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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

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)**
308 Dorla Court, Suite 206 Zephyr Cove, Nevada	**89448**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (775) 548-1785

Former name, former address and former fiscal year, if changed since last report:

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

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

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

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

The number of shares outstanding of the Registrant's Common Stock as of August 2, 2017, was 58,309,034.

VIRNETX HOLDING CORPORATION

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PART I — FINANCIAL INFORMATION

ITEM 1. - FINANCIAL STATEMENTS.

VIRNETX HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	As of June 30, 2017 (unaudited)	As of December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,212	$ 6,627
Investments available for sale	4,240	9,249
Prepaid expenses and other current assets	793	588
Total current assets	7,245	16,464
Prepaid expenses, non-current	2,182	2,374
Property and equipment, net	18	33
Total assets	$ 9,445	$ 18,871
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 444	$ 1,806
Accrued payroll and related expenses	190	1,522
Income tax liability	395	396
Deferred revenue, current portion	1,500	1,500
Total current liabilities	2,529	5,224
Deferred revenue, non-current portion	1,750	2,500
Total liabilities	4,279	7,724
Commitments and contingencies (Note 4)	—	—
Stockholders' equity:		
Preferred stock, par value $0.0001 per share Authorized: 10,000,000 shares at June 30, 2017 and December 31, 2016, Issued and outstanding: 0 shares at June 30, 2017 and December 31, 2016	—	—
Common stock, par value $0.0001 per share		
Authorized: 100,000,000 shares at June 30, 2017 and December 31, 2016, Issued and outstanding: 58,277,399 shares and 58,144,888 shares, at June 30, 2017 and December 31, 2016, respectively	6	6
Additional paid-in capital	171,106	169,391
Accumulated deficit	(165,929)	(158,238)
Accumulated other comprehensive loss	(17)	(12)
Total stockholders' equity	5,166	11,147
Total liabilities and stockholders' equity	$ 9,445	$ 18,871

See accompanying notes to condensed consolidated financial statements.

VIRNETX HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2017	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Revenue	$ 396	$ 398	$ 771	$ 773
Operating expense:				
Research and development	517	481	992	931
Selling, general and administrative	3,690	5,270	7,496	13,814
Total operating expense	4,207	5,751	8,488	14,745
Loss from operations	(3,811)	(5,353)	(7,717)	(13,972)
Interest income, net	13	16	31	31
Loss before taxes	(3,798)	(5,337)	(7,686)	(13,941)
Provision for income tax	—	—	(5)	(7)
Net loss	**$ (3,798)**	**$ (5,337)**	**$ (7,691)**	**$ (13,948)**
Basic and diluted loss per share	$ (0.07)	$ (0.10)	$ (0.13)	$ (0.25)
Weighted average shares outstanding basic and diluted	58,195	55,712	58,170	54,924

VIRNETX HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2017	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Net loss	$ (3,798)	$ (5,337)	$ (7,691)	$ (13,948)
Other comprehensive income (loss):				
Change in equity adjustment from foreign currency translation, net of tax	—	4	(1)	3
Change in unrealized gain on investments, net of tax	—	3	(4)	14
Total other comprehensive income gain (loss)	—	7	(5)	17
Comprehensive loss	$ (3,798)	$ (5,330)	$ (7,696)	$ (13,931)

See accompanying notes to condensed consolidated financial statements.

VIRNETX HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities:		
Net loss	$ (7,691)	$ (13,948)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	15	15
Amortization of warrant issuance costs	—	30
Stock-based compensation	1,715	2,556
Changes in assets and liabilities:		
Prepaid expenses and other assets	(13)	14
Accounts payable and accrued liabilities	(1,362)	(788)
Accrued payroll and related expenses	(1,303)	(1,303)
Related party payable	—	10
Income tax liability	(1)	—
Deferred revenue	(750)	(750)
Net cash used in operating activities	(9,390)	(14,164)
Cash flows from investing activities:		
Purchase of property and equipment	—	(5)
Purchase of investments	(756)	(5,195)
Proceeds from sale or maturity of investments	5,760	6,870
Net cash provided by investing activities	5,004	1,670
Cash flows from financing activities:		
Proceeds from exercise of options	—	20
Proceeds from sale of common stock	—	13,743
Payments of taxes on restricted stock units	(29)	(80)
Net cash provided by (used in) financing activities	(29)	13,683
Net change in cash and cash equivalents	(4,415)	1,189
Cash and cash equivalents, beginning of period	6,627	8,726
Cash and cash equivalents, end of period	$ 2,212	$ 9,915

See accompanying notes to condensed consolidated financial statements.

VIRNETX HOLDING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(Unaudited)

Note 1 — Business Description

VirnetX Holding Corporation, which we refer to as “we,” “us,” “our,” “the Company” or “VirnetX” is engaged in the business of commercializing a portfolio of patents. We seek to license our technology, including GABRIEL Connection Technology™, to various original equipment manufacturers, or OEMs, that use our technologies in the development and manufacturing of their own products within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets. Prior to 2012, our revenue was limited to an insignificant amount of software royalties pursuant to the terms of a single license agreement. Since 2012 we had revenues from settlements of patent infringement disputes whereby we received consideration for past sales of licenses that utilized our technology, where there was no prior patent license agreement, as well as license agreement revenues from settlements providing licensing for the continued use of our technology (see “Revenue Recognition”).

Our portfolio of intellectual property is the foundation of our business model. We currently own approximately 49 U.S. and 69 foreign patents with approximately 50 pending patent applications worldwide. Our patent portfolio is primarily focused on 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 patented methods also have additional applications in the key areas of device operating systems and network security for Cloud services, Machine-to-Machine (“M2M”) communications in areas including “Smart City,” “Connected Car” and “Connected Home.” All our U.S. and foreign patents and pending patent applications relate generally to securing communications over the Internet and as such, cover all our technology and other products. Our issued U.S. and foreign patents expire at various times during the period from 2019 to 2024. Some of our issued patents and pending patent applications were acquired by our principal operating subsidiary, VirnetX, Inc., from Leidos, Inc. (“Leidos”) (f/k/a Science Applications International Corporation or SAIC) in 2006 and we are required to make payments to Leidos, in certain cases that result in cash or certain other values generated from those patents. The amount of such payments depends upon the type of value generated, and certain categories are subject to maximums and other limitations.

Note 2 — Basis of Presentation and Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying Condensed Consolidated Balance Sheet as of June 30, 2017, the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016, the Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2017 and 2016, and the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”). In our opinion, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of our financial position as of June 30, 2017, our results of operations for the three and six months ended June 30, 2017 and 2016, and our cash flows for the six months ended June 30, 2017 and 2016. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017.

These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 16, 2017.

Use of Estimates

We prepare our consolidated financial statements in accordance with U.S. GAAP. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues, and expenses, as well as related disclosure of contingent assets and liabilities. In some cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in our accounting estimates are reasonably likely to occur. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, at the time they are made and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates, which we discuss further below.

Basis of Consolidation

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

Revenue Recognition

We derive our revenue from patent licensing. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Such agreements may be complex and include multiple elements. These agreements may include, without limitation, elements related to the settlement of past patent infringement liabilities, up-front and non-refundable license fees for the use of patents, patent licensing royalties on covered products sold by licensees, and the compensation structure and ownership of intellectual property rights associated with contractual technology development arrangements. Licensing agreements are accounted for under the Financial Accounting Standards Board ("FASB") revenue recognition guidance, "Revenue Arrangements with Multiple Deliverables." This guidance requires consideration to be allocated to each element of an agreement that has stand-alone value using the relative fair value method. In other circumstances, such as those agreements involving consideration for past and expected future patent royalty obligations, after consideration of the particular facts and circumstances, the appropriate recording of revenue between periods may require the use of judgment. In all cases, revenue is only recognized after all the following criteria are met: (1) written agreements have been executed; (2) delivery of technology or intellectual property rights has occurred or services have been rendered; (3) fees are fixed or determinable; and (4) collectability of fees is reasonably assured.

Patent License Agreements: Upon signing a patent license agreement, including licenses entered into upon settlement of litigation, we provide the licensee permission to use our patented technology in specific applications. We account for patent license agreements in accordance with the guidance for revenue recognition for arrangements with multiple deliverables, with amounts allocated to each element based on their fair values. We have elected to utilize the leased-based model for revenue recognition with revenue being recognized over the expected period of benefit to the licensee. Under our patent license agreements, we do or expect to typically receive one or a combination of the following forms of payment as consideration for permitting our licensees to use our patented inventions in specific applications and products:

• *Consideration for Past Sales*: Consideration related to a licensee's product sales from prior periods may result from a negotiated agreement with a licensee that utilized our patented technology prior to signing a patent license agreement with us or from the resolution of a litigation, disagreement or arbitration with a licensee over the specific terms of an existing license agreement. We may also receive royalty for past sales in connection with the settlement of patent litigation where there was no prior patent license agreement. These amounts are negotiated, typically based upon application of a royalty rate to historical sales prior to the execution of the license agreement. In each of these cases, because delivery has occurred, we record the consideration as revenue when we have obtained a signed agreement, identified a fixed or determinable price, and determined that collectability is reasonably assured.

• *Current Royalty Payments*: Ongoing royalty payments cover a licensee's obligations to us related to its sales of covered products in the current contractual reporting period. Licensees that owe these current royalty payments are obligated to provide us with quarterly or semi-annual royalty reports that summarize their sales of covered products and their related royalty obligations to us. We expect to receive these royalty reports subsequent to the period in which our licensees' underlying sales occurred. As a result, it is impractical for us to recognize revenue in the period in which the underlying sales occur, and, in most cases, we will recognize revenue in the period in which the royalty report is received and other revenue recognition criteria are met due to the fact that without royalty reports from our licensees, our visibility into our licensees' sales is limited.

• *Non-Refundable Up-Front Fees and Minimum Fee Contracts*: For licenses that provide for non-refundable up-front or fixed minimum fees over their term, for which we have no future obligations or performance requirements, revenue is generally recognized over the license term. For licenses that provide for fees that are not fixed or determinable, including licenses that provide for extended payment terms and/or payment of a significant portion of the fee after expiration of the license or more than 12 months after delivery, the fees are generally presumed not to be fixed or determinable, and revenue is deferred and recognized as earned, but generally not in advance of collection.

• *Non-Royalty Elements*: Elements that are not related to royalty revenue in nature, such as settlement fees, expense reimbursement, and damages, if any, are recorded as gain from settlement which is reflected as a separate line item within the operating expenses section in the consolidated statements of operations.

Deferred revenue

In August 2013, we began receiving annual payments on a contract requiring payment to us over 4 years totaling $10,000 ("August 2013 Contract Settlement"). In accordance with our revenue recognition policy we defer and recognize revenue over the life of the contract, but not ahead of collection. We collected the final payment under the contract in 2016. During the six months ended June 30, 2017 we recognized $750 of revenue related to the August 2013 Contract Settlement.

Activity under the August 2013 Contract Settlement was as follows:

Deferred Revenue, December 31, 2016	$	4,000
Less: Amount amortized as revenue		750
Deferred Revenue, June 30, 2017	$	3,250

Earnings Per Share

Basic earnings per share are computed by dividing earnings available to common stockholders by the weighted average number of outstanding common shares during the period. Diluted earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued.

Concentration of Credit Risk and Other Risks and Uncertainties

Our cash and cash equivalents are primarily maintained at two major financial institutions in the United States. A portion of those balances are insured by the Federal Deposit Insurance Corporation. During the six months ended June 30, 2017 we had funds which were uninsured. We do not believe that we are subject to any unusual financial risk beyond the normal risk associated with commercial banking relationships with major financial institutions. We have not experienced any losses on our deposits of cash and cash equivalents.

Prepaid Expenses

Prepaid expenses at June 30, 2017 include the current portion of prepaid rent for a facility lease for corporate promotional and marketing purposes. From inception, the prepayment totaling $4,000 is being amortized over the 10-year term of the lease. The unamortized non-current portion of the prepayment is included in Prepaid expenses, non-current on the consolidated balance sheet.

Impairment of Long-Lived Assets

On an annual basis, we identify and record impairment losses on long-lived assets 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.

Fair Value of Financial Instruments

Fair value is the price that would result from an orderly transaction between market participants at the measurement date. 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 either directly or indirectly observable inputs in markets other than quoted prices in active markets.

Our financial instruments are stated at amounts that equal, or approximate, fair value. When we estimate fair value, we utilize market data or assumptions that we believe market participants would use in pricing the financial instrument, including assumptions about risk and inputs to the valuation technique. We use valuation techniques, primarily the income and market approach, which maximizes the use of observable inputs and minimize the use of unobservable inputs for recurring fair value measurements.

Mutual Funds: Valued at the quoted net asset value of shares held.

U.S. Government and U.S. Agency Securities: Fair value measured at the closing price reported on the active market on which the individual securities are traded.

The following tables show the adjusted cost, gross unrealized gains, gross unrealized losses and fair value of our securities by significant investment category as of June 30, 2017, and December 31, 2016.

	June 30, 2017					
	Adjusted Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Cash and Cash Equivalents**	**Investments Available for Sale**
Cash	$ 1,653	$ -	$ -	$ 1,653	$ 1,653	$ -
Level 1:						
Mutual funds	459	-	-	459	459	-
U.S. agency securities	4,345	-	(5)	4,340	100	4,240
	4,804	-	(5)	4,799	559	4,240
Total	$ 6,457	$ -	$ (5)	$ 6,452	$ 2,212	$ 4,240

	December 31, 2016					
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Investments Available for Sale
Cash	$ 3,432	$ —	$ —	$ 3,432	$ 3,432	$ —
Level 1:						
Mutual funds	3,195	—	—	3,195	3,195	—
U.S. government securities	1,254	—	—	1,254	—	1,254
U.S. agency securities	7,996	2	(3)	7,995	—	7,995
	12,445	2	(3)	12,444	3,195	9,249
Total	$ 15,877	$ 2	$ (3)	$ 15,876	$ 6,627	$ 9,249

New Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments-Credit Losses (Topic 326). The purpose of this ASU is to require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718) ("ASU 2016-09"), which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. We adopted this ASU in 2017 with the following affects:

- This ASU requires excess tax benefits to be recognized regardless of whether the benefit reduces taxes payable. We had zero excess tax benefits recognized for the six months ended June 30, 2017.

- Certain prior periods amounts were reclassified to conform to the current year's presentation. None of these reclassifications had an impact on reported net income for any of the periods presented. As a result of the implementation of ASU 2016-09, our condensed consolidated statements of cash flow for the six months ended June 30, 2016 has been restated to reflect the reclassification of $80 for payments of taxes on cashless exercise of restricted stock units, previously reported in cash flows from operation activities to the current presentation in cash flows from financing activities.

- The Company has elected to not estimate forfeitures expected to occur to determine the amount of stock-based compensation cost to be recognized in each period. As such, the guidance relating to forfeitures did not have an impact on our accumulated deficit as of January 1, 2017.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606). This ASU was subsequently amended by ASU No. 2016-10 and 2016-12. As amended, Topic 606 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments create a new Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For a public entity, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the impact this guidance will have on our financial position and statement of operations.

Note 3 - Income Taxes

We had zero income tax expense for the three months ended June 30, 2017 and $5 of income tax expense for the six months ended June 30, 2017. During the three and six-month period ended June 30, 2017, we had net operating losses ("NOLs") which generated deferred tax assets for NOL carryforwards. We have provided valuation allowances against the net deferred tax assets including the deferred tax assets for NOL carryforwards. Valuation allowances provided for our net deferred tax assets increased by $3,747 for the six months ended June 30, 2017. We adopted ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" on January 1, 2017, which requires excess tax benefits or deficiencies to be reflected in the unaudited condensed consolidated statements of income as a component of the provision for income taxes whereas they previously were recorded in equity. There were no excess tax benefits recognized in the six months ended June 30, 2017.

We had zero income tax expense for the three months ended June 30, 2016 and $7 of income tax expense for the six months ended June 30, 2016. During the three and six-month periods ended June 30, 2016, we had NOLs which generated deferred tax assets for NOL carryforwards. We provided valuation allowances against the net deferred tax assets including the deferred tax assets for NOL carry-forwards. Valuation allowances provided for our net deferred tax assets increased by approximately $5,235 for the six months ended June 30, 2016.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all 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, including our history of operating losses and the uncertainty of generating future taxable income, management believes it is more likely than not that the net deferred tax assets at June 30, 2017 will not be fully realizable. Accordingly, management has maintained a valuation allowance against our net deferred tax assets at June 30, 2017. The valuation allowance provided against our net deferred tax assets was approximately $48,000 and $44,000 at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017, we have federal and state NOL carry-forwards of approximately $82,000 and $65,000, respectively, expiring beginning in 2027 and 2016, respectively.

We have adopted 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. We are 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.

Our tax years for 2005 and forward are subject to examination by the U.S. tax authority and various state tax authorities. These years are open due to net operating losses and tax credits remaining unutilized from such years.

Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of June 30, 2017, we had accrued immaterial amounts of interest and penalties related to uncertain tax positions.

Note 4 — Commitments and Related Party Transactions

We lease our offices under an operating lease with a third party expiring in October 2017. We recognize rent expense on a straight-line basis over the term of the lease.

We lease the use of an aircraft from K2 Investment Fund LLC ("LLC") for business travel for employees of the Company. We incurred approximately $213 and $472 compared to $235 and $367 in rental fees and reimbursements to the LLC during the three and six months ended June 30, 2017 and 2016, respectively. Our Chief Executive Officer and Chief Administrative Officer are the managing partners and control the equity interests of the LLC. On January 31, 2015, we entered into a 12-month non-exclusive lease with LLC for use of the plane at a rate of $8 per flight hour, with no minimum usage requirement. The agreement contains other terms and conditions normal in such transactions and can be cancelled by either us or LLC with 30 days' notice. The lease renews on an annual basis unless terminated by the lessor or lessee. Neither party has exercised their termination rights.

Note 5 — Stock-Based Compensation

We have a stock incentive plan for employees and others called the VirnetX Holding Corporation 2013 Equity Incentive Plan (the "Plan"), which has been approved by our stockholders. In May 2017, the Board approved an amendment and restatement of the Plan to, among other things, increase the shares reserved under the Plan by 2,500,000 shares (the "Plan Amendment"). Our stockholders approved of the Plan Amendment at the 2017 Annual Meeting of Stockholders held on June 1, 2017. The Plan provides for grants of 16,624,469 shares of our common stock, including stock options and restricted stock units ("RSUs"), and will expire in 2023. As of June 30, 2017, 2,344,557 shares remained available for grant under the Plan.

During the three months ended June 30, 2017, we granted options for a total of 331,000 shares with a weighted average grant date fair value of $2.72. During the three months ended June 30, 2016, we granted options totaling 379,000 shares with a weighted average grant date fair value of $3.43.

During the six months ended June 30, 2017, we granted options for a total of 356,000 shares. The weighted average fair values at the grant dates for options issued during the six months ended June 30, 2017 was $2.65 per option. The fair values of options at the grant date were estimated utilizing the Black-Scholes valuation model with the following weighted average assumptions for the six months ended June 30, 2017 (i) dividend yield on our common stock of 0 percent (ii) expected stock price volatility of 84 percent (iii) a risk-free interest rate of 1.94 percent and (iv) and expected option term of 6 years.

During the six months ended June 30, 2016, we granted options for a total of 429,000 shares with a weighted average grant date fair value of $3.22. The fair values of options at the grant date were estimated utilizing the Black-Scholes valuation model with the following weighted average assumptions for the six months ended June 30, 2016 (i) dividend yield on our common stock of 0 percent (ii) expected stock price volatility average of 79 percent (iii) a risk-free interest rate average of 1.87 percent and (iv) an expected option term average of 6 years.

During the three months ended June 30, 2017 and 2016, we granted 220,664 and 219,331 RSUs, respectively. The weighted average fair values at the grant dates for RSUs issued during the three months ended June 30, 2017 and 2016 were $3.83 and $4.75 per RSU, respectively. RSUs, which are subject to forfeiture if service terminates prior to the shares vesting, are expensed ratably over the vesting period. During the three months ended June 30, 2017 and 2016, we paid $29 and $80 in withholding taxes on shares issued upon conversion of RSUs. The underlying shares were canceled. These amounts are reflected as financing costs in the accompanying statement of cash flows.

Stock-based compensation expense included in general and administrative expense was $882 and $1,715 for the three and six months ended June 30, 2017, respectively, and $1,322 and $2,556 for the three and six months ended June 30, 2016, respectively.

As of June 30, 2017, the unrecognized stock-based compensation expense related to non-vested stock options and RSUs was $3,754 and $2,588, respectively, which will be amortized over an estimated weighted average period of approximately 2.75 and 2.81 years, respectively.

During the six-month period ended June 30, 2017 we issued 132,511 new shares of common stock as a result of vesting RSUs. No shares of common stock were issued as a result of stock options exercised during the period.

Note 6 — Equity

Common Stock

On August 21, 2015, we filed a universal shelf registration statement with the SEC enabling us to offer and sell from time to time up to $100 million of equity, debt or other types of securities. We also entered into an at-the-market ("ATM") equity offering sales agreement with Cowen & Company, LLC on August 20, 2015, under which we may offer and sell shares of our common stock having an aggregate value of up to $35 million. We have and expect to use proceeds from this offering for GABRIEL product development and marketing, and general corporate purposes, which may include working capital, capital expenditures, other corporate expenses and acquisitions of complementary products, technologies or businesses. From August 20, 2015 through June 30, 2017, we sold 5,595,650 shares under the ATM. The average sales price per common share was $4.14 and the aggregate proceeds from the sales totaled $23,169 during the period. Sales commissions, fees and other costs associated with the ATM totaled $695. At June 30, 2017 $65 million remains available for sale under the shelf offering, with $11.8 million remaining in the ATM.

During the six months ended June 30, 2017, there were no shares sold under the ATM.

Warrants

In 2015 we issued warrants ("Advisor Warrants") for the purchase of 25,000 shares of common stock at an exercise price of $7 per share, which expire in April 2020. The Advisor Warrants were issued for advisory services provided by a third party. Our Advisor Warrants were recorded at fair value on the issuance date and included in Additional Paid in Capital on our Condensed Consolidated Balance Sheet. The Advisor Warrants are exercisable by the holder, in whole or in part, until expiration, and may also be net-share-settled. Terms of the warrant agreement include no registration requirements for the underlying common stock and there are no anti-dilution provisions. The fair value at issuance of the warrants was recorded in Prepaid Expenses and Other Current Assets, and was amortized over the twelve-month life of the service contract, with the expense included in Selling, General and Administrative Expense in our Condensed Consolidated Statements of Operations.

The fair value of the Advisor Warrants at the issuance date of $121 was estimated utilizing the Black-Scholes valuation model with the following assumptions: (i) dividend yield on our common stock of 0 percent, (ii) expected stock price volatility of 87.5 percent, (iii) a risk-free interest rate of 1.33 percent, and (iv) an expected warrant term of 5 years.

Information about warrants outstanding during the six months ended June 30, 2017 follows:

Original Number of Warrants Issued	Exercise Price per Common Share	Exercisable at December 31, 2016	Became Exercisable	Exercised	Terminated / Cancelled / Expired	Exercisable at June 30, 2017	Expiration Date
25,000	$ 7.00	25,000	—	—	—	25,000	April 2020
		25,000	—	—	—	25,000	

Stock Purchase Agreement

On May 31, 2017, the Company entered into a Stock Purchase Agreement (the "Purchase Agreement") with Public Intelligence Technology Associates kk ("Investor"), (Japanese Corporation), pursuant to which the Company will issue and sell to Investor 5,494,505 shares of Common Stock (the "Shares") as promptly as practicable following the satisfaction or waiver of certain closing conditions, in a private placement pursuant to an exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Act") for a total purchase price of approximately $20,000,000, or $3.64 per share. The Purchase Agreement contained customary representations and warranties by the parties. The Company intends to use the net proceeds from the private placement primarily for general corporate purposes.

On June 27, 2017, the Company and Investor mutually agreed to extend the date for the closing of the Share Purchase. Subsequent to the extension, the Investor informed the Company that Investor's financing sources have not yet completed their diligence of Investor and the closing did not occur by the date agreed upon by the parties. The Company believes that the closing of the Share Purchase will occur in the future, as the Company is continuing discussions with Investor and assisting in the due diligence process being conducted by Investor's financing sources with the goal of facilitating the closing of the Share Purchase. However, although the closing of the Share Purchase is not subject to any conditions, the Company cannot provide assurance that the Investor will be able to obtain financing and consummate the closing of the Share Purchase or when the closing of the Share Purchase may occur. Accordingly, the Company cannot be certain it will be able to recover the consideration due to it under the Purchase Agreement.

The significant terms of the agreement are as follows:

During the eighteen (18) month period following the closing date of the Purchase Agreement (the "Lockup Period"), the Company has an irrevocable and exclusive option to repurchase any and all of the Shares acquired by Investor that have not otherwise been surrendered in the manner described below, at prices set forth in a schedule set forth in the Purchase Agreement.

