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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

or

o **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)**
5615 Scotts Valley Drive, Suite 110 **Scotts Valley, California**	**95066**
(Address of principal executive offices)	**(Zip Code))**

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

Former name, former address and former fiscal year, if changed since last report: Not Applicable

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 x No o

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 o No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of shares outstanding of the Registrant's Common Stock as of May 6, 2011 was 49,702,732.

VIRNETX HOLDING CORPORATION

INDEX

PART I — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS

VIRNETX HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,553	$ 34,635
Investments	23,286	43,457
Accounts receivable, net	5	3
Prepaid taxes	6,365	—
Current deferred tax benefit	—	1,735
Prepaid expense and other current assets	304	87
Total current assets	**73,513**	**79,916**
Property and equipment, net	22	25
Intangible and other assets	96	108
Long term deferred tax benefit, net	56	1,645
Total assets	$ **73,687**	$ **81,694**
Current liabilities:		
Accounts payable and accrued liabilities	$ 505	$ 519
Income tax liability	—	7,358
Derivative liability	14,892	14,364
Total current liabilities	**15,397**	**22,241**
Stockholders' equity:		
Preferred stock, par value $0.0001 per share		
Authorized 10,000,000 shares issued and outstanding: 0 shares at March 31, 2011 and December 31, 2010	—	—
Common stock, par value $0.0001 per share		
Authorized 100,000,000 shares, issued and outstanding: 49,591,393 shares at March 31, 2011 and 49,341,028 at December 31, 2010, respectively	5	5
Additional paid in capital	84,168	78,187
Accumulated deficit	(25,861)	(17,755)
Accumulated other comprehensive loss	(22)	(984)
Total stockholders' equity	**58,290**	**59,453**
Total liabilities and stockholders' equity	$ **73,687**	$ **81,694**

See accompanying notes to condensed consolidated financial statements

VIRNETX HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in thousands)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Revenue — royalties	$ 17	$ 21
Operating expense:		
Research and development	196	522
General, selling and administrative	2,573	3,956
Total operating expense	(2,769)	(4,478)
Loss from operations	(2,752)	(4,457)
Loss on change in value of embedded derivative and warrants	(5,130)	(4,444)
Interest and other income, net	60	1
Loss before taxes	(7,822)	(8,900)
Income tax benefit	700	—
Net Loss	$ **(7,122)**	$ **(8,900)**
Basic and diluted loss per share	$ (0.14)	$ (0.23)
Weighted average shares outstanding	49,461	40,095

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash flows from operating activities:		
Net loss	$ (7,122)	$ (8,900)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	643	789
Depreciation and amortization	15	15
Unrealized gain	(57)	—
Net change in deferred taxes	3,325	—
Change in value of derivative liability	5,130	4,444
Changes in assets and liabilities:		
Receivables and other current assets	(3)	(33)
Prepaid expenses and other current assets	(216)	—
Accounts payable and accrued liabilities	(15)	(2,313)
Income tax liability	(13,723)	—
Net cash used by operating activities	(12,023)	(5,998)
Cash flows from investing activities:		
Purchase of property and equipment	—	(2)
Purchase of investments	(10,224)	—
Proceeds from sale of investments	30,429	—
Net cash provided by (used in) investing activities	20,205	(2)
Cash flows from financing activities:		
Payment of royalty obligation less imputed interest	—	(40)
Proceeds from exercise of warrants	736	8,580
Net cash provided by financing activities	736	8,540
Net increase in cash and cash equivalents	8,918	2,540
Cash and cash equivalents, beginning of period	34,635	2,012
Cash and cash equivalents, end of period	$ 43,553	$ 4,552
Supplemental disclosure of cash flow information:		
Cash paid during the period for taxes	$ 9,600	$ —
Cash paid during the period for interest	$ —	$ 10

See accompanying notes to condensed consolidated financial statements

VIRNETX HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. The condensed consolidated balance sheet at December 31, 2010 is derived from Virnetx's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2010. The unaudited interim condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. Because all of the disclosures required by GAAP are not included, as permitted by the rules of the Securities and Exchange Commission (the "SEC"), these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The unaudited condensed consolidated financial statements include management's estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and material effects on consolidated operating results and consolidated financial position may result. In the opinion of management, all adjustments consisting of normal and recurring entries considered necessary for the fair statement of interim financial statements have been included in the accompanying balance sheets as of March 31, 2011, operations for the three months ended March 31, 2011 and 2010, and statements of cash flow for the three months ended March 31, 2011 and 2010. The results of operations for the current interim periods are not necessarily indicative of results to be expected for the entire year.

Note 2 — Formation and Business of the Company

Unless the context otherwise requires, references to "we", "us", or "our" refer to VirnetX Holding Corporation, its predecessors and all of their consolidated subsidiaries.

VirnetX Holding Corporation was originally incorporated in California in 1992 and was reincorporated in Delaware in 2007. Our principal business activities to date are our efforts to commercialize our patent portfolio and related technology software components. We also collect royalties through our Japanese subsidiary pursuant to the terms of a single license agreement. The revenue generated by this agreement is not significant.

Note 3 — Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes.

Earnings Per Share

Basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of outstanding common shares during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding including potentially dilutive securities such as options, warrants and convertible debt. Since we have incurred losses during the periods presented the effect of potentially dilutive shares is anti-dilutive.

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin 104 in the period when all of the requirements of SAB 104 have been met:

- persuasive evidence of sales arrangements;
- delivery has occurred or services have been rendered;
- the buyer's price is fixed or determinable; and
- collection is reasonably assured.

We defer revenue recognition until such time as all these criteria are met.

We are planning to license our patent portfolio, technology and software including our secure domain name registry service to third parties. Such licensing agreements may cover the license of part, or all, of our patent portfolio and may include technology software components. For licensing agreements with fixed royalty payments, we will generally recognize related revenue as amounts become due. For licensing agreements with variable royalty payments based on a percentage of sales or number of units sold, we will recognize royalty revenue in the period that the licensees' sales occur and such sales or known to be estimable by us.

These estimates, if required, may be complex and may require significant judgment about amounts, assumptions, collectability and other matters and these judgements, including changes to them in subsequent periods may materially affect our financial results.

Cash and Cash Equivalents

Cash and cash equivalents consist of funds deposited in money market, checking and savings accounts.

