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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 5, 2007

PASW, INC.

(Exact name of registrant as specified in its charter)

Delaware	**333-75137**	**77-0390628**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

5615 Scotts Valley Drive, Suite 110
Scotts Valley, CA 95066
(Address of principal executive offices and Zip Code)

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

9453 Alcosta Boulevard
San Ramon, CA 94583
(925) 828-0934
(Former name or former address since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a -12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d -2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e -4(c))

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This current report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to anticipated future events, future results of operations or future financial performance. These forward-looking statements include, but are not limited to, statements relating to our ability to litigate our patent infringement claims against our competitors, our ability to raise sufficient capital to finance our planned operations, our ability to market and sell our products, our ability to successfully compete in the marketplace, our ability to secure additional technologies and licenses, our ability to license our technology to other parties, our ability to protect our intellectual property, and estimates of our cash expenditures for the next 12 to 36 months. In some cases, you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “should,” “intends,” “expects,” “plans,” “goals,” “projects,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms or other comparable terminology.

These forward-looking statements are only predictions, are uncertain and involve substantial known and unknown risks, uncertainties and other factors which may cause our (or our industry’s) actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements. The “Risk Factors” section of this current report sets forth detailed risks, uncertainties and cautionary statements regarding our business and these forward-looking statements.

We cannot guarantee future results, levels of activity or performance. You should not place undue reliance on these forward-looking statements, which speak only as of the date that they were made. These cautionary statements should be considered with any written or oral forward-looking statements that we may issue in the future. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to reflect actual results, later events or circumstances or to reflect the occurrence of unanticipated events.

EXPLANATORY NOTE

This current report is being filed in connection with a series of transactions consummated by the Company and certain related events and actions taken by the Company.

This current report responds to the following items on Form 8-K:

Item 1.01 Entry into a Material Definitive Agreement.
Item 2.01 Completion of Acquisition or Disposition of Assets.
Item 3.02 Unregistered Sales of Equity Securities.
~~Item 4.01 Changes in Registrant’s Certifying Accountant.~~
Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.
Item 5.06 Change in Shell Company Status.
Item 9.01 Financial Statements and Exhibits.

As used in this current report and unless otherwise indicated, the terms the “Company,” “we,” “us,” and “our” refer to PASW, Inc. after giving effect to our acquisition of VirnetX, Inc. and the related transactions described below, unless the context requires otherwise.

Item 1.01 Entry into a Material Definitive Agreement.

Agreement and Plan of Merger and Reorganization

On June 12, 2007, we entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with VirnetX, Inc., a Delaware corporation ("VirnetX"), and VirnetX Acquisition Inc., a Delaware corporation and our wholly-owned subsidiary ("MergerSub"), the terms of which provide for (1) the merger of VirnetX and MergerSub; (2) the issuance by us to holders of VirnetX's securities of shares of our common stock, par value $0.00001 per share (the "Common Stock") and certain options to purchase our Common Stock; (3) the issuance by us to a holder of a contractual right to be issued a warrant to purchase our Common Stock a warrant to purchase our Common Stock; and (4) VirnetX's becoming our wholly-owned subsidiary. A full description of the terms of the Merger Agreement was included in our Form 8-K filed with the Securities and Exchang e Commission ("SEC") on June 18, 2007 (the "June 18th Form 8-K") and is also contained in our discussion of the Merger in Item 2.01 below.

Registration Rights Agreement

Effective as of July 5, 2007, the closing date of the Merger (the "Closing Date"), we entered into a Registration Rights Agreement (the "Registration Rights Agreement") with all of the persons who were issued shares of our Common Stock in the Merger and to all persons who were issued options and warrants in the Merger to purchase shares of our Common Stock. A full description of the terms of the Registration Rights Agreement is contained in our discussion of the Merger in Item 2.01 below and in the section titled *Certain Relationships and Related Transactions – Registration Rights Agreement* beginning on page 41.

Lock-Up Agreement

Effective as of the Closing Date, we entered into a Lock-Up Agreement (the "Lock-Up Agreement") with certain of the persons who were issued shares of our Common Stock in the Merger and to all persons who were issued options and warrants in the Merger to purchase shares of our Common Stock. A full description of the terms of the Lock-Up Agreement is contained in our discussion of the Merger in Item 2.01 below and in the section titled *Certain Relationships and Related Transactions – Lock-Up Agreements* beginning on page 43.

Item 2.01 Completion of Acquisition or Disposition of Assets.

Consummation of Merger and Payment of Merger Consideration

On the Closing Date, pursuant to the terms and conditions of the Merger Agreement, we consummated the Merger, whereby MergerSub was merged with and into VirnetX, with the surviving corporation, VirnetX, becoming our wholly-owned subsidiary. In connection with the Merger, (1) we issued to all holders of VirnetX's common stock, par value $0.001 per share (the "VirnetX Common Stock"), shares of our Common Stock; (2) we issued to all option holders of VirnetX options to purchase shares of our Common Stock in exchange for their VirnetX options; (3) we issued to a holder of a contractual right to be issued a warrant to purchase our Common Stock a warrant to purchase our Common Stock; and (4) we issued to holders of VirnetX convertible debt, in the aggregate principal amount of $4.5 million (the "VirnetX Convertible Debt"), shares of our Common Stock.

More specifically, pursuant to the Merger Agreement:

- each share of preferred stock par value $0.0001 per share of VirnetX ("VirnetX Preferred Stock") outstanding immediately prior to the consummation of the Merger was converted into one (1) share of VirnetX common stock par value $0.0001 per share of VirnetX ("VirnetX Common Stock")

- in exchange for 100% of the issued and outstanding shares of VirnetX Common Stock, we issued to VirnetX stockholders 12.45479 shares of our Common Stock for each share of VirnetX Common Stock, for an aggregate of 70,481,648 shares of our Common Stock;

- in exchange for 100% of VirnetX's issued and outstanding options to purchase shares of VirnetX Common Stock (the "VirnetX Options"), we issued to holders of VirnetX Options, options to purchase an aggregate of 5,355,559 shares of our Common Stock (based on an exchange rate of 12.45479 shares of our Common Stock for each share of VirnetX Common Stock underlying such VirnetX Options), with an exercise price of $0.08029 per share and upon such other terms and conditions provided with respect to such VirnetX Options (the "PASW Options");

- we issued additional PASW Options to purchase an aggregate of 3,362,793 shares of our Common Stock ("Available Options") pursuant to stock options and restricted stock awards which were committed to be granted under the VirnetX 2005 Stock Plan ("Committed Grants") (based on an exchange rate of 12.45479 shares of our Common Stock for each share of VirnetX Common Stock underlying such Committed Grants);

- upon conversion of and in exchange for each $1.00 of principal amount of the $4.5 million of VirnetX Convertible Debt, we issued to the holders thereof 4 shares of our Common Stock, for an aggregate of 18,000,000 shares of our Common Stock; and,

- we issued to one entity having a contractual right to be issued warrants to purchase 800,000 shares of PASW Common Stock ("Warrant Holder") at a per share price of $0.25, which contractual right was assumed by us pursuant to the Merger Agreement, warrants to purchase 800,000 shares of PASW Common Stock at a per share price of $0.25 ("Warrants").

Beneficial Ownership of PASW Common Stock after the Merger

On the Closing Date and after giving effect to our issuance of Common Stock and PASW Options in exchange for all of the outstanding securities of VirnetX and the issuance of the Warrant, beneficial ownership of our Common Stock, on a fully diluted basis (giving effect to the exercise and conversion of all PASW Options, the Warrant and other rights to purchase shares of our Common Stock) was as follows:

- The persons who exchanged their securities of VirnetX in connection with the Merger and the Warrant Holder acquired an aggregate beneficial ownership of approximately 95% of our issued and outstanding shares of Common Stock; and

- Persons beneficially owning 100% of our shares of Common Stock immediately prior to the consummation of the Merger were reduced to an aggregate beneficial ownership of approximately 5% of our issued and outstanding shares of Common Stock.

A discussion of beneficial ownership of our directors, officers and principal stockholders is set forth below in the section titled *Security Ownership of Certain Beneficial Owners and Management* beginning on page 31 and incorporated herein by reference.

Conversion of VirnetX Convertible Debt and Release of Escrow Funds

On the Closing Date, pursuant to the terms and conditions of the Merger Agreement, the VirnetX Convertible Debt in the aggregate principal amount of $4.5 million was converted and exchanged for 18,000,000 shares of our Common Stock and we paid interest accrued on the VirnetX Convertible Debt in the total approximate amount of $53,000. As a result of this conversion, $3 million being held in escrow, pursuant to the terms of one of the convertible debt transactions, and the remaining amount of the proceeds received by VirnetX under the terms of the VirnetX Convertible Debt can be used to fund our business. See the section titled *Description of our Business* beginning on page 6.

Registration Rights

On the Closing Date, the Company granted both demand and "piggyback" registration rights with respect to the Common Stock issued in connection with the Merger and with respect to the shares of Common Stock underlying the PASW Options issued in connection with the Merger. These registration rights are described in greater detail below in the section titled *Certain Relationships and Related Transactions – Registration Rights Agreement* beginning on page 41.

Change in the Majority of the Directors Serving on our Board

In connection with the Merger, the three directors serving on our Board of Directors immediately prior to the Merger resigned and the five directors serving on the Board of Directors of VirnetX were appointed to also serve on our Board of Directors. We filed an information statement with the SEC, pursuant to Rule 14f-1 of the Securities Exchange Act of 1934, and mailed it to all of the Company's stockholders at least 10 days prior to the Closing Date, notifying our stockholders of a change in the majority of our directors serving on the Board. Reference is made to Item 5.02 below beginning on page 51 for a more detailed discussion which is incorporated herein by reference. Additionally, information on each of the directors currently serving on the Board of Directors is set forth below in the section titled *Directors, Executive Officers, Promoters and Control Persons* begin ning on page 33.

Executive Employment Agreements

Pursuant to the Merger Agreement, the Company has agreed to use reasonable efforts to enter into, or cause the Company to enter into, an employment agreement with Kendall Larsen, who is serving as the Company's President and Chief Executive Officer after the Merger, and also to enter into employment agreements with each of Edmund Munger, Sameer Mathur, Kathleen Sheehan and Robert Short, all of whom are employees of the Company. All of such employment agreements shall be on terms mutually agreed to by VirnetX and the Company, on the one hand, and the respective employees on the other hand, and shall be subject to the approval of the Company's Board of Directors and/or Compensation Committee, as applicable.

Related Party Agreements

In connection with the consummation of the Merger, we specifically assumed or directly or indirectly succeeded to, as well as entered into certain related party agreements, arrangements and transactions. Reference is made to the descriptions of such agreements, arrangements and transactions set forth in the section titled *Certain Relationships and Related Transactions* beginning on page 41.

Indemnification Agreements

The Company has entered or expects to enter into customary indemnification agreements with its officers and directors. Our certificate of incorporation also provides indemnities to our officer and directors.

Escrow of Common Stock

At the closing of the Merger an aggregate of 225,000 shares of PASW Common Stock that would have been issued to the VirnetX Stockholders in the Merger were deposited into an escrow account for a period of 12 months for the purpose of covering VirnetX's indemnification obligations under the Merger Agreement. VirnetX's indemnification obligations under the Merger Agreement are limited to the foregoing shares. Shares in an amount having a value equal to the damages associated with such breaches, if any, will be withdrawn from the escrow account and forfeited back to us. All shares of PASW Common Stock remaining in escrow after such 12-month period will be distributed to the applicable stockholders; *provided, however,* that to the extent that any valid claims for indemnification are pending at the end of such period, shares in an amount sufficient to cover such claims shall remain in es crow until such claims have been resolved. The former Chairman and Chief Executive Officer of PASW, Glen Russell, deposited 225,000 outstanding shares of PASW Common Stock into an escrow account for a period of 12 months for the purpose of covering PASW's indemnification obligations with respect to certain breaches under the Merger Agreement. PASW's indemnification obligations under the Merger Agreement are limited to such 225,000 shares deposited into the escrow.

Recapitalization

Pursuant to the terms of the Merger Agreement, we have agreed to use reasonable efforts to recapitalize the issued and outstanding shares of the Common Stock by effecting a 1-for-3 reverse split of the Company Common Stock, the result of which would reduce the number of issued and outstanding shares of Company Common Stock after the Merger from 93,479,048 shares to 31,159,682 shares of Company Common Stock. Pursuant to the provisions of the Company's Options, Company's Available Options and the Company's Warrants, the aggregate number of shares of Company Common Stock exercisable thereunder would be reduced to one third of the number of shares available immediately prior to such recapitalization and the applicable exercise prices would be increased to 300% of the exercise prices immediately prior to such recapitalization. Such recapitalization would be subject to the approval of the Company's Board of Directors, each director exercising his fiduciary duties to Company's stockholders, and the approval of the stockholders holding a majority of the issued and outstanding shares of Company's Common Stock.

Adoption of Anti-Takeover Provisions

Pursuant to the terms of the Merger Agreement, we have agreed to use reasonable efforts to amend our certificate of incorporation, and take such other actions as may be necessary, to adopt anti-takeover provisions, including one or more of the following: (i) shareholder rights plan; (ii) election of a staggered Board; (iii) supermajority stockholder voting requirements for extraordinary actions such as the sale of the Company's assets, mergers or acquisitions; and (iv) imposing restrictions on the right of the Company's stockholders to call meetings of stockholders. We may also make other amendments that may have the effect of preventing or reducing the ability of any shareholder or group of shareholders from effecting a change of control of us. Adoption of such anti-takeover provisions would be subject to the approval of the Company's Board of Directors and the approval of stockholders holding a majority of the issued and outstanding shares of the Company Common Stock.

Change in Control and Shell Company Status

As a result of the Merger, we experienced a change in control and ceased being a shell company.

The following information is being provided with respect to the Company after giving effect to the Merger pursuant to the requirements of Items 2.01, 5.01 and 5.06 of Form 8-K and Form 10-SB. The following information includes, among other things, a description of the acquired business as required by Item 2.01 of Form 8-K, which description is incorporated herein by reference.

FORM 10-SB INFORMATION

DESCRIPTION OF OUR BUSINESS

The following describes the business of PASW, Inc. Whenever the terms "our," "we" and the "Company" are used herein they refer to PASW, Inc., a Delaware corporation, and VirnetX, Inc., its wholly-owned subsidiary, unless the context otherwise provides.

Corporate Overview and History

Our predecessor corporation was incorporated in the State of California in November 1992. We were incorporated in the State of Delaware in April 2007 and on May 30, 2007 we filed a certificate of merger in Delaware pursuant to which we changed our domicile from California to Delaware. From our inception until January 2003, we were engaged in the business of developing and licensing software that enabled Internet and web based communications. As of January 31, 2003, we had sold all of our operating assets, and since such time our only source of revenue has been derived from nominal royalties payable to our wholly-owned Japanese subsidiary, Network Research Corp. Japan, Ltd. ("NRCJ") pursuant to the terms of a single license agreement. We have had substantially no day to day operations since we sold all of our operating assets on January 31, 2003. Pursuant to t he Merger described in Item 2.01 above, which description is incorporated herein by reference, we acquired VirnetX, Inc., a Delaware corporation ("VirnetX"), as a wholly-owned subsidiary on July 5, 2007 and ceased being a shell company. Additionally, pursuant to the Merger, we experienced a change in control, with the former securityholders of VirnetX acquiring control of the Company. Unless otherwise stated or unless the context otherwise requires, the description of our business set forth below is provided on a combined basis, taking into account our acquisition of VirnetX.

VirnetX was incorporated in the State of Delaware in August 2005. It is a development stage company that was formed to commercialize an extensive patent portfolio for providing solutions for secure real-time communications such as Instant Messaging ("IM") and Voice over Internet Protocol ("VoIP"). VirnetX has acquired certain patents from Science Applications International Corporation, a systems, solutions and technical services company based in San Diego, California ("SAIC") and in February 2007 commenced a lawsuit against Microsoft Corporation alleging infringement of three of the patents VirnetX acquired from SAIC.

Summary

We are seeking to commercialize products focused on securing all types of real-time communication between computers without requiring any user intervention or changing consumer behavior, making it extremely easy for enterprises to deploy unified messaging and communication solutions. We are also seeking to license our valuable patent portfolio which we expect to generate significant licensing revenue. These are referred to as our Technology and Solutions business.

Our research and development group based in Sterling, Virginia, provides contract research, prototyping, systems integration and technical services to numerous branches of the U.S. Federal government, network service providers and other OEM partners. This is referred to as our Contract Services business.

While we anticipate all our initial revenue, other than the ongoing nominal licensing revenue from the NRCJ License, will be derived from our Contract Services business, we consider our Technology and Solutions business to be our primary business.

Principal Products and Services

Technology and Solutions Business

Our primary strategy for our Technology and Solutions business is to commercialize our patented technology in the area of secure real-time communication. Our proprietary technology is designed to:

- Provide “Single-Click” and “Zero-Click” Security Solutions for Real-Time Communications; and

- Provide “end-to-end” security for VoIP, Video Conferencing and other types of peer-to-peer collaboration without degradation in quality of service.

In addition, we expect to continue to generate nominal royalties payable to PASW’s wholly-owned Japanese subsidiary, Network Research Corp. Japan, Ltd. (“NRCJ”) pursuant to the terms of a single license agreement.

Assignment of Patents

The VirnetX IP portfolio is based on 10 issued U.S. and 4 issued foreign patents, and certain pending U.S. and foreign patent applications (collectively, the “Patents”) which were originally acquired from SAIC. The terms of the issued U.S. and foreign Patents run through 2019. The Patents embrace a unique set of functions relating to DNS based security mechanisms for real-time communication. VirnetX acquired the Patents from SAIC pursuant to the Assignment Agreement by and between VirnetX and SAIC dated December 21, 2006, (the “Assignment”) and the Patent License and Assignment Agreement by and between VirnetX and SAIC dated August 12, 2005 (the “August Agreement”), as amended on November 2, 2006 (the “November Amendment”), including documents prepared pursuant to the November Amendment. VirnetX recorded the Assignment with the U .S. Patent Office on December 21, 2006.

Key terms of these agreements are as follows:

Patent Assignment. SAIC unconditionally and irrevocably conveyed, transferred, assigned and quitclaimed all its right, title and interest (the “VirnetX Patent Rights”) in and to the Patents, as specifically set forth on Exhibit A to the Assignment, including, without limitation, the right to sue for past infringement.

License to SAIC Outside the Field of Use. VirnetX has granted to SAIC an exclusive, royalty free, fully paid, perpetual, worldwide, irrevocable, sublicensable and transferable right and license under the VirnetX Patent Rights permitting SAIC and its assignees to make, have made, import, use, offer for sale, and sell products and services covered by, and to make improvements to, the VirnetX Patent Rights outside the Field of Use. VirnetX has, and retains, all right, title and interest to the VirnetX Patents Rights within the Field of Use. The term Field of Use is defined as the field of secure communications in the following areas: Virtual Private Networks (VPN); Secure Voice Over Internet Protocol (VoIP); Electronic Mail (E-mail); Video Conferencing; Communications Logging; Dynamic Uniform Resource Locators (URLs); Denial of Service; Prevention of Functional Intrusions; IP Hoppin g; Voice Messaging and Unified Messaging; Live

Voice and IP PBXs; Voice Web Video Conferencing and Collaboration; Instant Messaging (IM); Minimized Impact of Viruses; and Secure Session Initiation Protocol (SIP). The Field of Use is not limited by any predefined transport mode or medium of communication (e.g., wire, fiber, wireless, or mixed medium).

Compensation Obligations. As consideration for the assignment of the Patents, VirnetX is required to make payments to SAIC based on the revenue generated from VirnetX's ownership or use of the VirnetX Patent Rights.

- VirnetX's compensation obligation includes payment of royalties, in an amount equal to 15% of all gross revenues of VirnetX less (i) trade, quantity and cash discounts allowed, (ii) commercially reasonable commissions, discounts, refunds, rebates, chargebacks, retroactive price adjustments and other allowances which effectively reduce the net selling price, and which are based on arms length terms and are customary and standard in VirnetX's industry, and (iii) actual product returns and allowances.

- Royalty payments are calculated based on each quarter and payment is due within 30 days following the end of each quarter.

- Beginning 18 months after January 1, 2007, VirnetX shall make a minimum guaranteed annual royalty payment of $50,000.

- The maximum cumulative royalty paid shall be no more than thirty five million dollars ($35,000,000) (the "Maximum Amount").

- In addition to the royalties, in the circumstances and subject to the limitations specified in the November Amendment, SAIC shall be entitled to receive 10% of any proceeds, revenues, monies or any other form of consideration paid for the acquisition of VirnetX, up to a maximum amount of thirty-five million dollars ($35,000,000) ("Acquisition Proceeds"). Acquisition Proceeds shall be credited against the Maximum Amount.

- In the event that VirnetX receives any proceeds, recovery or other form of compensation ("M&A Proceeds") as a result of any action or proceeding brought by VirnetX against Microsoft or certain other likely infringing companies (the "M&A Entities") to resolve a claim of infringement or enforcement, or as a result of negotiations with the M&A Entities, except for and excluding Acquisition Proceeds, as further consideration for the assignment of the Patents, VirnetX shall pay to SAIC 35% of the excess of the M&A Proceeds over all costs incurred in connection with any such litigation. Any payment to SAIC of M&A Proceeds shall be credited against the Maximum Amount.

- In the event that VirnetX receives any proceeds, recovery or other form of compensation ("Infringement Notice Proceeds") as a result of any action or proceeding brought by VirnetX against parties other than the M&A Entities with respect to which VirnetX is required to notify SAIC of infringement under the terms of the November Amendment (the "Infringement Notice Parties") to resolve a claim of infringement or enforcement, or as a result of negotiations with the Infringement Notice Parties, except for and excluding any Acquisition Proceeds, as further consideration for the assignment of the Patents, VirnetX shall pay to SAIC 25% of the excess of the Infringement Notice Proceeds over all costs incurred in connection any such litigation. Any payment to SAIC of Infringement Notice Proceeds shall be credited against the Maximum Amount.

Reversion to SAIC Upon Breach or Default. Upon the first occurrence of the following: (i) VirnetX's failure to pay SAIC an aggregate cumulative amount of less than $7,500,000 within seven years

of January 1, 2007; (ii) any failure by VirnetX to pay the minimum royalty that has not been cured within 90 days after VirnetX's receipt of written notice of such failure; (iii) for the period prior to the date of VirnetX's full payment of the Maximum Amount, any breach by VirnetX of its license to SAIC outside the Field of Use that has not been cured within 30 days after VirnetX's receipt of notice of such failure; or (iv) for the period prior to the date of VirnetX's full payment of the Maximum Amount, any authorized termination of the August Agreement (each, a "Reversion Trigger Event"), VirnetX has agreed to convey, transfer, assign and quitclaim to SAIC all of its right, title and interest in and to the VirnetX Patent Rights (the "Reversion"). In the event of a Reversion, VirnetX agrees to execute and deliver without add itional consideration, at its sole expense, such further instruments of conveyance, transfer, assignment and quitclaim as SAIC may reasonably request that are reasonably necessary for the purpose of further evidencing SAIC's ownership of the assigned VirnetX Patent Rights.

- Any payment to SAIC of M&A Proceeds, Infringement Notice Proceeds or Acquisition Proceeds shall also count towards fulfillment of amounts required to be paid to avoid a Reversion Trigger Event.

- If the Reversion occurs due to VirnetX's failure to pay SAIC an aggregate cumulative amount of at least $7,500,000 within seven years after January 1, 2007, then SAIC has agreed to grant to VirnetX a non-exclusive license to the VirnetX Patent Rights limited to the Field of Use.

Rights to Bring and Control Actions for Infringement and Enforcement. In addition to the right to bring and control any action or proceeding with respect to infringement or enforcement of the VirnetX Patent Rights in the Field of Use, pursuant to the November Amendment VirnetX also has the first right to negotiate with or bring a lawsuit against any and all third parties for purposes of enforcing the VirnetX Patent Rights, regardless of the Field of Use, provided, however, that VirnetX shall have such right to negotiate with or bring a lawsuit against any of the M&A Entities up to and through November 2, 2007.

Patent Portfolio License

We believe that licensing of our patent portfolio will generate significant revenue. Any licensing with Microsoft may impact potential licensing with other infringers of our intellectual property.

Products

We intend for our products to be available as object libraries for easy integration into enterprise VoIP, conference calling, IM, file transfer, application sharing, whiteboard, video conference and other real-time collaboration systems solutions.

We currently have two principal products in development:

- VirnetX Edge Toolkit ("Toolkit"), which allows OEM partners to integrate VirnetX technology into their PBXs, call managers and client solutions. We anticipate releasing the first version of the Toolkit in late 2007.

- VirnetX Secure Directory Service ("SDS"), which provides secure presence and directory services to certified individual domain names based on identity verification and enables automatic DNS triggered certified encrypted connections. We anticipate providing this service to initial customers in 2008.

We intend to commercialize our existing technology by designing, manufacturing and marketing products incorporating our technology and by partnering with other companies whose products incorporate

our technology. In addition, we intend to leverage our outstanding team of scientists to continue to develop promising new technologies.

Contract Services Business

Our research and development group, which provides contract research, prototyping, systems integration and technical services to numerous branches of the U.S. Federal government, network service providers and other OEM partners, is staffed with nationally accredited scientists who have experience with research and development projects concerning industry-wide and national security. Our Contract Services are aimed to assist the research and development efforts of our corporate and OEM developers by providing outsourced research, deployment and testing services designed to secure and simplify networks.

We believe that the revenue generated by our Contract Services business will partially offset the costs of our Technology and Solutions business and will provide us with the opportunity to generate future strategic relationships and licensing opportunities. We also anticipate that our Contract Services projects will enable us to develop promising new technologies that can be commercialized through our Technology and Solutions business.

Network Research License

The NRCJ License was entered into in 1994 and, pursuant to its terms, it automatically renews on an annual basis unless either party terminates as a result of a breach by the other party or the licensee going out of business. We expect to continue to generate nominal royalties under the NRCJ License for the foreseeable future.

Marketing and Sales

We do not anticipate launching any new products in the marketplace for at least 6 months. We intend to partner with hardware and software manufacturers and network operators to operationalize and commercialize our products.

Our Contract Services business generates new customers primarily through professional relationships and referrals.

Customers and Distribution

We are a development stage company with significant investments in research and development, and we currently do not sell or distribute any of our products. Our Contract Services customers consist primarily of the U.S. Federal government, network service providers and other OEM companies. Our Contract Services business has targeted five customers who we expect will represent more than 80% of our future Contract Services revenue.

We have made a strategic decision to selectively limit new customers in our Contract Services business in order to focus on the development of new products in our Technology and Solutions business.

Competition

The enterprise telephony market has transitioned from being circuit-switched to packet switched in large part to eliminate the requirement of running separate voice and data networks. The IP telephony industry conceived Session Initiation Protocol (“SIP”) to improve the setup and handling of telephone calls, and computer technologists have quickly adopted SIP as a protocol to simplify all forms of real-time communications. The rapid market adoption of SIP has created the need to secure SIP before it can reach the global mainstream.

SIP is a growing protocol used for real-time communication, and we anticipate that SIP will represent a significant portion of the worldwide IP telephony market over the next five years. It has become the basis for 'next generation networks' for unified messaging and communication. SIP uses existing protocols and services, including DNS, RTP, the Session Description Protocol ("SDP"), and Transport Layer Security ("TLS").

A number of vendors are providing solutions for secure real-time communications. These solutions can be grouped under three main categories:

- Session Border Controller ("SBC") is a device used in some VoIP networks to exert control over the signaling and media streams involved in setting up, conducting, and tearing down calls. SBCs are put into the signaling and/or media path between the calling and called party. In some cases, the SBC acts as the called VoIP phone and places a second call to the called party. The effect is that the signaling traffic not only crosses the SBC but the media traffic (voice, video etc.) crosses as well. We believe the security provided by SBC is limited because the SBC can extend the length of the media path (the path of media packets through the network) significantly and may break the end-to-end transparency.

- SIP Firewalls or SIP-aware Firewalls or Application Layer Gateways ("ALG"), manage and protect the traffic, flow and quality of VoIP and other SIP-related communications. They perform real-time Network Address Translation ("NAT") and dynamic firewall functions and support multiple signaling protocols and media transcoding functionality, allowing secure traversal and interconnection of IP media streams across multiple networks.

- VPN Technologies are designed to provide secure communications over unsecured networks.

We believe our technology and solutions business will compete primarily against these disparate add-on security solution providers. We believe our products will allow our OEM partners to integrate transparent and always on, end-to-end security directly into their unified messaging and communications solutions.

Our Contract Services business competes primarily against in-house research and development departments of network service providers and other OEM vendors.

Intellectual Property and Patent Rights

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

The IP Portfolio is based on the Patents, which consist of 10 issued U.S. and 4 issued foreign patents, and certain pending U.S. patent applications which VirnetX originally acquired from SAIC. The term of the issued U.S. and foreign patents runs through 2019. The Patents embrace a unique set of functions relating to DNS-based security mechanisms for real-time communication. In the event we believe that a third party is infringing on our intellectual property rights, we may negotiate with it in an attempt to terminate its infringement. If negotiation is unsuccessful or if we believe that legal action is more appropriate, we may bring a legal action against any party we believe to be infringing on our intellectual property rights so that we may properly protect our rights.

Litigation

We believe Microsoft Corporation ("Microsoft") is infringing certain of our patents. Accordingly, we commenced a lawsuit against Microsoft (the "Microsoft Lawsuit"). On February 15, 2007, we filed a complaint against Microsoft in the United States District Court for the Eastern District of Texas, Tyler Division. Pursuant to the complaint, we allege that Microsoft infringes two of our U.S. patents: U.S. Patent No. 6,502,135 B1, entitled "Agile Network Protocol for Secure Communications with Assured System Availability," and U.S. Patent No. 6,839,759 B2, entitled "Method for Establishing Secure Communication Link Between Computers of Virtual Private Network Without User Entering Any Cryptographic Information." On April 5, 2007, we filed an amended complaint specifying certain accused products at issue and alleging infringemen t of a third, recently issued U.S. patent: U.S. Patent No. 7,188,180 B2, entitled "Method for Establishing Secure Communication Link Between Computers of Virtual Private Network." We are seeking both damages, in an amount subject to proof at trial, and injunctive relief. Microsoft answered the amended complaint and asserted counterclaims against the Company on May 4, 2007. Microsoft counterclaimed for declarations that the three patents are not infringed, are invalid and are unenforceable. Microsoft seeks an award of its attorney's fees and costs. The Company filed a reply to Microsoft's counterclaims on May 24, 2007.

Because we have determined that Microsoft's alleged unauthorized use of our patents would cause us severe economic harm and the failure to either cause Microsoft to discontinue its use of such patents or to compensate us for the fair value of such use could result in the termination of our business, we have dedicated a significant portion of our economic resources, to date, to the prosecution of the Microsoft Lawsuit and expect to continue to do so for the foreseeable future.

Although we believe Microsoft infringes three of our patents and we intend to vigorously prosecute this case, at this stage of the litigation the outcome cannot be predicted with any degree of reasonable certainty. Additionally, the Microsoft Lawsuit may be costly and time-consuming, and we can provide no assurance that we will obtain a judgment against Microsoft for damages and/or injunctive relief, or that we will be able to collect the damages or enforce the injunction. Should the District Court issue a judgment in favor of Microsoft, and in connection with such judgment determine that we had acted in bad faith or with fraudulent intent, or we were otherwise found to have exhibited inequitable conduct, the Court could award attorney fees to Microsoft, which would be payable by the Company.

In the near term, the Company will dedicate significant time and resources to the Microsoft Lawsuit. The risks associated with such dedication of time and resources are set forth in the Risk Factors section of this Statement.

One or more potential intellectual property infringement claims may also be available to VirnetX against certain third party companies (the "Potential Claims") who have the resources to defend against any such claims. Although VirnetX believes its Potential Claims are worth pursuing, commencing a lawsuit can be expensive and time-consuming, and there is no assurance that the Company will prevail on such Potential Claims. In addition, bringing a lawsuit may lead to potential counterclaims which may preclude VirnetX's ability to commercialize its initial products, which are currently in development.

Research and Product Development

We are currently involved in basic research at our offices located in Scotts Valley, California and Sterling, Virginia. We are focused on developing new techniques for automatic and transparent real-time communication security. We have invested approximately $56,000 in 2005, $554,187 in 2006 and $101,674 for the three month period ended March 31, 2007 on research and development relating to our proposed products.

Additionally, we conduct some of our product development through the use of outsourced development partners. Our current development projects are derived from strategic relationships with other companies. We anticipate developing other new products through a combination of licensing, acquisitions and our discovery research activities.

Government Regulation

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

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

Employees

Immediately after the closing of the Merger, we had six full-time employees, including two executive officers.

Company Information

Our corporate headquarters are located at 5615 Scotts Valley Drive, Suite 110, Scotts Valley, California 95066, and our telephone number is (831) 438-8200.

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

The information set forth and discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operation is derived from the Financial Statements of VirnetX and the related notes thereto which are included as exhibit 99.1 to this Report. The following information and discussion should be read in conjunction with such Financial Statements and notes. Additionally, this Management's Discussion and Analysis of Financial Condition and Results of Operation contains certain statements that are not strictly historical and are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a high degree of risk and uncertainty. Actual results may differ materially from those projected in the forward-looking statements due to other risks and uncertainties that exist in VirnetX's operations, de velopment efforts and business environment, the other risks and uncertainties described in the section entitled "Cautionary Note Regarding Forward-Looking Statements" at the front of this Information Statement, and our "Risk Factors" section herein. All forward-looking statements included herein are based on information available to VirnetX as of the date hereof, and VirnetX assumes no obligation to update any such forward-looking statement.

The separate financial statements of PASW and the Management's Discussion and Analysis of Financial Condition and Results of Operation with respect to the PASW financial statements are contained in PASW's Form 10-QSB, filed on May 10, 2007 and is incorporated by reference into this Report. The Unaudited Proforma Consolidated Financial Statements are contained in exhibit 99.2 to this Report and are also incorporated by reference into this Report.