In addition, pursuant to the terms of the Purchase Agreement, after closing the Company will make quarterly payments to Investor of a percentage of the revenues described in the Purchase Agreement recognized from cash or cash equivalents received by Network Research Corporation Japan Ltd., the Company's Japanese subsidiary, from a Japanese company that is incorporated or otherwise created under the laws of Japan and is headquartered in Japan (a "Japanese Company") that is directly attributable to (i) patent license fees or royalties for licenses granted under the Company's Japanese patents with respect to the products and services of a Japanese Company sold in Japan, (ii) licensing of the GABRIEL Collaboration Suite to a Japanese Company for end use in Japan, or (iii) provision of other commercial services by the Company to a Japanese Company in Japan, such as the Company's Secure Domain Name services (the "Company Japan Revenues," and each such payment, the "Priority Quarterly Revenue Share Payment"). Upon each Priority, Quarterly Revenue Share Payment made by the Company to Investor, the Shares purchased by Investor pursuant to the Purchase Agreement will be automatically surrendered for no consideration in accordance with a schedule set forth in the Purchase Agreement. The Priority Quarterly Revenue Share Payments shall be made until the earliest to occur of (i) when Investor no longer holds or owns any Shares acquired pursuant to the Purchase Agreement, (ii) when the Company has made aggregate Priority Quarterly Revenue Share Payments equal to $20,000,000 pursuant to the Purchase Agreement or (iii) the end of the Lockup Period (the "Priority Revenue Sharing Period"). The aggregate Priority Quarterly Revenue Share Payments made during the Priority Revenue Sharing Period shall not exceed $20,000,000. After the Priority Revenue Sharing Period, the Company will continue to make quarterly payments to Investor pursuant to the terms of the Revenue Sharing Agreement described below.

Upon the issuance and sale of the Shares, the Company and Investor will enter into a Stockholders Agreement (the "Stockholders Agreement"). The Stockholders Agreement will contain specific obligations and agreements of Investor as owner of the Shares, including (a) customary standstill restrictions, including restrictions on the acquisition of additional securities of the Company, through the date that is sixty (60) months after the date of the Stockholders Agreement (unless earlier terminated), (b) restrictions on transferring the Shares during the Lockup Period without the consent of the Company, subject to customary exceptions, (c) after the Lockup Period, restrictions on transferring the Shares to (i) any holder of more than 5% of the outstanding shares of the Company's common stock (after such transfer), (ii) any competitor of the Company or an officer, employee, director or more than 10% holder of a competitor or (iii) specified entities listed in the Stockholders Agreement, (d) the grant by Investor of an irrevocable proxy to the Company whereby Investor appoints the designated proxy holder as proxy and attorney-in-fact, to vote and act on behalf of Investor as such proxy holder deems advisable and in all cases in accordance with the recommendations of the Company's board of directors on any matters submitted to the Company's stockholders and (e) for so long as Investor owns more than one percent (1%) of the outstanding stock of the Company, Investor shall not directly or indirectly lend, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right, or warrant to purchase, or otherwise transfer or dispose of any shares of the Company's common stock for period not to exceed 120 days following the completion of any underwritten public offering or private placement of the Company's equity securities without written permission of the company, provided however that all directors and Section 16 officers shall be subject to the same restrictions.

Concurrently with the Purchase Agreement, the Company and Investor also entered into a Revenue Sharing Agreement (the "Revenue Sharing Agreement"). Under the Revenue Sharing Agreement, after the Priority Revenue Sharing Period (i) Investor shall make quarterly payments to the Company equal to a percentage set forth in the Revenue Sharing Agreement of the worldwide revenues of Investor and its affiliates, including without limitation the amounts received from the licensing or sale of any products, services or intellectual property rights or received in rent, returns and other distributions from real estate and real estate investment trusts; and (ii) the Company shall make quarterly payments to Investors of a percentage set forth in the Revenue Sharing Agreement of the Company Japan Revenues, such percentage payable under the Revenue Sharing Agreement is lower than the percentage payable during the Priority Revenue Sharing Period under the Purchase Agreement. The Company's payment obligations under the Revenue Sharing Agreement shall start only after the end of its obligations to pay Priority Quarterly Revenue Share Payments under the Purchase Agreement.

Also, concurrently with the Purchase Agreement, the Company and Investor also entered into a GABRIEL License Agreement (the "GABRIEL License Agreement") for the marketing and promotion of the Company's products and services by Investor in Japan. Investor's sole compensation for the services provided under the GABRIEL License Agreement are the payments made to Investor under the Revenue Sharing Agreement.

Note 7 — Litigation

We have nine intellectual property infringement lawsuits pending in the United States District Court for the Eastern District of Texas, Tyler Division, and United States Court of Appeals for the Federal Circuit ("USCAFC").

VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED)

On March 30, 2015, the United States Court for the Eastern District of Texas, Tyler Division, issued an order finding substantial overlap between the remanded portions of the Civil Action Case 6:10-CV-00417-LED (VirnetX vs. Cisco et. al.), and the ongoing Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case. The jury trial in this case was held on January 25, 2016. On February 4, 2016, a jury in the United States Court for the Eastern District of Texas, Tyler Division, awarded us $625.6 million in a verdict against Apple Inc. for infringing four of our US patents, marking it the second time a federal jury has found Apple liable for infringing VirnetX's patented technology. The verdict includes royalties awarded to us based on an earlier patent infringement finding **(Case 6:10-CV-00417-LED)** against Apple. The jury found that Apple's modified VPN On-Demand, iMessage and FaceTime services infringed VirnetX's patents and that Apple's infringement was willful. In addition to determining the royalty owed by Apple for its prior infringement, this verdict also includes an award based on the jury's finding that Apple's modified VPN On Demand, iMessage and FaceTime services have continued to infringe VirnetX's patents. The post-trial hearing was held on May 25, 2016 in the United States Court for the Eastern District of Texas, Texarkana Division. On July 29, 2016, the court issued a new order, vacating its previous orders consolidating the cases (Case No. 6:10-cv-417, Docket No. 878 ("Apple I case"); Case No. 6:12-cv-855, Docket No. 220 ("Apple II case")), ordering that the two cases be retried separately, and setting the retrial date for Apple I case with jury selection to begin on September 26, 2016. The court also ordered that the issue of willfulness in both cases is bifurcated and that the Apple II case will be retried after Apple I case. Events and developments subsequent to the order from the court are described to support Apple I and Apple II matters.

VirnetX Inc. v. Cisco Systems, Inc. et al. (Case 6:10-CV-00417-LED) ("Apple I")

On August 11, 2010, we initiated a lawsuit by filing a complaint against Aastra USA. Inc. ("Aastra"), Apple, Cisco Systems, Inc. ("Cisco"), and NEC Corporation ("NEC") in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we alleged that these parties infringe on certain of our patents. We sought damages and injunctive relief. Aastra and NEC agreed to sign license agreements with us and we agreed to drop all the accusations of infringement against them. At the pre-trial hearing, the judge decided to conduct separate jury trial for each defendant, and try only the case against Apple on the scheduled trial date. The jury trial of our case against Cisco was held on March 4, 2013. The jury in our case against Cisco came back with a verdict of non-infringement also determined that all our patents-in-suit patents are not invalid. Our motions for a new trial and Cisco's infringement of certain VirnetX patents were denied and the case against Cisco was closed.

The jury trial of our case against Apple was held on October 31, 2012. On November 6, 2012, a jury in the United States Court for the Eastern District of Texas, Tyler Division, awarded us over $368 million in a verdict against Apple for infringing four of our patents. On February 26, 2013, the court issued its Memorandum Opinion and Order regarding post-trial motions resulting from the prior jury verdict denying Apple's motion to reduce the damages awarded by the jury for past infringement. The Court further denied Apple's request for a new trial on the liability and damages portions of the verdict and granted our motions for pre-judgment interest, post-judgment interest, and post-verdict damages to date. The Court ordered that Apple pay $34 thousand in daily interest up to final judgment and $330 thousand in daily damages for infringement up to final judgment for certain Apple devices included in the verdict. The Court denied our request for a permanent injunction and severed the future infringement portion into its own separate proceedings under Case 6:13-CV-00211-LED.

On July 3, 2013, Apple filed an appeal of the judgment dated February 27, 2013 and order dated June 4, 2013 denying Apple's motion to alter or amend the judgment to the USCAFC. On September 16, 2014, USCAFC issued their opinion, affirming the jury's finding that all 4 of our patents are valid, confirming the jury's finding of infringement of VPN on Demand under many of the asserted claims of our '135 and '151 patents, and confirming the district's court's decision to allow evidence concerning our licenses and royalty rates in connection with the determination of damages. In its opinion, the USCAFC also vacated the jury's damages award and the district court's claim construction with respect to parts of our '504 and '211 patents and remanded the damages award and determination of infringement with respect to FaceTime –for further proceedings consistent with its opinion. On October 16, 2014, we filed a petition with the USCAFC, requesting a rehearing and rehearing en banc of the Federal Circuit's September 14, 2014, decision concerning VirnetX's litigation against Apple Inc. On December 16, 2014, USCAFC denied our petition requesting a rehearing and rehearing en banc of the Federal Circuit's September 14, 2014, decision and remanded the case back to the Eastern District of Texas, Tyler Division, for further proceedings consistent with its opinion. On February 25, 2015, USCAFC granted Apple's motions to lift stay of proceedings and vacate Case 6:13-CV-00211-LED. On March 30, 2015, the court issued an order finding substantial overlap between the remanded portions of this case and the ongoing Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case.

On July 29, 2016, the court issued a new order, vacating its previous orders consolidating the cases Apple I case and Apple II case, ordering that the two cases be retried separately, and setting the retrial date for Apple I case with jury selection to begin on September 26, 2016. The court also ordered that the issue of willfulness in both cases is bifurcated and that the Apple II will be retried after Apple I case. The jury trial in this case was held on September 26, 2016. On September 30, 2016, a Jury in the United States Court for the Eastern District of Texas, Tyler Division, in the case VirnetX Inc., et al. v. Apple Inc., No. Apple I, has awarded VirnetX $302.4 million in a verdict against Apple for infringing four VirnetX patents, marking the third time a federal jury has found Apple liable for infringing VirnetX's patented technology.

The verdict includes royalties awarded to VirnetX, for unresolved issues in the Apple I case, remanded back from the USCAFC, related to (1) damages owed to VirnetX for infringement by Apple's original VPN-on-Demand (VOD) and (2) the alleged infringement by Apple's original FaceTime product, under the new claim construction of "secure communication link" pertaining to the '504 and '211 patents by the USCAFC, and the damages associated with that infringement. The hearing on all the post-trial motions was held on November 22, 2016. We are currently awaiting the court ruling and final judgement in this case.

VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED) ("Apple II")

On November 6, 2012, we filed a new complaint against Apple in the United States District Court for the Eastern District of Texas, Tyler Division for willfully infringing four of our patents, U.S. Patent Nos. 6,502,135, 7,418,504, 7,921,211 and 7,490,151, and seeking both an unspecified amount of damages and injunctive relief. The accused products include the iPhone 5, iPod Touch 5th Generation, iPad 4th Generation, iPad mini, and the latest Macintosh computers. Due to their release dates, these products were not included in the previous lawsuit that concluded with a Jury verdict on November 6, 2012 that was subsequently upheld by the United States District Court for the Eastern District of Texas, Tyler Division, on February 26, 2013. On July 1, 2013, we filed a consolidated and amended complaint to include U.S. Patent No. 8,051,181 and consolidate Civil Action No. 6:11-cv-00563-LED. On August 27, 2013, we filed an amended complaint including allegations of willful infringement related to U.S. Patent No. 8,504,697 seeking both damages and injunctive relief. The Markman hearing in this case was held on May 20, 2014 and on August 8, 2014, issued its Markman Order, denying Apple's motion for summary judgment of indefiniteness, in which Apple alleged that some of the disputed claims terms in the patents asserted by us were invalid for indefiniteness. In a separate order, the court granted in part and denied in part our motion for partial summary judgment on Apple's invalidity counterclaims, precluding Apple from asserting invalidity as a defense against infringement of the claims that were tried before a jury in our prior litigation against Apple (VirnetX vs. Cisco et. al., Case 6:10-CV-00417-LED). The jury trial in this case was scheduled for October 13, 2015. On March 30, 2015, the court issued an order finding substantial overlap between this case and the remanded portions of Case 6:10-CV-00417-LED (VirnetX vs. Cisco et. al.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case. On July 29, 2016, the court issued a new order, vacating its previous orders consolidating the cases Apple I case and Apple II case, ordering that the two cases be retried separately, and setting the retrial date for Apple I case with jury selection to begin on September 26, 2016. The court also ordered that the issue of willfulness in both cases is bifurcated and that the Apple II will be retried after Apple I case. We are awaiting court order setting the date for a new jury trial in Apple II case.

VirnetX Inc. v. Apple, Inc. (Case 15-1934)

On July 10, 2015, we filed appeals with the USCAFC, appealing the invalidity findings by the United States Patent and Trademark Office, Patent Trial and Appeal Board ("PTAB") in IPR2014-00237 and IPR2014-00238, related to U.S. Patent No. 8,504,697. The oral arguments in this case were heard on November 7, 2016. On December 9, 2016, the USCAFC affirmed the PTAB based on the grounds discussed in IPR2014-00238. We are currently evaluating our options in this case.

VirnetX Inc. v. Apple, Inc. (Case 16-1211)

On September 28, 2015, we filed appeals with the USCAFC, appealing the invalidity findings by the PTAB in IPR2014-00403 and IPR2014-00404 and on October 22, 2015 for IPR2014-00481 and IPR2014-00482 involving our U.S. Patent Nos. 7,188,180, and 7,987,274. The oral arguments in this case were heard on November 7, 2016. On December 9, 2016, the USCAFC affirmed the PTAB based on the grounds discussed in IPR2014-00403 and IPR2014-00481. We are currently evaluating our options in this case.

VirnetX Inc. v. Apple, Inc. (Case 16-1480)

On November 30, 2015, we filed appeals with the USCAFC, appealing the invalidity findings by the PTAB in inter-partes reexamination no. 95/001,949 related to U.S. Patent No. 8,051,181. The oral arguments in this case were heard on November 7, 2016. On December 9, 2016, the USCAFC affirmed the PTAB based on certain grounds. We are currently evaluating our options in this case.

VirnetX Inc. v. Apple, Inc. (Case 16-119)

On March 4, 2016, we filed a petition for writ of mandamus with the USCAFC, requesting the USCAFC's intervention to revoke the PTAB's decision joining Apple to IPR2015-01046 and IPR2015-01047, related to U.S. Patent Nos. 6,502,135 and 7,490,151. On March 18, 2016, the USCAFC denied the petition without prejudice to us raising the arguments on appeal after the PTAB's final decisions. We are currently evaluating our options in this case.

VirnetX Inc. v. Apple, Inc. (Case 17-1131)

On October 31, 2016, we filed appeals with the USCAFC, appealing the invalidity findings by the PTAB in IPR2015-00810 and IPR2015-00812, on November 9, 2016 for IPR2015-00811, and on November 28, 2016 for IPR2015-00866, IPR2015-00868, IPR2015-00870 and IPR2015-00871 involving our U.S. Patent Nos.8,868,705, 8,850,009, 8,458,341, 8,516,131, and 8,560,705. These appeals have been consolidated. The briefing in these appeals has been concluded; oral arguments have not yet been scheduled.

VirnetX Inc. v. The Mangrove Partners (Case 17-1368)

On December 16, 2016, we filed appeals with the USCAFC, appealing the invalidity findings by the PTAB in IPR2015-01046, and on December 20, 2016 for IPR2015-1047, involving our U.S. Patent Nos. 6,502,135, and 7,490,151. These appeals also involve Apple, Inc. and one of them involves Black Swamp IP, LLC. On April 27, 2017, the USCAFC stayed these appeals pending the USCAFC's en banc decision in *Wi-Fi One,LLC v. Broadcom Corporation,* No. 2015-1944.

VirnetX Inc. v. Apple Inc., Cisco Systems, Inc. (Case 17-1591)

On February 7, 2017, we filed appeals with the USCAFC, appealing the invalidity findings by the PTAB in inter-partes reexamination nos. 95/001,788, 95/001,789, and 95/001,856 related to our U.S. Patent Nos. 7,921,211 and 7,418,504. These appeals have been consolidated. The briefing in these appeals is ongoing.

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

Note About Forward-Looking Statements

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may appear throughout this report, including without limitation, the following sections: "Management's Discussion and Analysis," and "Risk Factors." These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Risk Factors" (Part II, Item 1A of this Form 10-Q). We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

Company Overview

We are an Internet security software and technology company with patented technology for secure communications including 4G Long Term Evolution ("LTE"), security. Our software and technology solutions, including our Secure Domain Name Registry and GABRIEL Connection Technology™, are designed to facilitate secure communications and provide the security platform required by next-generation Internet-based applications such as instant messaging, or IM, voice over Internet Protocol, ("VoIP"), mobile services, streaming video, file transfer, remote desktop and Machine-to-Machine ("M2M") communications. 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. Our portfolio of intellectual property is the foundation of our business model. We currently own approximately 49 U.S. and 69 foreign patents with approximately 50 pending patent applications worldwide. Our patent portfolio is primarily focused on 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 patented methods also have additional applications in the key areas of device operating systems and network security for Cloud services, M2M communications in new initiatives including "Smart City", "Connected Car" and "Connected Home" that would connect everything from social services and citizen engagement to public safety, transportation and economic development to the internet to enable more productivity, features and efficiency in our everyday lives. The subject matter of all our U.S. and foreign patents and pending applications relates generally to securing communication over the internet, and as such covers all our technology and other products. Our issued U.S. and foreign patents expire at various times during the period from 2019 to 2024. Some of our issued patents and pending patent applications were acquired by our principal operating subsidiary; VirnetX, Inc., from Leidos, Inc. ("Leidos") (f/k/a Science Applications International Corporation, or SAIC) in 2006 and we are required to make payments to Leidos, based on cash or certain other values generated from those patents. The amount of such payments depends upon the type of value generated, and certain categories are subject to maximums and other limitations.

Our product GABRIEL Secure Communication Platform™, unlike other collaboration and communication products and services on the market today, does not require access to user's confidential data and reduces the threat of hacking and data mining. It enables individuals and organizations to maintain complete ownership and control over their personal and confidential data, secured within their own private network, while enabling authorized secure encrypted access from anywhere at any time. Our GABRIEL Collaboration Suite™ is a set of applications that run on top of our GABRIEL Secure Communication Platform™. It enables seamless and secure cross-platform communications between user's devices that have our software installed. Our GABRIEL Collaboration Suite™ is available for download and free trial, for Android, iOS, Windows, Linux and Mac OS X platforms, at http://www.gabrielsecure.com/. We continue to enhance our products and add new functionality to our products. We will provide updates to new and existing customers as they are released to the public. Over 80 small and medium businesses have installed our GABRIEL Secure Communication Platform™ and GABRIEL Collaboration Suite™ products in their corporate networks. We seek to expand our customer base with targeted promotions and direct sales initiatives.

We have executed a number of patent and technology licenses and intend to seek further licensees for our technology, including our GABRIEL Connection Technology™ to original equipment manufacturers, or OEMs, of chips, servers, smart phones, tablets, e-Readers, laptops, net books and other devices, within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets including 4G/LTE Advanced.

We have submitted a declaration with the 3rd Generation Partnership Project, or 3GPP, identifying a group of our patents and patent applications that we believe are or may become essential to certain developing specifications in the 3GPP LTE, SAE project. We have agreed to make available a non-exclusive patent license under fair, reasonable and non-discriminatory, or FRAND, terms and conditions, with compensation to 3GPP members desiring to implement the technical specifications identified by us. We believe that we are positioned to license our essential security patents to 3GPP members as they move into deploying 4G/LTE Advanced devices and solutions.

We have an ongoing Gabriel Licensing Program under which we offer licenses to a portion of our patent portfolio, technology and software, including our secure domain name registry service, to domain infrastructure providers, communication service providers as well as to system integrators. Our GABRIEL Connection Technology™ License is offered to OEM customers who want to adopt the GABRIEL Connection Technology™ as their solution for establishing secure connections using secure domain names within their products. We have developed GABRIEL Connection Technology™ Software Development Kit (SDK) to assist with rapid integration of these techniques into existing software implementations with minimal code changes and include object libraries, sample code, testing and quality assurance tools and the supporting documentation necessary for a customer to implement our technology. Customers who want to develop their own implementation of the VirnetX patented techniques for supporting secure domain names, or other techniques that are covered by our patent portfolio for establishing secure communication links, can purchase a patent license. The number of patents licensed, and therefore the cost of the patent license to the customer, will depend upon which of the patents are used in a particular product or service. These licenses will typically include an initial license fee, as well as an ongoing royalty.

We have signed Patent License Agreements with Avaya Inc., Aastra USA, Inc., Microsoft Corporation, Mitel Networks Corporation, NEC Corporation and NEC Corporation of America, Siemens Enterprise Communications GmbH & Co. KG, and Siemens Enterprise Communications Inc. to license certain of our patents, for a one-time payment and/or an ongoing royalty for all future sales through the expiration of the licensed patents with respect to certain current and future IP-encrypted products. We have engaged IPVALUE Management Inc. to assist us in commercializing our portfolio of patents on securing real-time communications over the Internet. Under the multi-year agreement, IPVALUE is expected to originate and assist us with negotiating transactions related to patent licensing worldwide with respect to certain third parties.

We believe that the market opportunity for our software and technology solutions is large and expanding as secure domain names are now an integral part of securing the next generation 4G/LTE Advanced wireless networks and M2M communications in areas including Smart City, Connected Car and Connected Home. We also believe that all 4G/LTE Advanced mobile devices will require unique secure domain names and become part of a secure domain name registry.

We intend to license our patent portfolio, technology and software, including our secure domain name registry service, to domain infrastructure providers, communication service providers as well as to system integrators. We intend to seek further license of our technology, including our GABRIEL Connection Technology™ to enterprise customers, developers and original equipment manufacturers, or OEMs, of chips, servers, smart phones, tablets, e-Readers, laptops, net books and other devices, within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets including 4G/LTE.

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 Leidos, Inc. ("Leidos"). Leidos 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. The team has continued its research and development work started at Leidos, and expanded the set of patents we acquired in 2006 from Leidos, into a larger portfolio of over 110 U.S. and international patents and with over 75 pending applications. This portfolio now serves as the foundation of our licensing business and planned service offerings and is expected to generate the majority of our future revenue in license fees and royalties. We intend to continue our research and development efforts to further strengthen and expand our patent portfolio.

We intend to continue using an outsourced and leveraged model to maintain efficiency and manage costs as we grow our licensing business by, for example, offering incentives to early licensing targets or asserting our rights for use of our patents. We also intend to expand our design pilot in participation with leading 4G/LTE companies (domain infrastructure providers, chipset manufacturers, service providers and others) and build our secure domain name registry.

New Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments-Credit Losses (Topic 326). The purpose of this ASU is to require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718) ("ASU 2016-09"), which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. We adopted this ASU in 2017 with the following affects:

- This ASU requires excess tax benefits to be recognized regardless of whether the benefit reduces taxes payable. We had zero excess tax benefits recognized for the six months ended June 30, 2017.

- Certain prior periods amounts were reclassified to conform to the current year's presentation. None of these reclassifications had an impact on reported net income for any of the periods presented. As a result of the implementation of ASU 2016-09, our condensed consolidated statements of cash flow for the six months ended June 30, 2016 has been restated to reflect the reclassification of $80 for payments of taxes on cashless exercise of restricted stock units, previously reported in cash flows from operation activities to the current presentation in cash flows from financing activities.

- The Company has elected to not estimate forfeitures expected to occur to determine the amount of stock-based compensation cost to be recognized in each period. As such, the guidance relating to forfeitures did not have an impact on our accumulated deficit as of January 1, 2017.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606). This ASU was subsequently amended by ASU No. 2016-10 and 2016-12. As amended, Topic 606 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments create a new Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For a public entity, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the impact this guidance will have on our financial position and statement of operations.

Results of Operations

Three and Six Months Ended June 30, 2017
Compared with Three and Six Months Ended June 30, 2016
(in thousands, except per share amounts)

Revenue

We had revenues of $396 and $771 for the three and six months ended June 30, 2017, respectively, and revenues of $398 and $773 for the three and six months ended June 30, 2016, respectively.

Revenues for the three and six months ended June 30, 2017 included recognized revenue of $375 and $750, respectively, from non-refundable up-front fees earned during the period. In August 2013, we began receiving annual payments on this contract which totaled $10,000 over the 4-year period. Revenues from these fees are deferred and recognized as revenue when earned in accordance with our revenue recognition policy, but not in advance of collection.

Research and Development Expenses

Research and development expenses were $517 and $481 for the three months ended June 30, 2017 and 2016, respectively, representing an increase of $36 due primarily to an increase in staff expense for the three months ended June 30, 2017. Research and development expenses were $992 and $931 for the six months ended June 30, 2017 and 2016, respectively, representing an increase of $61 due primarily to an increase in staff expense.