Concentration of Credit Risk and Other Risks and Uncertainties

Our cash and cash equivalents are primarily maintained at two financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) insures the deposits held. There was no concentration of credit risk that is material, held with these financial institutions other than the uninsured funds of approximately $20,200,000, during the period ended March 31, 2011. The Company does not believe that it is subject to any unusual financial risk beyond the normal risk associated with commercial banking relationships. We have not experienced any losses on our deposits of cash and cash equivalents. Our investment policy is to not hold more than 5% of our portfolio in any one instrument.

Investments

Investments are classified as held-for-sale and are recorded at fair market value. Unrealized gain and losses are reported as other comprehensive income. Realized gains and losses are included in income in the period they are realized. The Company's investments consist of debt securities with maturity dates primarily less than nine months. We do not believe we have significant concentration of credit risk within our investment portfolio because our largest concentration of credit risk is less than 5% of our investment balance as of March 31, 2011

Intangible Assets

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

Impairment of Long-Lived Assets

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

Research and Development

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

Income Taxes

We account for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

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

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

Under the provisions of ASC 815-40-15 our Series I Warrants are not considered indexed to our stock. As a result of the antidilution protection in Series I Warrants and the application of ASC 815-40-15 the Series I Warrants are accounted for as derivative effective September 2009, and are recognized as derivative liability in our consolidated balance sheet.

Fair Value of Financial Instruments

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

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

We primarily apply the income and market approach for recurring fair value measurements and use valuation techniques that seek to maximize the use of observable inputs and minimize the use of unobservable inputs. We classify fair value balances based on the observability of those inputs.

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

Certificate of deposits: Valued at face value plus accrued interest.

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

Warrants: Beginning September 2009, our derivative liability arising from our Series I Warrants is carried at fair value determined by using the Binomial valuation model. As of March 31, 2011, the assumptions used in our estimate of this derivative liability included with an exercise price of $3.59; our stock price of $19.91; a discount rate of 2.24%; and and volatility of 123%.

The following table sets forth our estimate of fair value of our financial instruments that are assets as of March 31, 2011:

	(in thousands)			
	Level 1	**Level 2**	**Level 3**	**Total**
Certificates of deposit	$ 3,770	—	—	$ 3,770
Corporate Bonds:				
Domestic	17,440	—	—	17,440
Foreign	2,076	—	—	2,076
Total Corporate Bonds	19,516	—	—	19,516
Total Investments at Fair Value	$ 23,286	—	—	$ 23,286

The following table sets forth our estimate of fair value of our financial instruments that are liabilities as of March 31, 2011:

	(in thousands)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Series I Warrants	$ —	$ —	$ 14,892	$ 14,892

The following table sets forth a summary of changes in fair value of our derivative liability for the three months ended March 31, 2011:

	(in thousands)
Balance December 31, 2010	$ 14,364
Net loss included in earnings	5,130
Reduction in liability due to Series I Warrants exercised	(4,602)
Balance March 31, 2011	$ 14,892

Stock-Based Compensation

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

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

Note 4 — Patent Portfolio

As of March 31, 2011, we had fourteen (14) issued U.S. and sixteen (16) issued foreign patents, in addition to several pending U.S. and foreign patent applications. The terms of our issued U.S. and foreign patents expire during the period from 2019 to 2024. A portion of our issued patents and pending patent applications were acquired by our principal operating subsidiary, from Science Applications International Corporation, or SAIC, pursuant to agreements entered in 2005 and 2006, as amended. We are required to make payments to SAIC based on the revenue generated from our ownership or use of the patents we acquired from SAIC. Payments due SAIC vary depending upon the type of revenue generating activities, and certain payment categories are subject to maximums and other limitations. With respect to revenue-generating activities within our field of use, minimum annual payments of $50,000 were due beginning in 2008 through June 30, 2010. SAIC is entitled under certain circumstances to receive a portion of the proceeds from revenues, monies or any form of consideration paid to us for certain acquisitions of our subsidiary or us or from the settlement of certain patent infringement claims of ours.

Note 5 — Income Taxes

The components of income tax benefit for the three months ended March 31, 2011 and 2010, respectively are as follows: (in thousands)

	March 31, 2011	March 31, 2010
Current	$ (4,000)	$ —
Deferred	3,300	—
Total	$ (700)	$ —

A reconciliation of the federal statutory rate to the Company's effective rate was as follows: (in thousands)

	March 31, 2011	March 31, 2010
Tax provision (benefit) at statutory rate	$ (2,800)	$ (3,000)
Non deductible change in derivative liability	1,800	1,500
Change in deferred tax allowance	200	—
Other	100	1,500
Total	$ (700)	$ —

The components of the deferred tax expense for the three months ended March 31, 2011 and 2010, respectively are as follows: (in thousands)

	March 31, 2011	March 31, 2010
Deferred tax benefit of net operating loss carryforwards	$ 100	$ 1,500
California franchise tax deduction	(3,300)	—
Other	200	—
Subtotal	3,000	—
Less utilization allowance	300	(1,500)
Total	$ (3,300)	$ —

As allowed by ASC 740, Income Taxes, we used the actual effective tax rate for the three months ended March 31, 2011 because our 2011 annual profit before tax is not estimable at this time. To the extent our expected profitability changes during the year, the effective tax rate would be revised to reflect the change.

In assessing deferred tax assets, management considers whether it is more likely than not that some portion or all of deferred assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based on the available objective evidence, management continues to believe it is more likely than not that the net deferred tax assets will not be fully realizable for the quarter ended March 31, 2011.

Note 6 — Commitments

We lease our office facility under a non-cancelable operating lease that ends in 2012. We recognize rent expense on a straight-line basis over the term of the lease.

	Minimum Required Lease Payments in Period
For remainder of 2011	$ 44,722
2012	30,202
	$ 74,924

Note 7 — Stock Plan

The "VirnetX Holding Corporation 2007 Stock Plan", or the Plan, provides for the issuance of up to 11,624,469 shares of our common stock. Any award that expires, becomes un-exercisable or is otherwise forfeited, the shares subject to such award become available for issuance under the Plan. The Plan allows grants of stock options and stock purchase rights to our employees and consultants. Stock options granted under the Plan may be incentive stock options or nonqualified stock options. Incentive stock options, or ISOs, may only be granted to our employees (including officers). Nonqualified stock options, or NSOs, and stock purchase rights may be granted to our employees, directors and consultants.

