cisco, NEC, Siemens and Mitel are all large, well-financed companies with substantially greater resources than us. We believe that these parties will devote a substantial amount of resources in an attempt to prove that either their products do not infringe our patents or that our patents are not valid and are unenforceable. At this time, we cannot predict the final outcome of these litigation matters.

On August 11, 2010, we initiated a lawsuit by filing a complaint against Aastra, Apple, Cisco, NEC in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that these parties infringe on certain of our patents. We seek damages and injunctive relief. On January 12, 2011, we initiated a lawsuit by filing a complaint against Siemens and Mitel in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that these companies infringe two of our patents. We seek damages and injunctive relief.

We cannot assure you that any of these lawsuits will result in a final outcome that is favorable to our company or our stockholders.

We expect to allocate a significant amount of our existing cash hand towards the fees and expenses associated with these litigation matters. We anticipate that these legal proceedings could continue for several years and may require significant expenditures for legal fees and other expenses. In the event we are not successful through appeal and do not subsequently obtain monetary and injunctive relief, these litigation matters may significantly reduce our financial resources and have a material impact on our ability to continue our operations. The time and effort required of our management to effectively pursue these litigation matters may adversely affect our ability to operate our business, since time spent on matters related to the lawsuits will take away from the time spent on managing and operating our business.

Note 17 Quarterly Financial Information (unaudited)

	First	Second[1]	Third	Fourth
	(amounts in thousands except per share)			
2010				
Revenue	$ 21	$ 23	$ 16	$ 8
Income (loss) from operations	(4,457)	115,101	(2,434)	(3,525)
Net (loss) / income	(8,900)	78,575	(25,420)	(2,838)
Basic earnings (loss) per common share	$ (0.23)	$ 1.77	$ (0.54)	$ (0.06)
Diluted earnings (loss) per common share	$ (0.23)	$ 1.67	$ (0.54)	$ (0.06)

	Second Quarter June 30, 2010 (As originally reported)	Second Quarter June 30, 2010 (As reclassified)
	(amounts in thousands except per share)	
2010		
Revenue	$ 200,023	$ 23
Gain on settlement	-	200,000
Income from operations	115,101	115,101
Net loss	78,575	78,575
Basic earnings per common share	$ 1.77	$ 1.77
Diluted earnings per common share	1.67	1.67

[1] In June 2010, the Company received $200,000,000 from Microsoft related to a licensing agreement that granted Microsoft a worldwide, irrevocable, nonexclusive, non-sub licensable fully paid up license. Pursuant to the agreement, the Company also agreed to dismiss the lawsuits and any damages. This amount was originally classified as revenue.

Upon further analysis, the Company could not practically and objectively separate any settlement portion from the revenue element as discussed under the guidance of ASC Topic 605. As a result, the Company now classifies the amount as a gain on settlement.

	First	Second	Third	Fourth
	(amounts in thousands except per share)			
2009				
Revenue	$ 3	$ 7	$ 3	$ 13
Loss from operations	(3,405)	(3,928)	(2,624)	(3,131)
Net loss	(3,403)	(3,927)	(2,623)	(2,572)
Net loss per common share	$ (0.09)	$ (0.11)	$ (0.07)	$ (0.07)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of VirnetX Holding Corporation

We have audited VirnetX Holding Corporation's internal control over financial reporting as of December, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). VirnetX Holding Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The Company did not maintain effective controls over its accounting for certain derivative instruments (the Series I Warrants). Specifically, the Company's controls were not designed or operating effectively to ensure that Series I Warrants were completely and accurately recorded as a derivative liability, measured at fair value, with changes in fair value recognized as gain or loss for each reporting period thereafter. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2010 financial statements, and this report does not affect our report dated March 15, 2011 on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, VirnetX Holding Corporation has not maintained effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets and the related statements of operations, stockholders' equity (deficit) and comprehensive income, and cash flows of VirnetX Holding Corporation, and our report dated March 15, 2011 expressed an unqualified opinion.