Selling, General and Administrative Expenses

Selling, general and administrative expenses includes wages and benefits of management and administrative personnel, as well as outside legal, accounting, and consulting services.

Our selling, general and administrative expenses for the three months ended June 30, 2017 compared to June 30, 2016 decreased by $1,580 to $3,690. The change is primarily due to a decrease in legal fees associated with our patent infringement actions. For the six months ended June 30, 2017 our selling, general and administrative expenses decreased by $6,318 to $7,496 compared to the six months ended June 30, 2016. The change was primarily due to a $5,779 decrease in legal fees associated with our patent infringement actions. We expect to incur the same levels or increased levels of legal fees over the next two quarters and expect to report losses from operations as a result. (See “Legal Proceedings” for additional information regarding these infringement actions.)

Other Income and Expenses

Interest income decreased by $3 to $13 for the three months ended June 30, 2017, from $16 for the comparable 2016 period, and there was no change for the six months ended June 30, 2017 from $31 for the six months ended June 30, 2016.

Net Loss

Net loss for the three months ended June 30, 2017 and June 30, 2016 was $3,798 and $5,337, respectively. Net loss for the six months ended June 30, 2017 and June 30, 2016 was $7,691 and $13,948, respectively. The changes are primarily due to decreases in legal fees associated with our patent infringement actions and reported in our selling, general and administrative expenses.

Liquidity and Capital Resources

As of June 30, 2017, our cash and cash equivalents totaled approximately $2,212 and our short-term investments totaled approximately $4,240, compared to cash and cash equivalents of approximately $6,627 and short-term investments of approximately $9,249 at December 31, 2016. Working capital was $4,716 at June 30, 2017, and $11,240 at December 31, 2016. The decrease in cash and investments during the six months ended June 30, 2017 was primarily attributed to costs incurred for legal expenses in defense of our patent infringement actions and the loss incurred during the period.

We expect that our cash and cash equivalents and short-term investments as of June 30, 2017, as well as our ability to receive cash from sales of common shares under the ATM and the universal shelf registration statement, described below, will be sufficient to fund our current level of selling, general and administration costs, including legal expenses and provide related working capital for the foreseeable future. Over the longer term, we expect to derive the majority of our future revenue from license fees and royalties associated with our patent portfolio, technology, software and secure domain name registry in the United States and other markets around the world.

Universal Shelf Registration Statement and ATM Offering

On August 21, 2015, we filed a universal shelf registration statement with the U.S. Securities and Exchange Commission (the “SEC”) enabling us to offer and sell from time to time up to $100 million of equity, debt or other types of securities. We entered into an at-the-market (“ATM”) equity offering sales agreement with Cowen & Company, LLC on August 20, 2015, under which we may offer and sell shares of our common stock having an aggregate value of up to $35 million. We expect to use proceeds from this offering for GABRIEL product development and marketing, and general corporate purposes, which may include working capital, capital expenditures, other corporate expenses and acquisitions of complementary products, technologies or businesses. At June 30, 2017 $65 million remains available for sale under the shelf offering, with $11.8 million remaining in the ATM.

Stock Purchase Agreement

On May 31, 2017, the Company entered into a Stock Purchase Agreement (the "Purchase Agreement") with Public Intelligence Technology Associates ("Investor"), kk (Japanese Corporation), pursuant to which the Company will issue and sell to Investor 5,494,505 shares of Common Stock (the "Shares") as promptly as practicable following the satisfaction or waiver of certain closing conditions, in a private placement pursuant to an exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Act") for a total purchase price of approximately $20,000,000, or $3.64 per share. The Purchase Agreement contained customary representations and warranties by the parties. The Company intends to use the net proceeds from the private placement primarily for general corporate purposes.

On June 27, 2017, the Company and Investor mutually agreed to extend the date for the closing of the Share Purchase. Subsequent to the extension, the Investor informed the Company that Investor's financing sources have not yet completed their diligence of Investor and the closing did not occur by the date agreed upon by the parties. The Company believes that the closing of the Share Purchase will occur in the future, as the Company is continuing discussions with Investor and assisting in the due diligence process being conducted by Investor's financing sources with the goal of facilitating the closing of the Share Purchase. However, although the closing of the Share Purchase is not subject to any conditions, the Company cannot provide assurance that the Investor will be able to obtain financing and consummate the closing of the Share Purchase or when the closing of the Share Purchase may occur. Accordingly, the Company cannot be certain it will be able to recover the consideration due to it under the Purchase Agreement.

The significant terms of the agreement are as follows:

During the eighteen (18) month period following the closing date of the Purchase Agreement (the "Lockup Period"), the Company has an irrevocable and exclusive option to repurchase any and all of the Shares acquired by Investor that have not otherwise been surrendered in the manner described below, at prices set forth in a schedule set forth in the Purchase Agreement.

In addition, pursuant to the terms of the Purchase Agreement, after closing the Company will make quarterly payments to Investor of a percentage of the revenues described in the Purchase Agreement recognized from cash or cash equivalents received by Network Research Corporation Japan Ltd., the Company's Japanese subsidiary, from a Japanese company that is incorporated or otherwise created under the laws of Japan and is headquartered in Japan (a "Japanese Company") that is directly attributable to (i) patent license fees or royalties for licenses granted under the Company's Japanese patents with respect to the products and services of a Japanese Company sold in Japan, (ii) licensing of the GABRIEL Collaboration Suite to a Japanese Company for end use in Japan, or (iii) provision of other commercial services by the Company to a Japanese Company in Japan, such as the Company's Secure Domain Name services (the "Company Japan Revenues," and each such payment, the "Priority Quarterly Revenue Share Payment"). Upon each Priority, Quarterly Revenue Share Payment made by the Company to Investor, the Shares purchased by Investor pursuant to the Purchase Agreement will be automatically surrendered for no consideration in accordance with a schedule set forth in the Purchase Agreement. The Priority Quarterly Revenue Share Payments shall be made until the earliest to occur of (i) when Investor no longer holds or owns any Shares acquired pursuant to the Purchase Agreement, (ii) when the Company has made aggregate Priority Quarterly Revenue Share Payments equal to $20,000,000 pursuant to the Purchase Agreement or (iii) the end of the Lockup Period (the "Priority Revenue Sharing Period"). The aggregate Priority Quarterly Revenue Share Payments made during the Priority Revenue Sharing Period shall not exceed $20,000,000. After the Priority Revenue Sharing Period, the Company will continue to make quarterly payments to Investor pursuant to the terms of the Revenue Sharing Agreement described below.

Upon the issuance and sale of the Shares, the Company and Investor will enter into a Stockholders Agreement (the "Stockholders Agreement"). The Stockholders Agreement will contain specific obligations and agreements of Investor as owner of the Shares, including (a) customary standstill restrictions, including restrictions on the acquisition of additional securities of the Company, through the date that is sixty (60) months after the date of the Stockholders Agreement (unless earlier terminated), (b) restrictions on transferring the Shares during the Lockup Period without the consent of the Company, subject to customary exceptions, (c) after the Lockup Period, restrictions on transferring the Shares to (i) any holder of more than 5% of the outstanding shares of the Company's common stock (after such transfer), (ii) any competitor of the Company or an officer, employee, director or more than 10% holder of a competitor or (iii) specified entities listed in the Stockholders Agreement, (d) the grant by Investor of an irrevocable proxy to the Company whereby Investor appoints the designated proxy holder as proxy and attorney-in-fact, to vote and act on behalf of Investor as such proxy holder deems advisable and in all cases in accordance with the recommendations of the Company's board of directors on any matters submitted to the Company's stockholders and (e) for so long as Investor owns more than one percent (1%) of the outstanding stock of the Company, Investor shall not directly or indirectly lend, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right, or warrant to purchase, or otherwise transfer or dispose of any shares of the Company's common stock for period not to exceed 120 days following the completion of any underwritten public offering or private placement of the Company's equity securities without written permission of the company, provided however that all directors and Section 16 officers shall be subject to the same restrictions.

Concurrently with the Purchase Agreement, the Company and Investor also entered into a Revenue Sharing Agreement (the "Revenue Sharing Agreement"). Under the Revenue Sharing Agreement, after the Priority Revenue Sharing Period (i) Investor shall make quarterly payments to the Company equal to a percentage set forth in the Revenue Sharing Agreement of the worldwide revenues of Investor and its affiliates, including without limitation the amounts received from the licensing or sale of any products, services or intellectual property rights or received in rent, returns and other distributions from real estate and real estate investment trusts; and (ii) the Company shall make quarterly payments to Investors of a percentage set forth in the Revenue Sharing Agreement of the Company Japan Revenues, such percentage payable under the Revenue Sharing Agreement is lower than the percentage payable during the Priority Revenue Sharing Period under the Purchase Agreement. The Company's payment obligations under the Revenue Sharing Agreement shall start only after the end of its obligations to pay Priority Quarterly Revenue Share Payments under the Purchase Agreement.

Also, concurrently with the Purchase Agreement, the Company and Investor also entered into a GABRIEL License Agreement (the "GABRIEL License Agreement") for the marketing and promotion of the Company's products and services by Investor in Japan. Investor's sole compensation for the services provided under the GABRIEL License Agreement are the payments made to Investor under the Revenue Sharing Agreement.

Income Taxes

We had zero income tax expense for the three months ended June 30, 2017 and $5 of income tax expense for the six months ended June 30, 2017. During the three and six-month period ended June 30, 2017, we had net operating losses ("NOLs") which generated deferred tax assets for NOL carryforwards. We have provided valuation allowances against the net deferred tax assets including the deferred tax assets for NOL carryforwards. Valuation allowances provided for our net deferred tax assets increased by $3,747 for the six months ended June 30, 2017. We adopted ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" on January 1, 2017, which requires excess tax benefits or deficiencies to be reflected in the unaudited condensed consolidated statements of income as a component of the provision for income taxes whereas they previously were recorded in equity. There were no excess tax benefits recognized in the six months ended June 30, 2017

We had zero income tax expense for the three month period ended June 30, 2016 and $7 of income tax expense for the six months ended June 30, 2016. During the three and six-month periods ended June 30, 2016, we had NOLs which generated deferred tax assets for NOL carryforwards. We provided valuation allowances against the net deferred tax assets including the deferred tax assets for NOL carry-forwards. Valuation allowances provided for our net deferred tax assets increased by approximately $5,235 for the six months ended June 30, 2016.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all 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, including our history of operating losses and the uncertainty of generating future taxable income, management believes it is more likely than not that the net deferred tax assets at June 30, 2017 will not be fully realizable. Accordingly, management has maintained a valuation allowance against our net deferred tax assets at June 30, 2017. The valuation allowance provided against our net deferred tax assets was approximately $48,000 and $44,000 at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017, we have federal and state NOL carry-forwards of approximately $82,000 and $65,000, respectively, expiring beginning in 2027 and 2016, respectively.

We have adopted 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. We are 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.

Our tax years for 2005 and forward are subject to examination by the U.S. tax authority and various state tax authorities. These years are open due to net operating losses and tax credits remaining unutilized from such years.

Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of June 30, 2017, we had accrued immaterial amounts of interest and penalties related to uncertain tax positions.

Contractual Obligations

There have been no material changes to the contractual obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Off-Balance Sheet Arrangements

None.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

We invest our excess cash primarily in highly liquid instruments including money market, mutual funds and U.S. government and U.S. agency securities. We seek to limit the amount of our credit exposure to any one issuer.

Investments in fixed rate instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates. Due in part to these factors, our income from investments may decrease in the future.

We considered the historical volatility of short-term interest rates and determined that it was reasonably possible that an adverse change of 100 basis points could be experienced in the near term but would have an immaterial impact in the fair value of our marketable securities, which generally mature within one year of June 30, 2017.

Other Market Risks

We considered the historical volatility of our stock prices and determined that it was reasonably possible that the fair market value of our stock price could increase or decrease substantially in the near term and could have a material impact to our consolidated balance sheets and statement of operations.

ITEM 4 — CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of June 30, 2017.

The purpose of this evaluation was to determine whether as of June 30, 2017 our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose in our filings with the SEC, (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of June 30, 2017, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

We have nine intellectual property infringement lawsuits pending in the United States District Court for the Eastern District of Texas, Tyler Division, and United States Court of Appeals for the Federal Circuit ("USCAFC").

VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED)

On March 30, 2015, the United States Court for the Eastern District of Texas, Tyler Division, issued an order finding substantial overlap between the remanded portions of the Civil Action Case 6:10-CV-00417-LED (VirnetX vs. Cisco et. al.), and the ongoing Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case. The jury trial in this case was held on January 25, 2016. On February 4, 2016, a jury in the United States Court for the Eastern District of Texas, Tyler Division, awarded us $625.6 million in a verdict against Apple Inc. for infringing four of our US patents, marking it the second time a federal jury has found Apple liable for infringing VirnetX's patented technology. The verdict includes royalties awarded to us based on an earlier patent infringement finding **(Case 6:10-CV-00417-LED)** against Apple. The jury found that Apple's modified VPN On-Demand, iMessage and FaceTime services infringed VirnetX's patents and that Apple's infringement was willful. In addition to determining the royalty owed by Apple for its prior infringement, this verdict also includes an award based on the jury's finding that Apple's modified VPN On Demand, iMessage and FaceTime services have continued to infringe VirnetX's patents. The post-trial hearing was held on May 25, 2016 in the United States Court for the Eastern District of Texas, Texarkana Division. On July 29, 2016, the court issued a new order, vacating its previous orders consolidating the cases (Case No. 6:10-cv-417, Docket No. 878 ("Apple I case"); Case No. 6:12-cv-855, Docket No. 220 ("Apple II case")), ordering that the two cases be retried separately, and setting the retrial date for Apple I case with jury selection to begin on September 26, 2016. The court also ordered that the issue of willfulness in both cases is bifurcated and that the Apple II case will be retried after Apple I case. Events and developments subsequent to the order from the court are described to support Apple I and Apple II matters.

VirnetX Inc. v. Cisco Systems, Inc. et al. (Case 6:10-CV-00417-LED) ("Apple I")

On August 11, 2010, we initiated a lawsuit by filing a complaint against Aastra USA. Inc. ("Aastra"), Apple, Cisco Systems, Inc. ("Cisco"), and NEC Corporation ("NEC") in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we alleged that these parties infringe on certain of our patents. We sought damages and injunctive relief. Aastra and NEC agreed to sign license agreements with us and we agreed to drop all the accusations of infringement against them. At the pre-trial hearing, the judge decided to conduct separate jury trial for each defendant, and try only the case against Apple on the scheduled trial date. The jury trial of our case against Cisco was held on March 4, 2013. The jury in our case against Cisco came back with a verdict of non-infringement also determined that all our patents-in-suit patents are not invalid. Our motions for a new trial and Cisco's infringement of certain VirnetX patents were denied and the case against Cisco was closed.

The jury trial of our case against Apple was held on October 31, 2012. On November 6, 2012, a jury in the United States Court for the Eastern District of Texas, Tyler Division, awarded us over $368 million in a verdict against Apple for infringing four of our patents. On February 26, 2013, the court issued its Memorandum Opinion and Order regarding post-trial motions resulting from the prior jury verdict denying Apple's motion to reduce the damages awarded by the jury for past infringement. The Court further denied Apple's request for a new trial on the liability and damages portions of the verdict and granted our motions for pre-judgment interest, post-judgment interest, and post-verdict damages to date. The Court ordered that Apple pay $34 thousand in daily interest up to final judgment and $330 thousand in daily damages for infringement up to final judgment for certain Apple devices included in the verdict. The Court denied our request for a permanent injunction and severed the future infringement portion into its own separate proceedings under Case 6:13-CV-00211-LED.

On July 3, 2013, Apple filed an appeal of the judgment dated February 27, 2013 and order dated June 4, 2013 denying Apple's motion to alter or amend the judgment to the USCAFC. On September 16, 2014, USCAFC issued their opinion, affirming the jury's finding that all 4 of our patents are valid, confirming the jury's finding of infringement of VPN on Demand under many of the asserted claims of our '135 and '151 patents, and confirming the district's court's decision to allow evidence concerning our licenses and royalty rates in connection with the determination of damages. In its opinion, the USCAFC also vacated the jury's damages award and the district court's claim construction with respect to parts of our '504 and '211 patents and remanded the damages award and determination of infringement with respect to FaceTime –for further proceedings consistent with its opinion. On October 16, 2014, we filed a petition with the USCAFC, requesting a rehearing and rehearing en banc of the Federal Circuit's September 14, 2014, decision concerning VirnetX's litigation against Apple Inc. On December 16, 2014, USCAFC denied our petition requesting a rehearing and rehearing en banc of the Federal Circuit's September 14, 2014, decision and remanded the case back to the Eastern District of Texas, Tyler Division, for further proceedings consistent with its opinion. On February 25, 2015, USCAFC granted Apple's motions to lift stay of proceedings and vacate Case 6:13-CV-00211-LED. On March 30, 2015, the court issued an order finding substantial overlap between the remanded portions of this case and the ongoing Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case.

On July 29, 2016, the court issued a new order, vacating its previous orders consolidating the cases Apple I case and Apple II case, ordering that the two cases be retried separately, and setting the retrial date for Apple I case with jury selection to begin on September 26, 2016. The court also ordered that the issue of willfulness in both cases is bifurcated and that the Apple II will be retried after Apple I case. The jury trial in this case was held on September 26, 2016. On September 30, 2016, a Jury in the United States Court for the Eastern District of Texas, Tyler Division, in the case VirnetX Inc., et al. v. Apple Inc., No. Apple I, has awarded VirnetX $302.4 million in a verdict against Apple for infringing four VirnetX patents, marking the third time a federal jury has found Apple liable for infringing VirnetX's patented technology.

The verdict includes royalties awarded to VirnetX, for unresolved issues in the Apple I case, remanded back from the USCAFC, related to (1) damages owed to VirnetX for infringement by Apple's original VPN-on-Demand (VOD) and (2) the alleged infringement by Apple's original FaceTime product, under the new claim construction of "secure communication link" pertaining to the '504 and '211 patents by the USCAFC, and the damages associated with that infringement. The hearing on all the post-trial motions was held on November 22, 2016. We are currently awaiting the court ruling and final judgement in this case.

VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED) ("Apple II")

On November 6, 2012, we filed a new complaint against Apple in the United States District Court for the Eastern District of Texas, Tyler Division for willfully infringing four of our patents, U.S. Patent Nos. 6,502,135, 7,418,504, 7,921,211 and 7,490,151, and seeking both an unspecified amount of damages and injunctive relief. The accused products include the iPhone 5, iPod Touch 5th Generation, iPad 4th Generation, iPad mini, and the latest Macintosh computers. Due to their release dates, these products were not included in the previous lawsuit that concluded with a Jury verdict on November 6, 2012 that was subsequently upheld by the United States District Court for the Eastern District of Texas, Tyler Division, on February 26, 2013. On July 1, 2013, we filed a consolidated and amended complaint to include U.S. Patent No. 8,051,181 and consolidate Civil Action No. 6:11-cv-00563-LED. On August 27, 2013, we filed an amended complaint including allegations of willful infringement related to U.S. Patent No. 8,504,697 seeking both damages and injunctive relief. The Markman hearing in this case was held on May 20, 2014 and on August 8, 2014, issued its Markman Order, denying Apple's motion for summary judgment of indefiniteness, in which Apple alleged that some of the disputed claims terms in the patents asserted by us were invalid for indefiniteness. In a separate order, the court granted in part and denied in part our motion for partial summary judgment on Apple's invalidity counterclaims, precluding Apple from asserting invalidity as a defense against infringement of the claims that were tried before a jury in our prior litigation against Apple (VirnetX vs. Cisco et. al., Case 6:10-CV-00417-LED). The jury trial in this case was scheduled for October 13, 2015. On March 30, 2015, the court issued an order finding substantial overlap between this case and the remanded portions of Case 6:10-CV-00417-LED (VirnetX vs. Cisco et. al.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case. On July 29, 2016, the court issued a new order, vacating its previous orders consolidating the cases Apple I case and Apple II case, ordering that the two cases be retried separately, and setting the retrial date for Apple I case with jury selection to begin on September 26, 2016. The court also ordered that the issue of willfulness in both cases is bifurcated and that the Apple II will be retried after Apple I case. We are awaiting court order setting the date for a new jury trial in Apple II case.

VirnetX Inc. v. Apple, Inc. (Case 15-1934)

On July 10, 2015, we filed appeals with the USCAFC, appealing the invalidity findings by the United States Patent and Trademark Office, Patent Trial and Appeal Board ("PTAB") in IPR2014-00237 and IPR2014-00238, related to U.S. Patent No. 8,504,697. The oral arguments in this case were heard on November 7, 2016. On December 9, 2016, the USCAFC affirmed the PTAB based on the grounds discussed in IPR2014-00238. We are currently evaluating our options in this case.

VirnetX Inc. v. Apple, Inc. (Case 16-1211)

On September 28, 2015, we filed appeals with the USCAFC, appealing the invalidity findings by the PTAB in IPR2014-00403 and IPR2014-00404 and on October 22, 2015 for IPR2014-00481 and IPR2014-00482 involving our U.S. Patent Nos. 7,188,180, and 7,987,274. The oral arguments in this case were heard on November 7, 2016. On December 9, 2016, the USCAFC affirmed the PTAB based on the grounds discussed in IPR2014-00403 and IPR2014-00481. We are currently evaluating our options in this case.

VirnetX Inc. v. Apple, Inc. (Case 16-1480)

On November 30, 2015, we filed appeals with the USCAFC, appealing the invalidity findings by the PTAB in inter-partes reexamination no. 95/001,949 related to U.S. Patent No. 8,051,181. The oral arguments in this case were heard on November 7, 2016. On December 9, 2016, the USCAFC affirmed the PTAB based on certain grounds. We are currently evaluating our options in this case.

VirnetX Inc. v. Apple, Inc. (Case 16-119)

On March 4, 2016, we filed a petition for writ of mandamus with the USCAFC, requesting the USCAFC's intervention to revoke the PTAB's decision joining Apple to IPR2015-01046 and IPR2015-01047, related to U.S. Patent Nos. 6,502,135 and 7,490,151. On March 18, 2016, the USCAFC denied the petition without prejudice to us raising the arguments on appeal after the PTAB's final decisions. We are currently evaluating our options in this case.

VirnetX Inc. v. Apple, Inc. (Case 17-1131)

On October 31, 2016, we filed appeals with the USCAFC, appealing the invalidity findings by the PTAB in IPR2015-00810 and IPR2015-00812, on November 9, 2016 for IPR2015-00811, and on November 28, 2016 for IPR2015-00866, IPR2015-00868, IPR2015-00870 and IPR2015-00871 involving our U.S. Patent Nos.8,868,705, 8,850,009, 8,458,341, 8,516,131, and 8,560,705. These appeals have been consolidated. The briefing in these appeals has been concluded; the oral arguments have not yet been scheduled.

VirnetX Inc. v. The Mangrove Partners (Case 17-1368)

On December 16, 2016, we filed appeals with the USCAFC, appealing the invalidity findings by the PTAB in IPR2015-01046, and on December 20, 2016 for IPR2015-1047, involving our U.S. Patent Nos. 6,502,135, and 7,490,151. These appeals also involve Apple, Inc. and one of them involves Black Swamp IP, LLC. On April 27, 2017, the USCAFC stayed these appeals pending the USCAFC's en banc decision in *Wi-Fi One,LLC v. Broadcom Corporation,* No. 2015-1944.

VirnetX Inc. v. Apple Inc., Cisco Systems, Inc. (Case 17-1591)

On February 7, 2017, we filed appeals with the USCAFC, appealing the invalidity findings by the PTAB in inter-partes reexamination nos. 95/001,788, 95/001,789, and 95/001,856 related to our U.S. Patent Nos. 7,921,211 and 7,418,504. These appeals have been consolidated. The briefing in these appeals is ongoing.

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 1A — RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common and capital stock. You should carefully consider the following material risks in addition to the other information set forth in this Quarterly Report on Form 10-Q, as well as our Annual Form 10-K filed March 16, 2017 before making any investment in our common stock. 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 occur, you could lose substantial value or your entire investment in our shares.

Risks Related to Our Business and Our Financial Reporting

We are involved and will continue to be involved in litigation defending our patent portfolio, which can be time-consuming and costly and we cannot anticipate the results.

We spend a significant amount of our financial and management resources to pursue our current litigation. We believe that this litigation and others that we may pursue in the future could continue for years and consume significant financial and management resources. The counterpart to our litigation includes large, well-financed companies with substantially greater resources than us. We cannot assure you that any of our current or future litigation matters will result in a favorable outcome for us. In addition, even if we obtain favorable interim rulings or verdicts, they may be inconsistent with the ultimate resolution of the dispute. Also, we cannot assure you that we will not be exposed to claims or sanctions against us which may be costly or impossible for us to defend. Unfavorable or adverse outcomes may result in losses, exhaustion of financial resources or other adverse effects, which could encumber our ability to develop and commercialize our products.