The Plan expires in 2017. Options may be granted under the Plan with an exercise price determined by our board, provided, however, that the exercise price of an ISO or NSO granted to one of our Named Executive Officers shall not be less than 100% fair market value of the shares at the date of grant and the exercise price of an ISO granted to a 10% stockholder shall not be less than 110% of the fair market value of the shares on the date of grant.

There were 4,830,391 options outstanding at March 31, 2011 and December 31, 2010 with an average exercise price of $3.14 and $3.14 respectively. As of March 31, 2011, there remained 1,103,478 shares available to be granted under the Plan.

On April 21, 2011, our Board of Directors ratified an amendment to our standard form of stock option agreement to provide for post-termination exercise periods of (i) twelve months for directors and Section 16 officers, and (ii) three months for all other employees. Such post-termination exercise periods shall not extend the aggregate option term beyond the original ten-year expiration date.

Note 8 — Stock-Based Compensation

We account for equity instruments issued to employees directors and consultants at their fair value on the grant date. The recognition of the expense is subject to periodic adjustment as the underlying equity instrument vests.

Stock-based compensation expense is included in general and administrative expense for the period ended March 31, 2011. Total stock-based compensation expense was $642,804 and $789,401 for the three months March 31, 2011 and 2010, respectively.

As of March 31, 2011, the unrecorded deferred stock-based compensation balance related to stock options was $3,383,703 which will be amortized as expense over an estimated weighted average vesting amortization period of approximately 1 year.

For the three months ended March 31, 2011, no stock options were exercised, granted, forfeited or expired. For the three months ended March 31, 2010, there were 315,250 and 31,500 stock option shares granted and cancelled, respectively. The fair value of each stock option was estimated on the date of grant using the weighted average volatility of 110%, risk-free interest rate of 3.66%, expected life of 7 years and expected dividends of 0%.

The expected life was determined using the simplified method outlined in FASB codification topic 718, taking the average of the vesting term and the contractual term of the option. Expected volatility of the stock options was based upon historical data and other relevant factors, such as the volatility of comparable publicly-traded companies at a similar stage of the life cycle. We have not provided an estimate for forfeitures because we have no history of forfeited options and believe that all outstanding options at March 31, 2011 will vest. In the future, we may change this estimate based on actual and expected future forfeiture rates.

Note 9 — Warrants

As of March 31, 2011, our warrant activity consisted of:

Exercise Price per Common Share	Exercisable at December 31, 2010	Exercised	Terminated / Cancelled / Expired	Exercisable at March 31, 2011	Expiration Date
$ 4.80	30,000	—	—	30,000	December 2012
$ 3.59(1)	1,060,444	(250,365)	—	810,079	March 2015
Total	1,090,444	(250,365)	—	840,079	

(1) Represents the exercise price as adjusted to reflect the impact of our payment of a special cash dividend to stockholders of record on July 1, 2010.

Note 10 — Litigation

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

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

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

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

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

As used herein, "we," "us," "our," or the "Company" means VirnetX Holding Corporation, together with its consolidated subsidiaries where applicable.

Company Overview

We develop and commercialize software and technology solutions for securing real-time communications over the Internet. Our patented GABRIEL Connection Technology™ combines industry standard encryption protocols with our patented techniques for automated domain name system, or DNS, lookup mechanisms, enabling users to create a secure communication link using secure domain names over wired or wireless (4G/LTE) networks. We also intend to establish the exclusive secure domain name registry in the United States and other key markets around the world. Our software and technology solutions provide the security platform required by next-generation Internet-based applications such as instant messaging, or IM, voice over Internet protocol, or VoIP, mobile services, streaming video, file transfer and remote desktop. Our technology generates secure connections on a "zero-click" or "single-click" basis, significantly simplifying the deployment of secure real-time communication solutions by eliminating the need for end users to enter any encryption information.

Our portfolio of intellectual property is the foundation of our business model. We currently have fourteen (14) patents in the United States and sixteen (16) foreign patents, as well as several pending U.S. and foreign patent applications. 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 operating systems and network security.

On December 2, 2009, we submitted a Statement of Patent Holder to the Alliance for Telecommunications Industry Standards (ATIS) and the European Telecommunications Standards Institute (ETSI) identifying patents and patent applications that we believe are or may become essential to certain developing specifications in the (3rd Generation Partnership Project) or 3GPP Long-Term Evolution or (LTE) project. On March 15, 2011, we updated our patent declaration to include five additional specifications and we indicated that we are willing, upon request, to make available a non-exclusive license under what is commonly referred to as RAND (reasonable terms and conditions that are free of any unfair discrimination) with respect to necessary claims that may issue from our identified patents and patent applications for the specifications indicated in our Statement of Patent Holder, as updated, to the extent adopted as a final standard, and subject to the conditions set forth in the Statement of Patent Holder. On April 28, 2011, at the request of ETSI, we agreed to further amend our patent declaration and make available a non-exclusive patent license under FRAND (fair, reasonable and non-discriminatory terms and conditions, with compensation), to 3GPP members desiring to implement the Technical Specifications identified by VirnetX, as set forth in the updated licensing declaration under ETSI's IPR policy.

Our employees include the core development team behind our patent portfolio, technology and software. This team has worked together for over ten years and is the same team that invented and developed this technology while working at Science Application International Corporation, or SAIC. SAIC is a FORTUNE 500® scientific, engineering and technology applications company that uses its deep domain knowledge to solve problems of vital importance to the nation and the world, in national security, energy and the environment, critical infrastructure and health. We acquired the majority of this portfolio of patents and patent applications in 2006, from SAIC, and it now serves as the foundation of our licensing business and planned service offerings. We expect to continue to derive the majority of our revenue from license fees and royalties associated with these patents. We also intend to continue our research and development efforts to further strengthen and expand our patent portfolio, and over time, we plan to leverage this portfolio to develop a product suite that can be sold to original equipment manufacturers, or OEMs, enterprise customers and developers.

Microsoft Corporation is our first licensee and has been granted a worldwide, irrevocable, nonexclusive, non-sublicenseable fully paid up license of our patents for Microsoft products. The license will not impact our plans to operate a secure domain name service. We also intend to license our patents and our GABRIEL Connection Technology™ to manufacturers 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.