Recent Events

As discussed previously, VirnetX has entered into a definitive merger agreement with PASW and a wholly-owned subsidiary of PASW formed for the purposes of the merger, whereby VirnetX merged with the wholly-owned subsidiary of PASW and thereby VirnetX became a wholly-owned subsidiary of PASW upon the closing of the merger. Under the terms of the transaction:

- A wholly owned subsidiary of PASW merged with VirnetX in a transaction that was completed on or about July 5, 2007;

- PASW caused its management to be replaced with the officers and directors of VirnetX who are now the officers and directors of PASW;

- PASW's wholly-owned subsidiary, VirnetX, has obtained added equity funds of not less than $4.5 million; and

- PASW will change its name to that selected by VirnetX; and

- The stockholders of PASW, immediately prior to the closing of the Merger, now own just under 5% of the outstanding capital stock of the Company (on a fully-diluted basis after giving effect to the exercise of all PASW Options and PASW Warrants) and the security holders of VirnetX, as well as those providing the additional equity funding, will own the balance.

In light of the foregoing, for accounting purposes, VirnetX has been treated as the acquirer of PASW under a reverse merger.

Company Overview

PASW's predecessor corporation was incorporated in the State of California in November 1992. PASW was incorporated in the State of Delaware in April 2007 and on May 30, 2007 PASW filed a certificate of merger in Delaware pursuant to which PASW changed domicile from California to Delaware. From inception until January 2003, PASW was engaged in the business of developing and licensing software that enabled Internet and web based communications. As of January 31, 2003, PASW had sold all of PASW's operating assets, and since such time PASW's only source of revenue has been derived from nominal royalties payable to PASW's wholly-owned Japanese subsidiary, Network Research Corp. Japan, Ltd. ("NRCJ") pursuant to the terms of a single license agreement. In addition to NRCJ, PASW has three other wholly-owned subsidiaries, two of which are California corporations and the other of which is incorporated under the laws of the United Kingdom. These other subsidiaries are currently inactive. PASW has had substantially no day to day operations since it sold all of its operating assets on January 31, 2003.

VirnetX was incorporated in the state of Delaware on August 2, 2005. VirnetX is development stage company that is actively developing solutions for secure "real time" communications such as Instant Messaging ("IM") and Voice over Internet Protocol ("VoIP"), in order to commercialize its extensive patent portfolio in this area.

VirnetX acquired the Patents in 2006 from SAIC, pursuant to an assignment by SAIC to VirnetX of all of SAIC's right, title and interest (the "VirnetX Patent Rights") in and to the Patents. The Patents embrace a unique set of functions relating to DNS based security mechanisms for real-time communication. VirnetX has granted SAIC an exclusive, royalty-free and perpetual license under the VirnetX Patent Rights outside the Field of Use. VirnetX has, and retains, all right, title and interest to the VirnetX Patents Rights within the Field of Use, which consists of secure communications in areas of VPNs, secure VoIP, E-Mail, video conferencing, communications logging, dynamic URLs, denial of service, prevention of functional intrusions, IP hopping, voice messaging and unified messaging, live voice and IP PBXs, voice web video conferencing and collaboration, IM, minimized impact of viruses and secure session initiation protocol. The Field of Use is not limited by any predefined transport mode or medium of communication (e.g., wire, fiber, wireless, or mixed medium).

VirnetX is in the development stage and consequently is subject to the risks associated with development stage companies, including the need for additional financings; the uncertainty of VirnetX's intellectual property resulting in successful commercial products as well as the marketing and customer acceptance of such products; competition from larger organizations; dependence on key personnel; uncertain patent protection; and dependence on corporate partners and collaborators. To achieve successful operations, VirnetX will require additional capital to continue research and development and marketing efforts. No assurance can be given as to the timing or ultimate success of obtaining future funding.

Critical Accounting Estimates

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

Impairment of Long-Lived Assets

VirnetX identifies and records impairment losses on long-lived assets used in operations when events and changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Recoverability is measured by comparison of the anticipated future net undiscounted cash flows to the

related assets' carrying value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the projected discounted future net cash flows arising from the asset.

Income Taxes

VirnetX accounts for income taxes under the 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.

Fair Value of Financial Instruments

Carrying amounts of the VirnetX's financial instruments, including cash and cash equivalents, accounts payable, and accrued liabilities, approximate their fair values due to their short maturities.

Stock-Based Compensation

On inception, VirnetX adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") 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 grant date estimated fair values. Using the modified retrospective transition method of adopting SFAS 123(R), VirnetX began recognizing compensation expense for stock-based awards granted or modified after August 2, 2005.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Liabilities" ("SFAS 159"). SFAS 159 provides entities with the option to report selected financial assets and liabilities at fair value. Business entities adopting SFAS 159 will report unrealized gains and losses in earnings at each subsequent reporting date on items for which fair value option has been selected. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 requires additional information that will help investors and other financial statement users to understand the effect of an entity's choice to use fair value on its earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with earlier adop tion permitted. VirnetX is currently assessing the impact that the adoption of SFAS 159 may have on our financial position, results of operations or cash flows.

Operations

VirnetX is in the development stage and has raised capital since its inception through the issuance of its equity securities (see Note 5 to the accompanying December 31, 2006 financial statements in Annex F to the Proxy Statement). As of March 31, 2007, VirnetX had approximately $572,000 in cash and $504,054 in prepaid expenses.

Subsequent to March 31, 2007, VirnetX has received additional capital through the issuance of Convertible notes payable (See Note 9 to the accompanying March 31, 2007 financial statements in Annex F to the Proxy Statement).

VirnetX has generated no revenue from operations and incurred total operating expenses for the period from August 2, 2005 (date of inception) to March 31, 2007 and incurred expenses of $3,056,481, including research and development expenses of $711,861, general and administrative expenses of $2,344,620 and no sales and marketing expenses.

Net cash used in operating activities for the period from August 2, 2005 (date of inception) to March 31, 2007 was approximately $2,272,931, which primarily reflected a net loss of $3,064,643, an adjustment for stock based compensation of $1,032,606, a change in prepaid expenses of $504,054 and a change in accounts payable of $254,524. VirnetX expects net cash used in operating activities to increase going forward as VirnetX pursues and completes the merger, additional product development and enforcing patent claims.

Net cash used by investing activities was approximately $34,776 for the period from August 2, 2005 (date of inception) to March 31, 2007, which reflected the purchase of property and equipment.

Net cash provided by financing activities was approximately $2,879,955 for the period from August 2, 2005, (date of inception) to March 31, 2007, which consisted primarily of net proceeds received from the issuance of convertible preferred stock and the issuance of convertible bridge notes.

The process of developing new Security software is inherently complex, time-consuming, expensive and uncertain. VirnetX must make long-term investments and commit significant resources before knowing whether its development programs will result in products that will receive regulatory approval and achieve market acceptance. Product candidates that may appear to be promising at all stages of development may not reach the market for a number of reasons. Product candidates may be found ineffective or may take longer to progress through the beta trials than had been anticipated, may not be able to achieve the pre-defined endpoint due to changes in the environment, may fail to receive necessary approvals, may prove impracticable to manufacture in commercial quantities at reasonable cost and with acceptable quality, or may fail to achieve market acceptance. F or these reasons, VirnetX is unable to predict the period in which material net cash inflows from its security suite will commence. See "*Risk Factors— Delays in the commencement or completion of testing of VirnetX's product candidates could result in increased costs to VirnetX and delay its ability to generate significant revenues*" for additional information on the risks associated with developing VirnetX's products.

From inception, VirnetX's development efforts have been focused on its security suite.

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.

Research and development expenses increased significantly from $56,000 for the period from August 2, 2005 (date of inception) to December 31, 2005, to $554,187 for the full year ended December 31, 2006, to $ 101,674 for the three month period ended March 31, 2007 primarily as a result of increased engineering activities for product development. VirnetX expects research and development expenses to further increase significantly as employees are hired to provide in-house research and development while we continue to use outside contractors for additional product development on a limited basis.

General and Administrative Expenses

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

General and administrative expenses increased 3.16% from $826,478 for the period from August 2, 2005 (date of inception) to December 31, 2005, to $853,488 for the full year ended December 31, 2006 to $664,654 for the three month period ended March 31, 2007. VirnetX expects general and administrative expenses to further increase significantly as outside counsel fees ramp up in connection with its patent infringement lawsuit against Microsoft Corporation and as outside counsel and accounting fees increase due to the significantly higher costs associated with becoming a public company and the associated expenses for reporting and other securities law compliance activities.

Liquidity and Capital Resources

Since its inception, VirnetX has financed its operations principally through private issuances of common and preferred stock. VirnetX expects to finance future cash needs primarily through proceeds from equity or debt financings, loans, and/or collaborative agreements with corporate partners. VirnetX has used the net proceeds from the sale of common and preferred stock for general corporate purposes, which has included funding research, development, and working capital needs.

VirnetX anticipates that its existing cash and cash equivalents combined with the cash and assets acquired through the merger with PASW will be sufficient to fund operations for approximately 5 months. VirnetX intends to immediately seek additional financing through a registered public equity offering following the merger with PASW. The additional financing will be required to fund VirnetX's continued operations. There can be no assurance that VirnetX will be successful in raising this additional financing on acceptable terms, if at all.

To obtain additional capital when needed, VirnetX will evaluate alternative financing sources, including, but not limited to, the issuance of equity or debt securities, corporate alliances, joint ventures and licensing agreements; however, there can be no assurance that funding will be available on favorable terms, if at all. VirnetX cannot assure you that it will successfully commercialize its products under development or that its products, if successfully developed, will generate revenues sufficient to enable it to earn a profit. If VirnetX is unable to obtain additional capital, management may be required to explore alternatives to reduce cash used by operating activities, including the termination of development efforts that may appear to be promising to VirnetX, the sale of certain assets, possibly including VirnetX's patent portfolio, and the reduction in overall operating activities.

Off Balance Sheet Arrangements

At March 31, 2007, VirnetX did not have any off-balance-sheet arrangements except for operating lease commitments found in Note 4 to the March 31, 2007, and 2006 Financial Statements.

RISK FACTORS

Risks Related to our Lawsuit against Microsoft

We have commenced legal proceedings against Microsoft, and we expect such litigation to be time-consuming and costly, which may adversely affect our financial condition and our ability to operate our business.

On February 15, 2007, we commenced a lawsuit against Microsoft in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that Microsoft infringes two of our patents regarding the creation of virtual private networks. We seek damages and injunctive relief. On April 5, 2007, we filed an amended complaint, pursuant to which we allege that Microsoft infringes a third patent. While these legal proceedings have just recently begun, we anticipate that they may continue for several months or years and may require significant expenditures for legal fees and other expenses. The time and effort of our management to effectively pursue the Microsoft Lawsuit may adversely affect our ability to operate our business, since time spent on matters related to the lawsuit will take away from the time spent on managing and operating our business. Moreove r, commencing the Microsoft Lawsuit may lead to potential counterclaims that may preclude our ability to commercialize our initial products. Additionally, we anticipate that our legal fees will be costly, which may negatively impact our financial condition.

While we believe Microsoft infringes our patents, there can be no assurance that we will be successful in our lawsuit.

We are currently devoting significant time, effort and finances to our lawsuit against Microsoft. We believe that Microsoft infringes on three of our patents; however, obtaining a judgment against Microsoft may be difficult. Microsoft is a large, well-financed company with substantially greater resources than we. Even if we are successful in obtaining a judgment, we may have difficulty in obtaining our financial award, in the event we are awarded damages, and/or assuring that Microsoft complies with such order, in the event we are awarded injunctive relief. There can be no assurance that we will be successful in our lawsuit or, if we do obtain a judgment against Microsoft, that we will be able to enforce it.

We are devoting a substantial amount of our financial and management resources to the Microsoft Lawsuit, and if we are unsuccessful in this lawsuit, our financial condition may be so adversely affected, we may not survive.

Currently, we are devoting substantial time and money to our lawsuit against Microsoft. We are a development stage company with no finished product, and our business strategy depends greatly on obtaining a judgment in our favor from the Court and collecting such judgment before our financial resources are depleted. In the event we are not awarded and do not subsequently obtain monetary and injunctive relief, we may not have enough financial resources to continue our operations.

We may commence additional legal proceedings against third parties whom we believe are infringing on our intellectual property rights, and such legal proceedings may be costly and time-consuming.

We may have potential intellectual property infringement claims against other parties, in addition to our claim against Microsoft. If management decides to commence actions against any of these additional parties, doing so may be expensive and time-consuming, which may adversely affect our financial condition and operations. Moreover, there will be no assurance that we would be successful in these additional legal proceedings. Commencing lawsuits may lead to potential counterclaims which may preclude our ability to commercialize our initial products, which are currently in development.

Risks Related to our Business and Our Industry

Based on our historical financials, there is uncertainty as to our ability to continue as a going concern.

In the event that we are unable to achieve or sustain profitability or are otherwise unable to secure external financing, we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern. Any such inability to continue as a going concern may result in our security holders losing their entire investment. Our financial statements, which have been prepared in accordance with generally accepted accounting principles, contemplate that we will continue as a going concern and do not contain any adjustments that might result if we were unable to continue as a going concern. Notwithstanding the foregoing, our cash flow deficiencies raise substantial doubt as to our ability to continue as a going concern. Also, changes in our operating plans, our existing and anticipated working capital needs, the acceleration or modification of our expa nsion plans, lower than anticipated revenues, increased expenses, potential acquisitions or other events will all affect our ability to continue as a going concern.

We anticipate incurring operating losses and negative cash flows in the foreseeable future resulting in uncertainty of future profitability and limitation on our operations.

We anticipate that the Company will incur operating losses and negative cash flows in the foreseeable future, and to accumulate increasing deficits as we increase our expenditures for (i) our lawsuit against Microsoft, (ii) infrastructure, (iii) sales and marketing, (iv) research and development, (v) personnel, and (vi) general business enhancements. Any increases in our operating expenses will require us to achieve significant revenue before we can attain profitability. In the event that we are unable to achieve profitability or raise sufficient funding to cover our losses, we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern.

We will need additional capital to pursue our litigation strategy, conduct our operations and develop our products, and our ability to obtain the necessary funding is uncertain.

We will require significant additional capital resources from sources including equity and/or debt financings, license arrangements, grants and/or collaborative research arrangements in order to develop products and continue operations and we intend to raise such additional capital. Our current rate of expenditure is approximately $450,000 per month excluding capital expenditures. However, this rate of expenditure is expected to increase to approximately $650,000 per month by October 1, 2007 due to, among other things, our anticipated need to hire additional employees, lease additional office space and increase our research and development investment. If we raise such additional capital our existing stockholders will experience dilution.

We will need to raise additional capital to fund research and development, sales and marketing and operating expenses and we intend to raise such additional capital, however, such capital may not be available or, if available, may not be on terms favorable to the Company or its stockholders.

The successful commercialization of products currently under development and any future products developed will require additional capital which will not be generated by our current operations. We estimate that the amounts we have expended to date are nominal compared to the amounts that will be required to successfully market such products. Accordingly, we will be required to raise significant additional capital. Such additional capital may not be available or, if available, it may not be available on favorable terms. Additionally, future financings may be dilutive to our existing stockholders. If we fail to obtain additional capital as and when required, our business will not succeed.

If we fail to meet our obligations to SAIC, we may lose our rights to key technologies on which our business depends.

Our business depends on our rights to and under the Patents, which were assigned to us by SAIC. Our agreements with SAIC impose obligations on us, such as payment obligations. If SAIC believes that we have failed to meet these obligations, SAIC could seek to limit or reacquire the assigned Patent rights, which could lead to costly and time-consuming litigation and, potentially, a loss of our rights in the Patents. During the period of any such litigation, our ability to carry out the development and commercialization of potential products could be significantly and negatively affected. If our rights in our Patents were restricted or ultimately lost, our ability to continue our business based on the affected technology platform could be severely adversely affected.

Our business model is new and unproven, and therefore we can provide no assurance that we will be successful in pursuing it.

We will provide secure communication for IM and VoIP; however, this is not a defined market. Rather, it represents a new business model, for which there are no assurances that we will succeed in building a profitable business. We expect to depend on our intellectual property licensing for the majority of our revenues. Our ability to generate licensing is highly dependent on mainstream market adoption of the real-time messaging and collaboration solutions based on Session Initiation Protocol (“SIP”). If we are unable to attract significant contract services and licensing revenues, our operations and financial condition will be adversely affected.

We will rely on third parties for software and hardware development, manufacturing content and technology services.

We expect to rely on third party developers to provide software and hardware. If we experience problems with any of our third party technology or products, our customers’ satisfaction could be reduced, and our business could be adversely affected. In addition, we expect to rely on third parties to provide content through strategic relationships and other arrangements. If we experience difficulties in maintaining these relationships or developing new relationships on a timely basis and on terms favorable to us, our business and financial condition could be adversely affected.

Malfunctions of third party hosting services could adversely affect their business, which may impede our ability to attract and retain strategic partners and customers.

To the extent the number of users of networks utilizing our 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 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 communication: 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.

There has been increased competition 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.

Competition for securing IM and VoIP services is intense. We are aware of similar products and services that will compete directly with our proposed products and services, and some of the companies

developing these similar products and services are larger, better-financed companies that may develop products superior to our proposed products. Many of our prospective competitors are larger and have greater financial resources, 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 competitor companies. Generally, these competitors have:

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

These competitors are likely to command a larger market share, which may enable them to establish a stronger competitive position than we have, in part, through greater marketing opportunities. Further, our competitors may be able to respond more quickly than us to new or emerging technologies and changes in user preferences and to devote greater resources than us 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.

Our business model depends on our ability to successfully develop and operate our networks and deploy new offerings and technology.

There can be no assurances that we will not experience reliability problems in the future. Any reliability problems that adversely affect our ability to operate our networks would likely reduce revenues and restrict the growth of our business. Our future success will also depend in part on other factors, including, but not limited to, our ability to:

- Find secure hosting;
- Enhance our offerings;
- Address the needs of our prospective users;
- Respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis; and
- Develop, enhance and improve the responsiveness, functionality and features of our infrastructure services and networks.

If we are unable to integrate and capitalize on new technologies and standards effectively, our business could be adversely affected.

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

We will be significantly expanding the scope of our operating and financial systems in order to build out 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 licensees, resellers, distributors and strategic partners;
- Difficulties in hiring and retaining skilled management, technical and other personnel necessary to support and manage our business; and
- The need to train and manage our growing employee base.

The addition of new infrastructure services, networks, vertical categories and affinity websites and the attention they demand, on top of the attention demanded by our pending litigation with Microsoft, 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 do not successfully enhance existing products and services or fail to develop new products and services in a cost-effective manner to meet 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 securing "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 fa il to meet customer needs, which would adversely affect our revenues and prospects for growth.

Our services may have technological problems or may not be accepted by consumers. To the extent we pursue commercial agreements, acquisitions and/or strategic alliances to facilitate new product or service activities, the agreements, acquisitions and/or alliances may not be successful. If any of this were to occur, it could damage our reputation, limit our growth, negatively affect our operating results and harm our business.

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:

- Enhance our existing products and services;
- Design, develop, launch and/or license new products, services and technologies that address the increasingly sophisticated and varied needs of our current and prospective customers; and
- Respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

The development of additional products and services and other proprietary 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 capital expenditures.

Our business greatly depends on the development and growth of IM and VoIP.

The use of the Internet for communications utilizing IM and VoIP is a recent development, and the continued demand and growth of a market for services and products is uncertain. The Internet may ultimately prove not to be a viable commercial marketplace for a number of reasons, including:

- Unwillingness of consumers to shift to VoIP;
- Refusal to purchase security;
- 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.

While the use of IM has grown rapidly in personal and professional use, there can be no assurance that users will pay to secure their IM services.

Many services such as Microsoft, Yahoo! and AOL offer IM free of charge. However, securing these services is not free, and users of IM may not want to pay to secure the services. If users do not want to pay for the security, we will have difficulty marketing and selling our products and technologies.

If the market for VoIP service does not develop as anticipated, our business would be adversely affected.

The success of our products that secure enterprise VoIP service depends on the growth in the number of VoIP users, which in turn depends on wider public acceptance of VoIP telephony. The VoIP communications medium is in its early stages and may not develop a broad audience. 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. Potential users may also view more familiar online communication methods, such as e-mail or IM, as sufficient for their communications needs. There is no assurance that VoIP will ever achieve broad public acceptance.

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 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 product 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.

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

Our ability to compete partly depends on the superiority, uniqueness and value of our technology and intellectual property. To protect our proprietary 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. Despite these efforts, any of the following may reduce the value of our intellectual property:

- 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 international 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 proprietary rights would have a negative impact on our operations.

If we are forced to litigate to defend our intellectual property rights, or to defend against 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 likely to arise in the future. We have already begun legal proceedings against Microsoft to defend our intellectual property rights, and we may be forced to litigate against other competitors to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of other parties’ proprietary rights. Any such litigation could be very costly and could distract our management from focusing on operating our business. The existence and outcome of any such litigation could harm our business. Additionally, any such costs we incur to defend or protect our intellectual property rights could greatly impact our financial condition.

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 any such claims are valid or can be successfully asserted, defending against such claims could cause us to incur significant costs 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.

We could be subject to liability for hacking or spam on our networks.

The nature and breadth of the content on our networks could result in liability in various areas, including claims relating to:

- Defamation, libel, negligence, personal injury and other legal theories based on the nature and content of the material appearing on our networks;
- Copyright or trademark infringement or other wrongful acts due to the actions of third parties; and
- Identity theft; misuse of personal data or information.

Any such claims could likely result in the Company incurring substantial costs and would be a drain on our financial and other resources. In addition, such claims could disrupt our relationships with licensees, resellers, strategic partners and other third parties. This would negatively affect the user base, or reduce the revenues.

The laws governing online secure communications are largely unsettled, and if we are or 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 we will be in or have been 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.

Our VoIP and other services are not currently subject to all of the same regulations that apply to traditional telephony. It is possible that Congress and some state legislatures may seek to impose increased fees and administrative burdens on VoIP, data, and video providers. The FCC may seek to impose traditional telephony requirements such as disability access requirements, consumer protection requirements, number assignment and portability requirements, and other obligations. Such regulations could result in substantial costs depending on the technical changes required to accommodate the requirements, and any increased costs could erode our pricing advantage over competing forms of communication and may adversely affect our business.

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 United States law and 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 services. 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.

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 secure online communication and adversely affect our business.

The growing popularity and use of online secure communications has burdened the 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 TDM 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.

If there are large numbers of business failures and mergers in the communications industry, our ability to manage costs or increase our subscriber base may be adversely affected.

The intensity of competition in the communications industry has resulted in significant declines in pricing for communications services. The intensity of competition and its impact on communications pricing have caused some communications companies to experience financial difficulty. Our prospects for maintaining or further improving communications costs could be negatively affected if one or more key communications providers were to experience serious enough difficulties to impact service availability, if communications companies merge reducing the number of companies from which we purchase wholesale services, or if communications bankruptcies and mergers reduce the level of competition among communications providers.

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 other countries. 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;
- credit risk and higher levels of payment fraud;

- potentially adverse tax consequences; and

- higher costs associated with doing business internationally.

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

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. 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. In addition, we intend to enter into a written employment agreement with Mr. Larsen and with other key executives that can be terminated at any time by us or the executives. We also intend to maintain "key person" life insurance policies covering Mr. Larsen.

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 the growth of our business. We expect to face competition in the recruitment of qualified personnel, and we can provide no assurance that we will attract or retain such personnel.

We will incur increased costs as a result of being a public company, compared to VirnetX's historical operations as a private company.

As a public company, we will incur significant legal, accounting and other expenses that VirnetX did not incur as a private company. We expect the laws, rules and regulations governing public companies to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. Additionally, with the acquisition of VirnetX and the termination of our status as a shell company, we will incur additional costs associated with our public company reporting requirements.

In connection with an audit that was conducted of VirnetX in connection with the Merger, VirnetX's independent auditors identified material weaknesses in VirnetX's internal controls over financial reporting.

Prior to the Merger, as a small, early-stage, privately-held company, VirnetX historically did not maintain formal or documented internal controls over financial reporting of the same character as is generally maintained by public companies. In fact, prior to its preparations for the Merger, VirnetX utilized the cash basis of accounting and was not required to have its financial statements audited or reviewed. However, in connection with the Merger, VirnetX engaged independent auditors to audit its financial statements for certain prior periods. We have been informed that during the course of that audit, VirnetX's independent auditors concluded that VirnetX's internal controls over financial reporting suffer from certain "material weaknesses" as defined in standards established by the Public Company Accounting Oversight Board and the American Institute of Certified Public Accoun tants. Since VirnetX is now our wholly-owned subsidiary, the material weaknesses in VirnetX's internal controls over financial reporting likely result in our having material weaknesses in our internal controls over financial reporting. We intend to commence a process of developing, adopting and implementing policies and procedures to address such material weaknesses that are

consistent with those of small, public companies. However, such process may be time consuming and costly and there is no assurance as to when we will effectively address such material weaknesses.

Risks Related to our Stock

Trading in our Common Stock is limited and the price of our Common Stock may be subject to substantial volatility.

Our Common Stock is traded on the OTC Bulletin Board, and therefore the trading volume is more limited and sporadic than if our Common Stock were traded on Nasdaq or a national stock exchange such as the AMEX. Additionally, the price of our Common Stock may be volatile as a result of a number of factors, including, but not limited to, the following:

- developments in our pending litigation against Microsoft;
- 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.

"Penny stock" regulations may impose certain restrictions on the marketability of our securities.

The SEC has adopted regulations which generally define a "penny stock" to be any equity security that has a price of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions (including the issuer of the securities having net tangible assets (*i.e.*, total assets less intangible assets and liabilities) in excess of $2,000,000 or average revenue of at least $6,000,000 for the last three years). As a result, our Common Stock could be subject to these rules that impose additional sales practice requirements on broker-dealers who sell our securities to persons other than established customers and accredited investors (generally persons with a net worth in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitabili ty determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a "penny stock," unless exempt, the rules require the delivery, prior to the transaction, of a risk disclosure document mandated by the SEC relating to the "penny stock" market. The broker-dealer must also disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the "penny stock" held in the account and information on the limited market in "penny stocks." Consequently, although the "penny stock" rules do not currently apply to our securities, if these rules do b ecome applicable in the future, this may restrict the ability of broker-dealers to sell our securities.

Securities analysts may not continue to 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 any. 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 visibility in the financial markets, which could cause our stock price or trading volume to decline.

We may seek to raise additional funds, finance acquisitions or develop strategic relationships by issuing capital stock.

We have financed our operations, and we expect to continue to finance our operations, acquisitions and develop strategic relationships, by issuing equity or convertible debt securities, which could significantly reduce the percentage ownership of our existing stockholders. Furthermore, any newly issued securities could have rights, preferences and privileges senior to those of our existing stock. Moreover, any issuances by us of equity securities may be at or below the prevailing market price of our stock and in any event may have a dilutive impact on your ownership interest, which could cause the market price of stock to decline.

We may also raise additional funds through the incurrence of debt, and the holders of any debt we may issue would have rights superior to your rights in the event we are not successful and are forced to seek the protection of the bankruptcy laws.

We have no current intention of declaring or paying any cash dividends on our Common Stock.

We do not plan to declare or pay any cash dividends on our Common Stock. Our current policy is to retain all funds and any earnings for use in the operation and expansion of our business.

DESCRIPTION OF PROPERTY

Our principal executive offices are located at 5615 Scotts Valley Drive, Suite 110, Scotts Valley, California 95066, which property we lease for $1,243.75 per month until March 31, 2008. We have no other properties.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to us with respect to the beneficial ownership (as defined in Instruction 4 to Item 403 of Regulation S-B under the Securities Exchange Act of 1934) of our Common Stock by (i) each person who is known by us to be the beneficial owner of more than 5% of any class of our voting securities, (ii) each of our directors and named executive officers, and (iii) all of our executive officers and directors as a group. Except as otherwise listed below, the address of each person is c/o PASW, Inc., 5615 Scotts Valley Drive, Suite 110, Scotts Valley, California 95066.

Name and Address of Beneficial Owner	Title of Class	Number of Shares Beneficially Owned(1)(7)		Percent of Class(2)(7)
5% or Greater Stockholders:				
Gregory H. Bailey 4 A Chesham Street London, United Kingdom SW1X8DT	Common Stock	7,921,969		8.463%
Kendall Larsen	Common Stock	25,034,125	(3)	26.745%
Robert M. Levande 8 East 67 Street New York, New York 10021	Common Stock	6,252,303	(4)	6.680%
Blue Screen LLC 7663 Fisher Island Drive Miami, Florida 33109	Common Stock	5,365,391		5.740%
Christopher A. Marlett 420 Wilshire Boulevard, Suite 1020 Santa Monica, California 90401	Common Stock	6,354,883	(5)	6.798%
San Gabriel Fund 4 Richland Place Pasadena, California 91103	Common Stock	4,800,000		5.1348%
Directors and Named Executive Officers:				
Kendall Larsen	Common Stock	25,034,125	(3)	26.745%
Edmund C. Munger	Common Stock	1,043,293	(6)	~~*~~ 1.106%
William E. Sliney	Common Stock	500		*
Thomas M. O'Brien	Common Stock	0		*
Michael F. Angelo	Common Stock	124,548		*
Scott C. Taylor	Common Stock	0		*
All directors and executive officers as a group (6 persons):	Common Stock	26,201,966	(3)(6)	27.851%

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options and warrants which are exercisable or convertible at or within 60 days of July 5, 2007, the date of the Merger, are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person. The indication herein that shares are beneficially owned is not an admission on the part of the listed stockholder that he, she or it is or will be a direct or indirect beneficial owner of those shares.

(2) Based upon 93,479,048 shares of Common Stock issued and outstanding as of July 5, 2007.

(3) Includes 124,548 shares issuable pursuant to options exercisable within 60 days of July 5, 2007.

(4) Includes 622,739 shares held by the Arthur Brown Trust FBO Carolyn Brown Levande.

(5) Includes 357,500 shares issuable pursuant to warrants exercisable within 60 days of July 5, 2007.

(6) Includes 843,293 shares issuable pursuant to options exercisable within 60 days of July 5, 2007.

(7) Does not include any Common Stock or Options to Purchase Common Stock which may be issued to independent directors as compensation because such amounts are expected to be considered by the reconstituted board and have not been determined as of the date hereof.

(*) Less than 1%.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

Identification of Directors and Executive Officers.

The following table sets forth the respective names, ages and positions of each of our directors, and named executive officers as of the date of this current report. All of our directors were elected to the Board of Directors on July 5, 2007, and their terms run until our annual meeting of stockholders in 2008.

NAME	AGE	POSITION
Executive Officers and Directors		
Kendall Larsen	50	President, Chief Executive Officer and Director
William E. Sliney	68	Chief Financial Officer (Interim)
Edmund C. Munger	63	Director
Scott C. Taylor	43	Director
Michael F. Angelo	47	Director
Thomas M. O'Brien	41	Director

Executive Officers and Directors

Kendall Larsen (President, CEO and Director)

Mr. Larsen has been the President, Chief Executive Officer and a director of the Company since July 5, 2007 and has held the same positions with VirnetX since its inception in August 2005. From April 2003 to July 2005, Mr. Larsen focused on pre-incorporation activities related to VirnetX. From April 2002 to April 2003, Mr. Larsen was a Limited Partner at Osprey Ventures, L.P., a venture fund that makes investments primarily in business and consumer technology companies. From October 2000 to April 2002, he was Senior Vice President and General Manager of the Security Products Division of Phoenix Technologies Ltd., a software and firmware developer. Prior to March 2003, and for a period of over 20 years, Mr. Larsen has held senior executive positions at various leading technology companies, including RSA Security, Inc., Xerox Corporatio n, Rolm/International Business Machines Corporation, Novell, Inc., General Magic, Inc., and Ramp Networks. Mr. Larsen holds a B.S. in Economics from the University of Utah.

William E. Sliney (Chief Financial Officer (Interim))

Mr. Sliney has been the Chief Financial Officer of the Company and VirnetX, on an interim and part-time basis since July 5, 2007. Prior to that time, Mr. Sliney served as PASW's President since August 2001, Chief Financial Officer since April 1999 and Secretary since December 2001. He also served as PASW's Chairman from October 2000 to August 2001 and was a member of our Board of Directors from October 2000 to July 5, 2007. He was also a director of Enterra Energy Trust from January 2002 to March 2006. Before joining us, Mr. Sliney was the Chief Financial Officer of Legacy Software Inc. from 1995 to 1998. From 1993 to 1994, Mr. Sliney was Chief Executive Officer of Gumps. Mr. Sliney received his masters in business administration from the Anderson School at UCLA.

Edmund C. Munger (Director)

Mr. Munger has been a director of the Company since July 5, 2007 . He has been the Chief

Technology Officer of VirnetX since July 2006 and director since August 2006. From July 1987 to June 2006, Mr. Munger held various positions including Associate Division Manager, Division Manager, Chief System Architect and Assistant Vice President at Science Applications International Corporation ("SAIC") (NYSE: SAI), a leading provider of services and solutions to all branches of the U.S. military, agencies of the Department of Defense, the intelligence community, the U.S. Department of Homeland Security and other U.S. Government civil agencies, as well as to customers in selected commercial markets. Mr. Munger is named as a co-inventor on all patents in the VirnetX patent portfolio. Mr. Munger received a M.S. in Naval Architecture and Marine Engineering from MIT and a B.S. in Naval Science from the United States Naval Academy.