We can provide no assurance the closing of our private placement will occur and we cannot be certain we will be able to recover the consideration due to us under the definitive agreement of the private placement.

On May 31, 2017, we entered into a Stock Purchase Agreement (the “Purchase Agreement”) with Public Intelligence Technology Associates, kk (Japanese Corporation) (“PITA”), pursuant to which we will issue and sell to PITA 5,494,505 shares of Common Stock (the “Shares”) pursuant to an exemption from registration under the Securities Act of 1933, as amended (the “Act”) for a total purchase price of approximately $20 million, or $3.64 per share (the “Share Purchase”). As previously disclosed in our Current Report on Form 8-K filed with the SEC on July 14, 2017, PITA’s financing sources have not yet completed their diligence of PITA and the closing of the Share Purchase has not yet occurred.

We can provide no assurance on when or if the closing of the Share Purchase will occur. Additionally, we cannot be certain that we will recover the consideration due to us under the Purchase Agreement if PITA is unable to obtain sufficient funds to consummate the closing or otherwise fails to close. If the closing of the Share Purchase is not consummated, our stock price may decline. We will have incurred substantial costs, including, among other things, the diversion of management resources, for which we will have received little or no benefit if the closing of the Share Purchase does not occur. A failed transaction may also result in negative publicity and a negative impression of us in the investment community or business community generally. Additionally, if the closing of the Share Purchase does not occur, we may need to seek additional capital which may not be available to us or may not be available on terms that are comparable to the terms negotiated with PITA and/or satisfactory to us. The occurrence of any of these events individually or in combination could have a material adverse effect on our results of operations and the market price of our common stock, or the ability to raise additional capital.

We may seek additional capital to support our business growth, and this capital will be dilutive, may cause our stock price to drop or may not be available on acceptable terms, if at all.

We may seek additional capital to support our business growth or to respond to business opportunities, challenges or unforeseen circumstances, including sales under our ATM or our universal shelf registration statement. Our ability to obtain additional capital, if and when required, will depend on our business plans, investor demand, our operating performance, the condition of the capital markets, the terms of our current contractual obligations and other factors. If we raise additional funds through the issuance of equity, equity-linked or debt securities, including those under our ATM or our Universal Shelf Registration Statement, those securities may have rights, preferences, or privileges senior to the rights of our common stock, and our existing stockholders may experience dilution. Additionally, we are unable to predict the success of our current ATM offering. Sales of a substantial number of shares of our common stock in the public market, the perception that these sales or other financings might occur, could depress the market price of our common stock and could also impair our ability to raise capital through the sale of additional equity securities. If we issue debt securities or incur indebtedness, the incurrence of indebtedness would result in increased fixed payment obligations and could also result in restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to obtain additional capital, or are unable to obtain additional capital on satisfactory terms, our ability to continue to support our business growth or to respond to business opportunities, challenges, or other circumstances could be adversely affected, and our business may be harmed.

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

Our business strategy includes licensing our patents and technology to other companies in order to reach a larger end-user base than we could reach through direct sales and marketing efforts; as such, our business strategy and revenues will depend on intellectual property licensing fees and royalties for the majority of our revenues. We currently derive minimal revenue from licensing activities and we cannot assure you that we will successfully capitalize on our market opportunities or that our current business strategy will succeed. Factors that may affect our ability to execute our current business strategy include, but are not limited to, the following:

- Although to date we have entered into a limited number of settlement and license agreements, we may not be successful in entering into further licensing relationships, or if we are successful in entering into such relationships, the acquisition of them may be expensive, and they, as well as our existing settlement and our existing and pending license agreements may not generate the financial results we expect;

- Third parties may challenge the validity of our patents;

- The pendency of our various litigations may cause potential licensees not to do business with us;

- We face, and we expect to continue to face, intense competition from new and established competitors who may have superior products and services or better marketing, financial or other capacities than we do; and

- It is possible that one or more of our potential customers or licensees develops or otherwise sources products or technologies similar to, competitive with or superior to ours.

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

We believe our patents are valid, enforceable and valuable. Notwithstanding this belief, third parties may make claims of infringement or invalidity claims with respect to our patents and such claims could give rise to material cost for defense or settlement or both, jeopardize or substantially delay a successful outcome of litigation we are or may become involved in, divert resources away from our other activities, limit or cease our revenues related to such patents, or otherwise materially and adversely affect our business. Similar challenges could also prevent us from obtaining additional patents in the future. Additionally, several of our patents are currently, and other patents may in the future be, subject to USPTO post-grant inter partes review proceedings (“IPR”) which may result in all or part of these patents being invalidated or the claims of our patents being limited. Unfavorable or adverse outcomes in our litigation or IPRs may result in losses, exhaustion of financial resources, reduction in our ability to enforce our intellectual property rights, or other adverse effects, which could encumber our ability to develop and commercialize our products. Even if we are successful in enforcing our intellectual property rights, our patents may not ultimately provide us with any competitive advantages and may be less valuable than we currently expect. These risks may be heightened in countries other than the United States where laws regarding patent protection are less developed, and may be negatively affected by the fact that legal standards in the United States and elsewhere for protection of intellectual property rights in Internet-related businesses are uncertain and still evolving. In addition, there are a significant number of United States and foreign patents and patent applications in our areas of interest, and we expect that significant litigation in these areas will continue, and will add uncertainty to the value of certain patents and other intellectual property rights in our areas of interest. If we are unable to protect our intellectual property rights or otherwise realize value from them, our business would be negatively affected.

We can provide no assurances that the licensing of our essential security patents under FRAND will be successful.

At the request of the European Telecommunications Standards Institute or “ETSI”, and the Alliance for Telecommunications Industry Solutions or “ATIS”, we agreed to update our licensing declaration to ETSI and ATIS under their respective Intellectual Property Rights or “IPR” policies. This was in response to our Statement of Patent Holder identifying a group of our patents and patent applications that we believe are or may become essential to certain developing specifications in the 3rd Generation Partnership Project (3GPP) Long Term Evolution or “LTE”, Systems Architecture Evolution or “SAE” project. We will make available a non-exclusive patent license under FRAND (fair, reasonable and non-discriminatory terms and conditions, with compensation) for the patents identified by us that are or become essential, to applicants desiring to implement the Technical Specifications identified by us, as set forth in the updated licensing declaration under the ATIS and ETSI IPR policies. Our licensing declarations under the ATIS and ETSI IPR policies may limit our flexibility in determining royalties and license terms for certain of our patents. Consequently, we cannot assure you that the licensing of the essential security patents will be successful or that third parties will be willing to enter into licenses with us on reasonable terms or at all, which could have an adverse effect on our business and harm our competitive position.

Because our business is conducted or expected to be conducted in an environment that is subject to rapid change, we may be subject to various developments in regulation, law and consumer preferences to which we may not be able to adapt successfully.

The current regulatory environment for our products and services remains unclear. We can give no assurance that our planned product offerings will be in compliance with laws and regulations of local, state, United States federal or foreign authorities. Further, we can give no assurance that we will not unintentionally violate such laws or regulations or that such laws or regulations will not be modified, or that new laws or regulations will be enacted in the future which would cause us to be in violation of such laws or regulations. For example, Voice-Over-Internet Protocol or “VoIP” services are not currently subject to all the same regulations that apply to traditional telephony, but it is possible that similar regulations may be applied to VoIP in the future and that these could result in substantial costs to us which could adversely affect the marketability of our products and planned products related to VoIP. For further example, the use of the Internet and private Internet Protocol or “IP” networks for communication is largely unregulated within the United States, but may become regulated in the future; also, several foreign governments have enacted measures that could restrict or prohibit voice communications services over the Internet or private IP networks.

Our business depends on the growth of instant messaging, VoIP, mobile services, streaming video, file transfer and remote desktop and other next-generation Internet-based applications. A decline in the use of these applications due to complexity or cost of these applications relative to alternate traditional or newly developed communications channels, or development of alternative technologies, could cause a material decline in the number of users in these areas.

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.

Our exposure to outside influences beyond our control, including new legislation, court rulings or actions by the United States Patent and Trademark Office, could adversely affect our licensing and enforcement activities and results of operations.

Our licensing and enforcement activities are subject to numerous risks from outside influences, including the following:

- New legislation, regulations or rules related to obtaining patents or enforcing patents could significantly increase our operating costs and decrease our revenue. For instance, the United States Supreme Court has recently modified some tests used by the United States Patent and Trademark Office or "USPTO" in granting patents during the past 20 years which may decrease the likelihood that we will be able to obtain patents and increase the likelihood of challenge of any patents we obtain or license. In addition, the United States recently enacted sweeping changes to the United States patent system under the Leahy-Smith America Invents Act or "AIA", including changes that transition the United States from a "first-to-invent" system to a "first to file" system and alter the processes for challenging issued patents.

- More patent applications are filed each year resulting in longer delays in getting patents issued by the USPTO.

- Federal courts are becoming more crowded, and as a result, patent enforcement litigation is taking longer.

- As patent enforcement becomes more prevalent, it may become more difficult for us to voluntarily license our patents.

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

We expect to retain certain confidential and proprietary customer information in our secure data centers and secure domain name registry, as well as personal data and other confidential and proprietary information relating to our business. 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 products, facilities and infrastructure. Security technologies are constantly being tested by computer professionals, academics and "hackers." Advances in computer capabilities and the techniques for attacking security solutions, new discoveries in the field of cryptography or other events or developments could result in compromises or breaches of our security measures and could make some or all 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, including any compromise due to human error or employee or contractor malfeasance, 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. Additionally, any such data security incident, or the perception that one has occurred 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 the security or reliability of our services.

A security breach could require a substantial level of financial resources to rectify and could result in a claim and investigation that cause us to incur substantial fines, penalties, or other liability and related legal and other costs. Any actual or perceived security breach may also harm our reputation and make it more difficult or impossible for us to successfully market to others. Any of the foregoing matters could harm our operating results and financial condition.

Privacy and data security concerns, and data collection and transfer restrictions and related domestic or foreign regulations may limit the use and adoption of our solutions and adversely affect our business.

Personal privacy, information security, and data protection are significant issues in the United States, Europe and many other jurisdictions where we have operations or offer our products. The regulatory framework governing the collection, processing, storage and use of confidential and proprietary business information and personal data is rapidly evolving. The U.S. federal and various state and foreign governments have adopted or proposed requirements regarding the collection, distribution, use, security and storage of personally identifiable information and other data relating to individuals, and federal and state consumer protection laws are being applied to enforce regulations related to the online collection, use and dissemination of data.

Further, many foreign countries and governmental bodies, including the European Union, or EU, where we conduct business, have laws and regulations concerning the collection and use of personal data obtained from their residents or by businesses operating within their jurisdiction. These laws and regulations often are more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of data that identifies or may be used to identify or locate an individual, such as names, email addresses and, in some jurisdictions, Internet Protocol, or IP, addresses.

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the EU, and other jurisdictions. For example, the European Commission recently adopted a General Data Protection Regulation, effective in May 2018, that will supersede current EU data protection legislation, impose more stringent EU data protection requirements, and provide for greater penalties for noncompliance. We cannot yet determine the impact such future laws, regulations and standards may have on our business. Such laws and regulations are often subject to differing interpretations, may be inconsistent among jurisdictions, and may be alleged to be inconsistent with our current or future practices. Additionally, we may be bound by contractual requirements applicable to our collection, use, processing, and disclosure of various types of data, including personal data, and may be bound by, or voluntarily comply with, self-regulatory or other industry standards relating to these matters. These and other requirements could reduce demand for our products, increase our costs, impair our ability to grow our business, or restrict our ability to store and process data or, in some cases, impact our ability to offer our service in some locations and may subject us to liability. Any failure or perceived failure to comply with applicable laws, regulations, industry standards, and contractual obligations may adversely affect our business. Further, in view of new or modified federal, state or foreign laws and regulations, industry standards, contractual obligations and other legal obligations, or any changes in their interpretation, we may find it necessary or desirable to fundamentally change our business activities and practices or to expend significant resources to modify our product and otherwise adapt to these changes. We may be unable to make such changes and modifications in a commercially reasonable manner or at all, and our ability to develop new products and features could be limited.

The costs of compliance with and other burdens imposed by laws, regulations and standards may limit the use and adoption of our service and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance. Privacy, information security, and data protection concerns, whether valid or not valid, may inhibit market adoption of our platform, particularly in certain industries and foreign countries.

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 several factors, including but not limited to:

- The need to educate potential customers about our patent rights and our product and service capabilities;
- Our customers' willingness to invest potentially substantial resources and modify their network infrastructures to take advantage of our products;
- Our customers' budgetary constraints;
- The timing of our customers' budget cycles;
- Delays caused by customers' internal review processes; and
- Long sales cycles that may increase the risk that our financial resources are exhausted before we are able to generate significant revenue.

If we are unable to expand our revenue sources or establish, sustain, grow or replace relationships with a diversified customer base, our revenues may be limited.

We currently generate revenue from a limited number of customers that have entered Settlement and License Agreements. Although our GABRIEL Collaboration Suite is not currently generating revenue, it will take time for us to grow our installed user base and generate new customers. Additionally, there is no guarantee that we will be able to derive revenue from new customers, sustain or increase revenue from existing customers or replace customers from whom we currently generate revenue. As a result, our revenue may be limited or static.

We have limited technical resources and are at an early stage in the development and commercialization of our GABRIEL Collaboration Suite.

We currently have only one commercial product, the GABRIEL Collaboration Suite. As such, we have a small technical team, which may limit our ability to rapidly adapt our product to customer requirements or add new product features to maintain our competitive edge and drive adoption. Based on the scale of our technical resources, our limited historical financial data upon which to base our projected revenue or planned operating expenses related to our GABRIEL Collaboration Suite, we may not be able to effectively:

- generate revenues or profit from product sales;
- drive adoption of our products;
- attract and retain customers for our products;
- provide appropriate levels of customer training and support for our products;
- implement an effective marketing strategy to promote awareness of our products;
- focus our research and development efforts in areas that generate returns on our efforts;
- anticipate and adapt to changes in our market; or
- protect our products from any system failures or other breaches.

In addition, a high percentage of our expenses are and will continue to be fixed. Accordingly, if we do not generate revenue as and when anticipated, our losses may be greater than expected and our operating results will suffer.

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 that we cannot control.

Our business will depend upon, among other things, 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 that the number of users of networks utilizing our current or 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, among other things:

- 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 current and 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. Our failure to deliver and maintain high-quality technical support services to our customers could result in customers choosing to use our competitors' products and support services 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 their traditional telephone networks. If the relief sought in these petitions 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 engineering, operations, marketing, sales and executive personnel. Inability to attract and retain such personnel could adversely affect our business. Competition for engineering, operations, marketing, sales and executive personnel is intense, particularly in the technology and Internet sectors and in the regions where we conduct our business. We can provide no assurance that we will attract or retain such personnel.

We may identify future material weakness which may result in late filings, increased costs or declines in our share price.

Although we believe that we currently maintain effective control over our disclosures and procedures and internal control over financial reporting, we may in the future identify deficiencies regarding the design and effectiveness of our system of internal control over financial reporting. If we experience any material weaknesses in our internal control over financial reporting the future or are unable to provide unqualified management or attestation reports about our internal controls, we may be unable to meet financial and other reporting deadlines and may incur costs associated with remediation, and any of which could cause our share price to decline.

Risks Related to Our Common Stock

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

Our 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. We therefore cannot make assurances that our Board of Directors will determine to pay regular or special dividends in the future. Accordingly, unless our Board of Directors determines to pay dividends, stockholders will be required to look to appreciation of our common stock to realize a gain on their investment. This appreciation may not occur.

The exercise of our outstanding stock options and issuance of new shares would 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 our outstanding vested stock options would dilute the ownership interests of our existing stockholders. As of June 30, 2017, we had outstanding options to purchase an aggregate of 5,734,571 shares of common stock representing 9.84% of our total shares outstanding of which 4,686,144 were vested and therefore exercisable. To the extent outstanding stock options are exercised, additional shares of common stock will be issued, existing stockholders' percentage voting interests will decline and the number of shares eligible for resale in the public market will increase. Such increase may have a negative effect on the value or market trading price of our common stock.

In addition, the shares of common stock that will be delivered to PITA upon consummation of the closing of the Share purchase is subject to a stockholders agreement with PITA (the "Stockholders Agreement), which provides for an eighteen (18) month lockup period (the "Lockup Period") whereby PITA cannot transfer such shares unless approved by our Board of Directors, except in certain circumstances. As these restrictions end, sales of our common stock by PITA or other stockholders may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the market price of our common stock to decline and make it more difficult for existing stockholders to sell shares of our common stock.

Trading in our common stock is limited and the price of our common shares may be subject to substantial volatility.

Our common stock is listed on NYSE MKT. Over the past years, the market price of our common stock has experienced significant fluctuations. Between July 1, 2016, and June 30, 2017, the reported last adjusted closing price on NYSE MKT for our common stock ranged between $1.85 and $5.30 per share. The price of our common stock may continue to be volatile as a result of several factors, some of which are beyond our control. These factors include, but not limited to, the following:

- developments or lack thereof in any then-outstanding litigation;
- quarterly variations in our operating results;
- large purchases or sales of common stock or derivative transactions related to our stock;
- actual or anticipated announcements of new products or services by us or competitors;
- general conditions in the markets in which we compete; and
- general social, political, economic and financial conditions, including the significant volatility in the global financial markets as a result of the announcement of the Referendum of the United Kingdom's membership of the European Union, referred to as Brexit and concerns regarding the impact of the recent U.S. presidential election on domestic and international regulations, taxes of international trade agreements.

In addition, we believe there has been and may continue to be substantial trading in derivatives of our stock, including short selling activity or related similar activities, which are beyond our control and which may be beyond the full control of the SEC and Financial Institutions Regulatory Authority or "FINRA". While the SEC and FINRA rules prohibit some forms of short selling and other activities that may result in stock price manipulation, such activity may nonetheless occur without detection or enforcement. We have held conversations with regulators concerning trading activity in our stock; however, there can be no assurance that should there be any illegal manipulation in the trading of our stock, it will be detected, prosecuted or successfully eradicated. Significant short selling or other types of market manipulation could cause our stock trading price to decline, to become more volatile, or both.

The market price of our common stock may decline because our operating results may not be consistent and may be difficult to predict.

Our reported net income has fluctuated in the past due to several factors. We expect that our future operating results may also fluctuate due to the same or similar factors. We had a net loss of $29.2 million for the year ended December 31, 2015, a net loss of $28.6 million for the year ended December 31, 2016, and a net loss of $7.7 million for the period ended June 30, 2017, with an accumulated deficit of $166 million. The following include some of the factors that may cause our operating results to fluctuate:

- the outcome of actions to enforce our intellectual property rights currently in progress or that we may undertake in the future, and the timing thereof;
- the amount and timing of receipt of license fees from potential infringers, licensees or customers;
- the rate of adoption of our patented technologies;
- the number of new license arrangements we may execute, or that may expire, within a particular period and the scope of those licenses, including the number of our patents which are licensed, the extent of prior infringement of our patent rights, royalty rates, timing of payment obligations, expiration date etc.;
- the success of a licensee in selling products that use our patented technologies; and
- the amount and timing of expenses related to our patent filings and enforcement proceedings, including litigation, related to our intellectual property rights.

These fluctuations may make our business particularly difficult to manage, adversely affect our business and operating results, make our operating results difficult for investors to predict and, further, cause our results to fall below investor's expectations and adversely affect the market price of our common stock.

The market price of our common stock has been and may continue to be volatile, and you could lose all or part of your investment.

The trading price of our common stock has been volatile since our initial public offering, and is likely to continue to be volatile. Factors that could cause fluctuations in the market price of our common stock include, but are not limited to the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of companies in our industry or companies that investors consider comparable;
- changes in operating performance and stock market valuations of other companies generally, or those in our industry;
- sales of shares of our common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public's reaction to our press releases, other public announcements and filings with the SEC;

- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our results of operations;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

Further, in recent years the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. In addition, the stock prices of many technology companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, government shutdowns, interest rate changes the stability of the EU and the exit of the United Kingdom or international currency fluctuations, may cause the market price of our common stock to decline. In the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies.

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

As of June 30, 2017, our executive officers and directors beneficially owned approximately 18% of our outstanding common stock. In addition, a group of stockholders that, as of December 31, 2007, held 4,766,666 shares, or approximately 8% 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. Additionally, if the closing of the Share Purchase occurs, upon closing, PITA will beneficially own 5,494,505 shares, or approximately 8.6% of the total of (i) our outstanding common stock as of June 30, 2017, and (ii) the shares purchased by PITA. Pursuant to the Stockholders Agreement to be entered into upon the closing of the Share Purchase, PITA will grant an irrevocable proxy to the Company to vote and act on behalf of PITA as such proxy holder deems advisable and in all cases in accordance with the recommendations of the Company's board of directors on any matters submitted to the Company's stockholders. Because of their beneficial ownership interest, our officers and directors and certain significant stockholders 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.

Our protective provisions in our amended and restated certificate of incorporation and bylaws could make it difficult for a third party to successfully acquire us even if you would like to sell your stock to them.

We have a number of protective provisions in our amended and restated certificate of incorporation and bylaws that could delay, discourage or prevent a third party from acquiring control of us without the approval of our Board of Directors. These 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 affect a change in control of us because it would take two annual meetings to effectively replace 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 you. 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 of our common stock.

- **No 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 percentage of our shares of common stock, 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 bylaws 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 6 —EXHIBITS.

The documents listed in the Exhibit Index of the Quarterly Report on Form 10-Q are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

SIGNATURES

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

VIRNETX HOLDING CORPORATION

By: /s/ Kendall Larsen
Name Kendall Larsen
Title Chief Executive Officer (Principal Executive Officer)

By: /s/ Richard H. Nance
Name Richard H. Nance
Title Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Date: August 9, 2017

EXHIBIT INDEX

Exhibit Number	Description
10.1*	Stock Purchase Agreement between Registrant and Public Intelligence Technology Associates, kk, dated as of May 31, 2017.
10.2*	Revenue Sharing Agreement between Registrant and Public Intelligence Technology Associates, kk, dated as of May 31, 2017.
10.3*	GABRIEL License Agreement between Registrant and Public Intelligence Technology Associates, kk, dated as of May 31, 2017.
10.4*	Form of Stockholders Agreement between Registrant and Public Intelligence Technology Associates, kk.
31.1**	Certification of the President and Chief Executive Officer pursuant to Exchange Act Rules 13a – 14(a) and 15d – 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of the Chief Financial Officer pursuant to Exchange Act Rules 13a – 14(a) and 15d – 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2***	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files

* Portions of this Exhibit have been omitted pursuant to a request for confidential treatment. The omitted portions were filed separately with the Securities and Exchange Commission.

** Filed herewith.

*** The certifications attached as Exhibit 32.1 and Exhibit 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of VirnetX Holding Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

Exhibit 10.1

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

EXECUTION VERSION

STOCK PURCHASE AGREEMENT

BY AND AMONG

VIRNETX HOLDING CORPORATION

AND

PUBLIC INTELLIGENCE TECHNOLOGY ASSOCIATES

May 31, 2017

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

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This STOCK PURCHASE AGREEMENT (this "**Agreement**") is dated as of May 31, 2017, by and between VirnetX Holding Corporation, a Delaware corporation (the "**Company**"), and Public Intelligence Technology Associates, kk (Japanese Corporation)(the "**Purchaser**").

WHEREAS, the Company has authorized the issuance of the Shares (as defined below) of common stock, $0.0001 par value per share, of the Company (the "**Common Stock**);

WHEREAS, the Company desires to issue and sell to the Purchaser pursuant to the terms and conditions of this Agreement, and the Purchaser desires to purchase from the Company the Shares;

WHEREAS, the Shares issued and sold pursuant to this Agreement shall be automatically proportionately reduced pursuant to surrenders of the Shares on the schedule identified herein for no additional consideration upon payment of each Quarterly share Revenue Payment (as defined below); and

WHEREAS, concurrently with the execution and delivery hereof, the Company and the Purchaser have entered into the Revenue Sharing Agreement and the Gabriel License Agreement (each, as defined below).

NOW THEREFORE, in consideration of the mutual agreements, representations, warranties and covenants herein contained, the parties hereto agree as follows:

1. Definitions As used in this Agreement, the following terms shall have the following respective meanings:

"**Affiliate**" shall mean, with respect to any Person, any other Person, whether or not existing on the date hereof, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with such first Person, as such terms are used in and construed under Rule 405 under the Securities Act.

"**Agreement**" has the meaning set forth in the recitals hereof.

"**Beneficially Own**," "**Beneficially Owned**," or "**Beneficial Ownership**" shall have the meaning set forth in Rule 13d-3 of the rules and regulations promulgated under the Exchange Act, except that for purposes of this Agreement the words "within sixty days" in Rule 13d-3(d)(1)(i) shall not apply, to the effect that a Person shall be deemed to be the beneficial owner of a security if that Person has the right to acquire beneficial ownership of such security at any time.