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

We also intend to license our patent portfolio, technology and software including our secure domain name registry service to third parties like OEMs, domain infrastructure providers, communication service providers and system integrators. We believe that the market opportunity for our software and technology solution is large and expanding.

We intend to continue using an outsourced and leveraged model to maintain efficiency and manage costs as we grow our licensing business by 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.

Developments in the Three Months Ended March 31, 2011

On January 12, 2011, we initiated a lawsuit by filing a complaint against Siemens and Mitel in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that these companies infringe two of our patents. On April 12, 2011, we amended the complaint to add Avaya Inc. as a defendant. We seek damages and injunctive relief.

On January 25, 2011, our audit committee determined that the previously filed financial statements for: (i) the fiscal quarter ended September 30, 2009 included in the Form 10-Q filed with the SEC on November 9, 2009, (ii) the fiscal year ended December 31, 2009 included the Form 10-K filed with the SEC on March 31, 2010, (iii) the fiscal quarter ended March 31, 2010 included in the Form 10-Q filed with the SEC on May 7, 2010, (iv) the fiscal quarter ended June 30, 2010 included in the Form 10-Q filed with the SEC on August 9, 2010 and (v) the fiscal quarter ended September 30, 2010 included in the Form 10-Q filed with the SEC on November 8, 2010 (collectively, the "Periodic Reports"), needed to be restated to correct our accounting for certain derivative instruments (the Series I Warrants we issued in 2009) in such financial statements, which were previously recorded as equity instruments.

On January 31, 2011, all of the restatements of the Periodic Reports were filed with the SEC.

On March 15, 2011, we updated our original patent declaration from December 2, 2009 to ETSI and ATIS, to include five additional specifications in the (3rd Generation Partnership Project) or 3GPP Long-Term Evolution or (LTE) project and we indicated that we are willing, upon request, to make available a non-exclusive license under what is commonly referred to as RAND (reasonable terms and conditions that are free of any unfair discrimination) with respect to necessary claims that may issue from our identified patents and patent applications for the specifications indicated in our Statement of Patent Holder, as updated, to the extent adopted as a final standard, and subject to the conditions set forth in the Statement of Patent Holder.

Critical Accounting Policies

There were no material changes in the application of the Company's critical accounting policies since the end of the most recent fiscal year. For further information, see the "Critical Accounting Policies" section of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 16, 2011.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board required new disclosures about fair value of financial instruments for interim and annual reporting periods. These new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures about purchase, sales, issuances and settlements of so-called Level 3 financial instruments, which are effective for interim and annual reporting periods in fiscal years beginning after December 15, 2010. Adoption did not have a material effect on the Company's consolidated financial statements.

For further information, see the "Recent Accounting Pronouncements" section of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the year ended December 31, 2010.

Subsequent Events

On April 12, 2011, we amended the complaint (described in Note 10 above) to add Avaya Inc. as a defendant.

On April 28, 2011, at the request of the European Telecommunications Standards Institute (ETSI), we agreed to further amend our patent declaration and make available a non-exclusive patent license under FRAND (fair, reasonable and non-discriminatory terms and conditions, with compensation), to 3GPP members desiring to implement the Technical Specifications identified by VirnetX, as set forth in the updated licensing declaration under ETSI's IPR policy.

Results of Operations

Three Months Ended March 31, 2011
Compared with Three Months Ended March 31, 2010

Revenue — Royalties

Revenue generated decreased to $16,546 for the three months ended March 31, 2011, from $20,769 for the three months ended March 31, 2010. Our revenue in 2011 was solely limited to the royalties earned under our single license agreement through our Japanese subsidiary. We expect the revenue from this license to decrease substantially in the future. We do not intend to seek additional licenses or other revenue through our Japanese subsidiary.

Research and Development Expenses

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

Our research and development expenses decreased by $326,368 to $195,867 for the three months ended March 31, 2011, from $522,235 for the three months ended March 31, 2010. This decrease was primarily due to a decrease in the level of employee bonuses in 2011 versus 2010 and the retirement of one senior employee in July of 2010.

General, Selling and Administrative Expenses

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

Our selling, general and administrative expenses decreased by $1,202,435 to $2,753,450 for the three months ended March 31, 2011 from $3,955,885 for the three month period ended March 31, 2010. The decrease was primarily due to the decrease in legal fees incurred with the Microsoft litigation in the quarter ended March 31, 2010, which were not incurred in the quarter ended March 31, 2011.

Within selling, general and administrative expenses, legal fees decreased by $1,192,288 to $929,233 for the three months ended March 31, 2011 from $2,121,521 for the three months ended March 31, 2010. The decrease in fees incurred was due primarily to fees and expenses associated with the Microsoft litigation in the quarter ended March 31, 2010, which were not incurred in the quarter ended March 31, 2011.

Other Income/Expenses

We recognized $5,129,770 in non-cash loss related to the periodic revaluation of our Series I Warrants in the three months ended March 31, 2011, compared to $4,444,242 for the comparable period in 2010. These losses were principally attributable to increases in the market price of our stock. We recognized $59,785 in interest in the three months ended 2011 compared to $1,313 in the comparable to 2010 period principally due to higher overall cash balances in the 2011 period.

Liquidity and Capital Resources

As of March 31, 2011, our cash and cash equivalents totaled approximately $43,553,000 and our short-term investments totaled approximately $23,286,000 compared to approximately $4,552,000 and zero, respectively, as of March 31, 2010. The increase in our cash and cash equivalents and short-term investments for the period ended March 31, 2011 over the period ended March 31, 2010 was primarily due to payments we received under our Settlement and License Agreement with Microsoft.

We recognized an unrealized loss on our investments of approximately $22,000 for the period ended March 31, 2011 compared to no gain or loss on our investments for the period ended March 31, 2010 because we did not have any investments available for sale as of March 31, 2010. We have determined that this loss is temporary because the fair value of our investment securities is below the carrying value primarily due to changes in interest rates and we anticipate that this loss will be reversed over the securities' remaining lives, as demonstrated by improved valuations in fiscal 2011.