Thomas M. O'Brien (Director)

Mr. O'Brien has been a director of the Company since July 5, 2007. He has been Senior Vice President of Reit Management & Research LLC, an institutional manager of real estate, public real estate investment trusts ("REITs") and other public companies, since May 2006 and served as a Vice President of that company from May 1996 to April 2006. During the last five years, Mr. O'Brien has held various positions with public entities managed by Reit Management or its affiliates, including serving as: (i) Chief Executive Officer and President of TravelCenters of America LLC (AMEX: TA), since February 2007 and a Managing Director since October 2006; (ii) Chief Executive Officer and President of RMR Funds, a group of publicly traded closed-end investment management companies which invest in equity and fixed income securities in the U.S . and international real estate, hospitality and finance sectors, from 2003 to May 2007; and (iii) Executive Vice President of Hospitality Properties Trust (NYSE: HPT), a REIT that invests in hotels and travel centers, from 2002 to 2003 and Chief Financial Officer from 1996 to 2002. From 1988 to 1996, Mr. O'Brien was a senior manager with Arthur Andersen LLP where he served a number of public company clients. Mr. O'Brien graduated cum laude from the University of Pennsylvania, Wharton School of Business, with a B.S. in Economics.

Michael F. Angelo (Director)

Mr. Angelo has been a director of the Company since July 5, 2007. He has been a Senior Architect at NetIQ Corporation since August 2005. From October 2003 to August 2005, Mr. Angelo was a Security Architect and Manager, Government Engagements SBU with Microsoft Corporation. From July 1989 to October 2003, Mr. Angelo was a Staff Fellow at both Hewlett Packard Company and Compaq Computer Corp. Mr. Angelo also served as Senior Systems Programmer at the John von Neumann National Supercomputer Center from September 1985 to July 1989. He was a Sub-Chairman of the National Institute of Standards and Technology Board of Assessment for Programs/National Research Council responsible for the CISD review, for fiscal years 2000-2001 and 2001-2002 fiscal years, and a technology contributor and participant on the U.S. Commerce Department's Informati on Systems Technical Advisory Council (ISTAC), from 1999 to the present. Mr. Angelo was named a distinguished lecturer for 2004 and 2005 by Sigma XI, the Scientific Research Society. He currently holds 49 patents, most in the area of security and authentication, and was also named the 2003 Inventor of the Year for the City of Houston by the Houston Intellectual Property Lawyers Association.

Scott C. Taylor (Director)

Mr. Taylor has been a director of the Company since July 5, 2007. Mr. Taylor has been the Vice President, Corporate Legal Services for Symantec Corporation (NASDAQ: SYMC), the global leader in consumer and enterprise security and availability software solutions, since February 2007. From January 2002 to February 2007, Mr. Taylor worked for Phoenix Technologies Ltd, a public (NASDAQ: PTEC) software and firmware company. Prior to 2002, Mr. Taylor has worked at Narus Inc, Symantec Corporation, Pillsbury Madison & Sutro LLP (now Pillsbury Winthrop Shaw Pittman LLP), ICF Incorporated (now ICF Consulting) and the U.S. Securities and Exchange Commission in various roles.

Mr. Taylor has been admitted to practice law in the State of California since 1993 (bar number 164668) and is an advisory Board Member at Langtech (IT infrastructure consulting and outsourced management). He is the Co-chair of General Counsel Committee (and former board member)of the Silicon Valley Campaign for Legal Services and maintains a Top Secret security clearance with the U.S. Government. Mr. Taylor has a B.A. in International Relations from Stanford University and a J.D. from George Washington University (Journal of International Law and Economics).

Significant Employees

Robert Dunham Short III (Chief Scientist)

Mr. Short has been the Chief Scientist of the Company since July 5, 2007, and has also served in that position for VirnetX since May 2007. From February 2000 to April 2007, Mr. Short was Assistant Vice President and Division Manager at Science Applications International Corporation (“SAIC”) (NYSE: SAI), a leading provider of services and solutions to all branches of the U.S. military, agencies of the Department of Defense, the intelligence community, the U.S. Department of Homeland Security and other U.S. Government civil agencies, as well as to customers in selected commercial markets. From 1994 to February 2000, he also held various other positions at SAIC. Prior to SAIC, he has also worked at ARCO Power Technologies, Inc. (Atlantic Richfield Petroleum), Sperry Corporate Technology Center and Sperry Research Center. Mr. Short is named as a co-inventor on all the patents in the VirnetX patent portfolio. He holds a TS/SCI security clearance. He has a Ph.D in Electrical Engineering from Purdue University along with M.S. in Mathematics and a B.S. in Electrical Engineering from Virginia Tech.

Kathleen Sheehan (Vice President – Administration and Human Resources)

Ms. Sheehan has been the Vice President, Administration and Human Resources of the Company since July 5, 2007, and has also held that position with VirnetX since December 2005. Ms. Sheehan was also the Treasurer and Chief Financial Officer of VirnetX from March 2006 until July 5, 2007. From September 2004 to July 2005, Ms. Sheehan focused on equity raise and pre-incorporation activities related to VirnetX. From September 2002 to September 2004, Ms. Sheehan was a Commercial Property Manager for JBD Properties. Prior to September 2002, she worked for Armen and Associates as an Executive Recruiter. She has also worked at CHW Advertising (Senior Director of Human Resources), Modis/SAP (Human Resources and Office Manager) and as an Executive Recruiter for top level Executives in the E-Commerce & Advertising industry.

Sameer Mathur (Vice President – Corporate Development and Marketing)

Mr. Mathur has been the Vice President, Corporate Development and Marketing of the Company and VirnetX since July 5, 2007. Prior to that date, Mr. Mathur was the Vice President, Business Development of VirnetX since April 2006. From March 2004 to April 2006, Mr. Mathur was Product Line Manager for SonicWALL Inc (NASDAQ: SNWL), a leading provider of Internet security solutions. From April 2003 to March 2004, Mr. Mathur was Senior Product Manager for Zone Labs Inc, a leading provider of Internet security software. From June 1996 to April 2003, he was Senior Product Marketing Manager of Phoenix Technologies Ltd, a public (NASDAQ: PTEC) software and firmware company. Prior to June 1996, Mr. Mathur has worked in various engineering and marketing roles for OEC Japan, IBM Japan, Pertech Computers Ltd. Mr. Mathur has a B.S. in Engi neering from Gujarat University, India.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The goals of our executive compensation program are to attract, retain, motivate and reward executive officers who contribute to our success and to incentivize these executives on both a short-term and long-term basis to achieve our business objectives. This program combines cash and equity awards in the proportions that we believe will motivate our executive officers to increase shareholder value over the long-term.

Our executive compensation program is designed to achieve the following objectives:

- to align our executive compensation with our strategic business objectives;
- to align the interests of our executive officers with both short-term and long-term shareholder interests; and
- to place a substantial portion of our executives' compensation at risk such that payouts depend on both overall company performance and individual performance.

Executive Compensation Program Objectives and Framework

Our executive compensation program has two primary components: (1) base salary, and (2) equity grants. Base salaries for our executive officers are a minimum fixed level of compensation consistent with or below competitive market practice. Equity grants awarded to our executive officers are designed to ensure that incentive compensation is linked to our long-term company performance, promote retention and to align our executives' long-term interests with shareholders' long-term interests.

Executive compensation is reviewed annually by our Board of Directors, and adjustments are made to reflect company objectives and competitive conditions.

Role of Our Compensation Committee

As the Company does not have a Compensation Committee, the independent directors of the Board of Directors oversee the Company's executive compensation program. In this capacity, the individual directors review compensation levels of executive officers, evaluate performance of executive officers, and consider management succession and related matters.

Current Executive Compensation Program Elements

Our executive compensation program consists of the elements described in the following sections. The Board of Directors determines the portion of compensation allocated to each element for each individual Named Executive Officer. Our Board of Directors expects to continue these policies in the short-term but will reevaluate the current policies and practices as it considers advisable.

The Board of Directors believes based on their general business and industry experience and knowledge that the use of the combination of base salary and long-term incentives (including stock option or other stock-based awards) offers the best approach to achieving our compensation goals, including attracting and retaining talented and capable executives and motivating our executives and other officers to expend maximum effort to improve the business results, earnings and overall value of our business.

Base Salaries

Base salaries for our Named Executive Officers are established based on the scope of their responsibilities, taking into account competitive market compensation for similar positions, as well as seniority of the individual, our ability to replace the individual and other primarily judgmental factors deemed relevant by the Board of Directors. Generally, we believe that executive base salaries should be targeted near the median of the range of salaries for executives in similar positions with similar responsibilities at comparable companies, in line with our compensation philosophy. Base salaries for our Named Executive Officers are reviewed annually or at other appropriate times by the Board of Directors and may be increased from time to time pursuant to such review and/or in accordance with guidelines contained in the various employment agreements in order to realign salaries with market levels aft er taking into account individual responsibilities, performance and experience.

Long-term Incentive Equity Awards

Our Board of Directors intends to adopt the VirnetX 2005 Stock Option Plan ("VirnetX 2005 Stock Plan"), which provides for the grant of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code) and non-qualified stock options to eligible employees and consultants of the Company and non-employee directors of the Company. We intend to seek the approval of our stockholders for the adoption of the VirnetX 2005 Stock plan at our next special meeting of stockholders, which we expect to be held within the next three months, but in no event will it be held later than July 4, 2008.

Policy with Respect to Section 162(m)

Section 162(m) of the Internal Revenue Code generally disallows public companies a tax deduction for compensation in excess of $1,000,000 paid to their chief executive officers and the four other most highly compensated executive officers unless certain performance and other requirements are met. Our intent generally is to design and administer executive compensation programs in a manner that will preserve the deductibility of compensation paid to our executive officers, and we believe that a substantial portion of our current executive compensation program (including the stock options and other awards that may be granted to our Named Executive Officers as described above) satisfies the requirements for exemption from the $1,000,000 deduction limitation. However, we reserve the right to design programs that recognize a full range of performance criteria important to our success, even where the compensation paid under such programs may not be deductible. The Board of Directors will continue to monitor the tax and other consequences of our executive compensation program as part of its primary objective of ensuring that compensation paid to our executive officers is reasonable, performance-based and consistent with the goals of the Company and its stockholders.

Compensation of PASW Executive Officers and Directors

Summary Compensation Table

The following table sets forth the compensation earned for services rendered to PASW for the three most recently completed years by PASW's principal executive officer and our principal financial officer ("PASW Named Executive Officers"). Aside from the PASW Named Executive Officers, in the three most recently completed years the Company had no other executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other compensation ($)	Total ($)
Glenn P. Russell	2006	--	--	--	--	--	--	--	--
Chairman and CEO	2005	- --	- --	- --	- --	- --	- --	- --	- --
	2004	- --	- --	- --	- --	- --	- --	- --	- --
William E. Sliney	2006	--	--	--	--	--	--	$30,000(1)	$30,000(1)
President, CFO and	2005	- --	- --	- --	- --	- --	- --	$30,000(1)	$30,000(1)
Secretary	2004	- --	- --	- --	- --	- --	- --	$30,000(1)	$30,000(1)

(1) Since February 2007, Mr. Sliney has received $10,000 per month for his services as President, Chief Financial Officer and Secretary of PASW.

Option Equity Awards at end of Last Fiscal Year

None of the PASW Executive Officers held any options or other equity awards at the end of our fiscal year ended December 31, 2006.

Director Compensation

None of the PASW directors received any compensation for service as a director of PASW during the fiscal year ended December 31, 2006.

Employment Contracts

None of the PASW Executive Officers has an employment agreement with PASW.

Compensation of VirnetX Named Executive Officers and Directors

Summary Compensation Table

In connection with the consummation of the Merger, VirnetX's current President and Chief Executive Officer became the President and Chief Executive Officer of the Company. In addition, Mr. Sliney, who has served as our President, Chief Financial Officer and Secretary, will continue as our Chief Financial Officer. The following table sets forth the compensation earned for services rendered to VirnetX, since inception, by our Chief Executive Officer. There were no other named executive officers during that year. All information relating to option awards reflects the exchange of VirnetX Options for PASW Options pursuant to the Merger.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other compensation ($)	Total ($)
Kendall Larsen	2006	$237,039	--	--	$7,665	--	--	--	$244,704
President	2005(1)	- --	- --	- --	- --	- --	- --	$399,960(2)	$399,960

(1) From inception of VirnetX in August 2005 until December 31, 2005.

(2) represents the notional dollar value of stock grants to Mr. Larsen during the period.

Outstanding Equity Awards at end of Last Fiscal Year

The following table provides information as to options held by each of the named executive officers of VirnetX at December 31, 2006. The figures set forth in the table reflect the exchange of VirnetX Options for Company Options pursuant to the Merger.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (#)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Kendall Larsen	124,548	0	--	$0.08029	March 22, 2016	--	--	--	--

On March 3, 2006, Kendall Larsen was granted VirnetX Options, which were exchanged for Company Options to purchase 124,548 shares of the Company's Common Stock at an exercise price of $0.08029 per share. In addition, Mr. Larsen held restricted shares of VirnetX Common Stock purchased at $0.0001 per share, granted October 14, 2005, all of which are fully vested, which were exchanged for 4,981,916 shares of the Company's Common Stock. VirnetX has not granted plan-based awards to any named executive officers in fiscal 2007.

Director Compensation

VirnetX has historically not paid any of its directors for their services as directors. The Company intends to compensate its non-employee directors at competitive rates.

Employment Contracts

Mr. Larsen and each of VirnetX's significant employees intend to enter into employment contracts with the Company.

Stock Option Plan

On April 17, 1998, the Company adopted an Equity Incentive Program (the "Plan"). Under the Plan, the Company may grant incentive stock options, non-statutory stock options, stock appreciation rights, stock bonuses and rights to acquire restricted stock to employees, directors and consultants of the Company (except for incentive stock options which may only be granted to employees). The number of shares of Common Stock reserved for issuance under the Plan is 451,740 shares. As of December 31, 2006, there were no outstanding options or rights under the Plan. The Company's Board of Directors intends to adopt the VirnetX 2005 Stock Plan (the "VirnetX Plan") to replace its Plan. The total number of shares of Common Stock reserved for issuance under the VirnetX Plan is 34,873,408 after giving effect to the Merger exchange ratio adjustment, of which there are 13,015,254 share s remaining available for future grants after giving effect to the options exchanged in the Merger and the new hire options currently committed to be granted shortly after the Merger. The Company intends to seek the approval of its stockholders for the adoption of the VirnetX Plan at its next special meeting of stockholders, which is expected to be held within the next three months, but in no event will it be held later than July 4, 2008.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with the consummation of the Merger the Company assumed that certain Advisory Service Agreement dated November 6, 2006 by and between VirnetX and MDB Capital Group LLC, as amended by the terms of that certain Release Agreement between the same parties, which was executed on July 5, 2007. MDB Capital Group was a stockholder of VirnetX, prior to the Merger and Christopher Marlett, a principal at MDB Capital Group, is currently a stockholder of the Company, as a result of the Merger. Christopher Marlett , as of July 5, 2007, beneficially owned approximately 6.798% of the Company's issued and outstanding shares of Common Stock. MDB Capital Group's affiliates include Anthony DiGiandomenico and Robert Levande, each of whom is an existing stockholder of the Company.

Additionally, in connection with the consummation of the Merger, we entered into the following agreements and transactions with certain of our directors, executive officers and 5% stockholders:

Indemnification Agreements

PASW entered into Indemnification Agreements with each person who became one of PASW's directors or officers in connection with the consummation of the Merger, pursuant to which, among other things, PASW will indemnify such directors and officers to the fullest extent permitted by Delaware law, and provide for advancement of legal expenses under certain circumstances.

Registration Rights Agreement

Effective as of the Closing Date of the Merger, we entered into the Registration Rights Agreement with all of the persons who were issued shares of our Common Stock in the Merger (for purposes of this discussion only, each a "Securityholder" and collectively, the "Securityholders").

Pursuant to the Registration Rights Agreement, commencing six months after the closing of the Merger, the Securityholders have a one-time right to request the Company to register for resale the shares of Common Stock held by such persons. The Company is required to cause each such registration statement filed as a result of such requests to be declared effective under the Securities Act as promptly as possible after the filing thereof and to keep such registration statement continuously effective under the Securities Act until the earlier of (i) the date when all shares of the Common Stock included in the registration statement have been sold; (ii) the date that the all of shares of the Common Stock can be sold pursuant to Rule 144; and (iii) one year from the effective date of such registration statement.

Additionally, the Registration Rights Agreement provides the Securityholders with "piggyback" registration rights such that at any time there is not an effective registration statement covering the Common Stock described above and the Company files a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company is required to send notice to the Securityholders of such intended filing at least 20 days prior to filing such registration statement and shall in such registration statement, register all Common Stock requested to be registered. Such "piggyback" registration rights shall not be applicable to the filing of the first registration statement filed by the Company in connection with the public offering in which Gilford Securities, Incorporated ("Gilford") is expected to be the managing underwriter ("Gilford Offering"); *provided, however,* that the Holders of the San Gabriel Shares (as defined below) shall be entitled to include their San Gabriel Shares for resale in the Gilford Offering so long as (1) such shares shall not be included as part of the underwritten offering of primary shares by the Company without the Company's consent, (2) Gilford approves the inclusion of such San Gabriel Shares in such Gilford Offering, (3) each such holder shall enter into Gilford's form of lockup agreement as and to the extent requested by Gilford, which may require that all of the San Gabriel Shares held by such holder not be sold or otherwise transferred without the consent of Gilford for a period not to exceed 180 days from the closing of the offer ing contemplated by the Gilford Offering, and (4) if the Company is advised by the staff of the SEC that it is not eligible to conduct the offering under Rule 415 promulgated under the Securities Act because of the number of shares sought to be included in the Gilford Offering, then the Company may reduce the number of San Gabriel Shares covered by the Gilford Offering to the maximum number which would enable the Company to conduct such offering in accordance with the provisions of Rule 415 and all of such San Gabriel Shares shall be removed from such Gilford Offering to the extent that, in the good faith judgment of the underwriters, the inclusion of such San Gabriel Shares would jeopardize or substantially delay the Company's ability to have such Gilford Offering declared effective by the SEC.

The Registration Rights Agreement contains a cut-back provision, whereby, in the event the SEC requires the Company to reduce the number of shares of Common Stock which may be included in any registration statement to register shares of Common Stock other than the shares issued by the Company in a primary offering, the Company, unless otherwise prohibited by the SEC, shall reduce the Common Stock held by the Securityholders that is being registered for resale.

The Registration Rights Agreement also provides that to the extent that any Securityholder has not elected to participate in a Demand Registration Right or a piggy back registration right, then at any time commencing one year after July 5, 2007, any such Securityholder will have the Demand Registration Right and piggy back registration rights as provided in the Registration Rights Agreement, exercisable individually on a continuing and successive basis as permitted by SEC rule, regulation and Staff interpretation and without regard to Requesting Group characterization, until all of such Securityholder's Common Stock is registered on a Registration Statement. In addition, to the extent that any Securityholder who has elected to participate in a Demand Registration Right or a piggy back registration right as provided in the Registration Rights Agreement, but has had shares of Common Stock removed from a Registrat ion Statement, then such Securityholder will have the Demand Registration Right and piggy back registration rights as provided in the Registration Right Agreement on an individual and continuing and successive basis as permitted by SEC rule, regulation and Staff interpretation until all of such Holder's shares are registered. The successive Demand Registration Right provided in, may be exercised not more frequently than once every six months after a prior Demand Registration Right has been exercised. Notwithstanding the foregoing, as to each Securityholder, the Demand Registration Right hereof shall terminate on the date when all the Registrable Securities of the Securityholder either (a) have been covered by an effective Registration Statement which has been effective for an aggregate period of 12 months (whether or not consecutive), or (b) may be resold by the Securityholder in accordance with Rule 144(k), or Rule 144 without regard to the volume limitations for sales as provided in that regulation, a s set forth in a written opinion of counsel to PASW to such effect,

addressed, delivered and acceptable to the transfer agent of PASW and to the Securityholder who has not sold its Common Stock and whose registration rights under the Registration Rights Agreement are being terminated by this provision.

Each Securityholder also has indemnified the Company, its directors, officers, agents, and certain other control persons against damages arising out of or based upon: (i) such Securityholder's failure to comply with the prospectus delivery requirements of the Securities Act or (ii) such Securityholder's provision of any untrue or alleged untrue statement of a material fact to be contained in any registration statement or prospectus, or arising out of or relating to any such Securityholder's omission or alleged omission of a material fact required to be stated therein or necessary to make the statements contained in such registration statement or prospectus not misleading.

Lock-Up Agreements

Effective as of the Closing Date of the Merger, we entered into a Lock-Up Agreement (the "Lock-Up Agreement") with certain of the persons who were issued shares of our Common Stock in the Merger and to all persons who were issued options in the Merger to purchase shares of our Common Stock (for purposes of this discussion only, each a "Stockholder" and collectively, the "Stockholders"), pursuant to which we imposed certain restrictions on the sale of our Common Stock or any securities convertible into or which may be exercised to purchase any shares of our Common Stock acquired in connection with the Merger, by each Stockholder, for a period of at least 12 months after the consummation of the Merger (the "Restriction Period"). If, within nine months following the consummation of the Merger, the shares of our Common Stock issued in connection with the Merger a nd upon conversion of the promissory notes issued to San Gabriel Fund, LLC (the "San Gabriel Shares") have not been registered, pursuant to a registration statement filed with the SEC under the Securities Act, the Restriction Period shall be extended until such time that the San Gabriel Shares (or a portion thereof) have been available for sale pursuant to an effective registration statement or Rule 144 under the Securities Act for a period of three months. If only a portion of the San Gabriel Shares have been made available for sale, than the transfer restrictions imposed by the Lock-Up Agreement shall be released with respect to a percentage of each Stockholder's securities equal to the percentage of the total number of San Gabriel Shares that can be sold.

The Lock-Up Agreement will be terminated as of any date on or after the expiration of the Restriction Period if the holders of the San Gabriel Shares do not elect to include all San Gabriel Shares in a registration statement or have not exercised their right to demand registration of the San Gabriel Shares, as provided under the Registration Rights Agreement (discussed above). Additionally, the Lock-Up Agreement provides that the Stockholders may sell or transfer their securities in a private sale or transaction during the Restriction Period, however such transferred securities shall remain "restricted securities" and shall be bound by the terms of the Lock-Up Agreement.

Transactions Between the Company and the Promoter

Prior to the Merger, the Company utilized the office space and equipment of its then officer, William E. Sliney, at no cost. Management estimates the value thereof to be immaterial.

Other Related Party Transactions

Reference is made to the MDB Service Agreement described in the "Other Agreements" section above.

Director Independence

Three members of the Board of Directors, Scott C. Taylor, Michael F. Angelo and Thomas M. O'Brien, qualify as "independent" directors under the applicable definition of the Nasdaq Global Market ("Nasdaq") listing standards, so that a majority of the members of PASW's Board are "independent." Although PASW's securities are not currently traded on an exchange or on Nasdaq, which would require that PASW's Board of Directors include a majority of directors that are "independent," we believe the composition of our Board of Directors meets the listing standards of the Nasdaq.

DESCRIPTION OF SECURITIES

We are authorized to issue an aggregate of 210,000,000 shares of capital stock, 200,000,000 of which are Common Stock and 10,000,000 are shares of preferred stock, par value $.0001 per share (the "Company's Preferred Stock" or the "Preferred Stock"). As of the Closing Date of the Merger, 93,479,048 shares of our Common Stock were issued and outstanding and zero shares of Preferred Stock were issued and outstanding.

Common Stock

All outstanding shares of our Common Stock are of the same class and have equal rights and attributes.

Voting. The holders of our Common Stock are entitled to one vote per share on all matters submitted to a vote of stockholders of the Company. Our Common Stock does not have cumulative voting rights. Persons who hold a majority of the outstanding shares of our Common Stock entitled to vote on the election of directors can elect all of the directors who are eligible for election.

Dividends. Subject to the preferential dividend rights and consent rights of any series of Preferred Stock that we may from time to time designate, holders of our Common Stock are entitled to share equally in dividends, if any, as may be declared from time to time by our Board of Directors out of funds legally available.

Liquidation and Dissolution. In the event of liquidation, dissolution or winding up of the Company, subject to the preferential liquidation rights of any series of Preferred Stock that we may from time to time designate, the holders of our Common Stock are entitled to share ratably in all of our assets remaining after payment of all liabilities and preferential liquidation rights.

Preferred Stock

Our Certificate of Incorporation authorizes the issuance of shares of Preferred Stock with designations, rights and preferences determined from time to time by our Board of Directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue Preferred Stock with dividend, liquidation, conversion, voting, or other rights which could adversely affect the voting power or other rights of the holders of the Common Stock. In the event of issuance, the Preferred Stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the Company.

The descriptions of the our Common Stock and Preferred Stock above are only summaries and are qualified in their entirety by the provisions of the Company's Certificate of Incorporation and By-Laws, copies of which are attached or referenced as exhibits to this current report and are incorporated by reference herein.

Warrants

Warrants for the issuance of up to 800,000 shares of our Common Stock are outstanding, all of which are exercisable at a price of $0.25 per share. The warrants are exercisable for a period of five years and may be exercised on a cashless exercise basis. The Warrants provide for anti-dilution protection in the event of stock splits and dividends.

The descriptions of the Warrant are only a summary and are qualified in their entirety by the provisions of the form of warrant, which is attached or referenced as exhibits to this current report and are incorporated by reference herein.

MARKET PRICE OF AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is traded in the over-the-counter market on the Nasdaq OTC Bulletin Board under the symbol "PASW." The following table shows the price range of our Common Stock for each quarter ended during the last two fiscal years.

Quarter Ended	High	Low
3/31/05	.12	.08
6/30/05	.12	.10
9/30/05	.20	.13
12/31/05	.14	.10
3/31/06	.20	.12
6/30/06	.18	.07
9/30/06	.17	.10
12/31/06	.30	.12
3/31/07	1.25	1.20
6/30/07	1.48	1.48

Holders

As of June 1, 2007, there were approximately 38 holders of record of our Common Stock.

Dividends

We have not paid any cash dividends on our Common Stock, and do not anticipate paying cash dividends in the foreseeable future. Our current policy is to retain earnings, if any, to fund operations, and the development and growth of our business. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will be dependent upon our financial condition, operation results, capital requirements, applicable contractual restrictions, restrictions in our organizational documents, and any other factors that our Board of Directors deems relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

Pursuant to the Merger, outstanding options held by employees, consultants and non-employee directors of VirnetX were exchanged for options of PASW for a total of 5,355,559 shares of Common Stock at an exercise price of $0.08029 per share. These options will continue to be granted under the VirnetX 2005 Stock Plan, which was adopted by PASW. Additionally, PASW has issued an option to a recently hired employee to purchase up to 3,113,697 shares of Common Stock at an exercise price equal to the fair market value of the Common Stock on the date of grant.

LEGAL PROCEEDINGS

On February 15, 2007, we commenced the Microsoft Lawsuit. For more information pertaining to the Microsoft Lawsuit, please refer to our discussion under "Description of Our Business" on page 12

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.

RECENT SALES OF UNREGISTERED SECURITIES

Sales of Unregistered Securities by the Company

The Company issued 88,481,648 shares of Common Stock and Company Options to purchase 5,355,559 shares of Common Stock to the former securityholders of VirnetX in exchange for 100% of the issued and outstanding capital stock and securities of VirnetX. Additionally, the Company issued to MDB Capital Group LLC and its affiliates warrants to purchase an aggregate of 800,000 shares of Common Stock of the Company pursuant to the provisions of the MDB Service Agreement which was assumed by the Company from VirnetX in connection with the Merger. Further, the Company has granted an option to a recently hired employee to purchase 3,113,697 shares of Common Stock and granted 249,096 shares of Common Stock pursuant to restricted stock awards under the assumed VirnetX 2005 Stock Plan. The offer and sale and exchange of these securities to existing securityholders of VirnetX, is pursuant to the exemption f rom registration provided by Regulation D of the Securities Act and Section 4(2) of the Securities Act. The issuance of the warrant is made pursuant to Section 4(2) of the Securities Act and the issuance of the new option and restricted stock awards will be pursuant to Rule 701 under the Securities Act.

In each of the fiscal years ended December 31, 2004, 2005 and 2006, PASW did not issue any other securities.

Sales of Unregistered Securities by VirnetX

VirnetX has sold and issued 4,255,000 shares of its Common Stock at a per share price ranging from $0.0000625 to $1.00, for an aggregate financing of $22,630. On October 15, 2005, the Company sold 2,816,000 shares of its Common Stock at a per share price of $0.0000625 and 800,000 shares of its Common Stock at a per share price of $0.0001. On August 9, 2006, the Company sold 130,000 shares of its Common Stock at a per share price of $0.01. On November 8, 2006, the Company sold 105,000 shares of its Common Stock at a per share price of $0.01. On April 27, 2007, the Company sold 10,000 shares of its Common Stock at a per share price of $1.00. On May 7, 2007, the Company sold 10,000 shares of its Common Stock at a per share price of $1.00. The offer and sale of such securities was made pursuant to the exemption from registration provided by 25102(f) of the California Corporatio ns Code.

On March 7, 2006, VirnetX sold and issued 1,404,000 shares of its Series A Preferred Stock at a price per share of $1.00, for an aggregate financing of $1,404,000. All purchasers of the Series A Preferred Stock were accredited investors and the offer and sale of such securities was made pursuant to the exemption from registration provided by Regulation D of the Securities Act and Section 4(2) of the Securities Act.

On February 6 2007, VirnetX sold and issued Convertible Promissory Notes in the aggregate principle amount of $4,000,000, $3,000,000 of which was held in escrow until July 5, 2007, pursuant to that certain Convertible Promissory Note Purchase Agreement by and among VirnetX and San Gabriel Fund, LLC. The purchaser of such securities was an accredited investor and the offer and sale of such securities was made pursuant to the exemption from registration provided by Section 4(2) of the Securities Act.

On February 9 2007, VirnetX sold and issued Convertible Promissory Notes in the aggregate principle amount of $500,000 pursuant to that certain Convertible Promissory Note Purchase Agreement by and among VirnetX and the purchasers therein. All purchasers of such securities were accredited investors and the offer and sale of such securities was made pursuant to the exemption from registration provided by Regulation D of the Securities Act and Section 4(2) of the Securities Act.

INDEMNIFICATION OF OFFICERS AND DIRECTORS

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses including attorneys' fees, judgments, fines and amounts paid in settlement in connection with various actions, suits or proceedings, whether civil, criminal, administrative or investigative other than an action by or in the right of the corporation, a derivative action, if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, if they had no reasonable cause to believe their conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification only extends to expenses including attorneys' fees incurred in connection with the defense or settlement of such actions, and the statute requires court approval before there can be any indemnification where the person seeking indemnification has been found liable to the corporation. The statute provides that it is not exclusive of other indemnification that may be granted by a corporation's certificate of incorporation, bylaws, agreement, a vote of stockholders or disinterested directors or otherwise.

Our Certificate of Incorporation provides that it will indemnify and hold harmless, to the fullest extent permitted by Section 145 of the Delaware General Corporation Law, as amended from time to time, each person that such section grants us the power to indemnify.

The Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to the corporation or its stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- payments of unlawful dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

Our Certificate of Incorporation provides that, to the fullest extent permitted by applicable law, none of our directors will be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director. Any repeal or modification of this provision will be prospective only and will not adversely affect any limitation, right or protection of a director of our company existing at the time of such repeal or modification.

Item 3.02 Unregistered Sales of Equity Securities.

Reference is made to the disclosure under "Recent Sales of Unregistered Securities" in Item 2.01 of this Current Report, which disclosure is incorporated herein by reference.

Item 5.01 Changes in Control of Registrant.

As a result of the Merger, the Company experienced a change in control, with the former stockholders of VirnetX acquiring control of the Company. Additionally, as a result of the Merger, the Company ceased being a shell company. Reference is made to the disclosures set forth under "Acquisition of VirnetX, Inc." in Item 1.01 and the disclosures set forth in Item 2.01 of this current report, which disclosures are incorporated herein by reference.

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On July 5, 2007, in connection with the Merger, Kendall Larsen, Edmund C. Munger, Michael F. Angelo, Thomas O'Brien and Scott C. Taylor were appointed to the Company's Board of Directors and, Glenn P. Russell, William E. Sliney and Wayne T. Grau resigned from the Company's Board of Directors. Simultaneous with their resignations from the Company's Board of Directors, Mr. Russell resigned from his position as Chief Executive Officer and Chairman of the Board of Directors and Mr. Sliney resigned from his position as President and Secretary of the Company, but will continue to serve as the Chief Financial Officer (interim) of the Company. Mr. Russell and Mr. Sliney's resignations were in connection with the consummation of the Merger and did not relate to any disagreement with the Company.

Additionally, on July 5, 2007, the Board of Directors appointed Kendall Larson as the Company's President and Chief Executive Officer and Lowell Ness as the Company's Secretary.

Reference is made to the disclosures under "Directors and Executive Officers," "Executive Compensation" and "Certain Relationships and Related Transactions" in Item 2.01 of this current report, which disclosures are incorporated herein by reference.

Item 5.06 Change in Shell Company Status.

Pursuant to the Merger disclosed in Items 1.01 and 2.01 of this current report, the Company ceased being a shell company as of July 5, 2007. Reference is made to the disclosures set forth under "Acquisition of VirnetX, Inc." in Item 1.01 and the disclosures set forth in Item 2.01 of this current report, which disclosures are incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired

Exhibit No.	Description
99.1	December 31, 2006 and 2005 Audited Financial Statements of VirnetX, Inc. and March 31, 2007 and 2006 Unaudited Financial Statements of VirnetX, Inc.