/s/ Farber Hass Hurley LLP

Granada Hills, California
March 15, 2011

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as such terms are defined in Rule 13a-15 and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended or the Securities Exchange Act) that are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding the required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the design and operating effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K (the "Evaluation Date"). Based on this evaluation, as of the Evaluation Date, our Chief Executive Officer and Chief Financial Officer concluded that a material weakness existed with respect to the Company's reporting of complex, non-routine transactions (the Series I Warrants) and therefore our disclosure controls and procedures were not effective as of the end of the period covered by this report.

In connection with the filing of this annual report on Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer re-evaluated, with the participation of management, the effectiveness of the Company's disclosure controls and procedures for the following periods: (i) the fiscal quarter ended September 30, 2009, (ii) the fiscal year ended December 31, 2009, (iii) the fiscal quarter ended March 31, 2010, (iv) the fiscal quarter ended June 30, 2010 and (v) the fiscal quarter ended September 30, 2010, and concluded that the Company's disclosure controls and procedures were not effective as of the end of each of these periods due to the material weakness that existed with respect to the Company's reporting of complex, non-routine transactions (the Series I Warrants). As previously reported, the Company restated its financial statements for each of these periods. This material weakness was a result of our lack of technical accounting expertise in the interpretation of the guidance in ASC 815-40, "Derivative and Hedging – Contracts in an Entity's own Equity", with respect to its application to the Series I Warrants, which required us to restate our financial results for each of these periods.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining an adequate system of internal control over our financial reporting, as such term is defined in Securities Exchange Act Rules 13a-15(f) and 15d-15(f). This system is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

A company's internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

In 2007, our management selected the framework in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission or COSO, to conduct an evaluation of the effectiveness of the Company's internal control over financial reporting. The COSO framework summarizes each of the components of a company's internal control system, including the: (i) control environment, (ii) risk assessment, (iii) information and communication, and (iv) monitoring or collectively, the entity-level controls, as well as a company's control activities or process-level controls. In addition to utilizing substantial internal resources, management also engaged an outside consulting firm to assist in various aspects of its evaluation and compliance efforts.

Our management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In performing this assessment, management used the criteria established by COSO. Based upon this assessment, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2010 based on the criteria set forth in COSO because the Company did not maintain effective controls over its accounting for certain derivative instruments (the Series I Warrants). Specifically, the Company's controls were not designed or operating effectively to ensure that Series I Warrants were completely and accurately recorded as a derivative liability, measured at fair value, with changes in fair value recognized as gain or loss for each reporting period thereafter. This control deficiency resulted in the restatement of the financial statements for: (i) the fiscal quarter ended September 30, 2009 included in the Form 10-Q filed with the SEC on November 9, 2009, (ii) the fiscal year ended December 31, 2009 included the Form 10-K filed with the SEC on March 31, 2010, (iii) the fiscal quarter ended March 31, 2010 included in the Form 10-Q filed with the SEC on May 7, 2010, (iv) the fiscal quarter ended June 30, 2010 included in the Form 10-Q filed with the SEC on August 9, 2010 and (v) the fiscal quarter ended September 30, 2010 included in the Form 10-Q filed with the SEC on November 8, 2010.

Our independent registered public accounting firm, Farber Hass Hurley LLP, which audited the consolidated financial statements included in this annual report on Form 10-K, has issued an attestation report, included elsewhere herein, which expresses an adverse opinion on the effectiveness of our internal control over financial reporting.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act that occurred during our fourth fiscal quarter of 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Remediation Initiatives

Subsequent to the end of the period covered by this report, and in light of the material weakness described above, management is in the process of designing and implementing improvements in our internal control over financial reporting and we currently plan to hire third party consultants to assist us in identifying and analyzing complex non-routine transactions and with valuing and determining the appropriate accounting treatment for any such complex non-routine transactions, including the Series I Warrants.

Item 9B. ***Other Information.***

Not applicable.