We expect that our cash and cash equivalents as of March 31, 2011 to be sufficient to fund our operations and provide working capital for general corporate purposes and legal expenses including the expenses for the new complaints against Aastra, Apple, Cisco, NEC, Siemens, Mitel and Avaya in the United States District Court of the Eastern District of Texas, Tyler Division, for at least the next 36 months. Although we only recognized approximately $17,000 in revenue for the quarter ended March 31, 2011 and while we do not expect a significant increase in revenue in the near term, we do 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 over the long term. In addition, investors should not expect the Company to receive revenues related to the new complaint (described in Note 10) or any patent infringement lawsuit that may be filed on behalf of the Company in the future unless and until such lawsuit is resolved in the Company’s favor.

Off-Balance Sheet Arrangements

None.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk due to changes in interest rates relates primarily to the increase or decrease in the value of the $23,286,275 investments available for sale in our investment portfolio. Our risk associated with fluctuating interest rates is limited to our investments in interest rate sensitive financial instruments. Under our current investment policy, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to increase the safety and preservation of our invested principal funds by limiting the percentage of funds invested in any one instrument and investing in short term debt securities that generally have a maturity of less than six months. We mitigate default risk by investing primarily in investment grade securities. A 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments. Changes in interest rates over time will increase or decrease our interest income and the value of our interest bearing financial instruments carried at fair value.

ITEM 4 — CONTROLS AND PROCEDURES.

(a) *Evaluation of Disclosure 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 March 31, 2011, which we refer to as the Evaluation Date or the end of the period covered by this Quarterly Report on Form 10-Q.

The purpose of this evaluation was to determine whether as of the Evaluation Date 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 March 31, 2011, our disclosure controls and procedures were effective as of the Evaluation Date.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A "material weakness" is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

(b) *Changes in internal control over financial reporting*.

On January 25, 2011, our audit committee determined that the previously filed financial statements for: (i) the fiscal quarter ended September 30, 2009 included in the Form 10-Q filed with the SEC on November 9, 2009, (ii) the fiscal year ended December 31, 2009 included the Form 10-K filed with the SEC on March 31, 2010, (iii) the fiscal quarter ended March 31, 2010 included in the Form 10-Q filed with the SEC on May 7, 2010, (iv) the fiscal quarter ended June 30, 2010 included in the Form 10-Q filed with the SEC on August 9, 2010 and (v) the fiscal quarter ended September 30, 2010 included in the Form 10-Q filed with the SEC on November 8, 2010, needed to be restated to correct our accounting for certain derivative instruments (the Series I Warrants we issued in 2009) in such financial statements, which were previously recorded as equity instruments.

We have a remediation plan regarding our internal control over financial reporting and we will implement it, on as as-needed basis. For example, pursuant to our remediation plan, we will hire third party consultants to assist us in identifying and analyzing complex non-routine transactions and with valuing and determining the appropriate accounting treatment for any-complex non-routine transactions, including the Series I Warrants.

Subject to oversight by our board of directors, our chief executive officer and chief financial officer are responsible for implementing the internal control remediation plan.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

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

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.

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

Risks Related To Financial Reporting Obligations

If we fail to establish and maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired, which would adversely affect our consolidated operating results, our ability to operate our business and could cause our stock price to decline.

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

Ensuring that we have adequate internal financial and accounting controls and procedures in place to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Failure on our part to have effective internal financial and accounting controls would cause our financial reporting to be unreliable, could have a material adverse effect on our business, operating results, and financial condition and could cause the trading price of our common stock to fall dramatically.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. As discussed in this Quarterly Report on Form 10-Q, our audit committee and management, together with our independent registered public accounting firm, have identified a material weakness in the past and may identify additional deficiencies in the future.

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

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

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

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

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

Risks Related To Existing and Future Litigation

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

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

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

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

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

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

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

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

In connection with our patent enforcement actions, a court may rule that we have violated certain statutory, regulatory, federal, local or governing rules or standards, which may expose us to certain material liabilities.

In connection with any of our patent enforcement actions, it is possible that a defendant may request and/or a court may rule that we have violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against us or award attorneys' fees and/or expenses to a defendant, which could be material, and if we are required to pay such monetary sanctions, attorneys' fees and/or expenses, such payment could materially harm our operating results and our financial position.

Risks Related to Our Business and Our Industry

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

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

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

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

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

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

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

- substantially greater financial, technical and marketing resources;
- a larger customer base;
- better name recognition; and
- more expansive product offerings.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.
- Trial judges and juries sometimes find it difficult to understand complex patent enforcement litigation, and as a result, we may need to appeal adverse decisions by lower courts in order to successfully enforce our 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 will retain certain confidential customer information in our secure data centers and secure domain name registry. It will be critical to our business strategy that our facilities and infrastructure remain secure and are perceived by the marketplace to be secure. Our secure domain name registry operations will also depend on our ability to maintain our computer and telecommunications equipment in effective working order and to reasonably protect our systems against interruption, and potentially depend on protection by other registrars in the shared registration system. The secure domain name servers that we will operate will be critical hardware to our registry services operations. Therefore, we expect to have to expend significant time and money to maintain or increase the security of our facilities and infrastructure.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the price of our products relative to other products that seek to secure real-time communication;

- the perception by users of the effectiveness of our products;

- our ability to fund our sales and marketing efforts; and

- the effectiveness of our sales and marketing efforts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the need for continued development of the financial and information management systems;
- the need to manage relationships with future licensees, resellers, distributors and strategic partners;
- the need to hire and retain skilled management, technical and other personnel necessary to support and manage our business; and
- the need to train and manage our employee base.

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

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

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

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

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

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

Risks Related to Our Stock

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

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

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

The exercise of some or all of our outstanding warrants could significantly dilute the ownership interests of our existing stockholders. As of March 31, 2011, we had outstanding warrants to purchase an aggregate of 840,079 shares of common stock. To the extent outstanding warrants are exercised, additional shares of common stock will be issued, and such issuance may dilute existing stockholders and increase the number of shares eligible for resale in the public market. Additionally, the issuance of up to 3,505,268 shares of common stock issuable upon exercise of vested stock options and other stock awards outstanding as of March 31, 2011 pursuant to our stock incentive plan may further dilute our existing stockholders' voting interest.