(b) Pro Forma Financial Information

Exhibit No.	Description
99.2	Unaudited Proforma Consolidated Financial Statements

Exhibits

Exhibit No.		Description
2.01		Agreement and Plan of Merger of PASW, Inc. (a Delaware corporation) and PASW, Inc. (a California corporation) dated May 25, 2007 (1)
2.02		Certificate of Merger filed with the Secretary of State of the State of Delaware on May 30, 2007 (1)
2.03		Agreement and Plan of Merger and Reorganization among PASW, Inc., VirnetX Acquisition, Inc. and VirnetX, Inc. dated as of June 12, 2007 (1)
3.01		Certificate of Incorporation of the Company (1)
3.02		By-Laws of the Company (1)
4.01		Form of Warrant
10.1		Form of Registration Rights Agreement, dated as of July 5, 2007, by and among the Company and all securityholders.
10.2		Form of Lock-Up Agreement, dated as of July 5, 2007, by and between the Company and all securityholders.
10.3		Form of Indemnification Agreement, dated as of July 5, 2007, by and between the Company and each of Kendall Larsen, Edmund C. Munger, Scott C. Taylor, Michael F. Angelo, Thomas M. O'Brien and William E. Sliney.
10.4		Patent License and Assignment Agreement by and between the Company and Science Applications International Corporation, dated as of August 12, 2005
10.5		Security Agreement by and between the Company and Science Applications International Corporation, dated as of August 12, 2005.
10.6		Amendment No. 1 to Patent License and Assignment Agreement by and between the Company and Science Applications International Corporation, dated as of November 2, 2006.*
10.7		Assignment Agreement between the Company and Science Applications International Corporation, dated as of December 21, 2006.
10.8		Professional Services Agreement by and between the Company and science Applications International Corporation, dated as of August 12, 2005.*
10.9		Lease Agreement by and between the Company and Granite Creek Business Center, dated as of March 15, 2006, as amended on April 1, 2007.
10.10		Consulting Agreement by and between the Company and Magenic Technologies, Inc, dated as of February 23, 2006.
23.1		Consent of Burr, Pilger & Mayer LLP, Independent Accountants.
99.1		December 31, 2006, and 2005 Audited Financial Statements of VirnetX, Inc., and March 31, 2007, and 2006 Unaudited Financial Statements of VirnetX, Inc.
99.2		Unaudited Proforma Consolidated Financial Statements
99.3		Press Release Issued July 6, 2007, Announcing the Completion of the Merger.

(1) Incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on June 18, 2007.

(*) Seeking confidential treatment as to portions of these agreements.

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 hereunto duly authorized.

Date: July 11, 2007

PASW, INC.

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

Exhibit 4.01

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933.

Warrant No.	Number of Shares:
Date of Issuance:	(subject to adjustment)

PASW, INC.

Common Stock Purchase Warrant

PASW, Inc., a Delaware corporation (the "Company"), for value received, hereby certifies that __________________, or its registered assigns (the "Registered Holder"), is entitled, subject to the terms set forth below, to purchase from the Company, at any time after the date hereof and on or before the Expiration Date (as defined in Section 5 below), up to ______ shares (as adjusted from time to time pursuant to the provisions of this Warrant) of Common Stock of the Company, at a purchase price of $0.25 per share. The shares purchasable upon exercise of this Warrant and the purchase price per share, as adjusted from time to time pursuant to the provisions of this Warrant, are hereinafter referred to as the "Warrant Stock" and the "Purchase Price," respectively.

This Warrant is issued pursuant to an Advisory Services Agreement dated November 6, 2007 among VirnetX, Inc. ("VirnetX"), a Delaware corporation, and the holder of this warrant, as modified by a Settlement and General Release Agreement dated July 3, 2007 among the Company, VirnetX and the holder of this warrant (the "Agreement") and is subject to the terms and conditions of the Agreement.

1. **Exercise**.

(a) **Manner of Exercise.** This Warrant may be exercised by the Registered Holder, in whole or in part, by surrendering this Warrant, with the purchase/exercise form appended hereto as Exhibit A duly executed by such Registered Holder or by such Registered Holder's duly authorized attorney, at the principal office of the Company, or at such other office or agency as the Company may designate, accompanied by payment in full of the Purchase Price payable in respect of the number of shares of Warrant Stock purchased upon such exercise. The Purchase Price may be paid by cash, check, wire transfer or by the surrender of promissory notes or other instruments representing indebtedness of the Company to the Registered Holder.

(b) **Effective Time of Exercise.** Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered to the Company as provided in Section 1(a) above. At such time, the person or persons in whose name or names any certificates for Warrant Stock shall be

issuable upon such exercise as provided in Section 1(d) below shall be deemed to have become the holder or holders of record of the Warrant Stock represented by such certificates.

(c) **Net Issue Exercise**.

(i) In lieu of exercising this Warrant in the manner provided above in Section 1(a), the Registered Holder may elect to receive shares equal to the value of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with notice of such election on the purchase/exercise form appended hereto as Exhibit A duly executed by such Registered Holder or such Registered Holder's duly authorized attorney, in which event the Company shall issue to holder a number of shares of Warrant Stock computed using the following formula:

$$X = \frac{Y(A - B)}{A}$$

Where X = The number of shares of Warrant Stock to be issued to the Registered Holder.

Y = The number of shares of Warrant Stock purchasable under this Warrant (at the date of such calculation).

A = The fair market value of one share of Warrant Stock (at the date of such calculation).

B = The Purchase Price (as adjusted to the date of such calculation).

(ii) For purposes of this Section 1(c), the fair market value of one share of Warrant Stock on the date of calculation shall mean:

(A) if the exercise is in connection with an initial public offering of the Company's Common Stock, and if the Company's Registration Statement relating to such public offering has been declared effective by the Securities and Exchange Commission, then the fair market value of Common Stock shall be the initial "Price to Public" per share specified in the final prospectus with respect to the offering;

(B) if this Warrant is exercised after, and not in connection with, the Company's initial public offering, and if the Company's Common Stock is traded on a securities exchange or The Nasdaq Stock Market or actively traded over-the-counter:

(1) if the Company's Common Stock is traded on a securities exchange or The Nasdaq Stock Market, the fair market value shall be deemed to be the average of the closing prices over a thirty (30) day period ending three days before date of calculation; or

(2) if the Company's Common Stock is actively traded over-the-counter, the fair market value shall be deemed to be the average of the closing bid or

sales price (whichever is applicable) over the thirty (30) day period ending three days before the date of calculation; or

(C) if neither (A) nor (B) is applicable, the fair market value shall be at the highest price per share which the Company could obtain on the date of calculation from a willing buyer (not a current employee or director) for shares of Common Stock sold by the Company, from authorized but unissued shares, as determined in good faith by the Board of Directors, unless the Company is at such time subject to an acquisition as described in Section 5(b) below, in which case the fair market value per share of Common Stock shall be deemed to be the value of the consideration per share received by the holders of such stock pursuant to such acquisition.

(d) **Delivery to Holder.** As soon as practicable after the exercise of this Warrant in whole or in part, and in any event within ten (10) days thereafter, the Company at its expense will cause to be issued in the name of, and delivered to, the Registered Holder, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct:

(i) a certificate or certificates for the number of shares of Warrant Stock to which such Registered Holder shall be entitled, and

(ii) in case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the aggregate on the face or faces thereof for the number of shares of Warrant Stock equal (without giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the number of such shares purchased by the Registered Holder upon such exercise as provided in Section 1(a) above.

2. **Adjustments**.

(a) **Stock Splits and Dividends.** If outstanding shares of the Company's Common Stock shall be subdivided into a greater number of shares or a dividend in Common Stock shall be paid in respect of Common Stock, the Purchase Price in effect immediately prior to such subdivision or at the record date of such dividend shall simultaneously with the effectiveness of such subdivision or immediately after the record date of such dividend be proportionately reduced. If outstanding shares of Common Stock shall be combined into a smaller number of shares, the Purchase Price in effect immediately prior to such combination shall, simultaneously with the effectiveness of such combination, be proportionately increased. When any adjustment is required to be made in the Purchase Price, the number of shares of Warrant Stock purchasable upon the exercise of this Warrant shall be change d to the number determined by dividing (i) an amount equal to the number of shares issuable upon the exercise of this Warrant immediately prior to such adjustment, multiplied by the Purchase Price in effect immediately prior to such adjustment, by (ii) the Purchase Price in effect immediately after such adjustment.

(b) **Reclassification, Etc.** In case of any reclassification or change of the outstanding securities of the Company or of any reorganization of the Company (or any other corporation the stock or securities of which are at the time receivable upon the exercise of this Warrant) or any similar corporate reorganization on or after the date hereof, then and in each

such case the holder of this Warrant, upon the exercise hereof at any time after the consummation of such reclassification, change, reorganization, merger or conveyance, shall be entitled to receive, in lieu of the stock or other securities and property receivable upon the exercise hereof prior to such consummation, the stock or other securities or property to which such holder would have been entitled upon such consummation if such holder had exercised this Warrant immediately prior thereto, all subject to further adjustment as provided in Section 2(a); and in each such case, the terms of this Section 2 shall be applicable to the shares of stock or other securities properly receivable upon the exercise of this Warrant after such consummation.

(c) **Adjustment Certificate.** When any adjustment is required to be made in the Warrant Stock or the Purchase Price pursuant to this Section 2, the Company shall promptly mail to the Registered Holder a certificate setting forth (i) a brief statement of the facts requiring such adjustment, (ii) the Purchase Price after such adjustment and (iii) the kind and amount of stock or other securities or property into which this Warrant shall be exercisable after such adjustment.

3. **Transfers**.

(a) **Unregistered Security.** Each holder of this Warrant acknowledges that this Warrant and the Warrant Stock have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and agrees not to sell, pledge, distribute, offer for sale, transfer or otherwise dispose of this Warrant or any Warrant Stock issued upon its exercise in the absence of (i) an effective registration statement under the Act as to this Warrant or such Warrant Stock and registration or qualification of this Warrant or such Warrant Stock under any applicable U.S. federal or state securities law then in effect or (ii) an opinion of counsel, satisfactory to the Company, that such registration and qualification are not required. Each certificate or other instrument for Warrant Stock issued upon the exercise of this Warrant shall bear a legend substantially to the for egoing effect.

(b) **Transferability**. This Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of the Warrant with a properly executed assignment (in the form of Exhibit B hereto) at the principal office of the Company. Notwithstanding the foregoing, the Holder of this Warrant agrees that its right of transfer of this Warrant and the Warrant Stock, will be subject to the terms of a lock up agreement to be negotiated with the underwriters of the Company's first registered public offering of equity securities after the date of original issuance of this Warrant (the "Lockup"), with the proviso that the Holder will agree that in addition to the selling restriction terms of the Lockup, the Holder will not publicly sell any Warrant Stock for an additional 90 days after release of any shares of Common Stock of the Company from the terms of the Lockup or termination of any of the selling restriction periods of the Lockup with respect to shares held by the Holders of San Gabriel Registrable Securities (as defined in that certain Registration Rights Agreement of the Company dated as of July 3, 2007, pursuant to that certain Agreement and Plan of Merger and Reorganization dated June 12, 2007 to which the Company is a party).

(c) **Warrant Register.** The Company will maintain a register containing the names and addresses of the Registered Holders of this Warrant. Until any transfer of this Warrant is made in the warrant register, the Company may treat the Registered Holder of this

Warrant as the absolute owner hereof for all purposes; provided, however, that if this Warrant is properly assigned in blank, the Company may (but shall not be required to) treat the bearer hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary. Any Registered Holder may change such Registered Holder's address as shown on the warrant register by written notice to the Company requesting such change.

4. **No Impairment.** The Company will not, by amendment of its charter or through reorganization, consolidation, merger, dissolution, sale of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will (subject to Section 13 below) at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment.

5. **Termination.** This Warrant (and the right to purchase securities upon exercise hereof) shall terminate upon the earliest to occur of the following (the "Expiration Date"): (a) July 2, 2012, (b) the sale, conveyance or disposal of all or substantially all of the Company's property or business or the Company's merger with or into or consolidation with any other corporation (other than a wholly-owned subsidiary of the Company) or any other transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of, provided that this Section 5(b) shall not apply to a merger effected exclusively for the purpose of changing the domicile of the Company or to an equity financing in which the Company is the surviving corporation and is subject to Section 2(b) hereof, or (c) the clo sing of a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act.

6. **Notices of Certain Transactions**. In case:

(a) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time deliverable upon the exercise of this Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, or

(b) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity), or any transfer of all or substantially all of the assets of the Company, or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then, and in each such case, the Company will mail or cause to be mailed to the Registered Holder of this Warrant a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the effective date on which such

reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up) are to be determined. Such notice shall be mailed at least ten (10) days prior to the record date or effective date for the event specified in such notice.

7. **Reservation of Stock.** The Company will at all times reserve and keep available, solely for the issuance and delivery upon the exercise of this Warrant, such shares of Warrant Stock and other stock, securities and property, as from time to time shall be issuable upon the exercise of this Warrant.

8. **Exchange of Warrants.** Upon the surrender by the Registered Holder of any Warrant or Warrants, properly endorsed, to the Company at the principal office of the Company, the Company will, subject to the provisions of Section 3 hereof, issue and deliver to or upon the order of such Holder, at the Company's expense, a new Warrant or Warrants of like tenor, in the name of such Registered Holder or as such Registered Holder (upon payment by such Registered Holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Warrant Stock called for on the face or faces of the Warrant or Warrants so surrendered.

9. **Replacement of Warrants.** Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

10. **Notices.** Any notice required or permitted by this Warrant shall be in writing and shall be deemed sufficient upon receipt, when delivered personally or by courier, overnight delivery service or confirmed facsimile, or forty-eight (48) hours after being deposited in the regular mail as certified or registered mail (airmail if sent internationally) with postage prepaid, addressed (a) if to the Registered Holder, to the address of the Registered Holder most recently furnished in writing to the Company and (b) if to the Company, to the address set forth below or subsequently modified by written notice to the Registered Holder.

11. **No Rights as Stockholder.** Until the exercise of this Warrant, the Registered Holder of this Warrant shall not have or exercise any rights by virtue hereof as a stockholder of the Company.

12. **No Fractional Shares.** No fractional shares of Common Stock will be issued in connection with any exercise hereunder. In lieu of any fractional shares which would otherwise be issuable, the Company shall pay cash equal to the product of such fraction multiplied by the fair market value of one share of Common Stock on the date of exercise, as determined in good faith by the Company's Board of Directors.

13. **Amendment or Waiver.** Any term of this Warrant may be amended or waived only by an instrument in writing signed by the party against which enforcement of the amendment or waiver is sought.

14. **Headings.** The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

15. **Transfer; Successors and Assigns.** The terms and conditions of this Warrant shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Warrant, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Warrant, except as expressly provided in this Warrant.

16. **Attorney's Fees.** If any action at law or in equity (including arbitration) is necessary to enforce or interpret the terms of any of this Warrant, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

17. **Severability.** If one or more provisions of this Warrant are held to be unenforceable under applicable law, 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 (a) such provision shall be excluded from this Warrant, (b) the balance of this Warrant shall be interpreted as if such provision were so excluded and (c) the balance of this Warrant shall be enforceable in accordance with its terms.

18. **Delays or Omissions.** No delay or omission to exercise any right, power or remedy accruing to any party under this Warrant, upon any breach or default of any other party under this Warrant, shall impair any such right, power or remedy of such non-breaching or non-defaulting party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Warrant, or any waiver on the part of any party of any provisions or conditions of this Warrant, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Warrant or by law or otherwise afforded to any party, shall be cumulative and not alternative.

19. **Notices.** Any notice required or permitted by this Warrant shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by fax, or 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 as set forth on the signature page, or as subsequently modified by written notice.

20. **<u>Governing Law</u>.** This Warrant shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

PASW, INC.

By: Name:
Title:

Address:
5615 Scotts Valley Drive, Suite 110
Scotts Valley, CA 95066
Fax: (831) 685-0117

EXHIBIT A

PURCHASE/EXERCISE FORM

To: PASW, Inc. (the "Company") Dated:

The undersigned, pursuant to the provisions set forth in the attached Warrant No. ____, hereby irrevocably elects to (a) purchase _______ shares of the Common Stock covered by such Warrant (the "Shares") and herewith makes payment of $_________, representing the full purchase price for such shares at the price per share provided for in such Warrant, or (b) exercise such Warrant for _______ shares purchasable under the Warrant pursuant to the Net Issue Exercise provisions of Section 1(c) of such Warrant.

In the event that the Shares have not been registered for resale under the Securities Act of 1933, as amended (the "Securities Act") prior to the date of exercise, the undersigned hereby makes the following representations and warranties, in connection with its exercise of the Warrant hereby:

1. The undersigned is acquiring the Shares for investment for the undersigned's own account only and not with a view to, or for resale in connection with, any "distribution" of the Shares within the meaning of the Securities Act, except as pursuant to that certain form of Registration Rights Agreement which is contained on Exhibit D to the Merger Agreement (the "Registration Rights Agreement") and which shall be executed by certain of the VirnetX Stockholders immediately following the consummation of the transactions contemplated by the Merger Agreement. The undersigned is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to purchase the Shares.

2. The undersigned understands that the Shares have not been registered under the Securities Act by reason of a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the undersigned's investment intent as expressed herein.

3. The undersigned understands that the Shares are "restricted securities" under applicable U.S. federal and state laws and that, pursuant to these laws, the undersigned may have to hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. The undersigned acknowledges that the Company has no obligation to register or qualify the Shares for resale, except as provided under the Registration Rights Agreement. The undersigned further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Shares, and requirements relating to the Company which are outside of t he undersigned's control, and which the Company is under no obligation and may not be able to satisfy.

4. The undersigned is an accredited investor as defined in Rule 501(a) of Regulation D of the Securities Act.

5. The undersigned will not sell, transfer, pledge or otherwise dispose of any Shares received by the undersigned unless and until (a) such Shares are subsequently registered under the Securities Act and any applicable state securities laws, or (b) (i) an exemption from such registration is available thereunder, and (ii) the undersigned has notified the Company of the proposed transfer and has furnished the Company with an opinion of counsel in a form reasonably satisfactory to the Company that such transfer will not require registration of such Shares under the Securities Act. The undersigned understands that, except as provided under the Registration Rights Agreement, the Company is not obligated, and does not intend, to register any such Shares either under the Securities Act or any state securities laws. The undersigned authorizes the C ompany to issue stop transfer instructions to its Shares transfer agent, or, so long as the Company may act as its own transfer agent, to make a stop transfer notation in its appropriate records, in order to ensure the undersigned's compliance with this provision.

Signature:

Name (print):

Title (if applic.):

Company (if applic.):

EXHIBIT B

ASSIGNMENT FORM

FOR VALUE RECEIVED, ____ hereby sells, assigns and transfers all of the rights of the undersigned under the attached Warrant with respect to the number of shares of Common Stock covered thereby set forth below, unto:

Name of Assignee	Address/Fax Number	No. of Shares

Dated:_________________ Signature:

Witness:

Exhibit 10.1

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of July 5, 2007, between PASW, Inc., a Delaware corporation ("PASW") and each of the several securityholders signatory hereto (each such, a "Securityholder" and, collectively, the "Securityholders").

This Agreement is made pursuant to the Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), dated June 12, 2007, between PASW, VirnetX Acquisition Corp., a Delaware corporation, and VirnetX, Inc., a Delaware corporation ("VirnetX").

PASW and the Securityholders hereby agree as follows:

1. **Definitions.** Capitalized terms used and not otherwise defined herein that are defined in the Merger Agreement shall have the meanings given such terms in the Merger Agreement. As used in this Agreement, the following terms shall have the following meanings:

"**Bridge Registrable Securities**" means (i) the shares of Common Stock issued pursuant to the Merger in exchange and conversion of the Bridge Convertible Debt and (ii) any shares of Common Stock issued or issuable upon any stock split, dividend or other distribution, recapitalization, anti-dilution adjustment or similar event with respect to the foregoing.

Common Registrable Securities" means (i) the shares of Common Stock issued pursuant to the Merger in exchange and conversion of the shares of Company Common Stock; (ii) the shares of Common Stock issuable upon the exercise of Options issued pursuant to the Merger in exchange for Company Options; (iii) the shares of Common Stock issuable upon the exercise of Warrants issued pursuant to the Merger in satisfaction of the Warrant Right; and (iv) any shares of Common Stock issued or issuable upon any stock split, dividend or other distribution, recapitalization, anti-dilution adjustment or similar event with respect to the foregoing.

"Common Stock" shall mean the common stock, par value $0.00001 per share, of PASW.

"**Holder**" or "**Holders**" means the holder or holders, as the case may be, from time to time of Registrable Securities.

"**Indemnified Party**" shall have the meaning set forth in Section 5(c).

"**Indemnifying Party**" shall have the meaning set forth in Section 5(c).

"**Losses**" shall have the meaning set forth in Section 5(a).

"Option" shall mean any option to purchase shares of capital stock of PASW.

"**Prospectus**" means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective Registration Statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"**Registrable Securities**" means (i) the Common Registrable Securities; (ii) the Bridge Registrable Securities; and (iii) the San Gabriel Registrable Securities.

"**Registration Statement**" means any registration statement required to be filed hereunder (which, at PASW's option, may be an existing registration statement of PASW previously filed with the SEC, but not declared effective), including (in each case) the Prospectus, amendments and supplements to the Registration Statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in the Registration Statement.

"**Rule 415**" means Rule 415 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar Rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

"**Rule 424**" means Rule 424 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar Rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

"San Gabriel Registrable Securities" means the shares of Common Stock issued pursuant to the Merger in exchange and conversion of the San Gabriel Convertible Debt and (ii) any shares of Common Stock issued or issuable upon any stock split, dividend or other distribution, recapitalization, anti-dilution adjustment or similar event with respect to the foregoing.

"**Selling Shareholder Registration Statement**" means any Registration Statement filed by PASW to register shares of Common Stock other than shares issued by PASW in a primary offering.

"Warrant" shall mean any warrant to purchase shares of capital stock of PASW.

2. Registration.

(a) Demand Registration Rights. Subject to the provisions of Section 2(f) hereafter, commencing on the date that is six (6) months after the Closing Date each of (i) the holders of Bridge Registrable Securities; (ii) the holders of San Gabriel Registrable Securities and (iii) the holders of Common Registrable Securities (each a "Requesting Group") shall have a separate one-time right, by written notice to PASW, signed by Holders owning at least 25% of the Registrable Securities of the Requesting Group (the "Demand Notice"), to request PASW to register for resale all Registrable Securities included by the Requesting Group in the Demand Notice under and in accordance with the provisions of the Securities Act by filing with the SEC a Registration Statement covering the resale of such Registrable Securities (the "Demand Registration Statement"). A copy of the Demand Notice also shall be provided by the Requesting Group to each of the other Holders, the failure of which, however, shall not in any way affect the rights of the Requesting Group pursuant to this Section 2(a). The Demand Registration Statement required hereunder shall be on Form S-3 (except if PASW is not then eligible to register for resale the Registrable Securities on Form S-3, then such Registration Statement will be on Form S-1, Form SB-2, or such other appropriate form). The Demand Registration Statement required hereunder shall contain the Plan of Distribution, attached hereto as Annex A (which may be modified to respond to comments, if any, received by the SEC). PASW shall cause the Demand Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof and shall keep the Demand Registration Statement continuously effective under the Securities Act until the earlier of (i) the date when all Registrable Securities have been sold pursuant to the Demand Registration Statement or an exemption from the registration requirements of the Securities Act; (ii) the date that the Holders can sell all of their Registrable Securities, pursuant to Rule 144; and (iii) one (1) year from the effective date of the Registration Statement (the "Demand Effectiveness Period").

(b) Piggyback Registrations Rights. At any time there is not an effective Registration Statement covering the Registrable Securities, and PASW shall determine to prepare and file with the SEC a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then PASW shall send to each Holder a written notice of such determination at least twenty (20) days prior to the filing of any such registration statement and shall automatically include in such registration statement all Re gistrable Securities; *provided*, *however*, that (i) if, at any time after giving written notice of its intention to register any securities and prior to the effective date of the registration statement filed in connection with such registration, PASW determines for any reason not to proceed with such registration, PASW will be relieved of its obligation to register any Registrable Securities in connection with such registration, (ii) in case of a determination by PASW to delay registration of its securities, PASW will be permitted to delay the registration of Registrable Securities for the same period as the delay in registering such other securities, (iii) each Holder is subject to confidentiality obligations with respect to any information gained in this process or any other material non-public

information he, she or it obtains; and (iv) each Holder is subject to all applicable laws relating to insider trading or similar restrictions. Notwithstanding anything to the contrary contained her ein, the provisions of this Section 2(b) shall not be applicable to the Registration Statement filed by PASW in connection with the first public offering of by PASW of its securities after the date of this Agreement (the "Initial Registration Statement"); *provided, however*, that the Holders of the San Gabriel Registrable Securities shall be entitled to include the San Gabriel Registrable Securities for resale in the Initial Registration Statement, pursuant to Rule 415, so long as (1) such shares shall not be included as part of the underwritten offering of primary shares by PASW without PASW's consent, (2) the underwriter approves the inclusion of such San Gabriel Registrable Securities in such Initial Registration Statement, (3) each such holder shall enter into the underwriters' form of lockup agreement as and to the extent requested by the underwriters, which may require that all of the shares of the San Gabriel Registrable Securities held by such holder not be sold or otherwise transferred without the consent of the underwriters for a period not to exceed 180 days from the closing of the offering contemplated by the Initial Registration Statement and (4) if PASW is advised by the staff of the SEC that it is not eligible to conduct the offering under Rule 415 promulgated under the Securities Act because of the number of shares sought to be included in the Initial Registration Statement, then PASW may reduce the number of San Gabriel Registrable Securities covered by such Registration Statement to the maximum number which would enable PASW to conduct such offering in accordance with the provisions of Rule 415 and all of such San Gabriel Registrable Securities shall be removed from such Initial Registration Statement to the extent that, in the good faith judgment of the underwriters, the inclusion of such San Gabriel Registrable Securities would jeopardize or substantially delay PASW's ability to have such Initial Registration Statement declared effect ive by the SEC.

(c) Postponement.

(i) PASW shall be entitled to postpone the filing of a Registration Statement pursuant to Section 2(a) for a reasonable time (not to exceed sixty (60) days) on one occasion during any twelve (12) month period if:

(A) PASW furnishes to the Holders a certificate signed by the President of PASW stating that in the good faith judgment of a majority of the Board of Directors, it would be in the best interests of PASW and its shareholders to delay any such registration at that time; or

(B) PASW informs the Holders that it believes that a fact or circumstance concerning PASW exists that, in the good faith judgment of a majority of the Board of Directors, constitutes material information that has not been publicly disclosed and which the Board of Directors believes, in its good faith judgment, is inappropriate or inadvisable so to disclose,

(ii) If PASW postpones the filing of a registration statement, PASW promptly shall give the Holders written notice of such postponement, including a statement of the reasons therefor and the expected duration thereof, and the Holders shall have the right to withdraw the request for registration by giving written notice to PASW within fifteen (15) days after receipt of the notice of postponement. If such Holders withdraw the request for registration: (A) such registration shall not recommence; and (B) such request shall not be counted as the registration to which the Holders are entitled under Section 2(a).

(d) Underwriting. Except as specifically provided under the provisions of Section 2(b) hereof, with respect to the registration of San Gabriel Registrable Securities in the Initial Registration Statement, in the event that a registration pursuant to Section 2(b) is for a registered public offering involving an underwriting on a firm commitment basis, PASW shall so advise the Holders. In such event, the right of any Holder to registration pursuant to Section 2(b) shall be conditioned upon such Holder's participation in the underwriting arrangements required by this Section 2(d), and the inclusion of such Holder's Registrable Securities in the underwriting to the extent requested shall be limited to the extent provided herein.

PASW shall (together with all Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by PASW, which underwriter is

reasonably acceptable to the majority in interest of the demanding Holders, and which approval shall not be unreasonably withheld. Notwithstanding any other provision of this Section 2, if the managing underwriter advises the Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then (i) the shares requested to be included in such Registration Statement by the Holders and any other selling shareholders shall be reduced first before any of the securities being registered by PASW are reduced and (ii) with respect to the allocation among the Holders, the number of shares of Common Stock that may be included in the underwriting shall be allocated among all such Holders in the same manner as provided in Section 2(e) hereafter. If the managing underwriter does not limit the number of Registrable Securities to be underwritten, PASW or other holders of securities of PASW who have registration rights similar to those set forth in Section 2 hereof may include Common Stock for their respective accounts in such registration if the managing underwriter states that such inclusion would not adversely affect the offering of Registrable Securities for any reason and if the number of Registrable Securities that would otherwise have been included in such registration and underwriting will not thereby be limited or reduced.

If any Holder of Registrable Securities disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to PASW, the managing underwriter and the Holders requesting registration of securities. Any such Registrable Securities which are withdrawn shall not be transferred in a public distribution prior to ninety (90) days after the effective date of such registration, or such other shorter period of time as the underwriters may require.

(e) Special Cutback Provisions with Respect to Selling Shareholder Registration Statements. In the event that any Holder of Registrable Securities elects to include its Registrable Securities in any Selling Shareholder Registration Statement, pursuant to the provisions of Section 2(b) hereof, and the SEC requires PASW, for any reason, to reduce the number of shares of Common Stock which may be included in such Selling Shareholder Registration Statement, PASW, unless otherwise prohibited by the SEC, shall cause all of the Registrable Securities being registered for resale by the Holders, pursuant to such Selling Shareholder Registration Statement, to be reduced as follows:

(i) First, the Registrable Securities included in such Selling Shareholder Registration Statement shall be reduced pro rata among the Holders, as required, until there are no remaining Common Registrable Securities included;

(ii) Second, to the extent that all Common Registrable Securities have been removed from such Selling Shareholder Registration Statement and an additional reduction is required, the Bridge Registrable Securities included in such Selling Shareholder Registration Statement shall be reduced pro rata among the Holders as required, until there are no remaining Bridge Registrable Securities included;

(iii) Third, to the extent that all Common Registrable Securities and Bridge Registrable Securities have been removed from such Selling Shareholder Registration Statement and an additional reduction is required, the San Gabriel Registrable Securities included in such Selling Shareholder Registration Statement shall be reduced pro rata among the Holders as required, until there are no remaining San Gabriel Registrable Securities included.

(f) Termination of Holders' Rights to Request a Demand Registration Statement. To the extent that any Holder has not elected to participate in a Demand Registration Right or a piggy back registration right as provided in this Agreement, then at any time commencing one year after the date of this Agreement, any such Holder will have the Demand Registration Right and piggy back registration rights as provided in this agreement, exercisable individually on a continuing and successive basis as permitted by SEC rule, regulation and Staff interpretation and without regard to Requesting Group characterization, until all of such Holder's Common Stock is registered on a Registration Statement. In addition, to the extent that any Holder who has elected to participate in a Demand Registration Right or a piggy back registration right as provided in this Agreement, but pursuant to Section 2(e) hereof has had shares of Common Stock removed

from a Registration Statement, then such Holder will have the Demand Registration Right and piggy back registration rights as provided in this Agreement on an individual and continuing and successive basis as permitted by SEC rule, regulation and Staff interpretation until all of such Holder's shares are registered. The successive Demand Registration Right provided in this Section 2(f), may be exercised not more frequently than once every six months after a prior Demand Registration Right has been exercised. Notwithstanding the foregoing provisions of this Section 2(f), as to each Holder, the Demand Registration Right pursuant to Section 2(a) hereof shall terminate on the date when all the Registrable Securities of the Holder either (a) have been covered by an effective Registration Statement which has been effective for an aggregate period of 12 months (whether or not consecutive), or (b) may be resold by the Holder in accordance with Rule 144 (k), or Rule 144 without regard to the volume limitations for sales as provided in that regulation, as set forth in a written opinion of counsel to PASW to such effect, addressed, delivered and acceptable to the transfer agent of PASW and to the Holder who has not sold its Common Stock and whose registration rights under this Agreement are being terminated by this provision. (The following example is provided for the illustration of the foregoing provision. If a Holder having 2 of the outstanding stock and a member of the Requesting Group known as the Common Registrable Securities, elects not to participate in that groups registration demand or piggy back on any other available registration statement, then that Holder will have demand registration rights commencing one year after the date of this Agreement. That Holder will also have continuing piggy back rights. Assuming no change in Rule 144, the Holder may alternatively sell 1% of his holdings under Rule 144 after one year from the date of this Agreement. At the point that is 15 months after the date of this Agreement, assuming that the Holder has sold 1% of his holding under Rule 144, Company counsel may write an opinion delivered to the transfer agent and Holder, which indicates that at that point, based on the then holdings of the Holder all of his shares may be sold under Rule 144 thereby terminating the registration rights under this Agreement. If, however, the Holder did not sell any shares after one year, then the Holder will have continuing rights to demand a registration statement, but not more frequently than once every six months, or participate in any other registration under the piggy back right.)

3. Registration Procedures. In connection with PASW's registration obligations hereunder and during the period during which PASW is required or elects to keep a Registration Statement effective (the "Effectiveness Period"), PASW shall:

(a) Not less than five (5) Business Days prior to the filing of the Registration Statement or any related Prospectus or any amendment or supplement thereto, furnish to any Holder whose Registrable Securities are included for resale in such Registration Statement, a draft of the Registration Statement, or any related Prospectus or any amendment or supplement thereto.

(b) (i) Prepare and file with the SEC such amendments, including post-effective amendments, to the Registration Statement and the Prospectus used in connection therewith as may be necessary to keep the Registration Statement continuously effective as to the applicable Registrable Securities for the Effectiveness Period; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424; and (iii) respond to any comments received from the SEC with respect to the Registration Statement or any amendment thereto.

(c) Notify as promptly as reasonably possible, but no later than three (3) Business Days, each Holder of Registrable Securities included in the Registration Statement: (i) (A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement has been filed, provided that such Holder has previously requested in writing to receive notice of such filing; (B) when the SEC notifies PASW whether there will be a "review" of the Registration Statement and whenever the SEC comments in writing on the Registration Statement, provided that

such Holder has previously requested in writing to receive notice of such notification (and PASW shall upon written request from any Holder, provide to such Holder, true and complete copies of such comments and all written responses thereto, subject, if appropriate, to the execution by such Holder of confi dentiality agreements in form acceptable to PASW); and (C) when the Registration Statement or any post-effective amendment has become effective; (ii) of any request by the SEC or any other federal or state governmental authority during the period of effectiveness of the Registration Statement for amendments or supplements to the Registration Statement or Prospectus or for additional information; (iii) of the issuance by the SEC or any other federal or state governmental authority of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Legal Proceeding for that purpose; (iv) of the receipt by PASW of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation of any Legal Proceeding for such purpose; and (v) of the occurrence of any event or passage of time that makes the financial statement s included in the Registration Statement ineligible for inclusion therein or any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(d) Use its best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of the Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

(e) Promptly deliver to each Holder no later than five (5) Business Days after the Effectiveness Date, without charge, two (2) copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto (and, upon the request of the Holder such additional copies as such Persons may reasonably request in connection with resales by the Holder of Registrable Securities). PASW hereby consents to the use of such Prospectus and each amendment or supplement thereto by the Holder in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto, except after the giving of any notice pursuant to Section 3(c).