"**Board of Directors**" shall mean the Board of Directors of the Company.

"**Closing**" has the meaning set forth in Section 2.2 hereof.

"**Closing Date**" has the meaning set forth in Section 2.2 hereof.

"**Code**" shall mean the Internal Revenue Code of 1986, as amended.

"**Common Stock**" has the meaning set forth in the recitals hereof.

"**Company**" has the meaning set forth in the recitals hereof.

"**Company Japan Revenues**" means revenue recognized from cash or cash equivalents received by Network Research Corporation Japan Ltd. from a Japanese Company that is directly attributable to (i) patent license fees or royalties for licenses granted under the Company's Japanese patents with respect to the products and services of the Japanese Company sold in Japan, (ii) licensing of the Gabriel Collaboration Suite to the Japanese Company for end use in Japan, or (iii) provision of other commercial services by the Company to the Japanese Company in Japan, such as the Company's Secure Domain Name services; but in each case excluding any litigation- or settlement-related expenses, contingency fees, commissions and other contractually-required payments to third parties, taxes, and other deductions and costs associated with such revenue.

"**Confidential Information**" has the meaning set forth in Section 9.10 hereof.

"**Control**" (including the terms "**controlling**" "**controlled by**" and "**under common control with**") with respect to any Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"**Disqualification Event**" has the meaning set forth in Section 4.11 hereof.

"**Exchange Act**" shall mean the Securities Exchange Act of 1934, as amended, and all of the rules and regulations promulgated thereunder.

"**Financial Statements**" has the meaning set forth in Section 3.7(b) hereof.

"**GAAP**" has the meaning set forth in Section 3.7(b) hereof.

"**Gabriel License Agreement**" means an agreement pursuant to which Purchaser shall undertake certain marketing and promotion of the Company's products and services.

"**Governmental Entity**" means any supranational, national, state, municipal, local or foreign government, any court, arbitrator, administrative agency, commission or other governmental official, authority or instrumentality, in each case whether domestic or foreign, any stock exchange or similar self-regulatory organization or any quasi-governmental or private body exercising any regulatory, taxing or other governmental or quasi-governmental authority.

"**Japanese Company**" means a Japanese company that is incorporated or otherwise created under the laws of Japan and which Japanese company is headquartered in Japan.

"**Lockup Period**" has the meaning set forth in the Stockholders Agreement.

"**Material Adverse Effect**" shall mean such facts, circumstances, events or changes that are, individually or in the aggregate, materially adverse to (i) the business, financial condition, assets or continuing operations of the Company and its Subsidiaries taken as a whole or (ii) the Company's ability to perform its obligations under this Agreement, but shall not include facts, circumstances, events or changes (a) generally affecting any of the industries in which the Company, taken together with its Subsidiaries, operates, in the United States or elsewhere in the world or the economy or the financial or securities markets in the United States or elsewhere in the world, in each case, except to the extent such facts, circumstances, events or changes disproportionately affect the Company and its Subsidiaries; (b) political conditions, including acts of war (whether or not declared), armed hostilities and terrorism, or developments or changes therein; (c) any conditions resulting from natural disasters; (d) any action taken or omitted to be taken by or at the written request of the Purchaser; (e) any announcement of this Agreement or the transactions contemplated in this Agreement, in each case, solely to the extent due to such announcement; (f) resulting from changes in applicable legal requirements, GAAP or accounting standards; (g) resulting from a change in the Company's stock price or the trading volume in the Common Stock in and of itself or (h) resulting from a failure to meet securities analysts' published revenue or earnings predictions for the Company in and of itself.

"**NYSE**" means the NYSE MKT LLC.

"**Person**" shall mean an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or any other entity or organization.

"**Per Share Purchase Price**" has the meaning set forth in Section 2.1 hereof.

"**Priority Revenue Sharing Period**" means the period commencing on the Closing Date and ending on the earliest to occur of (i) when the Purchaser no longer holds or owns any Shares acquired pursuant to this Agreement, (ii) when the Company has made aggregate payments pursuant to Section 6.1 of this Agreement equal to $20,000,000, it being understood that the Priority Revenue Sharing Period shall end pursuant to this clause (ii) as soon as payment equal to $20,000,000 is made (for the avoidance of doubt, whether payment is from a series of transactions, one transaction, or part of one transaction in which the Company receives Company Japan Revenues) or (iii) the end of the Lockup Period.

"**Proxy**" has the meaning set forth in the Stockholders Agreement.

"**Purchaser**" has the meanings set forth in the recitals hereof.

"**Purchaser Adverse Effect**" has the meaning set forth in Section 4.1 hereof.

"**Quarterly Revenue Share Payment**" has the meaning set forth in Section 6.1 hereof.

"**Representatives**" has the meaning set forth in Section 9.10 hereof.

"**Repurchase Option**" has the meaning set forth in Section 7.1 hereof.

"**Repurchase Price Per Share**" has the meaning set forth in Section 7.1 hereof.

"**Repurchase Closing Date**" has the meaning set forth in Section 7.2 hereof.

"**Repurchased Securities**" has the meaning set forth in Section 7.2 hereof.

"**Revenue Sharing Agreement**" means an agreement pursuant to which each of Purchaser and the Company shall share certain portions of their revenues with the other Party.

"**SEC**" shall mean the Securities and Exchange Commission.

"**SEC Reports**" shall mean the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017, the Company's Proxy Statement on Schedule 14A for its 2017 Annual Meeting of Stockholders, and any Current Reports on Form 8-K, filed or furnished by the Company after December 31, 2016 and on or prior to the date of hereof, together in each case with any documents incorporated by reference therein or exhibits thereto.

"**Securities Act**" shall mean the Securities Act of 1933, as amended, and all of the rules and regulations promulgated thereunder.

"**Shares**" shall have the meeting set forth in Section 2.1.

"**Stockholders Agreement**" has the meaning set forth in Section 5.1(e) hereof.

"**Subsidiary**" when used with respect to any party shall mean any corporation or other organization, whether incorporated or unincorporated, at least a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such party or by any one or more of its Subsidiaries, or by such party and one or more of its Subsidiaries.

"**Transaction Agreements**" shall mean this Agreement, the Gabriel Licensing Agreement, the Revenue Sharing Agreement and the Stockholders Agreement.

2. Authorization, Purchase and Sale of Common Stock.

2.1 Authorization, Purchase and Sale. The Company has authorized the sale and issuance to the Purchaser of the Shares. Subject to the conditions, and upon the terms, set forth in this Agreement, at the Closing, the Company shall issue and sell to the Purchaser, and the Purchaser shall purchase from the Company, 5,494,505 shares of Common Stock (the "**Shares**") at a purchase price per share of $3.64 (the "**Per Share Purchase Price**") for an aggregate purchase price of $19,999,998.20.

2.2 Closing. The closing of the purchase and sale of the Shares (the "**Closing**") shall take place at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, 650 Page Mill Road, Palo Alto, California, 94304, as promptly as practicable following the satisfaction or waiver of the conditions set forth in Section 5, but in any case no later than June 19, 2017, or such other date as is mutually agreed upon in writing by the Company and the Purchaser (the "**Closing Date**"). At the Closing, the Shares shall be transferred and duly registered in the name of the Purchaser against payment to the Company of the purchase price therefor by wire transfer to the Company of immediately available funds to an account to be designated by the Company.

3. Representations and Warranties of the Company. Except as set forth in the SEC Reports, the Company hereby represents and warrants to the Purchaser as follows:

3.1 Organization and Power. Each of the Company and VirnetX, Inc. is a corporation duly organized, validly existing and in good standing (where relevant) under the laws of its jurisdiction of organization, has the requisite power and authority to own, lease and operate its properties and to carry on its business as now conducted and as described in the SEC Reports and is qualified to do business in each jurisdiction in which the character of its properties or the nature of its business requires such qualification, except where such failures of VirnetX, Inc. be so organized or existing, or of the Company or VirnetX, Inc. to be in good standing or to have such power and authority or to so qualify, would not reasonably be expected to have a Material Adverse Effect.

3.2 Capitalization. The authorized and outstanding capital stock of the Company as of March 31, 2017 are as set forth in the Company's Form 10-Q as filed with the SEC on May 8, 2017. All outstanding shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and nonassessable and are free of any pre-emptive rights, liens or encumbrances other than any liens of encumbrances created by or imposed upon the holders thereof.

3.3 Authorization. All corporate action on the part of the Company necessary for the authorization, execution and delivery of, and the performance of all obligations of the Company under, the Transaction Agreements has been taken, and the Transaction Agreements, when executed and delivered, will constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their respective terms, except (a) as may be limited by (i) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights generally and (ii) the effect of rules of law governing the availability of equitable remedies and (b) as rights to indemnity or contribution may be limited under federal or state securities laws or by principles of public policy thereunder.

3.4 Valid Issuance. The Shares, upon issuance pursuant to the terms hereof and the terms of the Company's Amended and Restated Certificate of Incorporation, will be duly and validly issued, fully paid and non-assessable. Subject to the accuracy of the representations made by the Purchaser in Section 4 hereof, the Shares will be issued to the Purchaser in compliance with applicable exemptions from (i) the registration and prospectus delivery requirements of the Securities Act and (ii) the registration and qualification requirements of applicable securities laws of the states of the United States.

3.5 No Conflict. The execution, delivery and performance of the Transaction Agreements by the Company, the issuance of the Shares and the consummation of the other transactions contemplated in this Agreement will not (i) conflict with or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation, a change of control right or to a loss of a benefit under any agreement or instrument, credit facility, franchise, license, judgment, order, statute, law, ordinance, rule or regulations, applicable to the Company or its Subsidiaries or their respective properties or assets or (ii) violate any provision of the Amended and Restated Certificate of Incorporation or Amended and Restated Bylaws of the Company, except, in the case of clause (i), as would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect.

3.6 Consents. All consents, approvals, orders and authorizations required on the part of the Company in connection with the execution, delivery or performance of this Agreement and the issuance of the Shares have been obtained or made, other than (i) the filing of such qualifications or filings under the Securities Act and all applicable state securities laws as may be required in connection with the transactions contemplated by this Agreement, (ii) the filing of any reports and other documents pursuant to the Exchange Act relating to the transactions contemplated hereby, (iii) any supplemental listing application in respect of the Shares on NYSE, and (iv) such consents, approvals, orders and authorizations the failure of which to make or obtain would not reasonably be expected to have a Material Adverse Effect.

3.7 SEC Reports; Financial Statements.

(a) The Company has filed all required reports, schedules, forms, statements and other documents required to be filed by it with the SEC since December 31, 2016. The information contained or incorporated by reference in the SEC Reports was true and correct in all material respects as of the respective dates of the filing thereof with the SEC (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing); and, as of such respective dates, the SEC Reports did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. All of the SEC Reports, as of their respective dates, complied as to form in all material respects with the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder.

(b) The financial statements of the Company included in the SEC Reports (collectively, the "**Financial Statements**") fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the dates indicated, and the results of its operations and cash flows for the periods therein specified, all in accordance with United States generally accepted accounting principles applied on a consistent basis ("**GAAP**") throughout the periods therein specified (except as otherwise noted therein, and in the case of quarterly financial statements except for the absence of footnote disclosure and subject, in the case of interim periods, to normal year-end adjustments).

4. Representations and Warranties of the Purchaser. The Purchaser represents and warrants to the Company as follows:

4.1 Organization. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has the requisite power and authority to (a) carry on its business as presently conducted, and (b) enter into the Transaction Agreements and to consummate the transactions contemplated thereby. The Purchaser is qualified to do business and is in good standing in each jurisdiction in which the failure to so qualify would reasonably be expected, individually or in the aggregate, to have a Purchaser Adverse Effect. A "**Purchaser Adverse Effect**" means a material adverse effect on the authority or ability of the Purchaser to perform its obligations under the Transaction Agreements or to consummate the transactions contemplated hereby or thereby.

4.2 Authorization. All corporate action on the part of the Purchaser necessary for the authorization, execution and delivery of, and the performance of all obligations of the Purchaser under the Transaction Agreements has been taken. The Transaction Agreements constitute valid and legally binding obligations of the Purchaser, enforceable against the Purchaser in accordance with their respective terms, except (a) as may be limited by (i) applicable bankruptcy, insolvency, reorganization or others laws of general application relating to or affecting the enforcement of creditors' rights generally and (ii) the effect of rules of law governing the availability of equitable remedies and (b) as rights to indemnity or contribution may be limited under federal or state securities laws or by principles of public policy thereunder.

4.3 No Conflict. The execution, delivery and performance of the Transaction Agreements by the Purchaser, the purchase of the Shares and the consummation of the other transactions contemplated in this Agreement will not conflict with or result in any violation of or default by such Purchaser (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation, a change of control right or to a loss of a material benefit under (i) any provision of the organizational documents of such Purchaser or (ii) any agreement or instrument, credit facility, franchise, license, judgment, order, statute, law, ordinance, rule or regulations, applicable to such Purchaser or its respective properties or assets, except, in the case of clause (ii), as would not, individually or in the aggregate, have a Purchaser Adverse Effect.

4.4 Consents. All consents, approvals, orders and authorizations required on the part of the Purchaser in connection with the execution, delivery or performance of this Agreement, the purchase of the Shares and the consummation of the other transactions contemplated herein have been obtained or made, other than such consents, approvals, orders and authorizations the failure of which to make or obtain, individually or in the aggregate, would not reasonably be expected to have a Purchaser Adverse Effect.

4.5 Brokers and Finders. The Purchaser has not retained, utilized or been represented by any broker or finder in connection with the transactions contemplated by this Agreement.

4.6 Purchase Entirely for Own Account. The Purchaser is acquiring the Shares for its own account and not with a view to, or for sale in connection with, any distribution of the Shares in violation of the Securities Act. Except as specifically provided for in the Agreement, the Purchaser has no present agreement, undertaking, arrangement, obligation or commitment providing for the disposition of the Shares except as provided in Section 6.2 of this Agreement.

4.7 General Solicitation. The Purchaser is not purchasing the Shares as a result of any general solicitation or general advertising (within the meaning of Regulation D of the Securities Act), including, but not limited to, any advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or on the Internet or broadcast over radio, television or the Internet, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.

4.8 Investor Status.

(a) The Purchaser certifies and represents to the Company that the Purchaser is an "accredited investor" as defined in Rule 501 of Regulation D promulgated under the Securities Act.

(b) The Purchaser (i) is able to fend for itself in the transactions contemplated by this Agreement, (ii) has such knowledge and experience in financial and business matters as to be able to evaluate the risks and merits of its prospective investment in the Shares, and (iii) has the ability to bear the economic risks of its prospective investment and can afford the complete loss of such investment.

(c) The Purchaser (i) has conducted its own investigation of the Company and the terms of the Shares, (ii) has had access to the Company's public filings, including the SEC reports, and to such business, financial and other information as it deems necessary to make its investment decision, (iii) has been afforded the opportunity to ask questions of and receive answers from the management of the Company concerning this investment, and (iv) has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Shares.

4.9 Securities Not Registered. The Purchaser understands that the issuance of the Shares has not been registered under the Securities Act, and that the Shares must continue to be held by the Purchaser unless a subsequent disposition thereof is registered under the Securities Act or is exempt from such registration and in each case in accordance with any applicable securities laws of any state of the United States. The Purchaser understands that the Shares are "restricted securities" within the meaning of Rule 144 and will bear restrictive legends as set forth in the Stockholders Agreement (as defined below). The Purchaser understands that the exemptions from registration afforded by Rule 144 (the provisions of which are known to it) promulgated under the Securities Act depend on the satisfaction of various conditions including, but not limited to, the time and manner of sale, the holding period and on requirements relating to the Company, which are outside of the Purchaser's control and which the Company is under no obligation to satisfy and may not be able to satisfy, and that, if applicable, Rule 144 may afford the basis for sales only in limited amounts.

4.10 No "Bad Actor" Disqualification Events. Neither (i) the Purchaser, (ii) any of its directors, executive officers, other officers that may serve as a director or officer of any company in which it invests, general partners or managing members, nor (iii) any beneficial owner of the Company's voting equity securities (in accordance with Rule 506(d) of the Securities Act) held by the Purchaser is subject to any of the "bad actor" disqualifications described in Rule 506(d)(1)(i) through (viii) under the Securities Act ("**Disqualification Events**"), except for Disqualification Events covered by Rule 506(d)(2) or (d)(3) under the Securities Act and disclosed reasonably in advance of the Closing in writing in reasonable detail to the Company.

4.11 Reliance by the Company. The Purchaser acknowledges that the Company will rely upon the truth and accuracy of, and the Purchaser's compliance with, the representations, warranties, agreements, acknowledgements and understandings of the Purchaser set forth herein.

4.12 Ownership of Common Stock. Other than the Shares, the Purchaser does not, and during the period beginning on the date of this Agreement and ending immediately prior to the Closing will not, own any shares of Common Stock.

4.13 Representation of Non-United States Persons. The Purchaser hereby represents that the consummation of the transactions contemplated hereby is satisfied as to the full observance of the laws of the Purchaser's jurisdiction in connection with any invitation to subscribe for the Shares or any use of the Transaction Agreements, including (i) the legal requirements within the Purchaser's jurisdiction for the purchase of the Shares, (ii) any foreign exchange restrictions applicable to such purchase, (iii) any governmental or other consents that may need to be obtained and (iv) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale or transfer of such securities. The Purchaser's subscription and payment for, and the Purchaser's continued beneficial ownership of, the Shares will not violate any applicable securities or other laws of the Purchaser's jurisdiction.

5. Conditions Precedent.

5.1 Conditions to the Obligation of the Purchaser. The obligations of the Purchaser to consummate the transactions to be consummated at the Closing, and to purchase and pay for the Shares being purchased by it at the Closing pursuant to this Agreement, are subject to the satisfaction or waiver of the following conditions precedent:

(a) The representations and warranties of the Company contained herein shall be true and correct on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date (it being understood and agreed by the Purchaser that for purposes of this Section 5.1(a), in the case of any representation and warranty of the Company contained herein (i) which is not qualified above in this Agreement by application thereto of a materiality standard, such representation and warranty need be true and correct only in all material respects or (ii) which is made as of a specific date, such representation and warranty need be true and correct only as of such specific date).

(b) The Company shall have performed in all material respects all obligations and conditions herein required to be performed or observed by the Company on or prior to the Closing Date.

(c) The purchase of and payment for the Shares by the Purchaser shall not be prohibited or enjoined by any law or governmental or court order or regulation.

(d) The Company shall have executed and delivered the Stockholders Agreement (the "**Stockholders Agreement**") to the Purchaser.

5.2 Conditions to the Obligation of the Company. The obligation of the Company to consummate the transactions to be consummated at the Closing, and to issue and sell to the Purchaser the Shares at the Closing pursuant to this Agreement, is subject to the satisfaction or waiver of the following conditions precedent:

(a) The representations and warranties contained herein and in the other Transaction Agreements of the Purchaser shall be true and correct on and as of the Closing Date, with the same force and effect as though made on and as of the Closing Date.

(b) The Purchaser shall have performed in all material respects all obligations and conditions herein required to be performed or observed by such Purchaser on or prior to the Closing Date.

(c) The purchase of and payment for the Shares by the Purchaser shall not be prohibited or enjoined by any law or governmental or court order or regulation.

(d) The Purchaser shall have executed and delivered the Stockholders Agreement to the Company.

(e) The Purchaser shall have executed and delivered the Proxy to the Company.

6. Revenue Sharing; Surrender.

6.1 Purchaser Revenue Share. Within sixty (60) days of the end of each calendar quarter during the Priority Revenue Sharing Period, the Company will pay to Purchaser [***] of the Company Japan Revenues earned during such quarter (the "**Quarterly Revenue Share Payment**"). Except as may be otherwise provided in this Agreement, all payments pursuant to this Section 6.1 will be made in accordance with payment terms set forth in the Revenue Sharing Agreement, and Sections 2.3, 2.4 and 3 of the Revenue Sharing Agreement shall apply to such payments. Notwithstanding the foregoing, the Company makes no, and the Purchaser does not rely on any, warranties and representations regarding the Company Japan Revenues or that the Company's activities will result in any Company Japan Revenues. The Company has the sole right and discretion to enter into any transactions that may result in Company Japan Revenues. In no event shall the Company be required to make any payments under this Agreement with respect to any period other than the Priority Revenue Sharing Period, nor shall the aggregate payments made pursuant to this Section 6.1 exceed twenty million dollars ($20,000,000.00). For the avoidance of doubt, any payments made pursuant to any revenue sharing arrangement with respect to the Company Japan Revenue subsequent to the Priority Revenue Sharing Period shall be governed solely by the Revenue Sharing Agreement.

6.2 Surrender. Upon each Quarterly Revenue Share Payment made during the Priority Revenue Sharing Period by the Company to Purchaser as set forth in Section 6.1 above, the Shares acquired by Purchaser pursuant to this Agreement and then held by Purchaser shall be automatically surrendered to the Company for no consideration according to the following schedule:

(a) For each Quarterly Revenue Share Payment made during the period commencing on the Closing Date and ending on the earlier of (i) the day immediately preceding the six-month anniversary of the Closing Date and (ii) the expiration of the Priority Revenue Sharing Period, the number of Shares surrendered shall equal such Quarterly Revenue Share Payment divided by the Per Share Purchase Price, rounded up to the nearest whole share of Common Stock;

(b) For each Quarterly Revenue Share Payment made during the period commencing on the six-month anniversary of the Closing Date and ending on the earlier of (i) the day immediately preceding the twelve-month anniversary of the Closing Date and (ii) the expiration of the Priority Revenue Sharing Period, the number of Shares surrendered shall equal such Quarterly Revenue Share Payment divided by the product of (i) 1.025 and (ii) the Per Share Purchase Price, rounded up to the nearest whole share of Common Stock; and

(c) For each Quarterly Revenue Share Payment made during the period commencing on the twelve-month anniversary of the Closing Date and ending on the expiration of the Priority Revenue Sharing Period, the number of Shares surrendered shall equal such Quarterly Revenue Share Payment made divided by the product of (i) 1.05 and (ii) the Per Share Purchase Price, rounded up to the nearest whole share of Common Stock.

7. Company Repurchase Option.

7.1 Repurchase Option. During the Lockup Period, the Company shall have an irrevocable and exclusive option to repurchase (the "**Repurchase Option**"), exercisable by the Company in its sole discretion, any and all Shares acquired by the Purchaser pursuant to this Agreement that have not been automatically surrendered pursuant to Section 6.2 above, at a price per share determined as follows (the "**Repurchase Price Per Share**"):

(a) If the Repurchase Option is exercised during the period commencing on the Closing Date and ending on the day immediately preceding the six-month anniversary of the Closing Date, the Repurchase Price Per Share shall be the Per Share Purchase Price;

(b) If the Repurchase Option is exercised during the period commencing on the six-month anniversary of the Closing Date and ending on the day immediately preceding the twelve-month anniversary of the Closing Date, the Repurchase Price Per Share shall be the Per Share Purchase Price multiplied by 1.025; and

(c) If the Repurchase Option is exercised during the period commencing on the twelve-month anniversary of the Closing Date and ending on the expiration of the Lockup Period, the Repurchase Price Per Share shall be the Per Share Purchase Price multiplied by 1.05.

7.2 Exercise. The Repurchase Option shall be exercised at any time by the Company by written notice to the Purchaser, and such notice shall indicate the number of Shares to be repurchased by the Company (the "**Repurchased Securities**"). Within five business days of the receipt of such notice (the "**Repurchase Closing Date**"), the Company shall deliver payment of the aggregate purchase price, based on the Repurchase Price Per Share as determined pursuant to Section 7.1 above, by check or wire transfer of immediately available funds to an account designated by the Purchaser at least one (1) business day prior to the Repurchase Closing Date and the Purchaser shall deliver to the Company the Repurchased Securities and any stock certificates representing such Repurchased Securities free and clear of liens and encumbrances, and the Purchaser shall execute and deliver to the Company such instruments of conveyance as the Company may reasonably request.

8. Termination.

8.1 Conditions of Termination. This Agreement may be terminated at any time prior to the Closing by (i) a writing executed by the Company and the Purchaser; (ii) by the Company, in its sole discretion, prior to the fifth (5th) calendar day prior to the Closing Date, which termination will be effective upon delivery of written notice by the Company to the Purchaser; or (iii) either the Company or the Purchaser, upon written notice to the other party, in the event that any Governmental Entity shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and non-appealable. In addition, this Agreement will terminate automatically, with no further action by either party hereto, if, prior to the Closing Date, either the Revenue Sharing Agreement or the Gabriel Licensing Agreement is terminated in accordance with its terms.

8.2 Effect of Termination. In the event of any termination pursuant to Section 8.1 hereof, this Agreement shall become null and void and have no effect, with no liability on the part of the Company or the Purchaser, or their directors, officers, agents or stockholders, with respect to this Agreement, except for liability for any willful breach of, or failure to comply with, this Agreement.