PART III

Certain information required by Part III is omitted from this report because we will file a definitive proxy statement within 120 days after the end of its fiscal year pursuant to Regulation 14A or the Proxy Statement for our annual meeting of stockholders for the year ended December 31, 2010, and the information included in the Proxy Statement is incorporated herein by reference.

Item 10. *Directors, Executive Officers and Corporate Governance.*

The information required by this item is incorporated by reference to the information set forth in our Definitive Proxy Statement, expected to be filed within 120 days of our fiscal year end.

Item 11. *Executive Compensation.*

The information required by this item is incorporated by reference to the information set forth in our Definitive Proxy Statement, expected to be filed within 120 days of our fiscal year end.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Equity Compensation Plan Information.*

The information required by this item is incorporated by reference to the information set forth in our Definitive Proxy Statement, expected to be filed within 120 days of our fiscal year end.

Item 13. *Certain Relationships and Related Transactions, and Director Independence.*

The information required by this item is incorporated by reference to the information set forth in our Definitive Proxy Statement, expected to be filed within 120 days of our fiscal year end.

Item 14. *Principal Accountant Fees and Services.*

The information required by this item is incorporated by reference to the information set forth in our Definitive Proxy Statement, expected to be filed within 120 days of our fiscal year end.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) *Financial Statements*:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2010 and 2009
- Consolidated Statements of Operations for the years Ended December 31, 2010 and 2009
- Consolidated Statements of Changes in Stockholders' Equity (Deficit) and comprehensive income (loss) for the years Ended December 31, 2010 and 2009
- Consolidated Statements of Cash Flows for years Ended December 31, 2010 and 2009
- Notes to Financial Statements

(2) *Financial Statement Schedule*:

Financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

All other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or the notes thereto.

(3) *Exhibits*:

Exhibit Number	Description
3.1	Certificate of Incorporation of the Company. (1)
3.2	By-Laws of the Company. (1)
4.1	Form of Warrant Issued to Gilford Securities Incorporated. (2)
4.2	Form of Warrant Agency Agreement by and between the Company and Corporate Stock Transfer, Inc. as Warrant Agent. (2)
4.3	Form of Underwriter's Warrant. (2)
4.4	Form of Series I Warrant. (3)
4.5	Amended Form of Stock Option Agreement - 2007 Stock Plan. (9)
10.1	Form of Indemnification Agreement by and between the Company and each of Kendall Larsen, Robert D. Short III, Scott C. Taylor, Michael F. Angelo, Thomas M. O'Brien and William E. Sliney. (1)
10.2	Voting Agreement among the Company and certain of its stockholders, dated as of December 12, 2007. (5)
10.3	2007 Stock Plan and related agreements. (4)
10.4	Securities Purchase Agreement, dated as of September 2, 2009, by and between the Company and the Purchasers. (3)
10.5	Form of Registration Rights Agreement by and between the Company and the Purchasers. (3)
10.6	Form of Underwriting Agreement between VirnetX Holding Corporation and Gilford Securities Incorporated. (2)
10.7	Patent License and Assignment Agreement by and between the Company and Science Applications International Corporation, dated as of August 12, 2005. (6)
10.8	Security Agreement by and between the Company and Science Applications International Corporation, dated as of August 12, 2005. (6)