(f) Prior to any resale of Registrable Securities by a Holder, use its best efforts to register or qualify or cooperate with the selling Holders in connection with the registration or qualification (or exemption from the registration or qualification) of such Registrable Securities for the resale by the Holder under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder reasonably requests in writing, to keep such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things reasonably necessary to enable the disposition in such jurisdictions of the Registrable Securities covered by the Registration Statement; *provided*, *however*, that PASW shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified, subject PASW to any material tax in any such jurisdiction where it is not then so subject or file a general consent to service of process in any such jurisdiction.

(g) Upon the occurrence of any event contemplated by Section 3(c)(v), as promptly as reasonably possible, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(h) Use its best efforts to comply with all applicable rules and regulations of the SEC relating to the registration of the Registrable Securities pursuant to the Registration Statement or otherwise.

(i) PASW shall not be required to include any Holder that does not complete, date and execute a Selling Shareholder Questionnaire, in the form of Annex B attached

hereto, providing the information reasonably required by PASW and/or does not reasonably cooperate with PASW in providing necessary information.

(j) PASW shall either (a) cause all the Registrable Securities covered by a Registration Statement to be listed on each securities exchange on which securities of the same class or series issued by PASW are then listed, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange, or (b) secure designation and quotation of all the Registrable Securities covered by the Registration Statement on the Nasdaq Stock Market LLC, or (c) if PASW is unsuccessful in satisfying the preceding clauses (a) or (b), PASW shall secure the inclusion for quotation on The American Stock Exchange, Inc. or if it is unable to, to use best efforts to provide for the Registrable Securities to trade on the OTC Bulletin Board, without limiting the generality of the foregoing, to use commercially reasonable efforts to secure at least two (2) market makers to register with the National Association of Securities Dealers, Inc. ("NASD") as such with respect to such Registrable Securities. PASW shall pay all fees and expenses in connection with satisfying its obligation under this Section 3(j).

(k) PASW covenants that it shall file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder so long as the Holder owns any Registrable Securities; *provided, however*, PASW may delay any such filing but only pursuant to Rule 12b-25 under the Exchange Act, and PASW shall take such further reasonable action as the Holder may reasonably request (including, without limitation, promptly obtaining any required legal opinions from Company counsel necessary to effect the sale of Registrable Securities under Rule 144 and paying the related fees and expenses of such counsel), all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule&n bsp;144 under the Securities Act, as such Rule may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the SEC. Upon the request of any Holder of Registrable Securities, PASW will deliver to such Holder a written statement as to whether it has complied with such requirements.

4. Registration Expenses. All fees and expenses incident to the performance of or compliance with this Agreement by PASW shall be borne by PASW whether or not any Registrable Securities are sold pursuant to the Registration Statement, other than discounts and commissions with respect to the sale of any Registrable Securities by the Holders. The fees and expenses referred to in the foregoing sentence shall include (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the Trading Market on which the Common Stock is then listed for trading, and (B) in compliance with applicable state securities or Blue Sky laws), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses if the printing of pr ospectuses is reasonably requested by the holders of a majority of the Registrable Securities included in the Registration Statement), (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for PASW, (v) Securities Act liability insurance, if PASW so desires such insurance, and (vi) fees and expenses of all other Persons retained by PASW in connection with the consummation of the transactions contemplated by this Agreement.

5. Indemnification.

(a) Indemnification by PASW. PASW shall, notwithstanding any termination of this Agreement, indemnify and hold harmless the Holder, the officers, directors, agents, representatives and employees of it, each Person who controls the Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents, representatives and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, reasonable attorneys' fees) and expenses (including the cost (including without limitation, reasonable attorneys' fees) and expenses relating to an Indemnified Party's actions to enforce the provisions of this Section 5) (collectively, "Losses"), as incu rred, to the extent arising out of or relating to any untrue or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (1) such untrue statements or omissions are based solely upon information regarding such Holder

furnished in writing (or in the case of an omission, not furnished) to PASW by or on behalf of such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto (it being understood that the Holder has approved Annex A hereto for this purpose), (2) in the case of an occurrence of an event of the type specified in Section 3(c)(ii)-(v), the use by such Holder of an outdated or defective Prospectus after PASW has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(b), (3) the failure of the Holder to deliver a Prospectus prior to the confirmation of a sale, or (4) caused by actions of or due to statements provided by the Holder's broker, underwriter or other adviser engaged by Holder. PASW shall notify the Holders promptly of the institution, threat or assertion of any Legal Proceeding of which PASW is aware in connection with the transactions contemplated b y this Agreement.

(b) Indemnification by Holder. Each Holder, severally and not jointly, shall indemnify and hold harmless PASW, its directors, officers, agents, representatives and employees, each Person who controls PASW (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents, representatives or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses, as incurred, to the extent arising out of or based upon: (x) the Holder's failure to comply with the prospectus delivery requirements of the Securities Act or (y) any untrue or alleged untrue statement of a material fact contained in any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of o r relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading (i) to the extent, but only to the extent, that such untrue statement or omission is contained in any information so furnished (or in the case of an omission, not furnished) in writing by or on behalf of such Holder to PASW specifically for inclusion in the Registration Statement or such Prospectus or (ii) to the extent that (1) such untrue statements or omissions are based solely upon information regarding such Holder furnished (or in the case of an omission, not furnished) in writing to PASW by or on behalf of such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities, such Prospectus or such form of Prospectus or in any amendment or supplement thereto, or (2) in the case of an occurrence of an event of the type specified in Section&nbs p;3(c)(ii)-(v), the use by such Holder of an outdated or defective Prospectus after PASW has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(b), (3) the failure of the Holder to deliver a Prospectus prior to the confirmation of a sale, or (4) caused by actions of or due to statements provided by the Holder's broker, underwriter or other adviser engaged by Holder. In no event shall the liability of any selling Holder hereunder be greater in amount than the proceeds payable to such Holder in connection with the sale of its Registrable Securities.

(c) Conduct of Indemnification Legal Proceedings. If any Legal Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall have the right to assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that such failure shall have materially prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Legal Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; (2) the Indemnifying Party shall have failed promptly to assume the defense of such Legal Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Legal Proceeding; or (3) the named parties to any such Legal Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in wh ich case, if such Indemnified Party

notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and the reasonable fees and expenses of one separate counsel for all Indemnified Parties in any matters related on a factual basis shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Legal Proceeding affected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Legal Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Legal Proceeding.

All reasonable fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Legal Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within ten (10) Trading Days of written notice thereof to the Indemnifying Party; provided, that the Indemnified Party shall promptly reimburse the Indemnifying Party for that portion of such fees and expenses applicable to such actions for which such Indemnified Party is not entitled to indemnification hereunder, determined based upon the relative faults of the parties.

(d) Contribution. If a claim for indemnification under Section 5(a) or Section 5(b) is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a m aterial fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Legal Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

6. Miscellaneous.

(a) Compliance. Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(b) Discontinued Disposition. Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from PASW of the occurrence of any event of the kind described in Section 3(c), such Holder will forthwith discontinue disposition of such Registrable Securities under the Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement or until it is advised in writing (the "Advice") by PASW that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. PASW may provide appropriate stop orders to enforce the provisions of this paragraph.

(c) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by PASW and each Holder of the then outstanding Registrable Securities.

(d) Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be provided in accordance with the notice provisions contained in the Purchase Agreement.

(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall

inure to the benefit of the Holder.

(f) Execution and Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(g) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware, without regard to the principles of conflicts of law thereof.

(h) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(i) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

Signature Page Follows

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

PASW, INC.

By:
Name:
Title:

Securityholders Signature Pages Follow

Securityholders Signature Page to PASW, Inc.
Registration Rights Agreement dated ____________, 2007

HOLDERS OF COMMON REGISTRABLE SECURITIES

[ ]

By:
Name:
Title:

[ ]

By:
Name:
Title:

HOLDERS OF SAN GABRIEL REGISTRABLE SECURITIES

[ ]

By:
Name:
Title:

[ ]

By:
Name:
Title:

HOLDERS OF BRIDGE SECURITIES **REGISTRABLE**

[ ]

By:
Name:
Title:

[ ]

By:
Name:
Title:

ANNEX A

Plan of Distribution

The Selling Stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Stockholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker/dealer solicits purchasers;
- block trades in which the broker/dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker/dealer as principal and resale by the broker/dealer for its account;
- an exchange distribution in accordance with the Rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales;
- broker/dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker/dealers engaged by the Selling Stockholders may arrange for other brokers/dealers to participate in sales. Broker/dealers may receive commissions from the Selling Stockholders (or, if any broker/dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The Selling Stockholders do not expect these commissions to exceed what is customary in the types of transactions involved.

The Selling Stockholders may from time to time pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of Selling Stockholders to include the pledgee, transferee or other successors in interest as Selling Stockholders under this prospectus.

The Selling Stockholders and any broker/dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker/dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions under the Securities Act. The Selling Stockholders have informed PASW that it does not have any agreement or understanding, directly or indirectly, with any person to distribute the Common Stock.

The Company is required to pay all fees and expenses incident to the registration of the shares. The Company has agreed to indemnify the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Annex B

PASW, INC.

Selling Securityholder Notice and Questionnaire

The undersigned beneficial owner of common stock (the "Registrable Securities") of PASW, INC., a Delaware corporation (the "Company"), understands that the Company has filed or intends to file with the Securities and Exchange Commission (the "Commission") a registration statement (the "Registration Statement") for the registration and resale under Rule 415 of the Securities Act of 1933, as amended (the "Securities Act"), of the Registrable Securities, in accordance with the terms of the Registration Rights Agreement (the "Registration Rights Agreement") to which this document is annexed. A copy of the Registration Rights Agreement is available from the Company upon request at the address set forth below. All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Registration Rights Agreement.

Certain legal consequences arise from being named as a selling securityholder in the Registration Statement and the related prospectus. Accordingly, holders and beneficial owners of Registrable Securities are advised to consult their own securities law counsel regarding the consequences of being named or not being named as a selling securityholder in the Registration Statement and the related prospectus.

NOTICE

The undersigned beneficial owner (the "Selling Securityholder") of Registrable Securities hereby elects to include the Registrable Securities owned by it in the Registration Statement.

The undersigned hereby provides the following information to the Company and represents and warrants that such information is accurate:

QUESTIONNAIRE

1. Name.

(a) Full Legal Name of Selling Securityholder

____

(b) Full Legal Name of Registered Holder (if not the same as (a) above) through which Registrable Securities are held:

____

(c) Full Legal Name of Natural Control Person (which means a natural person who directly or indirectly alone or with others has power to vote or dispose of the securities covered by the questionnaire):

____

2. Address for Notices to Selling Securityholder:

____

____

____

Telephone:
Fax:
Contact Person:

3. Broker-Dealer Status:

(a) Are you a broker-dealer?

Yes No

(b) If "yes" to Section 3(a), did you receive your Registrable Securities as compensation for investment banking services to the Company.

Yes No

Note: If no, the Commission's staff has indicated that you should be identified as an underwriter in the Registration Statement.

(c) Are you an affiliate of a broker-dealer?

Yes No

(d) If you are an affiliate of a broker-dealer, do you certify that you bought the Registrable Securities in the ordinary course of business, and at the time of the purchase of the Registrable Securities to be resold, you had no agreements or understandings, directly or indirectly, with any person to distribute the Registrable Securities?

Yes No

Note: If no, the Commission's staff has indicated that you should be identified as an underwriter in the Registration Statement.

4. Beneficial Ownership of Securities of the Company Owned by the Selling Securityholder.

Except as set forth below in this Item 4, the undersigned is not the beneficial or registered owner of any securities of the Company other than the Registrable Securities (as such term is defined in the Registration Rights Agreement) .

(a) Type and Amount of other securities beneficially owned by the Selling Securityholder:

____

____

5. Relationships with the Company:

Except as set forth below, neither the undersigned nor any of its affiliates, officers, directors or principal equity holders (owners of 5% of more of the equity securities of the undersigned) has held any position or office or has had any other material relationship with the Company (or its predecessors or affiliates) during the past three years.

State any exceptions here:

____

____

The undersigned agrees to promptly notify the Company of any inaccuracies or changes in the information provided herein that may occur subsequent to the date hereof at any time while the Registration Statement remains effective.

By signing below, the undersigned consents to the disclosure of the information contained herein in its answers to Items 1 through 5 and the inclusion of such information in the Registration Statement and the related prospectus and any amendments or supplements thereto. The undersigned understands that such information will be relied upon by the Company in connection with the preparation or amendment of the Registration Statement and the related prospectus.

IN WITNESS WHEREOF the undersigned, by authority duly given, has caused this Notice and Questionnaire to be executed and delivered either in person or by its duly authorized agent.

Dated:

Beneficial Owner:

By:
Name:
Title:

PLEASE FAX A COPY OF THE COMPLETED AND EXECUTED NOTICE AND QUESTIONNAIRE, AND RETURN THE ORIGINAL BY OVERNIGHT MAIL, TO:

Exhibit 10.2

LOCK-UP AGREEMENT

July 5, 2007

PASW, Inc.
9453 Alcosta Boulevard
San Ramon, CA 94583-3929

Re: PASW, INC., a Delaware corporation ("PASW"), VirnetX, Inc., a Delaware corporation ("VirnetX") and the Securityholders signatory hereto (each, a "Securityholder" and, collectively, the "Securityholders")

Ladies and Gentlemen:

1. Defined terms not otherwise defined in this agreement (the "Agreement") shall have the meanings set forth in that certain Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), dated June 12, 2007, between PASW, VirnetX Acquisition, Inc., a Delaware corporation, and VirnetX. Pursuant to Section 4.1 of the Merger Agreement and in satisfaction of one of the covenants set forth under the terms of the Merger Agreement, the undersigned Securityholders irrevocably agree with PASW that, from the date hereof until July ___, 2008 (the "Restriction Period"), subject to any extension as provided in Paragraph 2 hereafter, each of such Securityholders will not offer, sell, contract to sell, hypothecate, pledge or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by such Securityholder or any Affiliate of such Securityholder or any person in privity with such Securityholder or any Affiliate of such Securityholder), directly or indirectly, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act with respect to, any shares of Pubco Common Stock or any securities convertible into or which may be exercised to purchase any shares of Pubco Common Stock, acquired by the Securityholders in connection with the Merger or issued in connection with such securities (the "Securities"). In order to enforce this covenant, PASW shall impose irrevocable stop-transfer instructions preventing the Transfer Agent from effecting any actions in violation of this Agreement.

2. In the event that all of the shares of Pubco Common Stock issued by PASW in connection with the Merger, upon conversion of the San Gabriel Convertible Debt (the "San Gabriel Shares"), have not been registered, pursuant to a registration statement filed with the SEC under the Securities Act, within nine (9) months after the Closing Date, the Restriction Period shall be extended for such period of time so that the San Gabriel Registrable Securities shall be available for sale pursuant to a resale registration statement, Rule 144 (or Rule 144(k), if applicable), promulgated under the Securities Act ("Rule 144") and/or any other applicable exemption under the Securities Act, for a period of three (3) months prior to the expiration of the restriction of transfer of the Securities set forth in this Agreement (such extension period, along with the Restriction Period being hereinafter referred to as the "Extended Restriction Period").

3. Notwithstanding anything to the contrary contained herein, to the extent that at any time that this Agreement remains in effect, only a portion of the San Gabriel Shares have become available for sale for at least three (3) months, as described in Paragraph 2 above, the transfer restrictions set forth in this Agreement shall be released with respect to a percentage of each Securityholder's Securities equal to the percentage of the total number of San Gabriel Shares that can be sold, as described Paragraph 2 above, until all San Gabriel Shares are available for sale at least three (3) months, at which time this Agreement, and all restrictions on the transfer of the Securities contained herein, shall be terminated and of no further force or effect.

4. Notwithstanding anything to the contrary contained herein, this Agreement, and all restrictions on the transfer of the Securities contained herein, will be terminated as of any date on or after the expiration of the Restriction Period, if the holders of the San Gabriel Shares do not elect to include all San Gabriel Shares in a registration statement in which registration rights were available and/or have not exercised their right to demand registration of the San Gabriel Shares, prior to such date, in each case as provided under the terms of the Registration Rights Agreement.

5. Notwithstanding anything contained herein to the contrary, the Securityholders shall have the right, during the Restriction Period (or the Extended Restriction Period, as the case may be), to sell or otherwise transfer their Securities pursuant to a private sale or any other

transaction not involving the public sale of such Securities, provided that, until such date that such Securities are no longer subject to restrictions on transfer under this Agreement: (i) any such Securities transferred shall remain “restricted securities,” as such term is defined in Rule 144 promulgated under the Securities Act; (ii) all applicable transfer restriction legends shall not be removed from the certificates for such Securities; and (iii) the transferee(s) of any such Securities shall agree to be bound by the terms of this Agreement with respect to any such Securities transferred.

6. It is specifically acknowledged and agreed that the shares of Pubco Common Stock subject to the transfer restrictions contained in this Agreement do not include either (i) shares of Pubco Common Stock issued in exchange and conversion of the Bridge Convertible Debt (the “Bridge Shares”) or (ii) the 800,000 shares of Pubco Common Stock underlying the Pubco Warrants issued pursuant to the provisions of the Merger Agreement (the “Merger Warrants”), and to the extent that a holder of Bridge Shares or Merger Warrants is required to execute this Agreement as a result of its also holding shares of Pubco Common Stock issued in exchange for Company Common Stock (the “Common Shares”), the restrictions on transfer contained herein shall apply only to such holder’s Common Shares and not its Bridge Shares or Warrant Shares, as the case may be.

7. The undersigned Securityholders acknowledge that the execution, delivery and performance of this Agreement is a material inducement to PASW and VirnetX to complete the transactions contemplated by the Merger Agreement and that PASW and VirnetX shall be entitled to specific performance of each Securityholder’s obligations hereunder. Each Securityholder hereby represents, severally and not jointly, that such Securityholder has the power and authority to execute, deliver and perform this Agreement, that each Securityholder has received adequate consideration therefor and that each such Securityholder will indirectly benefit from the closing of the transactions contemplated by the Merger Agreement.

8. This Agreement may not be amended or otherwise modified in any respect without the written consent of PASW, VirnetX, and each Securityholder. This Agreement shall be construed in accordance with, and governed in all respects by, the internal laws of the State of Delaware without giving effect to its principles of conflicts of laws. Each of the undersigned parties hereby waives any right to a trial by jury.

9. By its signature below, PASW’s Transfer Agent hereby acknowledges and agrees that, in accordance with this Agreement, it has placed irrevocable stop transfer instructions on all Securities covered by this Agreement, except for such rights to transfer the Securities, as provided in <u>Paragraphs 3</u> and <u>5</u> hereof, until the end of the Restriction Period (or the Extended Restriction Period, as the case may be). This Agreement shall be binding on successors and assigns of the Securityholders with respect to the Securities and any such successor or assign shall enter into a similar agreement for the benefit of PASW and VirnetX.

This Agreement may be executed in two or more counterparts, all of which when taken together may be considered one and the same agreement.

PASW, INC.

By: ________________________________
Name:
Title:

VIRNETX, INC.

By: ________________________________
Name:
Title:

Acknowledgement of Stop Order Instructions:

TRANSFER AGENT:

By: ___________________________________
Name:
Title:

*** SECURITYHOLDER SIGNATURE PAGES FOLLOW***

Securityholder Signature Page to PASW, Inc. Lock-Up Agreement

The undersigned Securityholder agrees to comply with the restrictions on transfer set forth in this Agreement.

SECURITYHOLDER:

By:_________________________________

Name:

Title:

Address for Notice:

Number of shares of Pubco Common Stock

____

Number of shares of Pubco Common Stock subject to warrants, options, debentures or other convertible securities.

Exhibit 10.3

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "Agreement") is made as of July 5, 2007, by and between PASW, Inc, a Delaware corporation (the "Company"), and __________________________ (the "Indemnitee").

RECITALS

The Company and Indemnitee recognize the increasing difficulty in obtaining liability insurance for directors, officers and key employees, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance. The Company and Indemnitee further recognize the substantial increase in corporate litigation in general, subjecting directors, officers and key employees to expensive litigation risks at the same time as the availability and coverage of liability insurance has been severely limited. Indemnitee does not regard the current protection available as adequate under the present circumstances, and Indemnitee and agents of the Company may not be willing to continue to serve as agents of the Company without additional protection. The Company desires to attract and retain the services of highly qualified indiv iduals, such as Indemnitee, and to indemnify its directors, officers and key employees so as to provide them with the maximum protection permitted by law.

AGREEMENT

In consideration of the mutual promises made in this Agreement, and for other good and valuable consideration, receipt of which is hereby acknowledged, the Company and Indemnitee hereby agree as follows:

1. **Indemnification.**

(a) **Third Party Proceedings.** The Company shall indemnify Indemnitee if Indemnitee is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company, or any subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while an officer or director or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement (if such settlement is approved in adva nce by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such action, suit or proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(b) **Proceedings By or in the Right of the Company.** The Company shall indemnify Indemnitee if Indemnitee was or is a party or is threatened to be made a party to any threatened, pending or completed action or proceeding by or in the right of the Company or any subsidiary of the Company to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company, or any subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while an officer or director or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) and, to the fullest extent permitted by law, amounts paid in settlement (if such sett lement is approved in advance by the Company, which approval shall not be unreasonably withheld), in each case to the extent actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its stockholders, except that no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudicated by court order or judgment to be liable to the Company in the performance of Indemnitee's duty to the Company and its stockholders unless and only to the extent that the court in which such action or proceeding is or was pending shall determine upon

application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(c) **Mandatory Payment of Expenses.** To the extent that Indemnitee has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1(a) or Section 1(b) or the defense of any claim, issue or matter therein, Indemnitee shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by Indemnitee in connection therewith.

2. **No Employment Rights.** Nothing contained in this Agreement is intended to create in Indemnitee any right to continued employment.

3. **Expenses; Indemnification Procedure.**

(a) **Advancement of Expenses.** The Company shall advance all expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal action, suit or proceeding referred to in Section l(a) or Section 1(b) of this Agreement (including amounts actually paid in settlement of any such action, suit or proceeding). Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company as authorized hereby.

(b) **Notice/Cooperation by Indemnitee.** Indemnitee shall, as a condition precedent to his or her right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be directed to the Chief Executive Officer of the Company and shall be given in accordance with the provisions of Section 12(d) below. In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

(c) **Procedure.** Any indemnification and advances provided for in Section 1 and this Section 3 shall be made no later than thirty (30) days after receipt of the written request of Indemnitee. If a claim under this Agreement, under any statute, or under any provision of the Company's Certificate of Incorporation or Bylaws providing for indemnification, is not paid in full by the Company within thirty (30) days after a written request for payment thereof has first been received by the Company, Indemnitee may, but need not, at any time thereafter bring an action against the Company to recover the unpaid amount of the claim and, subject to Section 11 of this Agreement, Indemnitee shall also be entitled to be paid for the expenses (including attorneys' fees) of bringing such action. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any action, suit or proceeding in advance of its final disposition) that Indemnitee has not met the standards of conduct which make it permissible under applicable law for the Company to indemnify Indemnitee for the amount claimed, but the burden of proving such defense shall be on the Company and Indemnitee shall be entitled to receive interim payments of expenses pursuant to Section 3(a) unless and until such defense may be finally adjudicated by court order or judgment from which no further right of appeal exists. It is the parties' intention that if the Company contests Indemnitee's right to indemnification, the question of Indemnitee's right to indemnification shall be for the court to decide, and neither the failure of the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct required by applicable law, nor an actual determination by the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) that Indemnitee has not met such applicable standard of conduct, shall create a presumption that Indemnitee has or has not met the applicable standard of conduct.

(d) **Notice to Insurers.** If, at the time of the receipt of a notice of a claim pursuant to Section 3(b) hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(e) **Selection of Counsel.** In the event the Company shall be obligated under Section 3(a) hereof to pay the expenses of any proceeding against Indemnitee, the Company, if appropriate, shall be entitled to assume the defense of such proceeding, with counsel approved by Indemnitee, upon the delivery to Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for

any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, provided that (i) Indemnitee shall have the right to employ counsel in any such proceeding at Indemnitee's expense; and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized by the Company, (B)&n bsp;Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense or (C) the Company shall not, in fact, have employed counsel to assume the defense of such proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company.

4. **Additional Indemnification Rights; Nonexclusivity.**

(a) **Scope.** Notwithstanding any other provision of this Agreement, the Company hereby agrees to indemnify the Indemnitee to the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any change, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors or an officer, such changes shall be deemed to be within the purview of Indemnitee's rights and the Company's obligations under this Agreement. In the event of any change in any applicable law, statute or rule which narrows the right of a Delaware corporation to indemnify a member of its board of director s or an officer, such changes, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

(b) **Nonexclusivity.** The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Company's Certificate of Incorporation, its Bylaws, any agreement, any vote of stockholders or disinterested members of the Company's Board of Directors, the General Corporation Law of the State of Delaware, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though he or she may have ceased to serve in any such capacity at the time of any action, suit or other covered proceeding.

5. **Partial Indemnification.** If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred in the investigation, defense, appeal or settlement of any civil or criminal action, suit or proceeding, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

6. **Mutual Acknowledgment.** Both the Company and Indemnitee acknowledge that in certain instances, Federal law or public policy may override applicable state law and prohibit the Company from indemnifying its directors and officers under this Agreement or otherwise. For example, the Company and Indemnitee acknowledge that the Securities and Exchange Commission (the "SEC") has taken the position that indemnification is not permissible for liabilities arising under certain federal securities laws, and federal legislation prohibits indemnification for certain ERISA violations. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify In demnitee.

7. **Officer and Director Liability Insurance.** The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable insurance companies providing the officers and directors of the Company with coverage for losses from wrongful acts, or to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all policies of director and officer liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors, if Indemnitee is a director; or o f the Company's officers, if Indemnitee is not a director of the Company but is an officer; or of the Company's key employees, if Indemnitee is not an officer or director but is a key employee. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a parent or subsidiary of the Company.

8. **Severability.** Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. **Exceptions.** Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) **Claims Initiated by Indemnitee.** To indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, except with respect to proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under Section 145 of the Delaware General Corporation Law, but such indemnification or advancement of expenses may be provided by the Company in specific cases if the Board of Directors finds it to be appropriate;

(b) **Lack of Good Faith.** To indemnify Indemnitee for any expenses incurred by Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by Indemnitee in such proceeding was not made in good faith or was frivolous;

(c) **Insured Claims.** To indemnify Indemnitee for expenses or liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) to the extent such expenses or liabilities have been paid directly to Indemnitee by an insurance carrier under a policy of officers' and directors' liability insurance maintained by the Company; or

(d) **Claims under Section 16(b).** To indemnify Indemnitee for expenses or the payment of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

10. **Construction of Certain Phrases.**

(a) For purposes of this Agreement, references to the "Company" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that if Indemnitee is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnitee would have with respect to such constituent corporation if its separate ex istence had continued.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreemen t.

11. **Attorneys' Fees.** In the event that any action is instituted by Indemnitee under this Agreement to enforce or interpret any of the terms hereof, Indemnitee shall be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by Indemnitee with respect to such action, unless as a part of such action, the court of competent jurisdiction determines that each of the material assertions made by Indemnitee as a basis for such action were not made in good faith or were frivolous. In the event of an action instituted by or in the name of the Company under this Agreement or to enforce or interpret any of the terms of this Agreement, Indemnitee shall be entitled to be paid all court costs and expenses, including attorneys' fees, incurred by Indemnitee in defense of such action (including with respect to

Indemnitee's counte rclaims and cross-claims made in such action), unless as a part of such action the court determines that each of Indemnitee's material defenses to such action were made in bad faith or were frivolous.

12. **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 Delaware, without giving effect to principles of conflicts of law.

(b) **Entire Agreement; Enforcement of Rights.** This Agreement 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) **Construction.** This Agreement is the result of negotiations between and has been reviewed by each of the parties hereto and their respective counsel, if any; accordingly, this Agreement shall be deemed to be the product of all of the parties hereto, and no ambiguity shall be construed in favor of or against any one of the parties hereto.

(d) **Notices.** Any notice, demand or request required or permitted to be given under this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by fax or 48 hours after being sent by nationally-recognized courier or deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address or fax number as set forth below or as subsequently modified by written notice.

(e) **Counterparts.** This Agreement 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.** This Agreement shall be binding upon the Company and its successors and assigns, and inure to the benefit of Indemnitee and Indemnitee's heirs, legal representatives and assigns.

(g) **Subrogation.** In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company to effectively bring suit to enforce such rights.

[Signature Page Follows]

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

THE COMPANY:

PASW, INC.

By:
(Signature)

Name:

Title:

Address: 9453 Alcosta Boulevard
San Ramon, CA 94583-3929

Fax Number: _________________________

AGREED TO AND ACCEPTED:

THE INDEMNITEE:

____

(Signature)

Address: ______________________________

____

Fax Number: _________________________

Exhibit 10.4

PATENT LICENSE AND ASSIGNMENT AGREEMENT

This Patent License Agreement (this "Agreement") is entered into as of August 12, 2005 (the "Effective Date") by and between Science Applications International Corporation, a Delaware corporation ("SAIC"), and VirnetX Inc., a Delaware corporation ("Licensee"), herein individually referred to as a "Party" and collectively referred to as the "Parties".

RECITALS

WHEREAS, SAIC owns certain patents and patent applications relating to the facilitation of secure communications over networks, as more particularly described in Exhibit A (the "SAIC Patent Rights");

WHEREAS, Licensee is in the business of developing and manufacturing products and providing services in the Internet, enterprise networking, and communications markets;

WHEREAS, Licensee desires to obtain a license to the SAIC Patent Rights in connection with its business in a particular field of use, and SAIC desires to grant such license on the terms and conditions contained herein solely in the field of use;

WHEREAS, Licensee believes it must own the SAIC Patent Rights to effectively raise funds to develop and license products and services which practice the SAIC Patent Rights, and consequently Licensee desires to acquire title to the SAIC Patent Rights, subject to the terms and conditions for such assignment as set out in this Agreement;

WHEREAS, subject to the terms and conditions of this Agreement, SAIC desires to convey to Licensee the SAIC Patent Rights solely for Licensee or its sub-licensee to practice in a particular field of use;

WHEREAS, SAIC currently has, and seeks to maintain, an exclusive right to practice the SAIC Patent Rights outside Licensee's field of use, and consequently Licensee desires to grant back an exclusive license to SAIC under such SAIC Patent Rights outside Licensee's particular field of use; and

WHEREAS, the parties desire that, both during the term of the license grant to Licensee under the SAIC Patent Rights and post any conveyance to Licensee of such SAIC Patent Rights, SAIC shall have the exclusive ability to license the SAIC Patent Rights outside Licensee's particular field of use.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises made herein and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. DEFINITIONS.

1.1 "**Affiliate**" shall mean any company that ultimately controls, is controlled by, or is under common control with, whether directly or indirectly, a Party.

1.2 "**Agreement**" shall have the meaning set forth in the preamble of this Agreement.

1.3 "**Agreement Year**" shall have the meaning set forth in Section 7.2 of this Agreement.

1.4 "**Assignment**" shall have the meaning set forth in Section 4.1.

1.5 "**Assignment Trigger Event**" shall mean the first date on which Licensee has complied with the following: (i) closed a Qualified Financing with proceeds to Licensee in immediately available funds equal to or greater than seven million dollars ($7,000,000) when aggregated with all prior Qualified Financings; (ii) Licensee has provided to SAIC its current thirty six (36) month business and financial plan, detailing the proposed sale and development of products using the SAIC Patent Rights with Licensee's Board of Directors certifying in writing that the plan will be commercially reasonable and will maximize Licensee's payments of royalties to SAIC as set out in Section 7 of this agreement,; (iii) SAIC, in writing, approves of the business and financial plan, which shall not be unreasonably withheld or delayed; provided that if SAIC has not disapproved of such busi ness and financial plan within twenty (20) business days after delivery

thereof, such business and financial plan shall be deemed approved by SAIC; and (iv) Licensee's Board certifies, and SAIC in its sole commercially reasonable discretion agrees in writing, that Licensee either has three (3) years sufficient working capital or firm commitments in writing for such capital, as determined in accordance with GAAP, on such date to meet Licensee's obligations as they become due as set forth in Licensee's business and financial plan for the succeeding thirty six (36) month period. For sake of clarity and not by way of limitation, the parties agree that SAIC's approval or disapproval of the business plan and determination of working capital shall not be used by Licensee as proof, evidence, confirmation or even information to be provided to any third party, including without limitation shareholders, investors, licensees and potential shareholders, investors or licensees, that Licensee' ;s business plan is likely to succeed or result in any financial remuneration to Licensee or that Licensee will have future viability as a corporation.

1.6 "**Audited Financial Statements**" shall mean the audited balance sheet of Licensee and the related statements of income, changes in stockholders' equity and cash flows, prepared in accordance with GAAP as of the last date of Licensee's fiscal year, together with the notes thereto and an audit report of independent public accountants.

1.7 "**Available For Beta Test**" shall mean the earlier of (i) testing by a potential commercial customer of any product or product prototype, not yet released to the general target customer base, which product or product prototype would otherwise infringe or contribute to the infringement of any SAIC Patent Rights or SAIC Improvements or Licensee Improvements thereto; (ii) sale, license or any other payment by a third party for a product or service which would otherwise infringe or contribute to the infringement of any SAIC Patent Rights or SAIC Improvements or Licensee Improvements thereto; (iii) when a product or service is available for third parties to test which contains any of the functionality of the products or services specified in the Statement of Work; or (iv) twelve (12) months from the date Licensee accepts delivery of the Statement of Work, which approval shall not be unre asonably withheld or delayed.