9. Miscellaneous Provisions.

9.1 Public Statements or Releases. Neither the Company nor the Purchaser shall make any public announcement with respect to the existence or terms of this Agreement or the transactions provided for herein without the prior approval of the other party, which shall not be unreasonably withheld or delayed, other than a statement consistent with public announcements that were previously made by a party hereto in accordance with this Section 9.1. Notwithstanding the foregoing, nothing in this Section 9.1 shall prevent any party from making any public announcement it considers necessary in order to satisfy its obligations under the law or under the rules of any national securities exchange, provided that such party shall notify the other party prior to making such disclosure, shall use its commercially reasonable efforts to give the other party an opportunity (as is reasonable under the circumstances) to comment on such disclosure, and shall make only such disclosure as it is so obligated to disclose.

9.2 Interpretation. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement will refer to this Agreement as a whole and not to any particular provision of this Agreement, and section and subsection references are to this Agreement unless otherwise specified. The headings in this Agreement are included for convenience of reference only and will not limit or otherwise affect the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they will be deemed to be followed by the words "without limitation." The phrases "the date of this Agreement," "the date hereof" and terms of similar import, unless the context otherwise requires, will be deemed to refer to the date set forth in the first paragraph of this Agreement. The meanings given to terms defined herein will be equally applicable to both the singular and plural forms of such terms. All matters to be agreed to by any party hereto must be agreed to in writing by such party unless otherwise indicated herein. References to agreements, policies, standards, guidelines or instruments, or to statutes or regulations, are to such agreements, policies, standards, guidelines or instruments, or statutes or regulations, as amended or supplemented from time to time (or to successors thereto).

9.3 Notices. Any notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to be given when delivered in person or by private courier with receipt, if telefaxed when verbal or email confirmation from the recipient is received, or three (3) days after being deposited in the United States mail, first-class, registered or certified, return receipt requested, with postage paid and:

(a) If to the Company, addressed as follows:

308 Dorla Ct.
Zephyr Cove, NV 89448
Attention: Kendall Larsen, Chief Executive Officer
Facsimile: (775) 580-7527
E-mail: Kendall_Larsen@virnetx.com

with a copy to:

Wilson Sonsini Goodrich & Rosati, Professional Corporation
650 Page Mill Road
Palo Alto, CA 94304
Attention: Bradley L. Finkelstein
E-mail: bfinkelstein@wsgr.com

(b) If to the Purchaser, at the Purchaser's address, facsimile number or electronic mail address as provided by Purchaser to the Company prior to the Closing Date.

Any Person may change the address to which notices and communications to it are to be addressed by notification as provided for herein.

9.4 Severability. If any part or provision of this Agreement is held unenforceable or in conflict with the applicable laws or regulations of any jurisdiction, the invalid or unenforceable part or provisions shall be replaced with a provision which accomplishes, to the extent possible, the original business purpose of such part or provision in a valid and enforceable manner, and the remainder of this Agreement shall remain binding upon the parties hereto.

9.5 Governing Law; Submission to Jurisdiction; Venue; Waiver of Trial by Jury.

(a) This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware without regard to choice of laws or conflicts of laws provisions thereof that would require the application of the laws of any other jurisdiction, except to the extent that mandatory principles of Delaware law may apply.

(b) The Company and the Purchaser each hereby irrevocably and unconditionally:

(i) submits for itself and its property in any legal action or proceeding relating solely to this Agreement or the transactions contemplated in this Agreement, to the general jurisdiction of the State of Delaware or United States Federal court sitting in the State of Delaware;

(ii) consents that any such action or proceeding may be brought in such courts, and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same to the extent permitted by applicable law;

(iii) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the party, as the case may be, at its address set forth in Section 9.3 or at such other address of which the other party shall have been notified pursuant thereto;

(iv) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction for recognition and enforcement of any judgment or if jurisdiction in the courts referenced in the foregoing clause (i) are not available despite the intentions of the parties hereto;

(v) agrees that final judgment in any such suit, action or proceeding brought in such a court may be enforced in the courts of any jurisdiction to which such party is subject by a suit upon such judgment, provided that service of process is effected upon such party in the manner specified herein or as otherwise permitted by law;

(vi) agrees that to the extent that such party has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process with respect to itself or its property, such party hereby irrevocably waives such immunity in respect of its obligations under this Agreement, to the extent permitted by law; and

(vii) irrevocably and unconditionally waives trial by jury in any legal action or proceeding in relation to this Agreement.

9.6 Waiver. No waiver of any term, provision or condition of this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or be construed as, a further or continuing waiver of any such term, provision or condition or as a waiver of any other term, provision or condition of this Agreement.

9.7 Expenses. Each of the Company and the Purchaser shall bear their respective fees and expenses, incurred in connection with the proposed investment in the Shares, the negotiation of the Transaction Agreements, obtaining necessary consents or approvals, and the consummation of the transactions contemplated in the Transaction Agreements.

9.8 Assignment. None of the parties may assign its rights or obligations under this Agreement or designate another person (i) to perform all or part of its obligations under this Agreement or (ii) to have all or part of its rights and benefits under this Agreement, in each case without the prior written consent of (x) the Company and (y) the Purchaser. In the event of any assignment in accordance with the terms of this Agreement, the assignee shall specifically assume and be bound by the provisions of the Agreement by executing a writing agreeing to be bound by and subject to the provisions of this Agreement and shall deliver an executed counterpart signature page to this Agreement and, notwithstanding such assumption or agreement to be bound by this Agreement by an assignee, no such assignment shall relieve any party assigning any interest pursuant to this Agreement from its obligations or liability pursuant to this Agreement.

9.9 Assistance of Counsel. Each of the parties hereto acknowledges that it has been represented by counsel of its choice throughout all negotiations that have preceded the execution of this Agreement, and that it has executed this Agreement with the advice of such counsel. Each party hereto and its counsel cooperated and participated in the drafting and preparation of this Agreement, and any and all drafts of this Agreement exchanged among the parties will be deemed the work product of all of the parties and may not be construed against any party by reason of its drafting or preparation. Accordingly, any rule of law or any legal decision that would require interpretation of any ambiguities in this Agreement against any party that drafted or prepared it is of no application and is expressly waived by each of the parties, and any controversy over interpretations of this Agreement will be decided without regard to events of drafting or preparation.

9.10 Confidential Information. The Purchaser acknowledges that Purchaser has been given access to, and from time to time in the future may be given access to, non-public, proprietary information with respect to the Company ("**Confidential Information**"). Confidential Information shall include all information pertaining to the Company Japan Revenues. For purposes hereof, Confidential Information does not include, however, (i) information which is or becomes generally available to the public in accordance with law other than as a result of a disclosure by the Purchaser or its directors, managing members, officers, employees, agents, legal counsel, financial advisors, accounting representatives or potential funding sources ("**Representatives**") or its Affiliates, subsidiaries or franchisees in violation of this Section 9.10 or any other confidentiality agreement to which the Company is a party or beneficiary, (ii) is, or becomes, available to the Purchaser on a non-confidential basis from a source other than the Company or any of its Affiliates or any of its Representatives, *provided*, that such source was not known to the Purchaser (after reasonable investigation) to be bound by a confidentiality agreement with, or any other contractual, fiduciary or other legal obligation of confidentiality to the Company or any of its Affiliates or any of its Representatives, (iii) is already in the Purchaser's possession (other than information furnished by or on behalf of the Company or directors, officers, employees, representatives and/or agents of the Company), or (iv) is independently developed by the Purchaser without violating any of the confidentiality terms herein. The Purchaser agrees (i) except as required by law or regulatory or legal process, to keep all Confidential Information confidential and not to disclose or reveal any such Confidential Information to any person other than those of its Representatives who need to know the Confidential Information for the purpose of evaluating, monitoring or taking any other action with respect to the investment by the Purchaser in the Common Stock and to cause those Representatives to observe the terms of this Section 9.10 and (ii) not to use Confidential Information for any purpose other than in connection with evaluating, monitoring or taking any other action with respect to the investment by the Purchaser in the Common Stock.

9.11 Third Parties. Nothing in this Agreement, express or implied, is intended to confer on any Person other than the parties to this Agreement any rights, remedies, claims, benefits, obligations or liabilities under or by reason of this Agreement, and no Person that is not a party to this Agreement (including, without limitation, any partner, member, shareholder, director, officer, employee or other beneficial owner of any party to this Agreement, in its own capacity as such or in bringing a derivative action on behalf of a party to this Agreement) shall have any standing as a third party beneficiary with respect to this Agreement or the transactions contemplated in this Agreement.

9.12 Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

9.13 Entire Agreement; Amendments. This Agreement constitute the entire agreement between the parties hereto respecting the subject matter hereof and supersede all prior agreements, negotiations, understandings, representations and statements respecting the subject matter hereof, whether written or oral. No modification, alteration, or change in any of the terms of this Agreement shall be valid or binding upon the parties hereto unless made in writing and duly executed by the Company and the Purchaser. The Company, on the one hand, and the Purchaser, as the case may be, on the other hand, may by an instrument signed in writing by such parties waive the performance, compliance or satisfaction by the Purchaser or the Company, respectively, with any term or provision hereof or any condition hereto to be performed, complied with or satisfied by the Purchaser or the Company, respectively.

9.14 Additional Matters. For the avoidance of doubt, the parties acknowledge and confirm that the terms and conditions of the Shares were determined as a result of arm's-length negotiations.

[Remainder of Page Intentionally Left Blank.]

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMPANY:

VIRNETX HOLDING CORPORATION

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

[*Signature Page to Stock Purchase Agreement*]

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

PURCHASER:

PUBLIC INTELLIGENCE TECHNOLOGY ASSOCIATES, KK

By: /s/ Eriya Unten

Name: Eriya Unten

Title: Executive Director

[*Signature Page to Stock Purchase Agreement*]

Exhibit 10.2

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

EXECUTION VERSION

REVENUE SHARING AGREEMENT

BY AND BETWEEN

VIRNETX HOLDING CORPORATION

AND

PUBLIC INTELLIGENCE TECHNOLOGY ASSOCIATES

May 31, 2017

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

This REVENUE SHARING AGREEMENT (this "**Agreement**") is dated as of May 31, 2017 ("**Effective Date**"), by and between VirnetX Holding Corporation, a Delaware corporation with an address at 308 Dorla Ct., Zephyr Cove, NV 89448, U.S.A. (the "**Company**"), and Public Intelligence Technology Associates, kk (Japanese Corporation) with an address at 27F Yomiuri Tokyo Head Office Building, 1-7-1 Otemachi, Chiyoda-ku, Tokyo, 100-8055, Japan ("**Representative**").

WHEREAS, the Company and Representative are entering into that certain Share Purchase Agreement dated as of May 31, 2017 (the "**Share Purchase Agreement**"), pursuant to which Representative has agreed to purchase certain number of shares in the Company; and

WHEREAS, the Company and Representative desire to foster a collaborative relationship to enhance revenue opportunities for each of the parties as may be agreed to from time to time, including as set forth in that certain Gabriel License Agreement being entered into concurrently by and between the parties hereto (the "**Gabriel License Agreement**") pursuant to which Representative will work with Company to develop revenue opportunities for certain Company products and services in Japan.

NOW THEREFORE, in consideration of the mutual agreements, representations, warranties and covenants herein contained, the parties hereto agree as follows:

1. Certain Definitions. The following terms when used in this Agreement shall have the following definitions. Capitalized terms that are used in this Agreement but not defined herein shall have the meanings ascribed to such terms in Share Purchase Agreement.

"**Adjusted Revenue Sharing Period**" means the period beginning on the end of the Priority Revenue Sharing Period and ending on the termination of this Agreement.

"**Confidential Information**" shall have the meaning ascribed to that term in Section 6.1.

"**Representative Revenues**" means the worldwide revenues of Representative and its Affiliates, but excluding taxes and other customary deductions. For purposes of this Agreement, Representative Revenues will be deemed to include all amounts received by Representative or its Affiliates from the licensing or sale of any products and services or other Intellectual Property, and amounts received in rent, returns and other distributions from real estate and Real Estate Investment Trusts' but in each case, excluding any litigation-or settlement-related expenses, contingency fees, commissions and other contractually-required payments to third parties, taxes, and other deductions and costs associated with such revenue.

"**Share Purchase Agreement**" shall have the meaning set forth in the recitals to this Agreement.

2. Collaboration. The parties will meet from time to time to discuss collaborating with each other in order to enhance their revenue opportunities as mutually agreed from time to time. Such collaboration will include the marketing and promotion of the Company products by Representative in Japan pursuant to the Gabriel License Agreement. The parties' sole and exclusive remuneration for the activities set forth in this Section 2 will be as set forth in Section 3 below.

3. Revenue Share; Payment.

3.1 Representative Adjusted Revenue Share. Within sixty (60) days of the end of each calendar quarter during the Adjusted Revenue Sharing Period, the Company will pay to Representative an amount equal to [***] of the Company Japan Revenues for such quarter. For the avoidance of doubt, payments to Representative during the Priority Revenue Sharing Period are solely as set forth in the Share Purchase Agreement, and in no event shall any payments to Representative be required under this Agreement other than with respect to Adjusted Revenue Sharing Period.

3.2 Company Revenue Share. Within sixty (60) days of the end of each calendar quarter during the term of this Agreement, Representative will pay to the Company an amount equal to [***] of the Representative Revenues for such quarter.

3.3 Payment Terms. All amounts owed hereunder shall be paid and due in US Dollars. To the extent that any payments required hereunder are based on any amounts other than in U.S. dollars, the paying party shall convert such amounts into U.S. dollars at the official rate of exchange of the currency, as quoted by the U.S. Wall Street Journal (or another agreed-upon source if not quoted in the U.S. Wall Street Journal) for the last business day of the calendar quarter to which the payment relates. All payments shall be made in immediately available funds by wire transfer to such bank accounts as the payee may from time to time designate in writing.

3.4 Taxes. Each party will be responsible for any duties, taxes, and/or levies to which it is subject as a result of any payment hereunder. The paying party will deduct or withhold any taxes that it will be legally obligated to deduct or withhold from any amounts payable to the other party hereunder, and the corresponding payment to the other party as reduced by such deductions or withholdings will constitute full payment and settlement to the other party of amounts payable under this Agreement.

4. Records; Audits.

4.1 Records. Each party shall keep records adequate to verify each report payment to be made pursuant to this Agreement for three (3) full years following the submission of each such payment.

4.2 Audits. Each party shall keep records adequate to verify each report payment to be made pursuant to this Agreement for three (3) full years following the submission of each such payment. Each party shall also permit the books and records maintained pursuant to Section 4.1 to be examined once during each calendar year, upon reasonable notice during regular business hours, at the location at which such books and records are usually kept, by an independent auditor selected and paid for by the other party. The audited party shall render reasonable cooperation in the conduct of such audit, including by providing complete and accurate English translations of the foregoing books and records to the auditor. The auditor shall not disclose to the other party any information other than that relating solely to the correctness of, or the necessity for, the reports and payments to be made pursuant to this Agreement.

5. Term; Termination.

5.1 Term. This Agreement shall commence on the Effective Date and continue in effect for five (5) years thereafter, unless earlier terminated pursuant to the terms hereof, unless otherwise agreed to in writing by the parties.

5.2 Termination. Notwithstanding anything to the contrary contained herein, this Agreement shall terminate immediately upon the termination of the Share Purchase Agreement unless the parties agree otherwise in writing. In addition, this Agreement may also be terminated:

(a) at any time by mutual written consent of the Company and Representative;

(b) by either party upon thirty (30) days' prior written notice, if the other party materially breaches this Agreement and fails to cure such breach to the terminating party's reasonable satisfaction within such thirty (30) day period; or

(c) by either party immediately upon written notice upon (a) the institution of any proceedings by or against the other party seeking relief, reorganization or arrangement under any laws relating to insolvency, which proceedings are not dismissed within sixty (60) days, (b) the assignment for the benefit of creditors, or the appointment of a receiver, liquidator or trustee, of the other party's property or assets, or (c) the liquidation, dissolution or winding up of the other party's business.

5.3 Effect of Termination. Termination of this Agreement will not relieve either party of its payment obligations under Section 3 that accrued prior to such termination. In addition, the following sections will survive any termination of this Agreement: Sections 4, 6, 7, and 8.

6. Confidentiality.

6.1 Definition. "**Confidential Information**" means confidential or proprietary information disclosed by one party to the other that is in written, graphic, machine readable, or other tangible form and is marked "Confidential" or "Proprietary" or in some other manner to indicate its confidential nature. Confidential Information may also include oral disclosures provided that such information is designated as confidential at the time of disclosure and reduced to a written summary by the disclosing party within 30 days after its oral disclosure, which is marked in a manner to indicate its confidential nature and delivered to the receiving party.

6.2 Exceptions. Confidential Information will not include any information that (a) was publicly known and made generally available prior to the time of disclosure by the disclosing party, (b) becomes publicly known and made generally available after disclosure by the disclosing party to the receiving party through no action or inaction of the receiving party, (c) is already in the possession of the receiving party at the time of disclosure, (d) is obtained by the receiving party from a third party without a breach of such third party's obligations of confidentiality, or (e) is independently developed by the receiving party without use of or reference to the disclosing party's Confidential Information.

6.3 Non-Use and Non-Disclosure. Each party will (a) treat as confidential all Confidential Information of the other party, (b) not disclose such Confidential Information to any third party, except on a "need to know" basis to third parties that have signed a non-disclosure agreement containing provisions substantially as protective as the terms of this Section provided that the disclosing party has obtained the written consent to such disclosure from the other party, and (c) will not use such Confidential Information except in connection with performing its obligations or exercising its rights under this Agreement. Each party is permitted to disclose the other party's Confidential Information if required by law so long as the other party is given prompt written notice of such requirement prior to disclosure and assistance in obtaining an order protecting such information from public disclosure.

6.4 Confidentiality of Agreement. Neither party to this Agreement will disclose the terms of this Agreement to any third party without the consent of the other party, except as required by securities or other applicable laws. Notwithstanding the above provisions, each party may disclose the terms of this Agreement (a) in connection with the requirements of a public offering or securities filing, (b) in confidence, to accountants, banks, and financing sources and their advisors, (c) in confidence, in connection with the enforcement of this Agreement or rights under this Agreement, or (d) in confidence, in connection with a merger or acquisition or proposed merger or acquisition, or the like.

7. Limitation of Liability.

7.1 Disclaimer of Damages. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS AGREEMENT, NEITHER PARTY WILL, UNDER ANY CIRCUMSTANCES, BE LIABLE TO THE OTHER PARTY FOR CONSEQUENTIAL, INCIDENTAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO LOST PROFITS OR LOSS OF BUSINESS, EVEN IF SUCH PARTY IS APPRISED OF THE LIKELIHOOD OF SUCH DAMAGES OCCURRING.

7.2 Cap on Liability. UNDER NO CIRCUMSTANCES WILL EITHER PARTY'S TOTAL LIABILITY OF ALL KINDS ARISING OUT OF OR RELATED TO THIS AGREEMENT, REGARDLESS OF THE FORUM AND REGARDLESS OF WHETHER ANY ACTION OR CLAIM IS BASED ON CONTRACT, TORT, OR OTHERWISE, EXCEED THE TOTAL AMOUNTS PAID OR PAYABLE TO THAT PARTY UNDER THIS AGREEMENT.

8. Miscellaneous Provisions.

8.1 Independent Contractors. The relationship of the parties established by this Agreement is that of independent contractors, and nothing contained in this Agreement should be construed to give either party the power to act as an agent of or direct or control the day-to-day activities of the other. Financial and other obligations associated with each party's business are the sole responsibility of that party.

8.2 Interpretation. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement will refer to this Agreement as a whole and not to any particular provision of this Agreement, and section and subsection references are to this Agreement unless otherwise specified. The headings in this Agreement are included for convenience of reference only and will not limit or otherwise affect the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they will be deemed to be followed by the words "without limitation." The phrases "the date of this Agreement," "the date hereof" and terms of similar import, unless the context otherwise requires, will be deemed to refer to the date set forth in the first paragraph of this Agreement. The meanings given to terms defined herein will be equally applicable to both the singular and plural forms of such terms. All matters to be agreed to by any party hereto must be agreed to in writing by such party unless otherwise indicated herein. References to agreements, policies, standards, guidelines or instruments, or to statutes or regulations, are to such agreements, policies, standards, guidelines or instruments, or statutes or regulations, as amended or supplemented from time to time (or to successors thereto).

8.3 Notices. Any notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to be given when delivered in person or by private courier with receipt, if telefaxed when verbal or email confirmation from the recipient is received, or three (3) days after being deposited in the United States mail, first-class, registered or certified, return receipt requested, with postage paid and:

(a) If to the Company, addressed as follows:

308 Dorla Ct.
Zephyr Cove, NV 89448
Attention: Kendall Larsen, Chief Executive Officer
Facsimile: (775) 580-7527
E-mail: Kendall_Larsen@virnetx.com

with a copy to:

Wilson Sonsini Goodrich & Rosati, Professional Corporation
650 Page Mill Road
Palo Alto, CA 94304
Attention: Bradley L. Finkelstein
E-mail: bfinkelstein@wsgr.com

(b) If to Representative, at the Representative's address, facsimile number or electronic mail address as provided by Representative to the Company prior to the Closing Date (as defined in the Share Purchase Agreement).

A party may change the address to which notices and communications to it are to be addressed by notification as provided for herein.

8.4 Severability. If any part or provision of this Agreement is held unenforceable or in conflict with the applicable laws or regulations of any jurisdiction, the invalid or unenforceable part or provisions shall be replaced with a provision which accomplishes, to the extent possible, the original business purpose of such part or provision in a valid and enforceable manner, and the remainder of this Agreement shall remain binding upon the parties hereto.

8.5 Governing Law; Jurisdiction. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware without regard to choice of laws or conflicts of laws provisions thereof that would require the application of the laws of any other jurisdiction, except to the extent that mandatory principles of Delaware law may apply.

8.6 Arbitration. Any dispute, controversy or claim arising out of, relating to, or in connection with this Agreement, including the breach, termination or validity hereof, shall be finally resolved by arbitration administered by the Hong Kong International Arbitration Centre ("**HKIAC**"). The arbitration shall be conducted in Hong Kong and in accordance with the HKIAC Administered Arbitration Rules in effect at the time of the arbitration, except as they may be modified by mutual agreement of the parties. The arbitration shall be conducted in the English language. The arbitration shall be conducted by three arbitrators. Each party shall appoint one arbitrator and such two (2) arbitrators shall appoint a third arbitrator. The arbitral award shall be in writing, state the reasons for the award, and be final and binding on the parties. The award may include an award of costs, including reasonable attorneys' fees and disbursements. In addition to monetary damages, the arbitral tribunal shall be empowered to award equitable relief. The parties agree that the arbitration shall be kept confidential, and that the costs of arbitration shall be borne by the losing party unless otherwise determined by the arbitration award. All payments made pursuant to the arbitration decision or award and any judgment entered thereon shall be made in United States dollars, free from any deduction, offset or withholding for taxes. Notwithstanding this Section 8.6 or any other provision to the contrary in this Agreement, neither party shall be obligated to follow the foregoing arbitration procedures where such party intends to apply to any court of competent jurisdiction for an interim injunction or similar equitable relief against any other party, provided there is no unreasonable delay in the prosecution of that application.

8.7 Waiver. No waiver of any term, provision or condition of this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or be construed as, a further or continuing waiver of any such term, provision or condition or as a waiver of any other term, provision or condition of this Agreement.

8.8 Assignment. Neither party may assign its rights or obligations under this Agreement or designate another person (i) to perform all or part of its obligations under this Agreement or (ii) to have all or part of its rights and benefits under this Agreement, in each case without the prior written consent of the other party; provided that either Party may freely assign this Agreement to a successor to all or substantially all of its relevant assets, whether by sale, merger, or otherwise, and shall provide written notice of such assignment to the other party at least thirty (30) days prior to the effective date of the assignment. In the event of any assignment in accordance with the terms of this Agreement, the assignee shall specifically assume and be bound by the provisions of the Agreement by executing a writing agreeing to be bound by and subject to the provisions of this Agreement and shall deliver an executed counterpart signature page to this Agreement and, notwithstanding such assumption or agreement to be bound by this Agreement by an assignee, no such assignment shall relieve any party assigning any interest pursuant to this Agreement from its obligations or liability pursuant to this Agreement.

8.9 Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

8.10 Entire Agreement; Amendments. This Agreement constitute the entire agreement between the parties hereto respecting the subject matter hereof and supersedes all prior agreements, negotiations, understandings, representations and statements respecting the subject matter hereof, whether written or oral. No modification, alteration, or change in any of the terms of this Agreement shall be valid or binding upon the parties hereto unless made in writing and duly executed by the parties.

[Remainder of Page Intentionally Left Blank.]