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

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

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

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

Our common stock is listed on NYSE Amex, but its daily trading volume has been limited, sporadic and volatile. Over the past years the market price of our common stock has experienced significant fluctuations. Between March 31, 2010 and March 31, 2011, the reported last sale price for our common stock has ranged between $4.80 and $20.52 per share. The price of our common stock may continue to be volatile as a result of a number of factors, including, but not limited to, the following:

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

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

As of March 31, 2011, our executive officers and directors beneficially owned approximately 24% of our then outstanding common stock. In addition, a group of stockholders that, as of December 31, 2007, held 4,766,666 shares, or approximately 12% of our then outstanding common stock, have entered into a voting agreement with us that requires them to vote all of their shares of our voting stock in favor of the director nominees approved by our Board of Directors at each director election going forward, and in a manner that is proportional to the votes cast by all other voting shares as to any other matters submitted to the stockholders for a vote. However, we cannot be certain how many shares of our common stock this group of stockholders currently owns. Because of their beneficial ownership interest, our officers and directors could significantly influence stockholder actions of which you disapprove or that are contrary to your interests. This ability to exercise significant influence could prevent or significantly delay another company from acquiring or merging with us.

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 6 — EXHIBITS

Exhibit Number	Description
4.5	Amended Form of Stock Option Agreement - Virnetx Holding Company 2007 Stock Plan.
31.1	Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer 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.

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/ William E. Sliney

Name William E. Sliney
Title Chief Financial Officer (Principal Accounting and Financial Officer)

Date: May 10, 2011

EXHIBIT INDEX

Exhibit Number	Description
4.5	Amended Form of Stock Option Agreement - Virnetx Holding Company 2007 Stock Plan.
31.1	Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer 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.

EXHIBIT 4.5

VIRNETX HOLDING CORPORATION
2007 STOCK PLAN
NOTICE OF STOCK OPTION GRANT

CSO - _____

Optionee Name
Optionee Address Line 1
Optionee Address Line 2

You have been granted an option to purchase Common Stock of VirnetX Holding Corporation, a Delaware corporation (the "Company"), as follows:

Date of Grant:	_____
Exercise Price Per Share:	$_____
Total Number of Shares:	_____
Total Exercise Price:	$_____
Type of Option:	_____ Shares Incentive Stock Option
	_____ Shares Nonstatutory Stock Option
Expiration Date:	_____
First Vesting Date:	_____
Vesting/Exercise Schedule:	So long as your Continuous Service Status does not terminate, the Shares underlying this Option shall vest and become exercisable in accordance with the following schedule: _____ of the Total Number of Shares shall vest and become exercisable on _____ and _____ of the Total Number of Shares shall vest and become exercisable on the _____ day of each month thereafter.
Termination Period:	[**FOR DIRECTORS AND SECTION 16 OFFICERS:** You may exercise this Option for 12 months after termination of your Continuous Service Status except as set out in Section 5 of the Stock Option Agreement (but in no event later than the Expiration Date). You are responsible for keeping track of these exercise periods following the termination of your Continuous Service Status for any reason. The Company will not provide further notice of such periods.]

[**FOR (NON-SECTION 16) EMPLOYEES:** You may exercise this Option for 3 months after termination of your Continuous Service Status except as set out in Section 5 of the Stock Option Agreement (but in no event later than the Expiration Date). You are responsible for keeping track of these exercise periods following the termination of your Continuous Service Status for any reason. The Company will not provide further notice of such periods.]

Transferability: You may not transfer this Option.

This Option is granted under and governed by the terms and conditions of the VirnetX Holding Corporation 2007 Stock Plan and the Stock Option Agreement, both of which are attached to and made a part of this document.

In addition, your rights to any Shares underlying this Option will be earned only as you provide services to the Company over time, that the grant of this Option is not as consideration for services you rendered to the Company prior to your date of hire, and that nothing in this Notice or the attached documents confers upon you any right to continue your employment or consulting relationship with the Company for any period of time, nor does it interfere in any way with your right or the Company's right to terminate that relationship at any time, for any reason, with or without cause.

THE COMPANY:

VIRNETX HOLDING CORPORATION

By: _____
(Signature)

Name: _____
Title: _____

TRANSFER AGENT:

CORPORATE STOCK TRANSFER

By: _____
(Signature)

Name: _____
Title: _____

Address:

3200 Cherry Creek Drive South
Suite 430
Denver, CO 80209

VIRNETX HOLDING CORPORATION

2007 STOCK PLAN

STOCK OPTION AGREEMENT

1. **Grant of Option**. VirnetX Holding Corporation, a Delaware corporation (the "Company"), hereby grants to _____ ("Optionee"), an option (the "Option") to purchase the total number of shares of Common Stock (the "Shares") set forth in the Notice of Stock Option Grant (the "Notice"), at the exercise price per Share set forth in the Notice (the "Exercise Price") subject to the terms, definitions and provisions of the VirnetX Holding Corporation 2007 Stock Plan (the "Plan") adopted by the Company, which is incorporated in this Agreement by reference. Unless otherwise defined in this Agreement, the terms used in this Agreement shall have the meanings defined in the Plan.

2. **Designation of Option**. This Option is intended to be an Incentive Stock Option as defined in Section 422 of the Code only to the extent so designated in the Notice, and to the extent it is not so designated or to the extent this Option does not qualify as an Incentive Stock Option, it is intended to be a Nonstatutory Stock Option.

Notwithstanding the above, if designated as an Incentive Stock Option, in the event that the Shares subject to this Option (and all other Incentive Stock Options granted to Optionee by the Company or any Parent or Subsidiary, including under other plans of the Company) that first become exercisable in any calendar year have an aggregate fair market value (determined for each Share as of the date of grant of the option covering such Share) in excess of $100,000, the Shares in excess of $100,000 shall be treated as subject to a Nonstatutory Stock Option, in accordance with Section 5(c) of the Plan.

3. **Exercise of Option**. This Option shall be exercisable during its term in accordance with the Vesting/Exercise Schedule set out in the Notice and with the provisions of Section 10 of the Plan as follows:

(a) **Right to Exercise**.

(i) This Option may not be exercised for a fraction of a share.

(ii) In the event of Optionee's death, Disability (as defined in Section 22(e)(3) of the Code) or other termination of Continuous Service Status, the exercisability of this Option is governed by Section 5 below, subject to the limitations contained in this Section 3.

(iii) In no event may this Option be exercised after the Expiration Date set forth in the Notice.

(b) **Method of Exercise**.