1.8 "**Damages**" shall have the meaning set forth in Section 10.1 of this Agreement.

1.9 "**Effective Date**" shall have the meaning set forth in the preamble of this Agreement.

1.10 "**Exchange Act**" shall have the meaning set forth in Section 7.5 of this Agreement.

1.11 "**Field of Use**" shall mean the field of secure communications in the following areas: Virtual Private Networks (VPN); Secure Voice Over Internet Protocol (VoIP); Electronic Mail (E-mail); Video Conferencing; Communications Logging; Dynamic Uniform Resource Locators (URLs); Denial of Service; Prevention of Functional Intrusions; IP Hopping; Voice Messaging and Unified Messaging; Live Voice and IP PBX's; Voice Web Video Conferencing and Collaboration; Instant Messaging (IM); Minimized Impact of Viruses; and Secure Session Initiation Protocol (SIP). The Field of Use is not limited by any predefined transport mode or medium of communication (*e.g.*, wire, fiber, wireless, or mixed medium).

1.12 "**Force Majeure Occurrences**" shall have the meaning set forth in Section 16.4 of this Agreement.

1.13 "**GAAP**" means the then current generally accepted accounting principles for financial reporting in the United States.

1.14 "**License**" shall mean the license rights granted in Section 2.1 below, subject to the terms and conditions of this Agreement.

1.15 "**License Trigger Event**" means the first to occur of the following: (i) the expiration or termination of this Agreement; (ii) the insolvency or bankruptcy of Licensee; (iii) a material breach by Licensee of any of the provisions of this Agreement that has not been cured within thirty (30) days after Licensee's receipt of written notice of such failure; (iv) the failure of Licensee to make any required payment of Minimum Royalties hereunder that has not been cured within thirty (30) days after Licensee's receipt of written notice of such failure; (v) the exercise

by SAIC of its Security Interest hereunder; or (vi) the conversion of the License to a non-exclusive license under Section 2.2.

1.16 "**Licensed Product**" means any product, the manufacture, use, sale offer for sale, lease or import of which would infringe or contribute to the infringement of any SAIC Patent Rights or any product manufactured using a process which would infringe the SAIC Patent Rights.

1.17 "**Licensee**" shall have the meaning set forth in the preamble of this Agreement.

1.18 "**Licensee Improvements**" shall have the meaning set forth in Section 3.2 of this Agreement.

1.19 "**Licensee Indemnified Party**" shall have the meaning set forth in Section 10.2 of this Agreement.

1.20 "**Maximum Amount**" shall have the meaning set forth in Section 7.3 of this Agreement.

1.21 "**Minimum Royalty**" shall have the meaning set forth in Section 7.2 of this Agreement.

1.22 "**Non-Disclosure Agreement**" means that certain form of agreement attached hereto as Exhibit B, to be effective pursuant to the terms of Section 8.

1.23 "**Parties**" shall have the meaning set forth in the preamble of this Agreement.

1.24 "**Party**" shall have the meaning set forth in the preamble of this Agreement.

1.25 "**Professional Services Agreement**" means that certain form of agreement attached hereto as Exhibit C, entered into by the parties and dated August 12, 2005.

1.26 "**Project Completion**" means the date of completion of a product by Licensee in the Field of Use that is Available For Beta Test.

1.27 "**Qualified Financing(s)**" means the sale of equity securities by Licensee to one or more "accredited investors" within the meaning of Securities and Exchange Commission Rule 501 of Regulation D, as presently in effect, in each case, on or prior to the first anniversary of Project Completion.

1.28 "**Quarterly Financial Statements**" shall mean the Licensee's balance sheet and the related statements of income, changes in stockholders' equity and cash flows, as of each quarter during the Term hereof beginning on Project Completion, which Licensee's chief executive officer and chief financial officer shall certify have been prepared in accordance with GAAP.

1.29 "**Reseller Agreement**" means that certain form of agreement attached hereto as Exhibit D, to be effective pursuant to the terms of Section 15.

1.30 "**Revenues**" shall mean all gross revenues of Licensee less (a) trade, quantity and cash discounts allowed, (b) commercially reasonable commissions, discounts, refunds, rebates, chargebacks, retroactive price adjustments, and other allowances which effectively reduce the net selling price, and which are based on arms length terms and are customary and standard in Licensee's industry, and (c) actual product returns and allowances.

1.31 "**Reversion**" shall have the meaning set forth in Section 5.1 of this Agreement.

1.32 "**Reversion Trigger Event**" shall mean the first to occur of the following: (i) the date that is five (5) years after Project Completion, if Licensee pays to SAIC an aggregate cumulative amount hereunder of less than seven million five hundred thousand dollars ($7,500,000); (ii) any failure by Licensee to pay the Minimum Royalty that has not been cured within ninety (90) days after Licensee's receipt of written notice of such failure; (iii) for the period prior to the date of Licensee's full payment of the Maximum Amount, any breach by Licensee of SAIC's grant back license that has not been cured within thirty (30) days after Licensee's receipt of written notice of such failure; or (iv) for the period prior to the date of Licensee's full payment of the Maximum Amount, any termination of this Agreement.

1.33 "**SAIC**" shall have the meaning set forth in the preamble of this Agreement.

1.34 "**SAIC Improvements**" shall have the meaning set forth in Section 3.1 of this Agreement.

1.35 "**SAIC Indemnified Party**" shall have the meaning set forth in Section 10.1 of this Agreement.

1.36 "**SAIC's Knowledge**" shall have the meaning of the actual knowledge of Edmund C. Munger, Robert Short, Victor J. Larson, Michael Lachuk or Pamela Bumann.

1.37 "**SAIC Patent Rights**" shall have the meaning set in the Recitals of this Agreement.

1.38 "**Security Agreement(s)**" means the certain form of agreement(s) attached hereto as Exhibit E, to be effective pursuant to the terms of Section 7.7.

1.39 "**Security Interest**" means that certain security interest contemplated by Section 7.7.

1.40 "**Source Code Escrow Agreement**" means that certain form of agreement, which shall be attached hereto as Exhibit F and which must be mutually agreed to as a condition precedent to SAIC being required to perform under the Professional Services Agreement.

1.41 "**Statement of Work**" means the statement of work prepared as a deliverable by SAIC as set out in Task No. 4 in Phase I of Exhibit A in the Professional Services Agreement which shall specify material functionality of a product or service which would, except pursuant to this Agreement, otherwise be anticipated to infringe or contribute to the infringement of any SAIC Patent Rights or SAIC Improvements or Licensee Improvements thereto.

1.42 "**Subsidiary**" means a majority owned subsidiary of Licensee whose financial statements are consolidated into Licensee's financial statements.

1.43 "**Term**" shall have the meaning set forth in Section 12.1 of this Agreement.

1.44 "**U.S. Export Control Laws**" shall have the meaning set forth in Section 16.3 of this Agreement.

2. LICENSE GRANT; OWNERSHIP; PROJECT COMPLETION.

2.1 **License of SAIC Patent Rights to Licensee**. Subject to the terms and conditions hereof, including without limitation the Security Interest set out in Section 7.7 and the encumbrances set out in Section 14 of this Agreement, SAIC hereby grants to Licensee the sole and exclusive, worldwide right and license to the SAIC Patent Rights, solely for use within the Field of Use, to (i) make, have made, import, use, offer for sale, and sell products and services covered by a valid claim under the SAIC Patent Rights, and (ii) make improvements to the SAIC Patent Rights and make, have made, import, use, offer for sale, and sell products and services covered by a valid claim under such improvements to the SAIC Patent Rights (provided that the grant of such right to make improvements is subject, in each instance, to Licensee granting SAIC a license to such improvements as set forth in Section 3.2 b elow). The term "valid claim" means a claim of an issued patent, which claim has not been declared invalid by a court of competent jurisdiction. The License is not assignable (other than to a Subsidiary of Licensee as set out in Section 16.7 of this Agreement) without the prior written consent of SAIC which shall not be unreasonably withheld or delayed, which consent shall be contingent upon Licensee and the potential assignee providing SAIC with all commercially reasonable information necessary for SAIC to make a fully informed consent. Any such assignment without SAIC's prior written consent shall be null and void. The License is sublicensable pursuant to the terms of Section 14.2 below. Licensee agrees to maintain the quality and performance of any products or services which are covered by a valid claim under the SAIC Patent Rights or improvements thereto, including without limitation SAIC Improvements or Licensee Improvements, at a level that meets or exceeds standards of quality and performance generally accepted in the industry.

2.2 **Conversion to Non-Exclusive License**. The License grant set out in Section 2.1 shall automatically become non-exclusive, if Licensee has not paid SAIC, within

thirty six (36) months after Project Completion, a cumulative amount under this Agreement equal to at least two million dollars ($2,000,000).

2.3 **Reserved Rights**. Except as set out in Section 2.1 and Section 4.1, the Parties hereby agree SAIC will have sole and exclusive ownership of all right, title and interest, (including without limitation worldwide intellectual property rights such as rights under patents, patent applications, trade secret laws, and copyright laws) in the SAIC Patent Rights. SAIC reserves all other rights to the SAIC Patent Rights that are not licensed to Licensee.

2.4 **Project Completion**. Licensee shall provide written notice of the date which it has in good faith determined to be the date of Project Completion, and sufficient information for SAIC to evaluate the accuracy of the date. Licensee agrees to commercially reasonably cooperate with SAIC to answer questions and provide additional information for SAIC to verify the accuracy of the date. SAIC shall provide written notice of its approval or disapproval of the proposed date, which shall not be unreasonably withheld or delayed. In the event of a dispute with respect to the proposed date of Project Completion, the two parties shall hold a meeting within thirty (30) days of receipt of written notice of the dispute whereby the Chief Executive Officer of Licensee and the Senior Vice President for Mergers and Acquisitions Technology Commercialization for SAIC shall meet to resolve t he dispute. In the event the parties have not resolved the dispute within ten (10) business days, or mutually agreed in writing to extend the time to resolve the dispute, then the dispute shall be resolved as set out in Section 13 of this Agreement (Disputes).

3. IMPROVEMENTS.

3.1 **By SAIC (Within the Field of Use)**. If within thirty (30) months after the Effective Date, SAIC files a patent application or obtains the issuance of any patents that come within the scope of the SAIC Patent Rights claims licensed or assigned as set out in this Agreement, and where any of the named inventors on such patents is either (i) named as an inventor on any of the SAIC Patent Rights; or (ii) is a material contributor towards completion of the Professional Services Agreement ("SAIC Improvements"), SAIC hereby grants and agrees to grant to Licensee, only under the claims in the new patent applications or patents which fall within the scope of the SAIC Patent Rights claims, the sole and exclusive, worldwide right and license solely in the Field of Use to make, have made, import, use, offer for sale and sell products and services under such claims and make improvements un der such claims and to sublicense subject to the limitations set out in Section 14.2. The license grant set out in this Section 3.1 shall automatically become non-exclusive if Licensee has not paid SAIC, within thirty six (36) months of Project Completion, a cumulative amount under this Agreement equal to at least two million dollars ($2,000,000). This license grant is subject to the terms and conditions of this Agreement, including without limitation Licensee's obligations to pay the amounts set out in Section 7 and SAIC's ability to terminate the license set out in Section 12. Licensee shall have no rights to any SAIC Improvements, modifications or enhancements to the SAIC Patent Rights or to any other additional SAIC intellectual property other than as specifically set forth in this Section 3.1.

3.2 **By Licensee**. During the Term of this Agreement and thereafter, during the license grant period set out in Section 2, during the assignment period set out in Section 4 and during the time period when any of the SAIC Patent Rights are in effect, if Licensee (or any of its sublicensees) files a patent application or obtains the issuance of any patents that come within the scope of the SAIC Patent Rights claims licensed or assigned to Licensee as set out in this Agreement (collectively the "Licensee Improvements"):

3.2.1 Outside of the Field of Use: Licensee (or its sublicensees) hereby grants and agrees to grant to SAIC, only under the claims in the new patent applications or patents which fall within the scope of the SAIC Patent Rights claims, an unlimited, non-exclusive, royalty free, fully paid, perpetual, irrevocable, worldwide, sublicensable and transferable license in all fields outside of the Field of Use to make, have made, import, use, offer for sale, and sell products and services under such claims, and to make improvements under such claims; and

3.2.2 Within the Field of Use: Upon the first occurrence of a License Trigger Event, Licensee (or its sublicensees) hereby grants and agrees to grant

to SAIC, only under the claims in the new patent applications or patents which fall within the scope of the SAIC Patent Rights claims, an unlimited, non-exclusive, royalty free, fully paid, perpetual, worldwide, irrevocable, sublicensable and transferable license in the Field of Use to make, have made, import, use, offer for sale, and sell products and services under such claims, and to make improvements under such claims.

3.2.3 For sake of clarity and not by way of limitation, the provisions of this Section 3.2 shall survive the Assignment and expiration or termination of this Agreement.

3.3 **Records**. Licensee will keep complete and accurate records of its research and development performed in connection with the SAIC Patent Rights. During the Term of this Agreement and for two (2) years thereafter, Licensee will make such records available to SAIC at Licensee's premises at a mutually convenient time no more frequently than two times in any calendar year upon SAIC's reasonable request, subject to the confidentiality provisions in Section 8 hereof.

4. ASSIGNMENT.

4.1 **Grant**. If the date of the Assignment Trigger Event occurs within twelve (12) months after Project Completion, then, effective as of the date of the Assignment Trigger Event and subject to and contingent upon the grant back license to SAIC as set out in Section 4.2 of this Agreement and the Reversion as set out in Section 5 of this Agreement, SAIC hereby agrees to unconditionally and irrevocably convey, transfer, assign and quitclaim to Licensee all of its right, title and interest in and to the SAIC Patent Rights (the "Assignment"). For sake of clarity and not by way of limitation, SAIC will be under no obligation to assign the SAIC Patent Rights to Licensee if the date of the Assignment Trigger Event occurs later than the date which is twelve (12) months after Project Completion. SAIC agrees to execute and deliver, at Licensee's sole expense, such furt her instruments of conveyance, transfer, assignment and quitclaim as Licensee may reasonably request that are reasonably necessary for the purpose of further evidencing Licensee's ownership of the assigned SAIC Patent Rights. Subject to the limitations set forth in Section 16.7, SAIC hereby constitutes and appoints Licensee as SAIC's agent to execute and deliver any such assignments and other documents, solely for the purposes of consummating the Assignment set out in this Section 4.1, that SAIC unreasonably fails or refuses to execute and deliver after receipt of written notice of Licensee's commercially reasonable request provided pursuant to Section 16.1, the Parties hereto agreeing this power and agency being irrevocable and coupled with an interest. Licensee agrees to assume, as of the date of the Assignment Trigger Event, all responsibility and bear all costs and logistics associated with further evidencing, enforcing, registering or defending Licensee's ownership of the SAIC Patent Rights.

4.2 **Grant Back License**. Effective as of the date of the Assignment Trigger Event, Licensee agrees to grant, and hereby grants, to SAIC an exclusive, royalty free, fully paid, perpetual, worldwide, irrevocable, sublicensable and transferable right and license under the SAIC Patent Rights permitting SAIC and its assignees to make, have made, import, use, offer for sale, and sell products and services covered by, and to make improvements to, the SAIC Patent Rights outside the Field of Use.

5. REVERSION TO SAIC.

5.1 **Grant**. Effective as of the date of the Reversion Trigger Event, Licensee hereby agrees to unconditionally and irrevocably convey, transfer, assign and quitclaim to SAIC all of its right, title and interest in and to the SAIC Patent Rights (the "Reversion"). Licensee agrees to execute and deliver without additional consideration, at Licensee's sole expense, such further instruments of conveyance, transfer, assignment and quitclaim as SAIC may reasonably request that are reasonably necessary for the purpose of further evidencing SAIC's ownership of the assigned SAIC Patent Rights. Licensee hereby constitutes and appoints SAIC as Licensee's agent to execute and deliver any such assignments and other documents that Licensee unreasonably fails or refuses to execute and deliver, the Parties hereto agreeing this power and agency being irrevocable and coup led with an interest.

5.2

Reinstatement of License. If the Reversion occurs due to Licensee's failure to pay to SAIC an aggregate cumulative amount hereunder of at least seven million five hundred thousand dollars ($7,500,000) within five (5) years after Project Completion, then, effective as of the date of the Reversion Trigger Event, SAIC agrees to grant, and hereby grants to Licensee a license to the SAIC Patent Rights on the terms and conditions of the License originally granted hereunder; however, such license shall be on a non-exclusive basis limited to the Field of Use. The provisions of Section 4 shall no longer apply to such license.

6. PATENT FILINGS; MAINTENANCE; ENFORCEMENT.

6.1 **Patent Prosecution and Maintenance**. Prior to the date of the Assignment Trigger Event, SAIC shall prosecute and maintain the SAIC Patent Rights by timely prosecuting the patent applications and paying all fees and costs required by 35 United States Code 41(b) and similar regulations. Post the date of the Assignment Trigger Event, Licensee shall prosecute and maintain the SAIC Patent Rights by timely prosecuting the patent applications and paying all fees and costs required by 35 United States Code 41(b) and similar regulations.

6.2 **Patent Markings**. Each Party shall comply with all applicable United States and foreign statutes relating to the marking of licensed products, services and related packaging with patent number(s) or other intellectual property notices and legends required to maintain the intellectual property rights licensed in this Agreement.

6.3 **Infringement; Enforcement**.

6.3.1 **General**. Each Party shall promptly notify the other Party in writing of any alleged or threatened infringement of any of the SAIC Patent Rights of which they become aware. The Parties shall use their best efforts in cooperating with each other to terminate such infringement without litigation. In the event a Party brings an infringement action in accordance with this Section 6.3, the other Party shall cooperate fully, including if required to bring such action, the furnishing of a power of attorney. Neither Party shall have the right to settle any patent infringement litigation under this Section 6.3 in a manner that diminishes the rights or interests of the other Party without the prior written consent of the other Party.

6.3.2 **SAIC Enforcement**. During the following time periods: (i) prior to the date of the Assignment Trigger Event; (ii) after the Assignment Trigger Event date if the infringement or enforcement is outside the Field of Use; (iii) post the date of the Reversion Trigger Event; and (iv) as long as Licensee has a License to the SAIC Patent Rights, SAIC shall have the first right to bring and control any action or proceeding with respect to infringement or enforcement of the SAIC Patent Rights in the Field of Use at its own expense and by counsel of its own choice, and SAIC shall have the sole right to bring and control any action or proceeding with respect to infringement or enforcement of the SAIC Patent Rights outside the Field of Use, at its own expense and by counsel of its own choice. If the infringement or enforcement of the SAIC Patent Rights is in the Field of Use, Li censee shall have the right to participate in such action, at its own expense and by counsel of its own choice. If SAIC fails to either terminate such infringement, enter into a reasonable license agreement to terminate such infringement subject to Licensee's rights under this Agreement, or bring an action or proceeding with respect to infringement or enforcement of the SAIC Patent Rights in the Field of Use within (i) one-hundred and twenty (120) days following the notice of alleged infringement, or (ii) ten (10) business days before the time limit, if any, set forth in the appropriate laws and regulations for the filing of such actions, whichever comes first, Licensee shall have the right to bring and control any such action, at its own expense and by counsel of its own choice, and SAIC shall have the right to be represented in any such action, at its own expense and by counsel of its own choice.

6.3.3 **Licensee Enforcement**. After the date of the Assignment Trigger Event if the infringement or enforcement is in the Field of Use, Licensee shall have the first right to bring and control any action or proceeding with respect to infringement or enforcement of the SAIC Patent Rights in the Field of Use, at its own expense and by counsel of

its own choice. SAIC shall have the right to participate in such action, at its own expense and by counsel of its own choice. If Licensee fails to either terminate such infringement, enter into a reasonable license agreement to terminate such infringement subject to SAIC's rights under this Agreement, or bring an action or proceeding with respect to infringement or enforcement of the SAIC Patent Rights in the Field of Use within (a) one-hundred and twenty (120) days following the notice of alleged infringement, or (b) ten (10) busine ss days before the time limit, if any, set forth in the appropriate laws and regulations for the filing of such actions, whichever comes first, SAIC shall have the right to bring and control any such action, at its own expense and by counsel of its own choice, and Licensee shall have the right to be represented in any such action, at its own expense and by counsel of its own choice. For sake of clarity and not by way of limitation, if the SAIC Patent Rights revert to SAIC under Section 5 or pursuant to the Security Agreement, the terms of this Section 6.3.3 shall no longer apply. Licensee agrees that it shall pay SAIC its standard labor rates, costs and other expenses as necessary for SAIC's non-attorney staff to support Licensee's enforcement of the SAIC Patent Rights under this Section 6.3.3 or to respond to discovery served upon SAIC by a defendant in any enforcement action brought by Licensee.

6.3.4 **Recovery**. Except as otherwise agreed to by the Parties in a written agreement, any recovery realized as a result of any action or proceeding brought by SAIC or Licensee pursuant to this Section 6, after reimbursement of any expenses of SAIC and Licensee, shall be divided in the following ratio: seventy five percent (75%) to the Party who brings the action or proceeding and twenty five percent (25%) to the other Party.

7. CONSIDERATION; PAYMENT TERMS; REPORTS; AUDIT; SECURITY INTEREST.

7.1 **Royalty**. In consideration of the rights granted hereunder, including without limitation the License set out in Section 2, the Assignment set out in Section 4 and the license grant post reversion set out in Section 5 of this Agreement, Licensee agrees to pay to SAIC royalties in the amount of fifteen percent (15%) of Revenues up to the Maximum Amount.

7.2 **Minimum Royalty**. Subject to Section 7.3 below, Licensee will pay to SAIC a minimum guaranteed annual royalty of fifty thousand dollars ($50,000) (the "Minimum Royalty") due and payable on each anniversary of Project Completion (the "Agreement Year"). If during the Term of this Agreement the total amount paid to SAIC under Section 7.1 during any Agreement Year is less than the Minimum Royalty, Licensee will pay the difference within thirty (30) days after the end of the applicable Agreement Year. For the avoidance of doubt, but not by way of limitation: (i) in the event the Minimum Royalty is not paid in full on a timely basis, this Agreement will terminate pursuant to Section 12.2 and all rights hereunder to the SAIC Patent Rights and Licensee Improvements will revert to SAIC; (ii) Licensee's exclusive license to the SAIC Patent Rights and SA IC Improvements will terminate and SAIC will be under no obligation to assign SAIC Patent Rights if the Agreement is terminated due to Licensee's material breach of this Section 7.2 prior to assignment of SAIC's Patent Rights as set out in Section 4 of this Agreement; and (iii) Licensee shall assign the SAIC Patent Rights and Licensee Improvements to SAIC if this Agreement is terminated due to Licensee's material breach of this Section 7.2 post assignment of SAIC's Patent Rights as set out in Section 4 of this Agreement.

7.3 **Maximum Amount**. The maximum amount of all payments under Sections 7.1 and 7.2 shall be thirty five million dollars ($35,000,000) less any amounts received by SAIC from Licensee paying SAIC twenty five percent (25%) of any recovery realized as a result of any action or proceeding brought by Licensee against a third party to resolve a claim of infringement or enforcement pursuant to Section 6.3.4 of this Agreement (but not, for sake of clarity, payments by Licensee for SAIC's costs, expenses, labor or time and materials or payments pursuant to Section 6.3.3) (the "Maximum Amount"). Upon payment of this Maximum Amount by the Licensee to the SAIC, no additional Royalties shall be due to SAIC, and all of the Licensee's Royalty obligations shall be deemed to be satisfied. For sake of clarity and not by way of limitation, even if Licensee has

paid the Maximum Amount, SAIC shall continue to receive its percentage of any recovery realized as a result of any action or proceeding brought against a third party as set out in Section 6.

7.4 **Payment Terms**. Payments as set out in Section 7 will be calculated based on each quarter during the Term hereof beginning on Project Completion. All such payments due to SAIC under this Agreement shall be paid within thirty (30) days following the end of each such quarter. Late payments bear interest at the rate of six percent (6%) per annum.

7.5 **Reports**. During the Term hereof beginning on Project Completion, within thirty (30) days after the end of each first, second and third fiscal quarter of Licensee and within sixty (60) days after the end of the fourth fiscal quarter of Licensee, Licensee shall provide to SAIC a Quarterly Financial Statement and report of all Revenues in support of the payment calculation. Such report is due even if no amount is payable. For sake of clarity and not by way of limitation, if Revenues are received by Licensee in a form other than cash, the applicable Revenue will be the monetary equivalent or fair market value of the non-cash consideration. Licensee shall issue one final report in the event Licensee pays the maximum amount of payments due as set out in Section 7.3. Licensee shall also provide to SAIC the Audited Financial Statements within fifteen (15) days of Licen see's receipt of same from the certified public accountants. Notwithstanding anything to the contrary contained herein, in the event Licensee becomes a reporting company under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), the obligations of Licensee to disclose the information herein to SAIC shall be modified to the extent necessary for Licensee to be in compliance with the Exchange Act, and all rules and regulations promulgated thereunder, including without limitation adjusting the time periods of disclosure so that Licensee is not obligated to disclose the information set forth herein to SAIC any sooner than it is required to disclose similar information to the Securities and Exchange Commission or the public. If any Audited Financial Statements demonstrates that Licensee has underpaid its royalty for that fiscal year, Licensee shall remit payment in the amount of such deficiency within thirty (30) days of Licensee's receipt of the Audited Financi al Statement. If any Audited Financial Statements demonstrate that the Licensee has overpaid its royalty for that year, then, so long as the Maximum Amount has not been reached, SAIC shall be entitled to retain those funds to the extent that it can and shall credit them against the Minimum Royalty and Maximum Amount.

7.6 **Audit**. SAIC shall have the right to audit the books and records of Licensee as they relate to the calculation of royalties and other payments hereunder no more frequently than one time in each fiscal year. Should the result of such audit reveal that SAIC has been underpaid by five percent (5%) or more, the reasonable cost of such audit shall be borne by Licensee and the amount of such underpayment shall be due and payable within thirty (30) days after Licensee's receipt of written notice.

7.7 **Security Interest**. It is intended that the payment obligations under Section 7 be secured by Licensee's interest in the SAIC Patent Rights, and the Parties acknowledge and agree that on the Effective Date and on request of SAIC during the Term of this Agreement (including without limitation during the License, Assignment and reversion periods), the parties shall enter into the Security Agreement attached hereto as Exhibit E and incorporated by reference. In addition Licensee will execute or authorize one or more financing statements in form satisfactory to SAIC (e.g., as necessary to comport with the obligations of the Uniform Commercial Code). SAIC is authorized to file financing statements relating to the collateral stated in such without the Licensee's signature where authorized by law. Licensee appoints SAIC as its attorney-in-fact to execute any s uch documents which SAIC in its sole discretion may deem necessary to accomplish perfection of SAIC's security interest set forth herein. This appointment is coupled with an interest and shall be irrevocable as long as any obligations under this Agreement remain outstanding. Licensee further agrees to take such other actions as might be requested by SAIC for the perfection, continuation and assignment, in whole or in part, of the security interests granted herein. If certificates are issued or outstanding as to any of the collateral, Licensee will cause the security interests of SAIC to be properly protected, including perfection of notation thereon.

7.8

Applicability of Section 7 During Term of License Grant, Post Assignment, and Post Reversion. For sake of clarity and not by way of limitation, Licensee agrees to be subject to the terms and conditions set out in this Section 7, including without limitation paying SAIC fifteen percent (15%) of Revenues, paying the Minimum Royalty annually and complying with the report, audit, and security interest obligations (i) during the period SAIC exclusively licenses Licensee the SAIC Patent Rights as set out in Section 2 of this Agreement; (ii) post assignment of the SAIC Patent Rights by SAIC to Licensee as set out in Section 4 of this Agreement; and (iii) post reversion of the SAIC Patent Rights by Licensee to SAIC as provided for in Section 5 of this Agreement. Notwithstanding the foregoing, in no event shall the terms of this Section 7 survive following Licensee's payment to SAIC of the Maximum Amount. For sake of clarity and not by way of limitation, payments owed by Licensee to SAIC as set out in Section 6 of this Agreement shall survive following Licensee's payment to SAIC of the Maximum Amount.

8. CONFIDENTIALITY. The Parties will enter into the mutual nondisclosure agreement attached as Exhibit B (the "Non-Disclosure Agreement") concurrently with the execution of the Agreement, which Non-Disclosure Agreement will supersede and replace any prior nondisclosure agreements between the parties effective as of the Effective Date. The execution and delivery of the Non-Disclosure Agreement by each Party will be a condition precedent to the effectiveness of this Agreement. The Parties agree to comply with the terms of the Non-Disclosure Agreement, the terms of which are incorporated herein by this reference. Licensee may share the terms of this Agreement with potential investors, bankers and other financial entities or as required by applicable laws and regulations without complying with the terms and conditions of the Non-Disclosure Agreement; h owever, despite such disclosure, each Party shall treat the terms and conditions of this Agreement as if they are Proprietary Information of both Parties and shall keep them confidential as provided for in the Non-Disclosure Agreement to the maximum extent possible.

9. WARRANTIES.

9.1 **SAIC Warranties**. SAIC represents and warrants to Licensee that, except as set out in Schedule 9.1, as of the Effective Date: (a) all of the issued SAIC Patent Rights are currently in compliance with formal legal requirements of the United States Patent and Trademark Office (including payment of filing, examination and maintenance fees) and are not subject to any maintenance fees or taxes or actions falling due within thirty (30) days after the Effective Date; (b) the SAIC Patent Rights have not been or are not now involved in any interference, reissue, reexamination or opposition proceeding; (c) to SAIC's Knowledge, there is no potentially infringing or conflicting patent or patent application of any third party; (d) to SAIC's Knowledge, SAIC has not received any complaints or letters from a third party indicating that such third party believes and alleges that the SAI C Patent Rights infringe or conflict with their patent rights; (e) SAIC has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement; and (f) this Agreement, when executed and delivered, shall be, a binding obligation upon SAIC and enforceable in accordance with its terms, except as provided in bankruptcy court.

9.2 **Licensee Warranties**. Licensee represents and warrants to SAIC that (a) Licensee has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement; and (b) this Agreement, when executed and delivered, shall be, a binding obligation upon Licensee and enforceable in accordance with its terms, except as provided in bankruptcy court.

9.3 **Survival of Warranties**. The representations and warranties contained in or made pursuant to this Agreement shall survive only until, and the indemnification obligations set forth in Section 10.1 shall terminate on, and no claim or action with respect thereto may be initiated after two (2) years from the first commercial sale, license or any other payment by a third party for a product or service which would otherwise infringe or contribute to the infringement of any SAIC Patent Rights or SAIC Improvements or Licensee Improvements thereto; provided that if any claim for Damages (as defined below) is asserted by any Indemnified Party (as defined below) prior to the termination of the representation, warranty or indemnification obligation pursuant to the terms of this Agreement, the obligations of the party or parties providing indemnity therefore shall continue with respect to such clai m until the resolution thereof.

10. INDEMNIFICATION AND INSURANCE.

10.1 **SAIC Indemnity**. SAIC agrees to defend, indemnify and holds harmless Licensee, its successors and assigns, directors, officers and employees (each an "SAIC Indemnified Party") from all liabilities, losses, damages and reasonable expenses (including but not limited to attorneys' fees) judgments, fines or penalties ("Damages") the SAIC Indemnified Party incurs arising out of or in connection with the breach of any representation or warranty made by SAIC in Section 9.1 of this Agreement.

10.2 **Licensee Indemnity**. Licensee agrees to defend, indemnify and holds harmless SAIC, its successors and assigns, directors, officers and employees (each a "Licensee Indemnified Party") from all Damages the Licensee Indemnified Party incurs arising out of or in connection with (i) (subject to SAIC's indemnity set out in Section 10.1 and prior to the Assignment as set out in Section 4.1) any actual or alleged infringement or misappropriation by Licensee of any patent, copyright, trade secret, trademark or other proprietary right of any third party; (ii) the breach of any representation or warranty made by Licensee in Section 9.2 of this Agreement; and (iii) arising or alleged to arise by reason of or in connection with any and all personal injury, economic loss and property damage caused or alleged to be caused or contributed to in whole or in part by the manufacture, use, l ease, sale, offer for sale, import or sublicense of products and services, including without limitation software and application services, which would infringe or contribute to the infringement of the SAIC Patent Rights, SAIC Improvements, or Licensee Improvements, including without limitation Licensed Products, whether asserted under a tort or contractual theory or any other legal theory. Licensee's obligations under this paragraph shall survive the expiration or termination of this Agreement for any reason.

10.3 **Procedures**. In the event that a Licensee Indemnified Party or SAIC Indemnified Party becomes aware of any such claim, such party shall: (i) reasonably promptly notify the indemnifying party thereof (provided that failure to provide such notice will not release the indemnifying party from any of its indemnity obligations hereunder except to the extent that such failure materially increases such indemnifying party's indemnity obligation); (ii) at the indemnifying party's expense, provide the indemnifying party with reasonable cooperation in the defense thereof; and (ii) not settle any such claim without the indemnifying party's consent. A Licensee or SAIC Indemnified Party shall have the right to have its own counsel participate in the defense of any such claim at such Licensee or SAIC Indemnified Party's own expense. The indemnifying party shall co ntrol the defense or settlement of such claim with counsel of its own choosing; provided that Licensee or SAIC Indemnified Party will be entitled (using its own counsel) to control the defense of, and settle, any claim if the indemnified party does not reply and take charge of such claim within a reasonable time after the Licensee or SAIC Indemnified Party's demand under this indemnification.