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

VirnetX Holding Corporation		**Public Intelligence Technology Associates, kk**	
Name:	Kendall Larsen	Name:	Eriya Unten
Title:	President & CEO	Title:	Executive Director
Signature:	/s/ Kendall Larsen	Signature:	
Date:	5/31/17	Date:	

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

VirnetX Holding Corporation		**Public Intelligence Technology Associates, kk**	
Name:	Kendall Larsen	Name:	Eriya Unten
Title:	President & CEO	Title:	Executive Director
Signature:		Signature:	/s/ Eriya Unten
Date:		Date:	May 31, 2017

Exhibit 10.3

EXECUTION VERSION

GABRIEL LICENSE AGREEMENT

BY AND BETWEEN

VIRNETX HOLDING CORPORATION

AND

PUBLIC INTELLIGENCE TECHNOLOGY ASSOCIATES

May 31, 2017

This GABRIEL LICENSE AGREEMENT (this "**Agreement**") is dated as of May 31, 2017 ("**Effective Date**"), by and between VirnetX Holding Corporation, a Delaware corporation with an address at 308 Dorla Ct., Zephyr Cove, NV 89448, U.S.A. (the "**Company**"), and Public Intelligence Technology Associates, kk (Japanese Corporation) with an address at 27F Yomiuri Tokyo Head Office Building, 1-7-1 Otemachi, Chiyoda-ku, Tokyo, 100-8055, Japan ("**Representative**").

WHEREAS, the Company and Representative are entering into that certain Share Purchase Agreement dated as of May 31, 2017 (the "**Share Purchase Agreement**") and that certain Revenue Sharing Agreement dated as of May 31, 2017 (the "**Revenue Sharing Agreement**"), pursuant to which agreements the Company has agreed to share with Representative certain portions of the Company's revenues from the licensing of the Company Products (as defined below) to a Japanese Company for end use in Japan; and

WHEREAS, in connection with the foregoing, the Company and Representative wish to enter into this Agreement for the marketing and promotion of the Company Products by Representative in Japan under the terms and conditions set forth herein, under which Representative will work with Company to maximize the Company's revenue generating opportunities in Japan.

NOW THEREFORE, in consideration of the mutual agreements, representations, warranties and covenants contained in this Agreement, the Share Purchase Agreement and the Revenue Sharing Agreement, the parties hereto agree as follows:

1. Certain Definitions. Capitalized terms that are used in this Agreement but not defined herein shall have the meanings ascribed to such terms in Revenue Sharing Agreement, and if not defined in the Revenue Sharing Agreement, then as ascribed to such terms in the Share Purchase Agreement.

2. Appointment.

2.1 Appointment. Subject to the terms of this Agreement, the Company hereby appoints Representative as its nonexclusive representative to market and promote the Company products identified in Exhibit A (the "**Company Products**") solely to Japanese Companies, and refer any potential customer of the Company Products to the Company. Representative will not have the authority, express or implied, to make any commitment or incur any obligations on behalf of the Company other than making referrals as set forth in this Agreement. Representative's sole and exclusive remuneration for the activities performed pursuant to this Agreement shall be solely as provided in the Revenue Sharing Agreement.

2.2 Account Managers. Each party will designate a single point of contact within its organization to manage the relationship established by this Agreement ("**Account Manager**"). Either party may change its Account Manager by providing written notice to the other party. The Account Managers will meet as necessary to discuss the business relationship and manage the activities contemplated by this Agreement. Disputes that cannot be resolved by the Account Managers will be escalated to more senior executives for resolution.

2.3 Referral Submission. When Representative identifies a prospective customer, Representative will submit a letter of referral to the Company's Account Manager to register Representative's referral for that customer's account. The letter of referral will include accurate and complete information regarding the prospective customer, including, at a minimum, name, address, city, state, zip, phone, and type of business.

2.4 No Obligation. Nothing in this Agreement shall be deemed to obligate the Company to accept any referrals provided by Representative or to enter into any transactions with the entities referred to by Representative. The Company reserves the right, in its sole discretion, to enter into any transactions with respect to the Company Products.

3. Company's Obligations.

3.1 Marketing Materials. The Company may, at its own expense and discretion, provide Representative with marketing and technical information concerning the Company Products as well as reasonable quantities of brochures, instructional material, advertising literature, and other product data. The Company retains all right, title, and interest in and to all marketing materials that it provides to Representative under this Agreement. Any goodwill in the Company's trademarks resulting from Representative's use of the Company's marketing materials inures solely to the benefit of the Company and will not create any right, title, or interest for Representative in the Company's trademarks.

3.2 Sales Training. The Company may, at its discretion, provide Representative's sales organization with sales training that includes: (a) a demonstration of the Company Products, (b) a summary of market and competitive positioning, (c) a discussion of the key features, benefits, and value to end customers of the Company Products, (d) marketing materials, and (e) any other beneficial information. The Company and Representative will agree on the payment of any fees and expenses associated with any sales training.

3.3 Sales Support. The Company may, at its discretion, provide Representative with the services of sales personnel, designated technical personnel, and designated account managers who are experienced and qualified to assist in providing marketing support for its products and services.

4. Representative's Obligations.

4.1 Reasonable Efforts. Representative will use diligent efforts to market and promote the Company Products to Japanese Companies, to refer potential customers to the Company, and to develop revenue-generating opportunities for the Company Products in Japan. Representative will ensure that its sales and marketing representatives are knowledgeable about the Company Products.

4.2 Assistance. Representative will reasonably assist the Company in completing sales to accepted referrals. Without limiting the foregoing, Representative will set up and attend meetings with referrals, provide the Company with detailed background on the identity of the referral and the representatives of the referral, and assist in preparing and presenting sales materials to referrals.

4.3 Business Practices. When seeking customer referrals and otherwise performing under this Agreement, Representative will (a) not engage in any deceptive, misleading, illegal, or unethical practices; (b) not make any representations or warranties concerning the Company Products, except as set forth in printed marketing collateral or documentation furnished by the Company; and (c) comply with all applicable laws and regulations. Representative will indemnify and defend the Company from and against all damages, liabilities, costs, and expenses, including attorneys' and experts' fees and expenses, that the Company may incur as the result of any action brought against the Company and arising out of the acts of Representative or its agents in breach of this Section 4.3.

4.4 Expense of Doing Business. Representative will bear the entire cost, taxes, and expense of conducting its business in accordance with the terms of this Agreement.

4.5 Competing Products. Representative will not refer any prospective customers to a provider or supplier of products that provides functionality that competes with or is similar to the functionality of the Company Products, except if the prospective customer expressly rejects Representative's referral to the Company.

5. Term; Termination.

5.1 Term. This Agreement shall commence on the Effective Date and continue in full force for five (5) years thereafter, unless earlier terminated pursuant to the terms hereof.

5.2 Termination. Notwithstanding anything to the contrary contained herein, this Agreement shall terminate immediately upon the termination of the Share Purchase Agreement unless the parties agree otherwise in writing. In addition, this Agreement may also be terminated:

(a) at any time by mutual written consent of the Company and Representative;

(b) by either party upon thirty (30) days' prior written notice, if the other party materially breaches this Agreement and fails to cure such breach to the terminating party's reasonable satisfaction within such thirty (30) day period; or

(c) by either party immediately upon written notice upon (a) the institution of any proceedings by or against the other party seeking relief, reorganization or arrangement under any laws relating to insolvency, which proceedings are not dismissed within sixty (60) days, (b) the assignment for the benefit of creditors, or the appointment of a receiver, liquidator or trustee, of the other party's property or assets, or (iii) the liquidation, dissolution or winding up of the other party's business.

5.3 Effect of Termination. The following sections will survive any termination of this Agreement: Sections 6, 7, 8, and 9.

6. Limited Warranty and Disclaimer.

6.1 Limited Warranty to End Users. In its end user agreement for the Company Products, the Company may provide a limited warranty regarding the performance of the Company Products. This warranty, and any warranties implied by law, will run directly from the Company to end users that accept the end user agreement. The Company makes no warranties to Representative and will have no liability to Representative for any warranties made to end users.

6.2 WARRANTY DISCLAIMER. EXCEPT AS EXPRESSLY SET FORTH ABOVE, THE COMPANY MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND, WHETHER EXPRESS, IMPLIED (EITHER IN FACT OR BY OPERATION OF LAW), OR STATUTORY, AS TO ANY MATTER WHATSOEVER. THE COMPANY EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, QUALITY, ACCURACY, AND TITLE. THE COMPANY DOES NOT WARRANT AGAINST INTERFERENCE WITH THE ENJOYMENT OF THE COMPANY PRODUCTS OR AGAINST INFRINGEMENT. THE COMPANY DOES NOT WARRANT THAT THE COMPANY PRODUCTS ARE ERROR-FREE OR THAT OPERATION OF THE COMPANY PRODUCTS WILL BE SECURE OR UNINTERRUPTED. THE COMPANY MAKES NO WARRANTIES THAT IT WILL ENTER INTO ANY TRANSACTIONS WITH ENTITIES REFERRED BY THE REPRESENTATIVE OR THAT ANY PAYMENTS TO REPRESENTATIVE WILL RESULT UNDER THIS AGREEMENT OR THE REVENUE SHARING AGREEMENT WITH RESPECT TO SUCH REFERRALS. REPRESENTATIVE WILL NOT HAVE THE RIGHT TO MAKE OR PASS ON ANY REPRESENTATION OR WARRANTY ON BEHALF OF THE COMPANY TO ANY OTHER THIRD PARTY.

7. Confidentiality.

7.1 Definition. "**Confidential Information**" means confidential or proprietary information disclosed by one party to the other that is in written, graphic, machine readable, or other tangible form and is marked "Confidential" or "Proprietary" or in some other manner to indicate its confidential nature. Confidential Information may also include oral disclosures provided that such information is designated as confidential at the time of disclosure and reduced to a written summary by the disclosing party within 30 days after its oral disclosure, which is marked in a manner to indicate its confidential nature and delivered to the receiving party.

7.2 Exceptions. Confidential Information will not include any information that (a) was publicly known and made generally available prior to the time of disclosure by the disclosing party, (b) becomes publicly known and made generally available after disclosure by the disclosing party to the receiving party through no action or inaction of the receiving party, (c) is already in the possession of the receiving party at the time of disclosure, (d) is obtained by the receiving party from a third party without a breach of such third party's obligations of confidentiality, or (e) is independently developed by the receiving party without use of or reference to the disclosing party's Confidential Information.

7.3 Non-Use and Non-Disclosure. Each party will (a) treat as confidential all Confidential Information of the other party, (b) not disclose such Confidential Information to any third party, except on a "need to know" basis to third parties that have signed a non-disclosure agreement containing provisions substantially as protective as the terms of this Section provided that the disclosing party has obtained the written consent to such disclosure from the other party, and (c) will not use such Confidential Information except in connection with performing its obligations or exercising its rights under this Agreement. Each party is permitted to disclose the other party's Confidential Information if required by law so long as the other party is given prompt written notice of such requirement prior to disclosure and assistance in obtaining an order protecting such information from public disclosure.

7.4 Confidentiality of Agreement. Neither party to this Agreement will disclose the terms of this Agreement to any third party without the consent of the other party, except as required by securities or other applicable laws. Notwithstanding the above provisions, each party may disclose the terms of this Agreement (a) in connection with the requirements of a public offering or securities filing, (b) in confidence, to accountants, banks, and financing sources and their advisors, (c) in confidence, in connection with the enforcement of this Agreement or rights under this Agreement, or (d) in confidence, in connection with a merger or acquisition or proposed merger or acquisition, or the like.

8. Limitation of Liability.

8.1 Disclaimer of Damages. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS AGREEMENT, NEITHER PARTY WILL, UNDER ANY CIRCUMSTANCES, BE LIABLE TO THE OTHER PARTY FOR CONSEQUENTIAL, INCIDENTAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO LOST PROFITS OR LOSS OF BUSINESS, EVEN IF SUCH PARTY IS APPRISED OF THE LIKELIHOOD OF SUCH DAMAGES OCCURRING.

8.2 Cap on Liability. UNDER NO CIRCUMSTANCES WILL EITHER PARTY'S TOTAL LIABILITY OF ALL KINDS ARISING OUT OF OR RELATED TO THIS AGREEMENT, REGARDLESS OF THE FORUM AND REGARDLESS OF WHETHER ANY ACTION OR CLAIM IS BASED ON CONTRACT, TORT, OR OTHERWISE, EXCEED THE TOTAL AMOUNTS PAID OR PAYABLE TO THAT PARTY UNDER THE REVENUE SHARING AGREEMENT.

9. Miscellaneous Provisions.

9.1 Independent Contractors. The relationship of the parties established by this Agreement is that of independent contractors, and nothing contained in this Agreement should be construed to give either party the power to act as an agent of or direct or control the day-to-day activities of the other. Financial and other obligations associated with each party's business are the sole responsibility of that party.

9.2 Interpretation. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement will refer to this Agreement as a whole and not to any particular provision of this Agreement, and section and subsection references are to this Agreement unless otherwise specified. The headings in this Agreement are included for convenience of reference only and will not limit or otherwise affect the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they will be deemed to be followed by the words "without limitation." The phrases "the date of this Agreement," "the date hereof" and terms of similar import, unless the context otherwise requires, will be deemed to refer to the date set forth in the first paragraph of this Agreement. The meanings given to terms defined herein will be equally applicable to both the singular and plural forms of such terms. All matters to be agreed to by any party hereto must be agreed to in writing by such party unless otherwise indicated herein. References to agreements, policies, standards, guidelines or instruments, or to statutes or regulations, are to such agreements, policies, standards, guidelines or instruments, or statutes or regulations, as amended or supplemented from time to time (or to successors thereto).

9.3 Notices. Any notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to be given when delivered in person or by private courier with receipt, if telefaxed when verbal or email confirmation from the recipient is received, or three (3) days after being deposited in the United States mail, first-class, registered or certified, return receipt requested, with postage paid and:

(a) If to the Company, addressed as follows:

308 Dorla Ct.
Zephyr Cove, NV 89448
Attention: Kendall Larsen, Chief Executive Officer
Facsimile: (775) 580-7527
E-mail: Kendall_Larsen@virnetx.com

with a copy to:

Wilson Sonsini Goodrich & Rosati, Professional Corporation
650 Page Mill Road
Palo Alto, CA 94304
Attention: Bradley L. Finkelstein
E-mail: bfinkelstein@wsgr.com

(b) If to Representative, at the Representative's address, facsimile number or electronic mail address as provided by Purchaser to the Company prior to the Closing Date (as defined in the Share Purchase Agreement).

A party may change the address to which notices and communications to it are to be addressed by notification as provided for herein.

9.4 Severability. If any part or provision of this Agreement is held unenforceable or in conflict with the applicable laws or regulations of any jurisdiction, the invalid or unenforceable part or provisions shall be replaced with a provision which accomplishes, to the extent possible, the original business purpose of such part or provision in a valid and enforceable manner, and the remainder of this Agreement shall remain binding upon the parties hereto.

9.5 Governing Law; Jurisdiction. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware without regard to choice of laws or conflicts of laws provisions thereof that would require the application of the laws of any other jurisdiction, except to the extent that mandatory principles of Delaware law may apply.

9.6 Arbitration. Any dispute, controversy or claim arising out of, relating to, or in connection with this Agreement, including the breach, termination or validity hereof, shall be finally resolved by arbitration administered by the Hong Kong International Arbitration Centre ("**HKIAC**"). The arbitration shall be conducted in Hong Kong and in accordance with the HKIAC Administered Arbitration Rules in effect at the time of the arbitration, except as they may be modified by mutual agreement of the parties. The arbitration shall be conducted in the English language. The arbitration shall be conducted by three arbitrators. Each party shall appoint one arbitrator and such two (2) arbitrators shall appoint a third arbitrator. The arbitral award shall be in writing, state the reasons for the award, and be final and binding on the parties. The award may include an award of costs, including reasonable attorneys' fees and disbursements. In addition to monetary damages, the arbitral tribunal shall be empowered to award equitable relief. The parties agree that the arbitration shall be kept confidential, and that the costs of arbitration shall be borne by the losing party unless otherwise determined by the arbitration award. All payments made pursuant to the arbitration decision or award and any judgment entered thereon shall be made in United States dollars, free from any deduction, offset or withholding for taxes. Notwithstanding this Section 9.6 or any other provision to the contrary in this Agreement, neither party shall be obligated to follow the foregoing arbitration procedures where such party intends to apply to any court of competent jurisdiction for an interim injunction or similar equitable relief against any other party, provided there is no unreasonable delay in the prosecution of that application.

9.7 Waiver. No waiver of any term, provision or condition of this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or be construed as, a further or continuing waiver of any such term, provision or condition or as a waiver of any other term, provision or condition of this Agreement.

9.8 Assignment. Neither party may assign its rights or obligations under this Agreement or designate another person (i) to perform all or part of its obligations under this Agreement or (ii) to have all or part of its rights and benefits under this Agreement, in each case without the prior written consent of the other party; provided that either Party may freely assign this Agreement to a successor to all or substantially all of its relevant assets, whether by sale, merger, or otherwise, and shall provide written notice of such assignment to the other party at least thirty (30) days prior to the effective date of the assignment. In the event of any assignment in accordance with the terms of this Agreement, the assignee shall specifically assume and be bound by the provisions of the Agreement by executing a writing agreeing to be bound by and subject to the provisions of this Agreement and shall deliver an executed counterpart signature page to this Agreement and, notwithstanding such assumption or agreement to be bound by this Agreement by an assignee, no such assignment shall relieve any party assigning any interest pursuant to this Agreement from its obligations or liability pursuant to this Agreement.

9.9 Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

9.10 Entire Agreement; Amendments. This Agreement constitute the entire agreement between the parties hereto respecting the subject matter hereof and supersedes all prior agreements, negotiations, understandings, representations and statements respecting the subject matter hereof, whether written or oral. No modification, alteration, or change in any of the terms of this Agreement shall be valid or binding upon the parties hereto unless made in writing and duly executed by the parties.

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

VirnetX Holding Corporation		**Public Intelligence Technology Associates, kk**	
Name:	Kendall Larsen	Name:	Eriya Unten
Title:	President & Chief Executive Officer	Title:	Executive Director
Signature:	/s/ Kendall Larsen	Signature:	
Date:	5/31/17	Date:	

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

VirnetX Holding Corporation		**Public Intelligence Technology Associates, kk**	
Name:	Kendall Larsen	Name:	Eriya Unten
Title:	President & Chief Executive Officer	Title:	Executive Director
Signature:		Signature:	/s/ Eriya Unten
Date:		Date:	5/31/2017

EXHIBIT A

COMPANY PRODUCTS

Gabriel Collaboration Suite

Exhibit 10.4

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

STOCKHOLDERS AGREEMENT

between

VIRNETX HOLDING CORPORATION

and

PUBLIC INTELLIGENCE TECHNOLOGY ASSOCIATES

___________, 2017

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STOCKHOLDERS AGREEMENT

THIS STOCKHOLDERS AGREEMENT, dated as of [______], 2017 (this "**Agreement**"), is by and between VirnetX Holding Corporation, a Delaware corporation (the "**Company**"), and Public Intelligence Technology Associates, kk (Japanese Corporation) ("**Investor**").

RECITALS:

A. The Company and Investor have entered into a Stock Purchase Agreement (the "**Purchase Agreement**"), pursuant to which the Company has agreed to sell, and the Investor has agreed to purchase from the Company, shares of Company Common Stock.

B. It is a condition to closing the transactions contemplated by the Purchase Agreement that the Company and Investor enter into this Agreement to provide for certain agreements and obligations of the parties following the closing of the transactions contemplated by the Purchase Agreement (the "**Closing**").

AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, intending to be legally bound, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1. Definitions. The following terms shall have the meanings ascribed to them below:

"**13D Group**" means any group of Persons who, with respect to those acquiring, holding, voting or disposing of Company Common Stock would, assuming ownership of the requisite percentage thereof, be required under Section 13(d) of the Exchange Act to file a statement on Schedule 13D with the SEC as a "person" within the meaning of Section 13(d)(3) of the Exchange Act.

"**Affiliate**" of a Person has the meaning set forth in Rule 12b-2 under the Exchange Act.

"**Beneficially Own**" with respect to any securities means having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Exchange Act without limitation by the 60-day provision in paragraph (d)(1)(i) thereof). The terms "**Beneficial Ownership**" and "**Beneficial Owner**" have correlative meanings.

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

"**Business Day**" means a day, other than a Saturday or Sunday, on which commercial banks in New York City are open for the general transaction of business.

"**Capital Stock**" means, with respect to any Person at any time, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of capital stock, partnership interests (whether general or limited) or equivalent ownership interests in or issued by such Person.

"**Change of Control**" means the existence or occurrence of any of the following: (a) the sale, conveyance or disposition of all or substantially all of the assets of the Company; (b) the consolidation, merger or other business combination of the Company with or into any other entity, immediately following which the then current stockholders of the Company fail to own, directly or indirectly, at least Majority Voting Power; (c) a transaction or series of transactions in which any person or "group" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) acquires Majority Voting Power (other than (i) a reincorporation, reorganization or similar corporate transaction in which the Company's stockholders own, immediately thereafter, interests in the new parent company in essentially the same percentage as they owned in the Company immediately prior to such transaction, or (ii) a transaction described in clause (b) (such as a triangular merger) in which the threshold in clause (b) is not passed) or (d) the replacement of a majority of the Board with individuals who were not nominated, approved or elected by at least a majority of the directors at the time of such replacement.

"**Closing**" has the meaning ascribed thereto in the recitals of this Agreement.

"**Closing Date**" means the date on which the Closing occurs.

"**Company**" has the meaning set forth in the preamble of this Agreement.

"**Company Common Stock**" means the common stock, par value $0.0001 per share, of the Company.

"**Definitive Agreements**" means the Purchase Agreement, the Revenue Sharing Agreement (as defined in the Purchase Agreement), and the Gabriel License Agreement (as defined in the Purchase Agreement).

"**Director**" means any member of the Board.

"**Economic Rights**" means, with respect to a security, the right to all or any portion of the pecuniary interest in the security, including, without limitation, the right to receive dividends and distributions, proceeds upon liquidation and proceeds of disposition or conversion (if applicable) of the security.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"**Governmental Entity**" means any United States or foreign (a) federal, state, local, municipal or other government, (b) governmental or quasi-governmental entity of any nature (including, without limitation, any governmental agency, branch, department, official or entity and any court or other tribunal) or (c) body exercising or entitled to exercise any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature, including, without limitation, any arbitral tribunal.

"**Investor**" shall have the meaning set forth in the preamble of this Agreement. References to Investor also includes any Permitted Transferee to which Investor transfers Company Common Stock and related rights under this Agreement in accordance with, and subject to the terms of, ARTICLE III.

"**Law**" means any applicable federal, state, local or foreign law, statute, ordinance, rule, guideline, regulation, order, writ, decree, agency requirement, license or permit of any Governmental Entity.

"**Lockup Period**" means the period commencing on the Closing Date and ending on the date that is eighteen (18) months from the Closing Date.

"**Majority Voting Power**" of the resulting corporation or of the Company shall mean a majority of all the outstanding voting securities of the resulting corporation or of the Company (or, in each case, the parent thereof), respectively, entitled to vote in the election of directors.

"**Permitted Acquisition**" has the meaning set forth in Section 2.1(a).

"**Permitted Transfer**" has the meaning set forth in Section 3.4.

"**Permitted Transferee**" has the meaning set forth in Section 3.4.

"**Person**" shall mean any natural person, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof.

"**Purchase Agreement**" has the meaning ascribed thereto in the recitals of this Agreement.

"**SEC**" means the U.S. Securities and Exchange Commission.

"**Securities**" shall mean the shares of Company Common Stock issued to the Investor pursuant to the Purchase Agreement.

"**Securities Act**" means the Securities Act of 1933, as amended.

"**Standstill Period**" means the period commencing on the Closing Date and ending on the earliest to occur of (i) the termination of this Agreement pursuant to its terms or (ii) the date that is sixty (60) months after the date of this Agreement.

"**Subsidiary**" means, as to any Person, any other Person of which more than 50% of the shares of the voting stock or other voting interests are owned or controlled, or the ability to select or elect more than 50% of the directors or similar managers is held, directly or indirectly, by such first Person or one or more of its Subsidiaries or by such first Person and one or more of its Subsidiaries.

"**Transfer**" means, directly or indirectly, to offer, sell (including any short sale), transfer, assign, pledge, encumber, hypothecate, lend or similarly dispose of (by merger, testamentary disposition, operation of law or otherwise), either voluntarily or involuntarily, or enter into any contract, option or other arrangement or understanding with respect to the offer, sale (including any short sale), transfer, assignment, pledge, encumbrance, hypothecation or similar disposition of (by merger, testamentary disposition, operation of law or otherwise), any Securities beneficially owned by a Person or any interest (including any Economic Rights or Voting Rights) in any Securities beneficially owned by a Person. Whether or not treated as an offer or sale of Securities under the Securities Act, "Transfer" shall also include any hedging or other transaction, such as any purchase, sale (including any short sale) or grant of any right (including without limitation any put or call option) with respect to any of the Securities or with respect to any security that includes or derives any part of its value from such Securities.