Exhibit Number	Description
10.9	Amendment No. 1 to Patent License and Assignment Agreement by and between the Company and Science Applications International Corporation, dated as of November 2, 2006. (6)
10.10	Assignment Agreement between the Company and Science Applications International Corporation, dated as of December 21, 2006. (6)
10.11	Professional Services Agreement by and between the Company and Science Applications International Corporation, dated as of August 12, 2005. (6)
10.12	Voting Agreement among the Company and certain of its stockholders, dated as of December 12, 2007. (5)
10.13	Amendment No. 2 to Patent License and Assignment Agreement by and between VirnetX, Inc. and Science Applications International Corporation, dated as of March 12, 2008. (7)
10.14	IP Brokerage Agreement by and between ipCapital Group, Inc. and VirnetX, Inc., effective as of March 13, 2008. (7)
10.15	Engagement Letter by and between VirnetX Holding Corporation and ipCapital Group, Inc. dated March 12, 2008. (7)
10.16	Lease Agreement by and between the Company and Granite Creek Business Center, dated as of March 15, 2006, as amended in April 2007 and April 2008. (8)
10.17	Engagement Letter dated June 9, 2009, by and between McKool Smith, a professional corporation, and the Company. (9)
10.18	Engagement Letter dated April 15, 2010, by and between McKool Smith, a professional corporation, and the Company. (10)
10.19	Settlement and License Agreement, by and between Microsoft Corporation, a Washington corporation, and VirnetX, Inc., a Delaware corporation. (11)
21.1	Subsidiaries of VirnetX Holding Corporation.
23.1	Consent of Farber Hass Hurley LLP, Independent Registered Public Accounting Firm.
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2007.

(2) Incorporated herein by reference to the Company's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on January 16, 2009.

(3) Incorporated herein by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on September 3, 2009.

(4) Incorporated herein by reference to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on March 25, 2008.

(5) Incorporated herein by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 31, 2008.

(6) Incorporated by reference to the Company's Form 8-K (Commission File No. 001-33852) filed with the Securities and Exchange Commission on July 12, 2007.

(7) Incorporated by reference to the Company's Form 8-K (Commission File No. 001-33852) filed with the Securities and Exchange Commission on March 18, 2008.

(8) Incorporated by reference to the Company's Form 10-K (Commission File No. 001-33852) filed with the Securities and Exchange Commission on March 31, 2009.

(9) Incorporated by reference to the Company's Form 10-Q (Commission File No. 001-33852) filed with the Securities and Exchange Commission on August 10, 2009. Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

(10) Incorporated by reference to the Company's Form 10-Q (Commission File No. 001-33852) filed with the Securities and Exchange Commission on May 7, 2010.

(11) Incorporated by reference to the Company's Form 10-Q/A (Commission File No. 001-33852) for the period ended June 30, 2010, filed with the Securities and Exchange Commission on January 31, 2011. Pursuant to a request for confidential treatment, portions of Exhibit 10.19 have been redacted and have been provided separately to the U.S. Securities and Exchange Commission, and a revised redacted copy was re-filed with the Form 10-Q/A for the period ended June 30, 2010.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

VirnetX Holding Corporation

By: /s/ Kendall Larsen
Name: Kendall Larsen
Title: Chief Executive Officer and President

Dated: March 16, 2011

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Kendall Larsen his or her attorney-in-fact, with full power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his or her substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

Name	Capacity	Date
/s/ Kendall Larsen Kendall Larsen	Director, Chief Executive Officer and President (*Principal Executive Officer*)	March 16, 2011
/s/ William E. Sliney William E. Sliney	Chief Financial Officer (*Principal Financial Officer and Principal Accounting Officer*)	March 16, 2011
/s/ Robert D. Short III Robert D. Short III	Director	March 16, 2011
/s/ Scott C. Taylor Scott C. Taylor	Director	March 16, 2011
/s/ Michael F. Angelo Michael F. Angelo	Director	March 16, 2011
/s/ Thomas M. O'Brien Thomas M. O'Brien	Director	March 16, 2011

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10.16	Lease Agreement by and between the Company and Granite Creek Business Center, dated as of March 15, 2006, as amended in April 2007 and April 2008. (8)
10.17	Engagement Letter dated June 9, 2009, by and between McKool Smith, a professional corporation, and the Company. (9)
10.18	Engagement Letter dated April 15, 2010, by and between McKool Smith, a professional corporation, and the Company. (10)
10.19	Settlement and License Agreement, by and between Microsoft Corporation, a Washington corporation, and VirnetX, Inc., a Delaware corporation. (11)
21.1	Subsidiaries of VirnetX Holding Corporation.
23.1	Consent of Farber Hass Hurley LLP, Independent Registered Public Accounting Firm.
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2007.