10.4 **Insurance**. Without limiting Licensee's indemnity obligations under Section 10.2, Licensee agrees that, concurrent with the earlier of (i) the first sublicense agreement sublicensing the SAIC Patent Rights, SAIC Improvements or Licensee Improvements, or (ii) transfer or assignment of the SAIC Patent Rights or Licensee Improvements thereto as provided for in Section 16.7, it shall maintain at its sole cost throughout the Term of this Agreement and for at least eight (8) years after its expiration or termination for any reason liability insurance policies, and provide evidence reasonably satisfactory to SAIC, that the following insurance coverage is in force:

10.4.1 Commercial General Liability insurance, with per occurrence coverage limits of not less than five million U.S. dollars ($5,000,000), including without limitation coverage for product's liability and contractual liability coverage;

10.4.2 Technology Errors & Omissions Liability insurance, including coverage for technology products, insuring Licensee's legal liability for losses arising out of alleged errors, omissions or defects in the technology product, with coverage limits of not less than five million U.S. dollars ($5,000,000) per claim;

10.4.3 The policies required under this Section 10.4, may include deductibles that are approved by SAIC (such approval not to be unreasonably

withheld or delayed), shall be issued by insurers reasonably satisfactory to SAIC and shall include SAIC as an additional insured; and

10.4.4 Requires the insurance carrier to provide SAIC with no less than thirty (30) days written notice of any change in the terms or coverage of the policy or its cancellation.

10.5 **Notice of Claims**. Licensee will promptly notify SAIC of all claims involving SAIC Patent Rights, SAIC Improvements and Licensee Improvements, including without limitation Licensed Products, and will advise SAIC of the policy amounts that might be needed to defend and pay any such claims. In the event SAIC believes the sum of such policy amounts may exceed Licensee's total insurance coverage, SAIC may request and Licensee shall acquire additional coverage, not to exceed the amounts set forth in the preceding subparagraph of this Agreement, to fully protect the SAIC Indemnified Parties and the Licensee Indemnified Parties as set forth above.

10.6 **Insurance After Termination**. Licensee hereafter shall, during the Term of this Agreement and for a period of eight (8) years after its expiration or termination for any reason, provide SAIC copies of liability policies which comply fully with this Agreement. If Licensee fails at any time to maintain insurance as required in this Agreement, SAIC may (but shall be under no obligation to) purchase its own policy providing all or any of the coverage and recover from Licensee the cost thereof, which shall be payable on demand.

10.7 **Obligation to Include Disclaimers**. Licensee agrees to ensure that all sublicenses of the SAIC Patent Rights, SAIC Improvements and Licensee Improvements, and any transfer or assignment of the SAIC Patent Rights or Licensee Improvements, including without limitation assignment of this Agreement as provided for in Section 16.7, shall disclaim all express and implied warranties arising or alleged to arise by reason of or in connection with (i) any and all intellectual property infringement; and (ii) any and all personal injury, economic loss and property damage caused or alleged to be caused or contributed to in whole or in part by the manufacture, use, lease, sale or sublicense of Licensed Products, whether asserted under a tort or contractual theory or any other legal theory.

11. DISCLAIMER OF WARRANTIES; LIMITATION OF LIABILITY.

11.1 **Disclaimer of Warranties**. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, TO THE MAXIMUM EXTENT PERMITTED BY LAW, THE INTELLECTUAL PROPERTY CONVEYED AND/OR LICENSED BY ONE PARTY TO THE OTHER PARTY UNDER THIS AGREEMENT IS CONVEYED AND/OR LICENSED "AS IS," INCLUDING WITHOUT LIMITATION, EACH PARTY SPECIFICALLY DISCLAIMS ALL STANDARDS, GUARANTEES, REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGEMENT WITH RESPECT TO THE SAIC PATENT RIGHTS AND ANY IMPROVEMENTS THERETO AND ANY PARTICULAR APPLICATION OR USE OF THE SAIC PATENT RIGHTS OR IMPROVEMENTS.

11.2 **Consequential Damages**. IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR ANY SPECIAL, INDIRECT, RELIANCE, INCIDENTAL, CONSEQUENTIAL, PUNITIVE OR OTHER DAMAGES, INCLUDING WITHOUT LIMITATION ANY LOST PROFITS, LOST REVENUES, LOST SAVINGS, LOST BUSINESS OPPORTUNITIES, LOSS OF USE OR EQUIPMENT DOWN TIME AND LOSS OF OR CORRUPTION TO DATA ARISING OUT OF OR RELATING TO THIS AGREEMENT, REGARDLESS OF THE LEGAL THEORY UNDER WHICH SUCH DAMAGES ARE SOUGHT, AND EVEN IF SUCH PARTIES HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES OR LOSS.

11.3 **CAP**. EXCEPT FOR SAIC'S VIOLATION OR INFRINGEMENT OF THE RIGHTS GRANTED TO LICENSEE HEREIN TO EXERCISE THE SAIC PATENT RIGHTS, OR IMPROVEMENTS THERETO, EXCLUSIVELY WITHIN THE FIELD OF USE AS SET FORTH IN SECTIONS 2.1 AND 3.1, SAIC'S TOTAL LIABILITY TO LICENSEE FOR ANY AND ALL LIABILITIES, CLAIMS OR DAMAGES MUSING OUT OF OR RELATING

TO THIS AGREEMENT, HOWSOEVER CAUSED AND REGARDLESS OF THE LEGAL THEORY ASSERTED, INCLUDING WITHOUT LIMITATION BREACH OF CONTRACT OR WARRANTY, TORT, STRICT LIABILITY, CLAIMS OF INFRINGEMENT, STATUTORY LIABILITY OR OTHERWISE, SHALL NOT, IN THE AGGREGATE, EXCEED ONE HUNDRED PERCENT (100%) OF THE AMOUNT PAID BY LICENSEE TO SAIC UNDER THIS AGREEMENT DURING THE PRECEDING TWELVE (12) MONTHS GIVING RISE TO SUCH CLAIM.

11.4 **Third-Party Recoveries**. The amount of Damages incurred by the Licensee or SAIC Indemnified Parties will be reduced by the actual amount of recoveries from any third party (after deducting attorneys' fees, expenses and other costs of recoveries), including from insurance companies and pursuant to indemnification agreements.

11.5 **Duty to Mitigate**. Each party will take all commercially reasonable efforts to mitigate any Damages upon becoming aware of any event that would reasonably be expected to give rise thereto.

11.6 **Exclusive Remedies**. The remedies provided in Sections 10 and 11 shall be the exclusive remedies of the parties hereto in connection with any claim or action brought pursuant to Section 10 (other than injunctive relief or other equitable remedies, which shall not be affected or limited hereby); provided, however, that nothing herein shall limit the rights of any Licensee or SAIC Indemnified Party with respect to Damages arising out of fraud of Licensee or SAIC.

12. TERM AND TERMINATION.

12.1 **Term**. This Agreement shall commence as of the Effective Date and continue until the date upon which the last to expire of the SAIC Patent Rights and any SAIC Improvements or Licensee Improvements pursuant to Section 3 thereto expires, whether by statute or otherwise, unless this Agreement is terminated sooner in accordance with the terms hereof (the "Term").

12.2 **Termination by SAIC**. This Agreement may be terminated by SAIC upon any of the following:

12.2.1 If Licensee's cumulative aggregate Revenues on the date that is eighteen (18) months after Project Completion are less than five hundred thousand dollars ($500,000). In such event, however, Licensee may avoid such termination by paying SAIC a lump sum payment in the amount of seventy five thousand dollars ($75,000) due on the date that is eighteen (18) months after Project Completion, which will extend the measurement period for purposes of this Section 12.2.1 to the date that is thirty (30) months after Project Completion;

12.2.2 The Assignment Trigger Event fails to occur within the initial twelve (12) months after Project Completion;

12.2.3 Licensee fails to timely make payments or reports where each such failure is not cured within thirty (30) days after Licensee's receipt of written notice from SAIC;

12.2.4 Licensee materially breaches any other provision of this Agreement, if such material breach is not cured within thirty (30) days after Licensee receipt of written notice from SAIC;

12.2.5 Licensee's material breach of that certain Professional Services Agreement entered into between Licensee and SAIC dated August 12, 2005, subject to any cure periods contained therein;

12.2.6 Licensee's material breach of that certain Reseller Agreement entered into between Licensee and SAIC dated August 12, 2005, subject to any cure periods contained therein;

12.2.7 SAIC exercises its rights under the applicable Security Agreement;

12.2.8 Licensee contests the validity of the SAIC Patent Rights as provided for in Section 14.4;

12.2.9

Licensee fails to receive revenues from products or services which were developed substantially in accordance with the Statement of Work within twenty-four (24) months after Project Completion;

12.2.10 Immediately if Licensee discontinues carrying on Licensee's business;

12.2.11 Immediately if Licensee becomes insolvent or is otherwise unable to pay its debts as they become due;

12.2.12 Immediately if Licensee enters into any compromise with its creditors, is placed under provisional or final liquidation or provisional or final judicial management by any court or is placed into liquidation or winding up by resolution of its members and/or creditors; or

12.2.13 Immediately if (i) Licensee has closed a Qualified Financing with proceeds to Licensee in immediately available funds equal to or greater than seven million dollars ($7,000,000) when aggregated with all prior Qualified Financings; and (ii) Licensee either disposes of thirty percent (30%) or more of its assets or disposes of more than fifty percent (50%) of the equity share capital of Licensee to one investor or to a group of investors formally through a written agreement or informally without a written agreement acting in concert with each other, unless SAIC provides its prior written consent as to such transaction which shall not be unreasonably withheld or delayed, which consent shall be contingent upon Licensee and the potential acquirer of Licensee's equity providing SAIC with all commercially reasonable information necessary for SAIC to make a fully informed consent.

12.3 **Bankruptcy of a Party**. To the extent permitted by law, each Party will have the right to terminate this Agreement, effective immediately upon written notice to the other Party, if the other Party makes a general assignment for the benefit of its creditors, commences any voluntary proceeding in bankruptcy, insolvency, or reorganization pursuant to bankruptcy laws or laws of debtor's moratorium, or has commenced against it any involuntary proceeding pursuant to such laws and such involuntary proceeding is not discharged within ninety (90) days.

12.4 **Termination by Licensee**. This Agreement may be terminated by Licensee for cause if SAIC materially breaches any provision of this Agreement and such material breach is not cured within thirty (30) days after SAIC's receipt of written notice from Licensee. In addition, only prior to the payment of the Maximum Amount, Licensee may immediately terminate this Agreement for cause in the event that both (i) any one of the SAIC Patent Rights is determined by a United States District Court or the United States Patent Office to be invalid or unenforceable or to infringe or conflict with any patent of any third party; and (ii) the long-term viability of Licensee in the Field of Use is significantly hampered.

12.5 **Results of Termination**. Termination of this Agreement shall not release Licensee from any obligation or liability to SAIC which shall have matured prior to termination, nor shall termination rescind or require repayment of any payment or consideration made to SAIC prior to such termination. Upon termination of this Agreement: (i) all rights granted to Licensee hereunder (other than the rights under Section 4.1 if such termination occurs after the payment by Licensee of the Maximum Amount) shall terminate; (ii) only if such termination occurs prior to payment by Licensee of the Maximum Amount, all rights to the SAIC Patent Rights Licensee has granted to a third party (except for rights granted to customers to use Licensed Products purchased for their own use) shall terminate; and (iii) only if such termination occurs prior to payment by Licensee of the Maximum Amount, Licen see shall re-convey any right, title and interest in the SAIC Patent Rights to SAIC and shall make no further use of the SAIC Patent Rights. In the event of termination of this Agreement, any sublicense rights granted by Licensee may be granted de novo by SAIC directly to the sublicensee.

12.6 **Survival**. In addition to the Sections that specifically provide for survival past the expiration or termination of this Agreement, the provisions of Sections 1, 2.3 (so long as the Assignment has not occurred), 3.2, 3.3, 8, 11, 12.5, 12.6, 13 and 16 shall survive the expiration or termination of this Agreement.

13. **DISPUTES**. The parties agree to first enter into negotiations to resolve any controversy, claim or dispute ("dispute") arising under or relating to this Agreement. The parties

agree to negotiate in good faith to reach a mutually agreeable resolution of such dispute within a reasonable period of time. If good faith negotiations are unsuccessful, the parties agree to resolve the dispute by binding and final arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. The arbitration shall take place in the County of San Diego, State of California if initiated by Licensee and in the City of San Francisco, State of California if initiated by SAIC. The arbitrator(s) shall be bound to follow the provisions of this Agreement in resolving the dispute, and may not award specific performance or punitive damages. The decision of the arbitrator(s) shall be final and binding on the parties, and any award of the arbitrator(s) may be entered or enforced in any court of competent jurisdiction.

14. ENCUMBRANCES; RESTRICTIONS ON SUBLICENSING; CONTEST OF PROPRIETARY ASSETS.

14.1 **Encumbrances**. The SAIC Patent Rights as licensed above in Section 2 or assigned above in Section 4 are encumbered by SAIC's obligations to the U.S. Government and In-Q-Tel set out in the Professional Services Contract (Contract Number Q4-02) with In-Q-Tel f/k/a In-Q-It, Inc. dated September 7, 1999.

14.2 **Restrictions on Sublicensing**. Until Licensee has paid SAIC the Maximum Amount, including without limitation during the license grant period provided for in Section 2, post the Assignment Trigger Event date and conveyance provided for in Section 4 and post the Reversion Trigger Event date and license grant period provided for in Section 5 of this Agreement, the Parties agree that Licensee may sublicense the SAIC Patent Rights and any improvements thereto only if, and so long as:

14.2.1 Licensee agrees to provide SAIC with written notice of any intent to sublicense to a third party and with a copy of the sublicense agreement at least thirty (30) days prior to the date Licensee and its sublicensee, desire to enter into the Agreement;

14.2.2 Licensee obtains SAIC's written approval prior to entering into such sublicense agreement, which approval may be not be unreasonably withheld or delayed by SAIC, provided that if SAIC does not notify Licensee within twenty (20) business days after delivery of a copy of the sublicense agreement to SAIC of any objections to the same, such sublicense agreement shall be deemed approved by SAIC;

14.2.3 Licensee uses its best efforts to commercially reasonably maximize Revenue of Licensee under any such sublicense.

14.2.4 Unless sublicensed to a Subsidiary, such sublicense is negotiated on commercially reasonable terms in an arms-length transaction (for sake of clarification, and not by way of limitation, sublicenses entered into with an Affiliate will be subject to the same obligations as any other sublicensee);

14.2.5 Unless sublicensed to a Subsidiary, the sublicensee is unrelated to Licensee, including without limitation such sublicensee may not be an Affiliate of Licensee, have any common shareholders, directors, employees, or independent contractors, have any relatives of Licensee's shareholders, directors, employees or independent contractors as such sublicensee's shareholders, directors, employees or independent contractors, or have any payments or other exchanges of value between sublicensee and Licensee or Licensee's shareholders, directors, employees or independent contractors.

14.2.6 The business and financial integrity of such sublicensee is at least as stringent as that of Licensee, in SAIC's reasonable discretion;

14.2.7 Such sublicensee will enter into an enforceable written agreement that is sufficient, in SAIC's reasonably exercised discretion, to ensure that such sublicensee is bound by all of the obligations, terms and conditions that obligate, bind or affect Licensee under this Agreement, and without limiting the generality of the foregoing, each such written agreement with such sublicensee shall include terms no less restrictive than those contained in this Agreement;

14.2.8

Licensee shall be and remain responsible for the performance by each sublicensee of all of such sublicensee's obligations to SAIC;

14.2.9 Licensee ascertains, computes, audits and collects, and shall faithfully ascertain, compute, audit and collect, all royalties or other payment that become payable by such sublicensee hereunder, and provide for and enforce penalties against any sublicensee that conceals sales or willfully miscalculates royalties; and

14.2.10 Licensee establishes, polices and enforces adequate mechanisms to assure the quality of products and services produced by its sublicensees and to protect SAIC Patent Rights.

14.3 **Sublicensing to a Subsidiary**. Notwithstanding the foregoing or anything to the contrary contained herein, Licensee shall have the right to sublicense the SAIC Patent Rights and any improvements thereto to any Subsidiary of Licensee on terms and conditions that are subject to Licensee's sole discretion without the approval of SAIC. In the event Licensee sublicenses the SAIC Patent Rights or any improvements thereto to a Subsidiary, Licensee shall remain subject to the obligations and other terms and conditions under this Agreement and guarantee the obligations of the Subsidiary under this Agreement (including without limitation, Licensee shall remain subject to all audit and payment obligations under this Agreement).

14.4 **Contest of Proprietary Assets**. During the Term of this Agreement, should Licensee, either directly or indirectly contest as to the validity of any of SAIC Patent Rights, then in such case, SAIC shall have the right to terminate the Agreement for cause with immediate effect and no right to cure (all in accordance with Section 12). In such case, with regard to the SAIC Patent Rights, SAIC shall retain all rights and remedies available to it under this Agreement and all applicable laws and regulations.

15. RESELLER AGREEMENT; PROFESSIONAL SERVICES AGREEMENT; SOURCE CODE ESCROW AGREEMENT. The parties also acknowledge and agree that as of the Effective Date, the parties will enter into the Professional Services Agreement and the Reseller Agreement, pursuant to which Licensee will grant additional licenses and other rights to SAIC, and SAIC may grant additional license and other rights to Licensee. Nothing in this Agreement shall be deemed to limit SAIC's or Licensee's exercise of these additional rights or responsibilities. The parties agree to enter into the Source Code Escrow Agreement. Licensee shall not enter into any escrow agreement regarding Licensee's products or services (including without limitation all software products) without obtaining SAIC's prior written approval which shall not be unreasonably withheld or delayed, provided that if SAI C does not notify Licensee within ten (10) business days after delivery of a copy of an escrow agreement to SAIC of any objections to the same, such escrow agreement shall be deemed approved by SAIC.

16. MISCELLANEOUS PROVISIONS.

16.1 **Notices**. All notices or other written communications required or permitted to be given under any provision of this Agreement, including without limitation changes of name or address to which such notices or other written communications are to be delivered under this Section 16.1, shall be deemed to have been given by the notifying party if mailed by certified mail, return receipt requested, to the receiving party addressed to its mailing address set out below, or such other address as a party may designate in writing to the other party. All notices shall be given or made to:

SAIC:

Pamela J. Bumann
Senior Vice President Mergers & Acquisitions
Technology Commercialization
Science Applications International Corporation
Mail Stop D7
4242 Campus Point Court
San Diego, CA 92121
Tel. No. 858-826-7572
Fax No. 858-826-2222

LICENSEE:

Kendall Larsen
President
VirnetX Inc.
157 Provincetown Ct.
Aptos, California 95003
Tel. No. 831-685-0117
Fax No. 831-685-0117

16.2 **Taxes**. Licensee will be solely responsible for payment of all taxes arising from the transactions contemplated by Agreement (other than the corporate income tax of SAIC) and will indemnify and hold SAIC harmless from and against any liability (including any interest and penalties) arising from its failure to pay such taxes when due.

16.3 **Compliance with Applicable Laws and Regulations**. Each party acknowledges and agrees that the products, services, software, information and intellectual property to be shared under this Agreement, including without limitation technical services and technical data such as blueprints, plans, diagrams, models, formulae, tables, engineering designs and specifications, manuals and instructions written or recorded, hereunder may be subject to certain laws, regulations and rules, including without limitation the export control laws and regulations of the United States of America, any amendments thereof, and all administrative acts of the U.S. Government pursuant to such laws and regulations which restrict exports and re-exports of goods and technology (collectively the "U.S. Export Control Laws"), and each party agrees to comply with such applicable laws, regulations and rules, incl uding without limitation the U.S. Export Control Laws, and not to be bound by terms of this Agreement in conflict with such applicable laws, regulations and rules.

16.4 **Force Majeure**. Neither party shall be liable for any failure of or delay in performance of its obligations (except for payment obligations, if any) under this Agreement to the extent such failure or delay is due to acts of God, acts of a public enemy, fires, floods, power outages, wars, civil disturbances, sabotage, terrorism, accidents, insurrections, blockades, embargoes, storms, explosions, labor disputes (whether or not the employees' demands are reasonable and/or within the party's power to satisfy), failure of common carriers, internet service providers, or other communication devices, acts of cyber criminals, terrorists or other criminals, acts of any governmental body (whether civil or military, foreign or domestic), failure or delay of third parties or governmental bodies from whom a party is obtaining or must obtain approvals, authorizations, licenses, franchises o r permits, inability to obtain labor, materials, power, equipment, or transportation, or other circumstances beyond its reasonable control (collectively referred to herein as "Force Majeure Occurrences"). Any such delays shall not be a breach of or failure to perform this Agreement or any part thereof and the date on which the obligations hereunder are due to be fulfilled shall be extended for a period equal to the time lost as a result of such delays. Neither party shall be liable to the other for any liability claims, damages or other loss caused by or resulting from a Force Majeure Occurrence.

16.5 **Entire Agreement**. This Agreement (including without limitation all appendices, exhibits and attachments, which are hereby incorporated by reference) constitutes the entire agreement and understanding between the parties with respect to the subject matter hereof, supersedes and replaces any and all prior or contemporaneous proposals, agreements understandings, commitments or representations of any kind, whether written or oral, relating to the subject matter hereof or the services to be performed hereunder.

16.6 **Modification; Waiver**. Any modification or waiver of this Agreement or parts of this Agreement must be in writing, specifically referencing this Agreement, and signed by an authorized representative of the party against whom enforcement of the purported modification or waiver is sought. Any failure to exercise any right, remedy or option or any other waiver by any party of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of that provision or of any breach of any other provision of this Agreement. The failure of a party to insist upon strict adherence to any term of this Agreement on one or more occasions will not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement, nor in any way affect the validity of this Agre ement.

16.7 **Binding Effect; Assignment**. This Agreement is to extend to and be binding upon and inure to the benefit of the parties hereto and their successors and assigns. Licensee will not make an assignment of or otherwise transfer or convey, any of its rights or delegate any of its duties under this Agreement in whole or in part to any party, including without limitation assignment or transfer of any right, title or interest in the SAIC Patent Rights or Licensee Improvements, without the prior written consent of SAIC which shall not be unreasonably withheld or delayed, which consent shall be contingent upon Licensee and the potential assignee providing SAIC with all commercially reasonable information necessary for SAIC to make a fully informed consent. Any such assignment or transfer without SAIC's prior written consent shall be null and void. For sake of clarity and no t by way of limitation, either party may, without violation of this Section 16.7, engage the services of independent contractors to assist in the performance of its duties hereunder. Notwithstanding the foregoing, Licensee shall have the right to assign or otherwise transfer or convey any of its rights or delegate any of its duties under this Agreement in whole or in part to any Subsidiary, without the written consent of SAIC; however, in this event, Licensee shall remain subject to the obligations and other terms and conditions of this Agreement and guarantee the obligations of the Subsidiary under this Agreement (including without limitation, Licensee shall remain subject to all audit and payment obligations under this Agreement). Furthermore, notwithstanding the foregoing, upon and subsequent to the payment of the Maximum Royalty amount by Licensee, Licensee shall have the right to assign, transfer or convey its rights and obligations under this Agreement to any successor in interest to L icensee's assets or business.

16.8 **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the State of California in all respects without giving effect to the principles of conflicts of law thereof.

16.9 **Construction**. This Agreement has been negotiated by the Parties and their respective counsel and will be interpreted fairly in accordance with its terms and without any strict construction in favor of or against either Party, including without limitation, no provision of this Agreement shall be construed against or interpreted to the disadvantage of any Party hereto by any court or other governmental authority by reason of such Party's having or being deemed to have structured or drafted such provision.

16.10 **Relationship Of Parties**. The Parties agree that they are acting as independent contractors and not as partners or joint venturers, and under no circumstances shall any of the employees of one Party be deemed the employees of the other for any reason or purpose. This Agreement shall not be construed as authority for either party to act for the other Party in any agency or other capacity, or to make commitments of any kind for the account of or on behalf of the other.

16.11 **Severability**. If any covenant, condition, term or provision of this Agreement is held or finally determined to be invalid, illegal or unenforceable, in any respect, in whole or in part, such covenant, condition, term or provision shall be ineffective to the extent, but only to the extent of, such invalidity, illegality or unenforceability, without invalidating the remainder of such provision or the remaining provisions of this Agreement, unless such a construction would be unreasonable.

16.12 **Third Party Beneficiaries**. This Agreement does not create, and shall not be construed as creating, any rights or interests enforceable by any person not a party to this Agreement. This Agreement is not intended to be for the benefit of any third party and shall not confer upon any third party any right, privilege, remedy; claim or other right.

16.13 **Good Faith Efforts**. Each party will at minimum use good faith efforts to fulfill its obligations under this Agreement.

16.14 **Headings; Terms**. The captions and headings used in this Agreement are solely for convenience of reference of the parties and shall not be used or given effect in the construction and interpretation of this Agreement, and will not limit or otherwise affect any of the terms or provisions hereof. Unless otherwise expressly stated, all references in this Agreement to "days" mean calendar days and every use of the word "including" means "including but not limited to".

16.15

Conflicting Provisions. This Agreement and all of the exhibits, schedules, and documents attached hereto are intended to be read and construed in harmony with each other, but in the event any provision in any attachment conflicts with any provision of this Agreement, then this Agreement shall be deemed to control, and such conflicting provision, to the extent it conflicts, shall be deemed removed and replaced with the governing provision herein.

16.16 **Multiple Copies or Counterparts of the Agreement**. This Agreement may be executed in one or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument and be binding upon the Parties. This Agreement shall not be effective until the execution and delivery between each of the parties of at least one set of the counterparts.

16.17 **Remedies**. Except as set forth in Section 11.6, all rights and remedies under this Agreement are cumulative, may be exercised singularly or concurrently, and will not be deemed exclusive. The Parties agree that any breach of Section 8 (Confidentiality) would cause irreparable harm to the non-breaching Party for which monetary damages would be an inadequate remedy, and accordingly the complaining Party shall be entitled to seek injunctive relief to prevent any threatened or ongoing breach of such Section.

16.18 **Publicity**. Each Party will obtain the other Party's prior approval of the contents any press release or public announcement referring to this Agreement or the relationship between the Parties formed by this Agreement. This prior approval shall not be unreasonably withheld or delayed.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION	VIRNETX INC.
By: /s/ Pamela J. Bumann	By: /s/ Kendall Larsen
Name: Pamela J. Bumann	Name: Kendall S. Larsen
Title: Senior Vice President	Title: President and C.E.O.
Address: 10260 Campus Pt. Dr.	Address: 157 Provincetown Court
San Diego, CA 92121	Aptos, CA 95003
Date: 8/12/05	Date: 8/12/05

TABLE OF EXHIBITS/SCHEDULES

Exhibit	**Title**
A	SAIC Patent Rights
B	Non Disclosure Agreement
C	Professional Services Agreement
D	Reseller Agreement
E	Security Agreement
F	Source Code Escrow Agreement

Schedules

9.1(c)

EXHIBIT A

SAIC Patent Rights

Country	Patent/Application No.	Filing Date	Title	Docket Nos.
JP	JP Application No. 2000-580354	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-JAP BW 000479.00042
CA	CA Application No. 2,349,520	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-CAN BW 000479.00043
AU	AU Application No. 16003/00	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-AUS BW 000479.00046
EU	EPO Application No. 99 958693.6	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-EPO BW 000479.00047
US	U.S. Application No. 09/429,643	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-US BW 000479.84602
US	U.S. Application No. 10/401,551	3/31/03	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-DIV BW 000479.00102
JP	JP Application No. 2000-580350	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-JAP2 BW 000479.00040
CA	CA Application No. 2,349,519	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-CAN2 BW 000479.00041
AU	AU Application No. 14553/00	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-AUS2 BW 000479.00048

Country	Patent/Application No.	Filing Date	Title	Docket Nos.
EU	EPO Application No. 99 971606.1	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-EPO-2 BW 000479.00049
US	U.S. Patent No. 6,502,135	2/15/00	Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10003 BW 000479.85672
EU	EPO Application No. 01 910528.7	2/15/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10003-EPO BW 000479.00080
JP	JP Application No. 2001-560062	2/15/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10003-JAP BW 000479.00081
US	U.S. Patent No. 6,618,761	2/26/02	Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 10003-DIV BW 000479.00067
US	U.S. Patent No. 6,907,473	3/31/03	Improvements to an Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 10003-DIV-1 BW 00049.00101
US	U.S. Patent No. 6,834,310	2/26/02	Preventing Packet Flooding of a Computer on a Computer Network	SAIC 10003-DIV-2 000479.00068
US	U.S. Application No.	9/30/02	Establishment of a Secure Communication Link Based	SAIC 10003-DIV-3

	10/259,494		on a Domain Name Service (DNS) Request	BW 000479.00082
EU	EPO Application No. 01 932629.7	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10006-EPO BW 000479.00085

Country	**Patent/Application No.**	**Filing Date**	**Title**	**Docket Nos.**
JP	JP Application No. 2001-583006	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10006-JAP BW 000479.00086
US	U.S. Patent No. 6,839,759	11/7/03	Method for Establishing Secure Communications Link Between Computers of Virtual Private Network Without User Entering Any Cryptographic Information	SAIC 10006-Cont BW 000479.00110
EU	EPO Application No. 01 932628.9	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10007-EPO BW 000479.00087
JP	JP Application No. 2001-501144	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10007-JAP 000479.00088
US	U.S. Application No. 10/714,849	11/18/03	An Agile Network Protocol for Secure Communications Using Secured Domain Names	SAIC 10007-Cont 000479.00111
EU	EPO Application No. 05 102086.5-2413	3/16/05	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10007-EPO-DIV BW 000479.00145
US	U.S. Application No. 09/874,258	6/6/01	Third Party VPN Certification	SAIC 10101-US BW 000479.00032
EU	EPO Application No. 02 718836.6	1/17/02	Third Party VPN Certification	SAIC 10101-EPO BW 000479.00108
US	U.S. Application No. 10/702,486	11/7/03	Method for Establishing Secure Communication Link Between Computers of Virtual Private Network	SAIC 10006-DIV(1) BW 000479.00112
US	U.S. Patent No. 6,826,616	11/7/03	Method for Establishing Secure Communication Link Between Computers of Virtual Private Network	SAIC 10006-DIV (2) BW 000479.00113

SCHEDULE 9.1 (C)

SAIC is aware of a series of patent applications naming a Mr. Victor Sheymov as inventor or co-inventor. Mr. Sheymov is the president of a company named Invicta Networks. Based on statements made by Mr. Sheymov in a press conference at the National Press Club in Washington, D.C. dated May 21, 2001, one or more patent applications naming Mr. Sheymov as an inventor or co-inventor, or otherwise potentially owned by Invicta Networks, Inc., may be relevant to the subject matter or the SAIC patent rights. The patents and patent applications of which SAIC has Knowledge are listed below:

1. Pending PCT Patent Application No. PCT/US00/08219 (International Publication No. WO 00/70458) having filing date of May 15, 2000 and claiming priority from U.S. Provisional Patent Application 60/134,547 filed May 17, 1999.

2. EPO Patent No. EP1226499 issuing from the above PCT Application No. PCT/US00/08219 (International Publication No. WO 00/70458).

3. Australian Patent No. AU773737 issuing from the above PCT Application No. PCT/US00/08219 (International Publication No. WO 00/70458).

4. U.S. Application No. 09/862,477 (U.S. Publication No. US2001/0048745) having a filing date of May 23, 2001 and claiming priority from U.S. Provisional Patent Application No. 60/206,233 filed May 23, 2000.

5. PCT Application No. PCT/US01/16541 (International Publication No. WO 01/91503) having an International Publication Date of November 29 2001 and claiming priority from U.S. Provisional Patent Application No. 60/206,233 filed May 23, 2000.

6. U.S. Application No. 09/867,442 (U.S. Publication No. US2001/0052014) having a filing date of May 31, 2001 and claiming priority from U.S. Provisional Patent Application No. 60/208,056 filed May 31, 2000.

7. PCT Application No. PCT/US01/17496 (International Publication No. WO 01/93531) having a filing date of May 31 2001 and claiming priority from U.S. Provisional Patent Application No. 60/208,056 filed May 31, 2000.

8. U.S. Application No. 09/925,503 (U.S. Publication No. US2002/0023227) having a filing date of August 10, 2001 and claiming priority from U.S. Provisional Patent Application No. 60/226,088 filed August 18, 2000.

9. PCT Application No. PCT/US01/41654 (International Publication No. WO 02/17594) having a filing date of August 10 2001 and claiming priority from U.S. Provisional Patent Application No. 60/226,088 filed August 18, 2000.

10. U.S. Application No. 10/074,037 (U.S. Publication No. US2002/0116635) having a filing date of February 14, 2002 and claiming priority from U.S. Provisional Patent Application No. 60/268,369 filed February 14, 2001.

11. PCT Application No. PCT/US02/04267 (International Publication No. WO 02/065285) having a filing date of February 14, 2002 and claiming priority from U.S. Provisional Patent Application No. 60/268,369 filed February 14, 2001.

12. U.S. Application No. No. 10/085,130 (U.S. Publication No. US2002/0129281) having a filing date of March 1, 2002 and claiming priority from U.S. Provisional Patent Application No. 60/272,053 filed March 1, 2001 and U.S. Provisional Patent Application No. 60/272,055 filed March 1, 2001.

13. PCT Application No. PCT/US02/06018 (International Publication No. WO 02/071686) having a filing date of March 1, 2002 and claiming priority from U.S. Provisional Patent Application No. 60/272,053 filed March 1, 2001 and U.S. Provisional Patent Application No. 60/272,055 filed March 1, 2001.

Exhibit 10.5

SECURITY AGREEMENT

SECURITY AGREEMENT, dated as of August 12, 2005 between VirnetX Inc., a Delaware corporation (the "Debtor"), and Science Applications International Corporation, a Delaware corporation (the "Secured Party").

WHEREAS, the Debtor is obligated to pay the Secured Party certain amounts pursuant to a Patent License and Assignment Agreement, between the parties, dated August 12, 2005 (the "Patent License and Assignment Agreement"); and

WHEREAS, to secure its payment obligations under the Patent License and Assignment Agreement the Debtor wishes to grant a security interest in favor of the Secured Party as herein provided;

NOW, THEREFORE, in consideration of the promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Definitions**. As used in this Agreement:

1.1 All terms defined in the Uniform Commercial Code of the State of California shall have the definitions ascribed to them in such Uniform Commercial Code; provided that, if a term is defined in Article 9 of the Uniform Commercial Code of the State of California differently than in another Article of the Uniform Commercial Code of the State of California, the term has the meaning specified in Article 9.