"**Voting Rights**" means, with respect to a security, the right to direct the voting of the security with respect to any matter for which the security is entitled to vote.

"**Voting Securities**" means the shares of Company Common Stock and any other securities of the Company entitled to vote generally for the election of directors or convertible into such securities.

SECTION 1.2. General Interpretive Principles. Whenever used in this Agreement, except as otherwise expressly provided or unless the context otherwise requires, any noun or pronoun shall be deemed to include the plural as well as the singular and to cover all genders. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not be construed to affect the meaning, construction or effect hereof. Unless otherwise specified, the terms "hereof," "herein" and similar terms refer to this Agreement as a whole (including the exhibits hereto), and references herein to sections refer to sections of this Agreement.

ARTICLE II
ACTIONS IN CONCERT WITH OTHERS

SECTION 2.1. Standstill; Actions in Concert with Others. During the Standstill Period and unless otherwise approved by the Board or provided for in this Agreement, Investor will not, and will cause each of its Affiliates not to, directly or indirectly:

(a) acquire, offer or propose to acquire or agree to acquire (or request permission to do so), whether by purchase, tender or exchange offer, by joining a partnership, limited partnership, syndicate or other 13D Group or otherwise, ownership (including, but not limited to, Beneficial Ownership) of any of the assets or businesses of the Company or any Subsidiary thereof or shares of Capital Stock of the Company or any Subsidiary thereof or any rights or options to acquire such ownership (whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any combination of the foregoing), other than (i) as provided for in the Definitive Agreements, (ii) the acquisition of Capital Stock of the Company or any Subsidiary thereof as a result of any stock splits, stock dividends or other distributions or recapitalizations or offerings made available by the Company to holders of shares of Company Common Stock, including rights offerings, (iii) any acquisition of shares of Company Common Stock that has been approved by the Board, or (iv) any acquisition of shares of Company Common Stock pursuant to a Permitted Transfer (each event listed in clauses (i) through (iv), a "**Permitted Acquisition**");

(b) make, or in any way knowingly participate in or encourage, any "solicitation" (within the meaning of the Exchange Act) of proxies or consents relating to the election of directors with respect to the Company or any Subsidiary thereof, or become a "participant" in any "election contest" (both within the meaning of the Exchange Act) seeking to elect directors not nominated by the Board;

(c) in any manner, agree, attempt, seek or propose to deposit any shares of Capital Stock of the Company or any Subsidiary thereof or any rights to acquire (whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any combination of the foregoing) any Voting Securities in any voting trust or similar arrangement;

(d) call or seek to have called any meeting of the holders of Voting Securities (or securities convertible into, or exercisable or exchangeable for, Voting Securities);

(e) seek to advise or influence any Person with respect to the voting of any Voting Securities;

(f) make any proposal or public recommendation regarding any merger, tender or exchange offer, consolidation, business combination, recapitalization, restructuring, liquidation, dissolution or other extraordinary transaction with or involving the Company or any of is Subsidiaries or any of its or their respective securities or assets;

(g) seek to place a representative on the Board, seek the removal of any member of the Board or otherwise seek or propose to influence or control the Board, the management, or the policies of the Company, including with respect to any Change of Control;

(h) publicly announce any intention, plan or arrangement inconsistent with the foregoing;

(i) form, join or in any way knowingly participate in the formation of a 13D Group with respect to any shares of Capital Stock of the Company or any Subsidiary thereof;

(j) knowingly assist, advise, participate in, provide or arrange financing to or for, solicit, encourage, induce or attempt to induce any effort or attempt by, or enter into any discussions, negotiations, arrangements or understandings with, any Person or Group to do or seek to do any of the foregoing (it being understood that the mere voting by the Investor of its Voting Securities will not, in and of itself, be deemed a violation of this Section 2.1(j));

(k) take any action that would reasonably be expected to compel the Company to make a public announcement regarding the possibility of any of the foregoing; or

(l) seek or request permission to do any of the foregoing or request to amend or waive any provision of this Section 2.1, or make or seek permission to make any public announcement with respect to any of the foregoing.

SECTION 2.2. Permitted Actions. The restrictions set forth in Section 2.1 shall not apply if any of the following occurs (provided that if any event described in this Section 2.2 occurs and, during the following twelve (12) months, none of the transactions described below has been consummated, then the restrictions set forth in Section 2.1 shall thereafter resume and continue to apply in accordance with their terms):

(a) in the event that the Company enters into a definitive agreement for a merger, consolidation or other business combination transaction as a result of which the stockholders of the Company would own (including, but not limited to, Beneficial Ownership) securities of the resulting corporation having less than Majority Voting Power, but only for so long as the Board recommends that the stockholders of the Company vote in favor of such merger, consolidation or other business transaction; or

(b) in the event that a tender offer or exchange offer for at least 50.1% of the shares of the Capital Stock of the Company is commenced by a third person (and not involving any breach of Section 2.1), which tender offer or exchange offer, if consummated, would result in a Change of Control, and the Board recommends that the stockholders of the Company tender their shares in response to such offer or does not recommend against the tender offer or exchange offer within ten (10) Business Days after the commencement thereof or such longer period as shall then be permitted under U.S. federal securities laws.

ARTICLE III
TRANSFER RESTRICTIONS

SECTION 3.1. Transfer Restrictions

(a) The Investor will not effect any Transfers, other than as expressly permitted by, and in compliance with, the provisions of this ARTICLE III, or as specifically consented to in writing in advance by the Company.

(b) Investor shall not effect any Transfer except pursuant to an effective registration statement under, and in compliance with the requirements of, the Securities Act or pursuant to an available exemption from the registration requirements of the Securities Act, and in compliance with any applicable state securities laws (but in all cases subject to Section 3.4).

(c) The Investor agrees that, so long as is required by this Article III, the Securities shall be subject to the following restrictive legend:

"THESE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND MAY NOT BE OFFERED OR SOLD UNLESS REGISTERED OR EXEMPT FROM REGISTRATION UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS. IN ADDITION, THESE SHARES ARE SUBJECT TO TRANSFER AND OTHER RESTRICTIONS SET FORTH IN A STOCKHOLDER AGREEMENT, COPIES OF WHICH ARE ON FILE WITH THE SECRETARY OF THE ISSUER."

The Securities shall not be subject to the first sentence of such legend (i) while a registration statement covering the resale of the Securities is effective under the Securities Act, (ii) following any sale of such Securities pursuant to Rule 144 if the holder provides the Company with a legal opinion (and the documents upon which the legal opinion is based) reasonably acceptable to the Company to the effect that the Securities can be sold under Rule 144, or (iii) if the holder provides the Company with a legal opinion (and the documents upon which the legal opinion is based) reasonably acceptable to the Company to the effect that the legend is not required under applicable requirements of the Securities Act (including controlling judicial interpretations and pronouncements issued by the staff of the SEC).

SECTION 3.2. Procedures for Transfer.

(a) In order to ensure compliance with the provisions of this Article III, prior to any proposed Transfer, the Investor shall give written notice to the Company of the Investor's intention to effect such Transfer. Each such notice shall describe the manner and circumstances of the proposed Transfer in reasonable detail and, unless such Securities are to be sold pursuant to an effective registration statement, shall be accompanied by either: (i) an opinion of legal counsel reasonably acceptable to the Company that such Transfer is exempt from the registration requirements of Section 5 of the Securities Act, a seller's representation letter and, if such Transfer is proposed to be executed through a broker, a broker's representation letter, in each case, in customary form, confirming that such sale will be or has been effected pursuant to Rule 144 under the Securities Act; or (ii) a "no action" letter from the staff of the SEC addressed to the Investor to the effect that the Transfer without registration would not result in a recommendation by the staff to the SEC that action be taken with respect thereto.

(b) The Company shall use its commercially reasonable efforts to cooperate with the Investor to process, as promptly as reasonably practicable, any Transfer of any or all of its Securities as permitted by, and in compliance with, the provisions of this Article III, including by delivering applicable instruction letters to the Company's transfer agent to cooperate with the Investor and process, as promptly as is reasonable practicable, any such Transfer.

(c) Any attempted or purported Transfer in violation of this Agreement shall be null and void, regardless of whether the purported transferee has any actual or constructive knowledge of the provisions hereof. The Company shall not record on its stock transfer books or otherwise any attempted or purported Transfer in violation of this Agreement.

SECTION 3.3. Applicability to Other Securities.

If, following the date hereof, the Company issues any shares of Company Common Stock or any other securities in respect of or in substitution or exchange for the Securities in connection with any stock split, dividend or combination, or any recapitalization, reclassification or similar transaction, such shares or securities shall be subject to the same restrictions and rights set forth in Article II, Article III and Article IV hereof as are then applicable to the Securities with respect to which such shares or securities have been issued in respect of or in substitution or exchange for. In such an event, the Company and the Investor hereby agree to make such amendments or modifications to this Agreement as may be appropriate to reflect such treatment of such shares or other securities.

SECTION 3.4. Lockup Period.

(a) During the Lockup Period, the Investor shall not, and shall not authorize, permit or direct its Subsidiaries or Affiliates to Transfer any of the Securities without approval by the Board except to (a) another corporation, partnership, limited liability company, trust or other business entity that is an Affiliate of the Investor or (b) as part of a distribution without consideration by the Investor to its stockholders, partners, members of other equity holders (such Transfer and such Persons described in this Section 3.4(a) and (b) the "Permitted Transfer" and the "Permitted Transferees," respectively); provided, however, such Permitted Transferee delivers a written instrument to the Company in form and substance reasonably satisfactory to the Company agreeing to be bound by and subject to the terms and conditions of this Agreement and the Purchase Agreement (including, without limitation, Article VI and Article VII) during such Lockup Period. The Company and its transfer agent shall not register any Transfer of the Securities in violation of this Section 3.4. The Company may, and may instruct any transfer agent for the Company to, place such stop transfer orders during the Lockup Period as may be required on the transfer books of the Company in order to ensure compliance with the provisions of this Section 3.4 and the Investor consents to such action.

Investor further agrees that any time after the expiration of the Lockup Period, without approval by the Board and the prior written consent of the Company, such Investor or Permitted Transferee, if applicable, shall not, and shall not authorize, permit or direct its Subsidiaries or Affiliates to, directly or indirectly, effect any Transfer to any Person who (a) holds, or will hold after such Transfer, more than five percent (5%) of the outstanding shares of Company Common Stock, (b) the Company reasonably determines to be a competitor or an officer, employee, director or holder of more than ten percent (10%) of a competitor or (c) is, or is an Affiliate of the entities listed on Annex A hereto. For avoidance of doubt, any Transfer during the Lockup Period or otherwise shall be made in compliance with the transfer restrictions set forth in Section 3.1.

ARTICLE IV
OTHER RESTRICTIONS

SECTION 4.1. Voting Proxy. Investor shall revoke, and hereby revokes, any and all previous proxies granted with respect to any Capital Stock of the Company or any Subsidiary thereof to effectuate the following provisions of this Section 4.1. Concurrent with delivery of this Agreement, Investor agrees to deliver to the Company a valid proxy, in the form attached hereto as Exhibit A (the "Proxy"). Except as set forth in this Section 4.1, the Proxy to be delivered pursuant to this Section 4.1 shall be irrevocable to the fullest extent permissible by Law and coupled with an interest, and granted in order to secure Investor's performance under this Agreement and also in consideration of the Company entering into this Agreement and the Definitive Agreements. Investor agrees that the Proxy delivered by it will be valid under applicable Law and the Company's governing documents to permit the holder thereof to vote the Capital Stock of the Company and any Subsidiary thereof held by Investor at any meeting of the stockholders of the Company or any Subsidiary thereof, respectively, as such holder deems advisable and in all cases in accordance with the recommendations of the Board and that the holder of the Proxy shall have the right to cause to be present, to consent or to vote such Capital Stock of the Company and any Subsidiary thereof in accordance with the provisions of this Section 4.1 pursuant to the Proxy. The Proxy granted by Investor shall be void and of no further effect and revoked (automatically without any action on the part of Investor, the Company or any other Person) upon the earlier to occur of the end of the Lockup Period and the termination of this Agreement pursuant to Section 5.1.

SECTION 4.2. Market Standoff.

(a) For so long as Investor holds more than one percent (1%) of the outstanding Company Common Stock, Investor hereby agrees that Investor will not, without the prior written consent of the Company and managing underwriter or initial purchaser, during the period commencing on the date of the final prospectus or offering memorandum relating to a registration by the Company of shares of Company Common Stock or any other equity securities or securities convertible into or exercisable or exchangeable into equity securities of the Company under the Securities Act on a registration statement on Form S-1 or Form S-3 or any sales under Rule 144 and/or Regulation S of the Securities Act, and ending on the date specified by the Company and the managing underwriter (such period not to exceed one hundred twenty (120) days, which period may be extended upon the request of the managing underwriter), (i) lend, offer, pledge, sell, contract to sell (including, without limitation, any short sale), sell or any option or contract to purchase, purchase any option or contract to sell, grant any option, right, or warrant to purchase, or otherwise transfer or dispose of (other than to donees who agree in writing to be similarly bound), directly or indirectly, any shares of Company Common Stock or any securities convertible into or exercisable or exchangeable (directly or indirectly) for such common stock held immediately before the effective date of the registration statement for such offering, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of common stock or other securities, in cash, or otherwise. The foregoing provisions of this Section 4.2 shall not apply to the sale of any shares to an underwriter or initial purchaser pursuant to an underwriting or purchase agreement and shall be applicable to the Investor only if all Section 16 officers and directors of the Company are subject to substantially the same restrictions. The underwriters or initial purchasers in connection with such registration or sale are intended third party beneficiaries of this Section 4.2 and shall have the right, power, and authority to enforce the provisions hereof as though they were a party hereto. The obligations described in this Section 4.2 shall not apply to a registration relating solely to employee benefit plans on Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions and may stamp each relevant stock certificate with the legend set forth in Section 3.1(c) with respect to the Securities of the Company subject to the foregoing restriction until the end of such one hundred twenty (120) day (or other) period. The Investor agrees to execute a market standoff agreement with the underwriters in customary form consistent with the provisions of this Section 4.2.

SECTION 4.3. Stop Transfer Instructions. To ensure compliance with the restrictions referred to herein, Investor agrees that the Company may issue appropriate "stop transfer" certificates or instructions and that, if the Company transfers its own Stock, it may make appropriate notations to the same effect in its records.

SECTION 4.4. Non-Circumvention. The Investor shall not engage in any actions that have the effect of circumventing the intent of any the restrictions set forth in Article II, III or IV of this Agreement, including by way of doing or causing to occur any action indirectly that would be prohibited by any such provisions if directly taken by the Investor, and any such actions in circumvention of any such restrictions shall be deemed to be a violation of such restrictions.

ARTICLE V
TERMINATION

SECTION 5.1. Termination. Other than the termination provisions applicable to particular sections of this Agreement that are specifically provided elsewhere in this Agreement, this Agreement shall terminate upon the mutual written agreement of the Company and Investor and its Permitted Transferees holding a majority of the Capital Stock of the Company then held by Investor and its Permitted Transferees in the aggregate.

ARTICLE VI
MISCELLANEOUS

SECTION 6.1. Amendment and Modification.

(a) This Agreement may be amended, modified and supplemented, and any of the provisions contained herein may be waived, only by a written instrument signed by the Company and Investor and its Permitted Transferees holding a majority of the Capital Stock of the Company then held by Investor and its Permitted Transferees in the aggregate.

(b) No course of dealing between or among any Persons having any interest in this Agreement will be deemed effective to modify, amend or discharge any part of this Agreement or any rights or obligations of any Person under or by reason of this Agreement.

SECTION 6.2. Assignment; No Third-Party Beneficiaries.

(a) Neither this Agreement, nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of Law or otherwise); provided, however, that Investor may assign its rights, interests and obligations under this Agreement to a Permitted Transferee in a Permitted Transfer of a type described in clauses (i)-(v) of the definition thereof.

(b) Unless otherwise expressly contemplated elsewhere in this Agreement, this Agreement shall not confer any rights or remedies upon any Person other than the parties to this Agreement and their respective permitted successors and assigns.

SECTION 6.3. Binding Effect; Entire Agreement. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns and executors, administrators and heirs. This Agreement sets forth the entire agreement and understanding between the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements and understandings of any and every nature among them.

SECTION 6.4. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable Law, such provision(s) shall be excluded from this Agreement and the balance of this Agreement shall be interpreted as if such provisions were so excluded and shall be enforceable in accordance with its terms so long as the economic or legal substance of the transactions contemplated by this Agreement are not affected in any manner materially adverse to any party.

SECTION 6.5. Notices and Addresses. Any notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to be given when delivered in person or by private courier with receipt, if telefaxed when verbal or email confirmation from the recipient is received, or three (3) days after being deposited in the United States mail, first-class, registered or certified, return receipt requested, with postage paid and:

(a) If to the Company, addressed as follows:

308 Dorla Ct.
Zephyr Cove, NV 89448
Attention: Kendall Larsen, Chief Executive Officer
Facsimile: (775) 580-7527
E-mail: Kendall_Larsen@virnetx.com

with a copy to:

Wilson Sonsini Goodrich & Rosati, Professional Corporation
650 Page Mill Road
Palo Alto, CA 94304
Attention: Bradley L. Finkelstein
E-mail: bfinkelstein@wsgr.com

(b) If to the Purchaser, at the Purchaser's address, facsimile number or electronic mail address as provided by Purchaser to the Company prior to the Closing Date (as defined in the Purchase Agreement).

Any Person may change the address to which notices and communications to it are to be addressed by notification as provided for herein.

SECTION 6.6. Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of Delaware, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Law of any jurisdiction other than the State of Delaware.

SECTION 6.7. Assistance of Counsel. Each of the parties hereto acknowledges that it has been represented by counsel of its choice throughout all negotiations that have preceded the execution of this Agreement, and that it has executed this Agreement with the advice of such counsel. Each party hereto and its counsel cooperated and participated in the drafting and preparation of this Agreement, and any and all drafts of this Agreement exchanged among the parties will be deemed the work product of all of the parties and may not be construed against any party by reason of its drafting or preparation. Accordingly, any rule of law or any legal decision that would require interpretation of any ambiguities in this Agreement against any party that drafted or prepared it is of no application and is expressly waived by each of the parties, and any controversy over interpretations of this Agreement will be decided without regard to events of drafting or preparation.

SECTION 6.8. Headings. The headings in this Agreement are for convenience of reference only and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect.

SECTION 6.9. Counterparts. This Agreement may be executed via facsimile and in any number of counterparts, each of which shall be deemed to be an original instrument and all of which together shall constitute one and the same instrument.

SECTION 6.10. Further Assurances. Each party shall cooperate and take such action as may be reasonably requested by another party in order to carry out the provisions and purposes of this Agreement and the transactions contemplated hereby.

SECTION 6.11. Remedies. In the event of a breach or a threatened breach by any party to this Agreement of its obligations under this Agreement, any party injured or to be injured by such breach will be entitled to specific performance of its rights under this Agreement or to injunctive relief, in addition to being entitled to exercise all rights provided in this Agreement and granted by Law, it being agreed by the parties that the remedy at Law, including monetary damages, for breach of any such provision will be inadequate compensation for any loss and that any defense or objection in any action for specific performance or injunctive relief for which a remedy at Law would be adequate is waived.

SECTION 6.12. Jurisdiction and Venue. The parties hereto hereby irrevocably submit to the jurisdiction of the Delaware Court of Chancery or, in the event (but only in the event) that such court does not have subject matter jurisdiction over such action or proceeding, in the United States District Court for the District of Delaware in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and in respect of the transactions contemplated hereby, and hereby waive, and agree not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or of any such document, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in the Delaware Court of Chancery, or in the event (but only in the event) that such court does not have subject matter jurisdiction over such action or proceeding, in the United States District Court for the District of Delaware, or that this Agreement or any such document may not be enforced in or by such courts, and the parties hereto irrevocably agree that all claims with respect to such action or proceeding shall be heard and determined in the Delaware Court of Chancery, or in the event (but only in the event) that such court does not have subject matter jurisdiction over such action or proceeding, in the United States District Court for the District of Delaware. The parties hereto hereby consent to and grant the Delaware Court of Chancery, or in the event (but only in the event) that such court does not have subject matter jurisdiction over such action or proceeding, the United States District Court for the District of Delaware, jurisdiction over the person of such parties and, to the extent permitted by Law, over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 6.5 or in such other manner as may be permitted by Law shall be valid and sufficient service thereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date and year first above written.

VIRNETX HOLDING CORPORATION

By: ______________________________

Name: Kendall Larsen
Title: President & Chief Executive Officer

PUBLIC INTELLIGENCE TECHNOLOGY ASSOCIATES, KK

By: ______________________________

Name: Eriya Unten
Title: Executive Director

[*Signature Page to Stockholders Agreement*]

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

Annex A

Other Prohibited Transferees

[***]

[***]

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[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

Exhibit A

Proxy

This Proxy is effective as of the date first written below and is made by the undersigned with respect to the voting of shares of capital stock of VirnetX Holding Corporation, a Delaware corporation (the "Company").

WHEREAS, the undersigned and the Company are parties to that certain Stockholders Agreement dated as of [_______], 2017 (the "Stockholders Agreement");

WHEREAS, the undersigned is a holder of shares of the Company's Common Stock and wishes to appoint Kendall Larsen ("Proxy Holder") as proxy and attorney in fact with respect to the exercise of all voting, consent and similar rights of the undersigned with respect to the undersigned's shares of Company's Common Stock on all matters submitted to the Company's stockholders subsequent to the date hereof with respect to which the holders of the capital stock of the Company are entitled to vote or take action (a "Stockholder Matter"), subject to certain exceptions and in accordance with the terms and conditions contained herein; and

WHEREAS, the undersigned wishes to make such appointment, and Proxy Holder wishes to accept such appointment, upon and subject to the terms and conditions contained herein.

NOW THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

The undersigned hereby represents and warrants that it is the legal owner of 5,494,505 shares of Common Stock (the "Shares") as of the date hereof, and with respect to such stock ownership, the undersigned hereby appoints Proxy Holder as proxy and attorney-in-fact, with full power of substitution, on behalf and in the name of the undersigned to vote or act on behalf of the Shares as Proxy Holder deems advisable and in all cases in accordance with the recommendations of the Company's Board of Directors on any Stockholder Matter from the date hereof, for which the undersigned would be entitled to vote or act but for this Proxy.

Each certificate representing any of the Shares held by the undersigned and subject to this Proxy shall be marked by the Company with a legend reading substantially as follows:

> THE SHARES EVIDENCED HEREBY ARE SUBJECT TO A VOTING PROXY (A COPY OF WHICH MAY BE OBTAINED FROM THE ISSUER) AND BY ACCEPTING ANY INTEREST IN SUCH SHARES THE PERSON HOLDING SUCH INTEREST SHALL BE DEEMED TO AGREE TO AND SHALL BECOME BOUND BY ALL THE PROVISIONS OF SAID VOTING PROXY.

This Proxy is irrevocable (to the fullest extent permitted by law) and is coupled with an interest, the receipt and sufficiency of which is hereby acknowledged. This Proxy shall revoke all prior proxies (if any) granted by the undersigned with respect to the Shares. The undersigned shall not grant any proxy to any person that conflicts with the proxy granted herein, and any attempt to do so shall be void. This Proxy shall terminate upon the earlier to occur of the end of the Lockup Period (as defined in the Stockholders Agreement) and the termination of the Stockholder Agreement pursuant to Section 5.1 therein. The power of attorney granted herein is a durable power of attorney and is binding on all successors and assigns of the undersigned.

[***] = CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THIS OMITTED INFORMATION.

THIS PROXY WILL BE VOTED AS THE PROXY HOLDER DEEMS ADVISABLE.

DATE: _________________________, 2017

Name of Stockholder: ______________________________

By: ______________________________

Name: ______________________________

Title: ______________________________

NOTE: This Proxy should be signed by the stockholder(s) exactly as his or her name appears hereon.

ACKNOWLEDGED AND AGREED TO BY:

Name of Proxy Holder: Kendall Larsen

By: ______________________________

Name: ______________________________

Title: ______________________________

EXHIBIT 31.1

CERTIFICATIONS

I, Kendall Larsen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of VirnetX Holding Corporation for the quarter ended June 30, 2017;

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: August 9, 2017

EXHIBIT 31.2

CERTIFICATIONS

I, Richard H. Nance, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of VirnetX Holding Corporation for the quarter ended June 30, 2017;

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/ Richard H. Nance

Richard H. Nance
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: August 9, 2017

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 Quarterly Report of VirnetX Holding Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission on August 9, 2017 (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, as amended; 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: August 9, 2017

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 Quarterly Report of VirnetX Holding Corporation (the “Company”) on Form 10-Q for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission on August 9, 2017 (the “Report”), I, Richard H. Nance, 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, as amended; 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/ Richard H. Nance
Richard H. Nance
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: August 9, 2017