(i) This Option shall be exercisable by execution and delivery of the Exercise Agreement attached hereto as Exhibit A (the "Exercise Agreement") or of any other form of written notice approved for such purpose by the Company which shall state Optionee's election to exercise this Option, the number of Shares in respect of which this Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such Shares as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered to the Company by such means as are determined by the Plan Administrator in its discretion to constitute adequate delivery. The written notice shall be accompanied by payment of the aggregate Exercise Price for the purchased Shares.

(ii) As a condition to the exercise of this Option and as further set forth in Section 12 of the Plan, Optionee agrees to make adequate provision for federal, state or other tax withholding obligations, if any, which arise upon the grant, vesting or exercise of this Option, or disposition of Shares, whether by withholding, direct payment to the Company, or otherwise.

(iii) The Company is not obligated, and will have no liability for failure, to issue or deliver any Shares upon exercise of this Option unless such issuance or delivery would comply with the Applicable Laws, with such compliance determined by the Company in consultation with its legal counsel. This Option may not be exercised until such time as the Plan has been approved by the holders of capital stock of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such Shares would constitute a violation of any Applicable Laws, including any applicable U.S. federal or state securities laws or any other law or regulation, including any rule under Part 221 of Title 12 of the Code of Federal Regulations as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by the Applicable Laws. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which this Option is exercised with respect to such Shares.

(iv) Subject to compliance with Applicable Laws, this Option shall be deemed to be exercised upon receipt by the Company or its stock transfer agent as specified in the Exercise Agreement of the appropriate written notice of exercise accompanied by the Exercise Price and the satisfaction of any applicable withholding obligations.

4. **Method of Payment**. Payment of the Exercise Price shall be by any of the following, or a combination of the following, at the election of Optionee:

(a) cash or check;

(b) cancellation of indebtedness;

(c) at the discretion of the Plan Administrator on a case by case basis, by surrender of other shares of Common Stock of the Company (either directly or by stock attestation) that Optionee previously acquired and that have an aggregate Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Shares as to which this Option is being exercised; or

(d) if the Company is at such time permitting "same day sale" cashless brokered exercises, by delivery of a properly executed Exercise Agreement together with irrevocable instructions to a broker participating in such cashless brokered exercise program to deliver promptly to the Company the amount required to pay the Exercise Price (and applicable withholding taxes).

5. **Termination of Relationship**. Following the date of termination of Optionee's Continuous Service Status for any reason (the "Termination Date"), Optionee may exercise this Option only as set forth in the Notice and this Section 5. If Optionee does not exercise this Option within the Termination Period set forth in the Notice or the termination periods set forth below, this Option shall terminate in its entirety. In no event, may any Option be exercised after the Expiration Date of this Option as set forth in the Notice.

(a) **Termination**. In the event of termination of Optionee's Continuous Service Status other than as a result of Optionee's Disability or death or for Cause, Optionee may, to the extent Optionee is vested in the Optioned Stock at the date of such termination, exercise this Option during the Termination Period set forth in the Notice.

(b) **Other Terminations**. In connection with any termination other than a termination covered by Section 5(a), Optionee may exercise this Option only as described below:

(i) **Termination upon Disability of Optionee**. In the event of termination of Optionee's Continuous Service Status as a result of Optionee's Disability, Optionee may, but only within 6 months following the date of such termination, exercise this Option to the extent Optionee is vested in the Optioned Stock.

(ii) **Death of Optionee**. In the event of termination of Optionee's Continuous Service Status as a result of Optionee's death, or in the event of Optionee's death within 1 month following Optionee's Termination Date, this Option may be exercised at any time within 12 months following the date of death (or, if earlier, the date Optionee's Continuous Service Status terminated) by Optionee's estate or by a person who acquired the right to exercise this Option by bequest or inheritance, but only to the extent Optionee is vested in this Option.

(iii) **Termination for Cause**. In the event Optionee's Continuous Service Status is terminated for Cause, the Option shall terminate immediately upon such termination for Cause. In the event Optionee's employment or consulting relationship with the Company is suspended pending investigation of whether such relationship shall be terminated for Cause, all Optionee's rights under the Option, including the right to exercise the Option, shall be suspended during the investigation period.

6. **Non-Transferability of Option**. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by him or her. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

7. **Lock-Up Agreement**. To the extent you have agreed to execute a lock-up agreement with respect to your Shares, either in favor of the Company, its underwriters or otherwise, upon exercise of this Option, your Shares will bear the appropriate restrictive legend as specified in your Exercise Agreement.

8. **Change of Control**. Notwithstanding the above, irrespective of whether this Option is being assumed, substituted, exchanged or terminated in connection with a Change of Control, the vesting and exercisability of this Option shall accelerate such that this Option shall become vested and exercisable to the extent of ___% of the Shares then unvested, effective as of immediately prior to consummation of the Change of Control.

9. **Effect of Agreement**. Your signature on the Exercise Agreement will be deemed your counterpart signature to this Option Agreement and by such signature Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof (and has had an opportunity to consult counsel regarding the Option terms), and hereby accepts this Option and agrees to be bound by its contractual terms as set forth herein and in the Plan. Optionee hereby agrees to accept as binding, conclusive and final all decisions and interpretations of the Plan Administrator regarding any questions relating to this Option. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of the Notice and this Agreement, the Plan terms and provisions shall prevail.

10. **Miscellaneous**.

(a) **Governing Law**. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of California, without giving effect to principles of conflicts of law.

(b) **Entire Agreement; Enforcement of Rights**. This Agreement, together with the Notice to which this Agreement is attached, the Exercise Agreement and the Plan, sets forth the entire agreement and understanding of the parties relating to the subject matter herein and therein and merges all prior discussions between the parties. Except as contemplated under the Plan, no modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

(c) **Severability**. If one or more provisions of this Agreement are held to be unenforceable under Applicable Laws, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of this Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this Agreement shall be enforceable in accordance with its terms.

(d) **Notices**. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by email or fax (upon customary confirmation of receipt), or forty-eight (48) hours after being deposited in the U.S. mail as certified or registered mail with postage prepaid, addressed to the party to be notified at such party's address or fax number as set forth on the signature page or as subsequently modified by written notice.

(e) **Counterparts**. This Option may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(f) **Successors and Assigns**. The rights and benefits of this Agreement shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The rights and obligations of Optionee under this Agreement may not be assigned without the prior written consent of the Company.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties have executed or caused this Agreement to be executed by their officers thereunto duly authorized, effective as of the Date of Grant set forth in the accompanying Notice of Stock Option Grant.