(2) Incorporated herein by reference to the Company's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on January 16, 2009.

(3) Incorporated herein by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on September 3, 2009.

(4) Incorporated herein by reference to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on March 25, 2008.

(5) Incorporated herein by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 31, 2008.

(6) Incorporated by reference to the Company's Form 8-K (Commission File No. 001-33852) filed with the Securities and Exchange Commission on July 12, 2007.

(7) Incorporated by reference to the Company's Form 8-K (Commission File No. 001-33852) filed with the Securities and Exchange Commission on March 18, 2008.

(8) Incorporated by reference to the Company's Form 10-K (Commission File No. 001-33852) filed with the Securities and Exchange Commission on March 31, 2009.

(9) Incorporated by reference to the Company's Form 10-Q (Commission File No. 001-33852) filed with the Securities and Exchange Commission on August 10, 2009. Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

(10) Incorporated by reference to the Company's Form 10-Q (Commission File No. 001-33852) filed with the Securities and Exchange Commission on May 7, 2010.

(11) Incorporated by reference to the Company's Form 10-Q/A (Commission File No. 001-33852) for the period ended June 30, 2010, filed with the Securities and Exchange Commission on January 31, 2011. Pursuant to a request for confidential treatment, portions of Exhibit 10.19 have been redacted and have been provided separately to the U.S. Securities and Exchange Commission, and a revised redacted copy was re-filed with the Form 10-Q/A for the period ended June 30, 2010.

EXHIBIT 21.1

Subsidiaries of Registrant

Name of Entity	Jurisdiction of Incorporation or Organization
Network Research Corporation Japan Ltd.	Japan
(known as Network Research Corporation Japan Kabushiki Kaisha in Japan)	
VirnetX Inc.	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-149884, 333-153645 and 333-162145) and Form S-8 (No. 333-149883) of VirnetX Holding Corporation of our report dated March 15, 2011 relating to the consolidated financial statements as of December 31, 2010 and 2009 and for the years then ended (which report expresses an unqualified opinion), financial statement schedule and the effectiveness of internal control over financial reporting as of December 31, 2010 (which report expresses an adverse opinion), which appear in this Form 10-K.

/s/ Farber Hass Hurley LLP

Granada Hills, CA

March 15, 2011

EXHIBIT 31.1

CERTIFICATIONS

I, Kendall Larsen, certify that:

1. I have reviewed this Annual Report on Form 10-K of VirnetX Holding Corporation for the fiscal year ended December 31, 2010;

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

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

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

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

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

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

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

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

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

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

/s/ Kendall Larsen
Kendall Larsen
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 16, 2011

EXHIBIT 31.2

CERTIFICATIONS

I, William E. Sliney, certify that:

1. I have reviewed this Annual Report on Form 10-K of VirnetX Holding Corporation for the fiscal year ended December 31, 2010;

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

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

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

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

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

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

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

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

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

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

/s/ William E. Sliney
William E. Sliney
Chief Financial Officer
(Principal Accounting and Financial Officer)

Date: March 16, 2011

EXHIBIT 32.1

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

In connection with the Annual Report of VirnetX Holding Corporation (the "Company") on Form 10-K for the fiscal year ended December 31, 2010 as filed with the Securities and Exchange Commission on March 16, 2011 (the "Report"), I, Kendall Larsen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Kendall Larsen
Kendall Larsen
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 16, 2011

EXHIBIT 32.2

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

In connection with the Annual Report of VirnetX Holding Corporation (the "Company") on Form 10-K for the fiscal year ended December 31, 2010 as filed with the Securities and Exchange Commission on March 16, 2011 (the "Report"), I, William E. Sliney, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ William E. Sliney
William E. Sliney
Chief Financial Officer
(Principal Accounting and Financial Officer)

Date: March 16, 2011