THE COMPANY:

VIRNETX HOLDING CORPORATION

By: _____
(Signature)

Name: _____
Title: _____

Address:

5615 Scotts Valley Drive, Suite 110
Scotts Valley, California 95066
Attn: Chief Executive Officer
Fax: (831) 438-0378
email: jon_weaklend@virnetx.com

TRANSFER AGENT:

CORPORATE STOCK TRANSFER

By: _____
(Signature)

Name: _____
Title: _____

Address:

3200 Cherry Creek Drive South
Suite 430
Denver, CO 80209

EXHIBIT A

VIRNETX HOLDING CORPORATION

2007 STOCK PLAN

EXERCISE AGREEMENT

This Exercise Agreement and counterpart signature page to Option Agreement (this "Agreement") is made as of _____, by and between VirnetX Holding Corporation, a Delaware corporation (the "Company"), and _____ ("Purchaser"). To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Company's 2007 Stock Plan (the "Plan").

1. **Exercise of Option**. Subject to the terms and conditions hereof, Purchaser hereby elects to exercise his or her option to purchase _____ shares of the Common Stock (the "Shares") of the Company under and pursuant to the Plan and the Stock Option Agreement granted _____ (the "Option Agreement"). The purchase price for the Shares shall be $_____ per Share for a total purchase price of $_____. The term "Shares" refers to the purchased Shares and all securities received as stock dividends or splits, all securities received in replacement of the Shares in a recapitalization, merger, reorganization, exchange or the like, and all new, substituted or additional securities or other property to which Purchaser is entitled by reason of Purchaser's ownership of the Shares.

2. **Time and Place of Exercise**. The purchase and sale of the Shares under this Agreement shall occur at the principal office of the Company's stock transfer agent simultaneously with the execution and delivery of this Agreement, the payment of the aggregate Exercise Price by any method listed in Section 4 of the Option Agreement, and the satisfaction of any applicable tax withholding obligations, all in accordance with the provisions of Section 3(b) of the Option Agreement. The Company shall issue the Shares to Purchaser by entering such Shares in Purchaser's name as of such date in the books and records of the Company or, if applicable, a duly authorized transfer agent of the Company, against payment of the Exercise Price therefor by Purchaser. If applicable, the Company will deliver to Purchaser a certificate representing the Shares as soon as practicable following such date. This Agreement, together with payment of the Exercise Price must be mailed to the Company's stock transfer agent at the following address:

Carylyn K. Bell
President
Corporate Stock Transfer
3200 Cherry Creek Drive South
Suite 430
Denver, CO 80209
Tel: (303) 282-4800
Fax: (303) 282-5800

3. **Limitations on Transfer**. In addition to any other limitation on transfer created by applicable securities laws, Purchaser shall not assign, encumber or dispose of any interest in the Shares except in compliance with the Company's insider trading policy as in effect from time to time and all Applicable Laws.

4. **Taxation Representations**. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

5. **Restrictive Legends and Stop-Transfer Orders**.

(a) **Legends**. The certificate or certificates representing the Shares shall bear any legends required by applicable state and federal corporate and securities laws.

(b) **Stop-Transfer Notices**. Purchaser agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its stock transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) **Refusal to Transfer**. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

6. **No Employment Rights**. Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or a parent or subsidiary of the Company, to terminate Purchaser's employment or consulting relationship, for any reason, with or without cause.

7. **Lock-Up Agreement**. To the extent you have agreed to execute a lock-up agreement with respect to your Shares, either in favor of the Company, its underwriters or otherwise, upon exercise of this Option, your Shares will bear the appropriate restrictive legend as specified in your Exercise Agreement.

8. **Miscellaneous**.

(a) **Governing Law**. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of California, without giving effect to principles of conflicts of law.

(b) **Entire Agreement; Enforcement of Rights**. This Agreement, together with the Option Agreement and the Notice attached thereto and the Plan, sets forth the entire agreement and understanding of the parties relating to the subject matter herein and merges all prior discussions between them. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

(c) **Severability**. If one or more provisions of this Agreement are held to be unenforceable under Applicable Laws, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of the Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of the Agreement shall be enforceable in accordance with its terms.

(d) **Notices**. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by email or fax (upon customary confirmation of receipt), or forty-eight (48) hours after being deposited in the U.S. mail as certified or registered mail with postage prepaid, addressed to the party to be notified at such party's address or fax number as set forth on the signature page or as subsequently modified by written notice.

(e) **Counterparts**. This Agreement shall be deemed a counterpart signature page to the Option Agreement, which two documents may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(f) **Successors and Assigns**. The rights and benefits of this Agreement shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The rights and obligations of Purchaser under this Agreement may only be assigned with the prior written consent of the Company.

[*Signature Page Follows*]

The parties have executed this Exercise Agreement as of the date first set forth above.

THE COMPANY:

VIRNETX HOLDING CORPORATION

By: _____
(Signature)

Name: _____
Title: _____

Address:

5615 Scotts Valley Drive, Suite 110
Scotts Valley, California 95066
Attn: Chief Executive Officer
Fax: (831) 438-0378
email: jon_weaklend@virnetx.com

OPTIONEE:

_____
(PRINT NAME)

_____
(Signature)

Name: _____
Title: _____

Address:

_____
_____
_____

Fax: _____
email: _____

I, _____, spouse of _____ ("Purchaser"), have read and hereby approve the foregoing Agreement. In consideration of the Company's granting my spouse the right to purchase the Shares as set forth in the Agreement, I hereby agree to be irrevocably bound by the Agreement and further agree that any community property or similar interest that I may have in the Shares shall be similarly bound by the Agreement. I hereby appoint my spouse as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

_____

Spouse of Purchaser (if applicable)

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 March 31, 2011;

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: May 10, 2011

EXHIBIT 31.2

CERTIFICATIONS

I, William E. Sliney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of VirnetX Holding Corporation for the quarter ended March 31, 2011;

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

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2011

EXHIBIT 32.1

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

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

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, 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: May 10, 2011

EXHIBIT 32.2

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

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

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, 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/ William E. Sliney
William E. Sliney
Chief Financial Officer
(Principal Accounting and Financial Officer)

Date: May 10, 2011