1.2 The term "Obligations" means all of the indebtedness, obligations and liabilities of the Debtor to the Secured Party, whether direct or indirect, joint or several, absolute or contingent, due or to become due, now existing or hereafter arising under or in respect of (i) the Patent License and Assignment Agreement, including without limitation the payment obligations under the license set out in Section 2 of the Patent License and Assignment Agreement, the assignment set out in Section 4 of the Patent License and Assignment Agreement, the license grant post reversion set out in Section 5 of the Patent License and Assignment Agreement and the action or proceeding recovery payments set out in Section 6.3 of the Patent License and Assignment Agreement, or (ii) this Agreement.

2. **Grant of Security Interest**. The Debtor hereby grants to the Secured Party, to secure the payment and performance in full of all of the Obligations, a security interest in and pledges and assigns to the Secured Party the following properties, assets and rights of the Debtor, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof (all of the same being hereinafter called the "Collateral"):

(a) all copyrights, trademarks, patents and patent applications (both domestic or foreign) and other intellectual property described on Schedule II and all modifications, improvements and exclusive licenses relating to any of the foregoing, all rights to sue for past, present or future infringement thereof, all rights arising therefrom and pertaining thereto and all reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof and all know-how related to the assets described on Schedule II; for sake of clarity, the foregoing does not include know-how that is not related to the assets described on Schedule II;

(b) all cash and non-cash proceeds resulting from a transfer, sale or exclusive license of any and all of the foregoing Collateral, all cash and non-cash proceeds of infringement suits relating to any and all of the foregoing Collateral, and, to the extent not otherwise included, all payments under insurance (whether or not Secured Party is the loss payee thereof) or any indemnity, warranty or guaranty payable with respect to the foregoing Collateral; and

(c) any other intellectual property rights assigned to Debtor by SAIC pursuant to the Patent License and Assignment Agreement.

3.

Authorization to File Financing Statements. The Debtor hereby irrevocably authorizes the Secured Party at any time and from time to time to file in any filing office in any Uniform Commercial Code jurisdiction or with any other state or federal governmental agency or body which the Secured Lender deems appropriate any initial financing statements and amendments thereto that (a) identify the Collateral and (b) provide any other information required by part 5 of Article 9 of the Uniform Commercial Code of the State of California, or such other jurisdiction, for the sufficiency or filing office acceptance of any financing statement or amendment.

4. **Other Actions**. To further the attachment, perfection and first priority (subject only to Permitted Liens) of, and the ability of the Secured Party to enforce, the Secured Party's security interest in the Collateral, and without limitation on the Debtor's other obligations in this Agreement, the Debtor agrees, in each case at the Debtor's expense, at the request and option of the Secured Party, to take any and all actions the Secured Party may determine to be necessary or useful for the attachment, perfection and first priority (subject only to Permitted Liens) of, and the ability of the Secured Party to enforce, the Secured Party's security interest in any and all of the Collateral, including, without limitation, (a) executing, delivering and, where appropriate, filing financing statements and amendments relating thereto under the Uniform Commercial Code, to the extent, if any, that the Debtor's signature thereon is required therefor, (b) causing the Secured Party's name to be noted as Secured Party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Secured Party to enforce, the Secured Party's security interest in such Collateral, (c) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Secured Party to enforce, the Secured Party's security interest in such Collateral, (d) obtaining governmental and other third party waivers, consents and approvals in form and substance satisfactory to Secured Party, including, without limitation, any consent of any licensor, lessor or other person obligated on Collateral, (e) obtaining waivers from mortgagees and landlords in form and substance satisfactor y to the Secured Party and (f) taking all actions under any earlier versions of the Uniform Commercial Code or under any other law, as reasonably determined by the Secured Party to be applicable in any relevant Uniform Commercial Code or other jurisdiction, including, without limitation, any foreign jurisdiction.

5. **Representations and Warranties Concerning Debtor's Legal Status**. The Debtor represents and warrants to the Secured Party as follows: (a) the Debtor's exact legal name is that indicated on the signature page hereof, (b) the Debtor is an organization of the type, and is organized in the jurisdiction set forth in Schedule I hereto, (c) Schedule I accurately sets forth the Debtor's organizational identification number or accurately states that the Debtor has none, (d) Schedule I accurately sets forth the Debtor's place of business or, if more than one, its chief executive office, as well as the Debtor's mailing address, if different, and (e) all other information set forth on Schedules I and II pertaining to the Debtor is accurate and complete.

6. **Covenants Concerning Debtor's Legal Status**. The Debtor covenants with the Secured Party as follows: (a) without providing at least 30 days' prior written notice to the Secured Party, the Debtor will not change its name, its place of business or, if more than one, chef executive office, or its mailing address or organizational identification number if it has one, (b) if the Debtor does not have an organizational identification number and later obtains one, the Debtor shall forthwith notify the Secured Party of such organizational identification number, and (c) the Debtor will not change its type of organization, jurisdiction of organization or other legal structure.

7. **Representations and Warranties Concerning Collateral, etc**. The Debtor further represents and warrants to the Secured Party as follows: (a) upon consummation of the Assignment (as defined in the Patent License and Assignment Agreement), the Debtor will be the owner of the Collateral, free from any right or claim or any person or any adverse lien, security interest or other encumbrance, except for the security interest created by this Agreement ("Permitted Liens") and (b) Schedule II sets forth a true and correct list of all United States registered copyrights and copyright registrations, applications for copyright registrations, patents and patent applications or registrations, and trademarks, trademark registrations and applications to be acquired by Debtor under the Patent License and Assignment Agreement and under the Professional Services Agreement ent ered into by Debtor and Secured Party, dated August 12, 2005 and attached hereto as Exhibit A.

8. **Covenants Concerning Collateral, etc**. The Debtor further covenants with the Secured Party as follows: (a) the Debtor shall not pledge, mortgage or create, or suffer to exist any right of any person in or claim by any person to the Collateral, or any security interest, lien or encumbrance in the Collateral in favor of any person, other than the Secured Party except for Permitted Liens, (b) the Debtor will pay promptly when due all taxes, assessments, governmental charges and levies upon the Collateral or incurred in connection with the use or operation of such

Collateral or incurred in connection with this Agreement, (c) the Debtor will not sell or otherwise dispose, or offer to sell or otherwise dispose, of the Collateral or any interest therein except for sales and leases of inventory and licenses of general intangibles in the ordinary course of business and assignments or subl icenses to Subsidiaries as provided for in the Patent License and Assignment Agreement, (d) the Debtor will not register with the United States Copyright Office (or apply for such registration of) any of the Debtor's maskworks, computer software or other copyrights that would infringe or contribute to the infringement of the Collateral, unless the Debtor has provided Secured Party not less than 30 days prior written notice of the commencement of such registration/application and the Debtor has executed and delivered to Secured party such security agreement(s) and other documentation (in form and substance reasonably satisfactory to Secured Party) which Secured Party in its good faith business judgment may require for filing with the United States Copyright Office with respect to such registration or application, (e) the Debtor will identify to Secured Party in writing any and all patents or trademarks that would infringe or contribute to the infringement of the Collateral and that are registered (or the subject of any application for registration) with that United States Patent and Trademark Office that the Debtor acquires in the future, promptly upon such acquisition; and, upon Secured Party's request therefore, the Debtor shall promptly execute and deliver to Secured Party such security agreements(s) and other documentation (in form and substance reasonably satisfactory to Secured Party) which Secured Party in its good faith business judgment may require for filing with the United States Patent and Trademark Office with respect to such registrations or applications.

9. **<u>Collateral Protection Expenses; Preservation of Collateral</u>**.

9.1 **<u>Expenses Incurred by Secured Party</u>**. In the Secured Party's discretion, if the Debtor fails to do so, the Secured Party may discharge taxes and other encumbrances at any time levied or placed on any of the Collateral, maintain any of the Collateral, make repairs thereto and pay any necessary filing fees or insurance premiums. The Debtor agrees to reimburse the Secured Party on demand for all expenditures so made. The Secured Party shall have no obligation to the Debtor to make any such expenditures, nor shall the making thereof be construed as the waiver or cure of any Event of Default.

9.2 **<u>Secured Party's Obligations and Duties</u>**. Anything herein to the contrary notwithstanding, the Debtor shall remain obligated and liable under each contract or agreement comprised in the Collateral to be observed or performed by the Debtor thereunder. The Secured Party shall not have any obligation or liability under any such contract or agreement by reason of or arising out of this Agreement or the receipt by the Secured Party of any payment relating to any of the Collateral, nor shall the Secured Party be obligated in any manner to perform any of the obligations of the Debtor under or pursuant to any such contract or agreement, to make inquiry as to the nature or sufficiency of any payment received by the Secured Party in respect of the Collateral or as to the sufficiency of any performance by any party under any such contract or agreement, to present or file any clai m, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to the Secured Party or to which the Secured Party may be entitled at any time or times. The Secured Party's sole duty with respect to the custody, safe keeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Uniform Commercial Code of the State of California or otherwise, shall be to deal with such Collateral in the same manner as the Secured Party deals with similar property for its own account.

10. **<u>Power of Attorney</u>**.

10.1 **<u>Appointment and Powers of Secured Party</u>**. The Debtor hereby irrevocably constitutes and appoints the Secured Party and any officer or agent thereof, with full power of substitution, as its true and lawful attorneys-in-fact with full irrevocable power and authority in the place and stead of the Debtor or in the Secured Party's own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments that may be necessary or useful to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, hereby gives such attorneys the power and right, on behalf of the Debtor, without notice to or assent by the Debtor, to do the following:

(a) upon the occurrence and during the continuance of an Event of Default, generally to sell, transfer, pledge, make any agreement with respect to or otherwise dispose of or deal with any of the Collateral in such manner as is consistent with the Uniform Commercial Code of the State of California and as fully and completely as though the Secured Party were the absolute owner thereof for all purposes, and to do, at the Debtor's expense, at any time, or from time to time, all acts and things which the Secured Party deems necessary or useful to protect, preserve or

realize upon the Collateral and the Secured Party's security interest therein, in order to effect the intent of this Agreement, all at least as fully and effectively as the Debtor might do, including, without limitation, (i) the filing and prosecuting of registration and transfer applications with the appropri ate federal, state, local or other agencies or authorities with respect to trademarks, copyrights and patentable inventions and processes, (ii) upon written notice to the Debtor, the exercise of voting rights with respect to voting securities, which rights may be exercised, if the Secured Party so elects, with a view to causing the liquidation of assets of the issuer of any such securities, and (iii) the execution, delivery and recording, in connection with any sale or other disposition of any Collateral, of the endorsements, assignments or other instruments of conveyance or transfer with respect to such Collateral; and

(b) to the extent that the Debtor's authorization given in Section 3 is not sufficient, to file such financing statements with respect hereto, with or without the Debtor's signature, or a photocopy of this Agreement in substitution for a financing statement, as the Secured Party may deem appropriate and to execute in the Debtor's name such financing statements and amendments thereto and continuation statements which may require the Debtor's signature.

10.2 **Ratification by Debtor**. To the extent permitted by law, the Debtor hereby ratifies all that such attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and is irrevocable.

10.3 **No Duty on Secured Party**. The powers conferred on the Secured Party hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be accountable only for the amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to the Debtor for any act or failure to act, except for the Secured Party's own gross negligence or willful misconduct.

11. **Rights and Remedies**. If an Event of Default shall have occurred and be continuing, the Secured Party, without any other notice to or demand upon the Debtor have in any jurisdiction in which enforcement hereof is sought, in addition to all other rights and remedies, the rights and remedies of a Secured Party under the Uniform Commercial Code of the State of California and any additional rights and remedies which may be provided to a Secured Party in any jurisdiction in which Collateral is located, including, without limitation, the right to take possession of the Collateral, and for that purpose the Secured Party may, so far as the Debtor can give authority therefor, enter upon any premises on which the Collateral may be situated and remove the same therefrom. The Secured Party may in its discretion require the Debtor to assemble all or any part of the Collateral at such lo cation or locations within the jurisdiction(s) of the Debtor's principal office(s) or at such other locations as the Secured Party may reasonably designate. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Secured Party shall give to the Debtor at least five Business Days prior written notice of the time and place of any public sale of Collateral or of the time after which any private sale or any other intended disposition is to be made. The Debtor hereby acknowledges that five Business Days prior written notice of such sale or sales shall be reasonable notice. In addition, the Debtor waives any and all rights that it may have to a judicial hearing in advance of the enforcement of any of the Secured Party's rights and remedies hereunder, including, without limitation, its right following an Event of Default to take immediate possession of the Collateral and to exercise its rights and remedies with respect thereto.

12. **Standards for Exercising Rights and Remedies**. To the extent that applicable law imposes duties on the Secured Party to exercise remedies in a commercially reasonable manner, the Debtor acknowledges and agrees that it is not commercially unreasonable for the Secured Party (a) to fail to incur expenses reasonably deemed significant by the Secured Party to prepare Collateral for disposition or otherwise to fail to complete raw material or work in process into finished goods or other finished products for disposition, (b) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (c) to fail to exercise collection remedies against account debtors or other persons obligated on Coll ateral or to fail to remove liens or encumbrances on or any adverse claims against Collateral, (d) to exercise collection remedies against account debtors and other persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (e) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (f) to contact other

persons, whether or not in the same business as the Debtor, for expressions of interest in acquiring all or any portion of the Collateral, (g) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (h) to dispose of Collateral by utilizing Internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets, (i) to dispose of assets in wholesale rather than retail markets, (j) to disclaim disposition warranties, (k) to purchase insurance or credit enhancements to insure the Secured Party against risks of loss, collection or disposition of Collateral or to provide to the Secured Party a guaranteed return from the collection or disposition of Collateral, or (1) to the extent deemed appropriate by the Secured Party, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Secured Party in the collection or disposition of any of the Collateral. The Debtor acknowledges that the purpose of this Section 12 is to provide non-exhaustive indications of what actions or omissions by the Secured Party would fulfill the Secured Party's duties under the Uniform Commercial Code or other law of the State of California or any other relevant jurisdiction in the Secured Party's exercise of remedies against the Collateral and that other actions or omissions by the Secured Party shall not be deemed to fail to fulfill such duties solely on account of not being indicated in this Section 12. Without limitation upon the foregoing, nothing contained in this Section 12 shall be construed to grant any rights to the Debtor or to impose any duties on the Secured Party that would not have been granted or imposed by this Agreement or by applicable law in the absence of this Section 12.

13. **No Waiver by Secured Party, etc**. The Secured Party shall not be deemed to have waived any of its rights or remedies in respect of the Obligations or the Collateral unless such waiver shall be in writing and signed by the Secured Party. No delay or omission on the part of the Secured Party in exercising any right or remedy shall operate as a waiver of such right or remedy or any other right or remedy. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. All rights and remedies of the Secured Party with respect to the Obligations or the Collateral, whether evidenced hereby or by any other instrument or papers, shall be cumulative and may be exercised singularly, alternatively, successively or concurrently at such time or at such times as the Secured Party deems expedient.

14. **Suretyship Waivers by Debtor**. The Debtor waives demand, notice, protest, notice of acceptance of this Agreement, notice of loans made, credit extended, Collateral received or delivered or other action taken in reliance hereon and all other demands and notices of any description. With respect to both the Obligations and the Collateral, the Debtor assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of or failure to perfect any security interest in any Collateral, to the addition or release of any party or person primarily or secondarily liable, to the acceptance of partial payment thereon and the settlement, compromising or adjusting of any thereof, all in such manner and at such time or times as the Secured Party may deem advisable. The Secured Party shall have no duty as to the collection o r protection of the Collateral or any income therefrom, the preservation of rights against prior parties, or the preservation of any rights pertaining thereto beyond the safe custody thereof as set forth in Section 9.2. The Debtor further waives any and all other suretyship defenses.

15. **Marshalling**. The Secured Party shall not be required to marshal any present or future collateral security (including but not limited to the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order, and all of its rights and remedies hereunder and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights and remedies, however existing or arising. To the extent that it lawfully may, the Debtor hereby agrees that it will not invoke any law relating to the marshalling of collateral which might cause delay in or impede the enforcement of the Secured Party's rights and remedies under this Agreement or under any other instrument creating or evidencing any of the Obligations or under whic h any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, the Debtor hereby irrevocably waives the benefits of all such laws.

16. **Proceeds of Dispositions; Expenses**. The Debtor shall pay to the Secured Party on demand any and all expenses, including without limitation reasonable attorneys' fees and disbursements, incurred or paid by the Secured Party in protecting, preserving or enforcing the Secured Party's rights and remedies under or in respect of any of the Obligations or any of the Collateral. After deducting all of such expenses, the residue of any proceeds of collection or sale or other disposition of the Collateral shall, to the extent actually received in cash, be applied to the payment of the Obligations in such order or preference as the Secured Party may determine, proper allowance and provision being made for any Obligations not then due. Upon the final payment and satisfaction in full of all of the Obligations and after making any payments required

by Sections 9-608(a)(l)(C) or 9-615(a)(3) of the Uniform Commercial Code of the State of California, any excess shall be returned to the Debtor. In the absence of final payment and satisfaction in full of all of the Obligations, the Debtor shall remain liable for any deficiency.

17. **Overdue Amounts**. Until paid, all amounts due and payable by the Debtor hereunder shall be a debt secured by the Collateral and shall bear, whether before or after judgment, interest at the rate of interest for overdue principal set forth in the Patent License and Assignment Agreement.

18. **Termination of Security Interest**. Upon satisfaction of the Debtor's obligation to pay the Maximum Amount (as such term is defined in the Patent License and Assignment Agreement) pursuant to the Patent License and Assignment Agreement, the security interest granted herein shall terminate and all rights to the Collateral shall revert to the Debtor. Upon any such termination, the Secured Party shall authenticate and deliver to the Debtor such documents as the Debtor may reasonably request to evidence such termination.

19. **Governing Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

20. **Waiver of Jury Trial**. THE DEBTOR WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, ANY RIGHTS, REMEDIES, OBLIGATIONS, OR DUTIES HEREUNDER, OR THE PERFORMANCE OR ENFORCEMENT HEREOF OR THEREOF. Except as prohibited by law, the Debtor waives any right which it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. The Debtor (i) certifies that neither the Secured Party nor any representative, agent or attorney of the Secured Party has represented, expressly or otherwise, that the Secured Party would not, in the event of litigation, seek to enforce the foregoing waivers or other waivers contained in this Agreement, and (ii) acknowledges that th e Secured Party is relying upon, among other things, the waivers and certifications contained in this Section 20.

21. **Miscellaneous**. The headings of each section of this Agreement are for convenience only and shall not define or limit the provisions thereof. This Agreement and all rights and obligations hereunder shall be binding upon the Debtor and its respective successors and assigns, and shall inure to the benefit of the Secured Party and its successors and assigns. If any term of this Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby, and this Agreement shall be construed and be enforceable as if such invalid, illegal or unenforceable term had not been included herein. The Debtor acknowledges receipt of a copy of this Agreement.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, intending to be legally bound, the Debtor has caused this Agreement to be duly executed as of the date first above written.

VirnetX Inc.

By /s/ Kendall Larsen
Its President and CEO

Accepted:

Science Applications International Corporation

By /s/ Pamela J. Bumann
Its Senior Vice President

SCHEDULE I

1. Organizational Information.

Jurisdiction of Organization	Type of Organization	Organizational Identification Number
Delaware	Corporation	Not applicable

2. Mailing Address.

Kendall Larsen
President
VirnetX Inc.
157 Provincetown Ct.
Aptos, California 95003
Tel. No. 831-685-0117
Fax No. 831-685-0117

3. Location of Chief Executive Office.

Kendall Larsen
President
VirnetX Inc.
157 Provincetown Ct.
Aptos, California 95003
Tel. No. 831-685-0117
Fax No. 831-685-0117

4. Other Names.

(a) All other names, including, without limitation, trade names or similar appellations, used by the Debtor, or any other business or organization to which the Debtor became the successor by merger, consolidation, acquisition, change in form, nature or jurisdiction of organization or otherwise, now or at any time during the past five years.

NONE

(b) For each other business or organization to which the Debtor became the successor by merger, consolidation, acquisition of assets, change in form, nature or jurisdiction of organization or otherwise, now or at any time during the past five years, the:

NONE

Jurisdiction of Organization	Type of Organization	Organizational Identification Number

1. Other Current Locations.

NONE

(a) The following are all other locations in the U.S. in which the Debtor maintains any books or records relating to any of the Collateral consisting of accounts, instruments, chattel paper, general intangibles or mobile goods:

Street	County	State

(b) The following are all other places of business of the Debtor in the U.S.:

Street	County	State

(c) The following are all other locations in the U.S. where any of the Collateral consisting of inventory or equipment is located:

Street	County	State

(d) The following are the names and addresses of all persons or entities other than the Debtor, such as lessees, consignees, warehousemen or purchasers of chattel paper, which have possession or are intended to have possession of any of the Collateral consisting of instruments, chattel paper, inventory or equipment:

Name	Mailing Address	County	State

1. Prior Locations. NONE

(a) Set forth below is the information required by Section 5(a) or 5(b) with respect to each location or place of business previously maintained by the Debtor at any time during the past five years in a state in which the Debtor has previously maintained a location or place of business at any time during the past four months:

Street	County	State

(b) Set forth below is the information required by Section 5(c) or 5(d) with respect to each other location at which, or other person or entity with which, any of the Collateral consisting of inventory or equipment has been previously held at any time during the past twelve months:

Name	Mailing Address	County	State

1. Commercial Tort Claims. NONE

SCHEDULE II

Patents, Patent Applications and Ordered IP

1. SAIC Patent Rights:

Country	Patent/Application No.	Filing Date	Title	Docket Nos.
JP	JP Application No. 2000-580354	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-JAP BW 000479.00042
CA	CA Application No. 2,349,520	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-CAN BW 000479.00043
AU	AU Application No. 16003/00	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-AUS BW 000479.00046
EU	EPO Application No. 99 958693.6	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-EPO BW 000479.00047
US	U.S. Application No. 09/429,643	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-US BW 000479.84602
US	U.S. Application No. 10/401,551	3/31/03	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-DIV BW 000479.00102
JP	JP Application No. 2000-580350	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-JAP2 BW 000479.00040
CA	CA Application No. 2,349,519	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-CAN2 BW 000479.00041
AU	AU Application No. 14553/00	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-AUS2 BW 000479.00048
EU	EPO Application No. 99 971606.1	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-EPO-2 BW 000479.00049
US	U.S. Patent No. 6,502,135	2/15/00	Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10003 BW 000479.85672
EU	EPO Application No. 01 910528.7	2/15/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10003-EPO BW 000479.00080
JP	JP Application No. 2001-560062	2/15/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10003-JAP BW 000479.00081
US	U.S. Patent No. 6,618,761	2/26/02	Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 10003-DIV BW 000479.00067
US	U.S. Patent No. 6,907,473	3/31/03	Improvements to an Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 10003-DIV-1 BW 00049.00101
US	U.S. Patent No. 6,834,310	2/26/02	Preventing Packet Flooding of a Computer on a Computer Network	SAIC 10003-DIV-2 000479.00068
US	U.S. Application No. 10/259,494	9/30/02	Establishment of a Secure Communication Link Based on a Domain Name Service (DNS) Request	SAIC 10003-DIV-3 BW 000479.00082
EU	EPO Application No. 01 932629.7	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10006-EPO BW 000479.00085
JP	JP Application No. 2001-583006	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10006-JAP BW 000479.00086
US	U.S. Patent No. 6,839,759	11/7/03	Method for Establishing Secure Communications Link Between Computers of Virtual Private Network Without User Entering Any Cryptographic Information	SAIC 10006-Cont BW 000479.00110
EU	EPO Application No. 01 932628.9	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10007-EPO BW 000479.00087

JP	JP Application No. 2001-501144	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10007-JAP 000479.00088
US	U.S. Application No. 10/714,849	11/18/03	An Agile Network Protocol for Secure Communications Using Secured Domain Names	SAIC 10007-Cont 000479.00111
EU	EPO Application No. 05 102086.5-2413	3/16/05	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10007-EPO-DIV BW 000479.00145
US	U.S. Application No. 09/874,258	6/6/01	Third Party VPN Certification	SAIC 10101-US BW 000479.00032
EU	EPO Application No. 02 718836.6	1/17/02	Third Party VPN Certification	SAIC 10101-EPO BW 000479.00108
US	U.S. Application No. 10/702,486	11/7/03	Method for Establishing Secure Communication Link Between Computers of Virtual Private Network	SAIC 10006-DIV(1) BW 000479.00112
US	U.S. Patent No. 6,826,616	11/7/03	Method for Establishing Secure Communication Link Between Computers of Virtual Private Network	SAIC 10006-DIV (2) BW 000479.00113

2. **Licensee Improvements**: Any improvements for which Licensee (or any of its sublicensees) files a patent application or obtains the issuance of any patents that come within the scope of the claims in the patents and patent applications set forth in Schedule II(1) (SAIC Patent Rights).

3. **Ordered IP**: All Intellectual Property developed by SAIC pursuant to the Professional Services Agreement entered into by Debtor and Secured Party, dated August 12, 2005 and attached hereto as Exhibit A. Intellectual Property for purposes of this Schedule II, Section 3 shall have the meaning set out in Section 7(i) of the Professional Services Agreement.

December 28, 2005

Mike Lachuk
Deputy General Counsel
SAIC
10260 Campus Pt Drive
Mailstop: F3
San Diego, CA 92121

Dear Mike,

Pursuant to Section 6 of the Patent License and Assignment Agreement, dated August 12, 2005, between Science Applications International Corporation and VirnetX Inc. (the "Agreement"), we hereby inform you that we have become aware of Microsoft Corporation's Live Communications Server 2005, with associated Service Pack 1 (SP1), SDK, Microsoft Office Communication 2005, Groove Networks Virtual Office, Groove Networks Workspace and all FrontBridge Technologies Product and Service Offerings which may infringe the SAIC Patent Rights (as such term is defined in the Agreement). Please call me at 650-642-4838 to discuss this matter further. We look forward to working with you to resolve this as soon as possible.

/s/ Kendall Larsen

Kendall Larsen
CEO and Co-Founder
VirnetX Inc.
157 Provincetown Ct
Aptos Ca. 95003

Exhibit 10.6

Confidential Treatment Requested:
Confidential portions of this document have been redacted and have been filed separately with the Commission.

AMENDMENT NO. 1
TO
PATENT LICENSE AND ASSIGNMENT AGREEMENT

This Amendment No. 1 to Patent License and Assignment Agreement (this "Amendment No. 1") is entered into as of November 2, 2006 (the "Amendment Effective Date") by and between Science Applications International Corporation, a Delaware corporation ("SAIC"), and VirnetX Inc., a Delaware corporation ("Transferee"), herein individually referred to as a "Party" and collectively referred to as the "Parties."

RECITALS

WHEREAS, the Parties entered into that certain Patent License and Assignment Agreement dated as of August 12, 2005 (the "Original Agreement"); and

WHEREAS, the Parties wish to enter into this Amendment No. 1 in order to amend certain provisions of the Original Agreement pursuant to Section 16.6 of the Original Agreement to facilitate Transferee's pursuing legal enforcement of the SAIC Patent Rights against Microsoft Corporation and [***] or any of their subsidiaries or successors (collectively, the "M&A Entities") and the Infringement Notice Parties (as hereinafter defined).

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises made herein and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Parties agree to amend the Original Agreement as follows:

1. **DEFINITIONS**. Terms used herein but not otherwise defined herein shall have the meanings given them in the Original Agreement.

2. **ASSIGNMENT OF PATENTS**. The Parties hereby waive any further conditions precedent to the occurrence of the Assignment Trigger Event, which shall be deemed to be the Amendment Effective Date for all purposes under the Original Agreement. Effective as of the Amendment Effective Date and subject to and contingent upon the grant back license to SAIC as set out in Section 4.2 of the Original Agreement and subject to the Reversion as set out in Section 5 of the Original Agreement and SAIC's rights in Section 6.3.3 of the Original Agreement, SAIC hereby unconditionally and irrevocably conveys, transfers, assigns and quitclaims to Transferee all of its right, title and interest in and to the SAIC Patent Rights (the "Assignment"). SAIC agrees to prepare and deliver documents consistent with the terms of the Assignment in this Section for filing with the U.S . Patent and Trademark Office and appropriate agencies in applicable foreign jurisdictions on or prior to November 13, 2006. If SAIC fails to do so, then all deadlines for deliverables owed from Transferee to SAIC under the terms of the Original Agreement as modified by this Amendment No. 1 shall be extended by the number of days following the date the last of such assignment documents are delivered by SAIC to Transferee.

3. **LITIGATION SUPPORT**. In furtherance of the Party's mutual obligations to cooperate fully, which are contained in the Original Agreement (and without superseding them or limiting their generality), SAIC agrees to the following:

(a) Access to Counsel Materials. SAIC shall provide written instructions to McDermott, Will & Emory LLP ("MWE") granting Transferee access to all materials prepared by or on behalf of MWE in connection with the analysis undertaken by MWE with respect to the potential infringement of the SAIC Patent Rights by the M&A Entities and SAIC hereby waives any conflict of MWE arising therefrom other than MWE representing Transferee in a dispute with SAIC. The Parties agree Transferee shall bear all costs, fees or any other charges of MWE associated in any manner in connection with Transferee's accessing such materials.

(b) Consent to Engagement of Counsel. Transferee is free to engage any counsel it deems advisable with respect to the pursuit of any and all potential infringement of the SAIC Patent Rights. Without limiting the generality of the foregoing,

SAIC hereby expressly consents to the engagement of MWE by Transferee, at Transferee's expense, to the extent Transferee deems it advisable to engage MWE with respect to the pursuit of any and all potential infringement of the SAIC Patent Rights. Transferee shall be entitled to compensate its counsel in any manner it deems advisable, including without limitation, through contingency fee arrangements or success fee arrangements where compensation may be a function of the proceeds from resolution of the matter.

(c) Access to Personnel. Pursuant to and in accordance with Section 6.3.3 of the Original Agreement, SAIC shall make its non-attorney employees and non-attorney consultants reasonably available to Transferee and its counsel as requested by Transferee or its counsel for purposes of serving as witnesses, providing testimony and otherwise assisting with the preparation of the cases against potential infringers of the SAIC Patent Rights that Transferee may determine to pursue. Pursuant to and in accordance with Section 6.3.3 of the Original Agreement, Transferee agrees that it shall pay SAIC its standard labor rates, costs and other expenses as necessary for SAIC's non-attorney staff to support Licensee's enforcement of the SAIC Patent Rights under this Section or to respond to discovery served upon SAIC by a defendant in any enforcement action brought by Transferee.

(d) Party to Litigation. Notwithstanding anything else herein or in the Original Agreement to the contrary, in the event that a court of competent jurisdiction issues a ruling holding that SAIC is an indispensable party and must be joined as a party to a lawsuit brought by Transferee to enforce the SAIC Patent Rights, then SAIC shall, at SAIC's sole option and discretion, either:

(i) join the lawsuit within the earlier of (1) ten business days after receiving notice from Transferee of such court ruling, or (2) one business day prior to the date Transferee would lose its suit against such defendant if SAIC did not so join; or

(ii) if SAIC has not so joined within the periods specified in clause (i) immediately above (the "Option to Join Period"), SAIC agrees to assign to Transferee all of SAIC's rights and interest in amounts otherwise owing from Transferee to SAIC hereunder or under the Original Agreement for amounts recovered by Transferee from such defendant, including amounts for past damages for infringement of the SAIC Patent Rights by such defendant, and agrees to deliver to Transferee on or before the business day of the expiration of the Option to Join Period, evidence of such assignment as such evidence may be required by the court to permit Transferee to proceed with its suit against such defendant.

(iii) Notwithstanding the above, at SAIC's request Transferee shall use its best efforts to make an interlocutory appeal to an appropriate Appellate Court any ruling of the trial court described in Section (i) above and, so long as such an appeal would not terminate the original suit, the Option to Join Period shall be tolled for so long as such appeal is pending and shall be deemed extended until the earlier of (1) ten business days after receiving notice from Transferee of an Appellate Court ruling sustaining such ruling of the trial court, or (2) one business day prior to the date Transferee would lose its suit against such defendant if SAIC did not so join.

4. **MICROSOFT AND [***] PROCEEDS**. Notwithstanding anything else in the Original Agreement to the contrary, Transferee shall have a first right from and after the Amendment Effective Date to negotiate with or bring a lawsuit against any of the "M&A Entities" for purposes of enforcing the SAIC Patent Rights for a period through and including the first anniversary of the Amendment Effective Date, and Transferee shall have such other rights afforded it under Section 6.3.3 of the Original Agreement. If Transferee fails to either terminate such infringement, enter into a reasonable license agreement to terminate such infringement subject to SAIC's rights under the Original Agreement, or bring an action or proceeding with respect to infringement or enforcement of the SAIC Patent Rights then SAIC may exercise the rights afforded it under Section 6.3.3 of the Original Agree ment. Notwithstanding Sections 6.3.4 and 7.1 of the Original Agreement, with respect to negotiations with, or lawsuits brought against any of the M&A Entities, in lieu of any amounts otherwise owing pursuant to the provisions of the Original Agreement (and subject to Section of this Amendment No. 1), any proceeds, revenues, monies or any other form of compensation paid to Transferee as an award in such litigation matter or received in settlement of such litigation matter or paid to Transferee as a result of such negotiations, except for Acquisition Proceeds as defined in Section below (hereinafter collectively referred to as " M&A Entities Recovery"), whether such M&A Entities Recovery is allocable to past damages for infringement or future royalties for an ongoing license, shall be allocated as follows:

(a) First to cover all out-of-pocket costs, including legal fees and expenses, of the Parties as actually incurred in connection with litigation brought against the M&A Entities, including any appeals or settlement thereof, as the case may be. The legal fees and expenses of SAIC that have been previously paid to MWE for services in connection with potential infringement of the SAIC Patent Rights, up to a maximum amount not to exceed $ 416,487.83 (the "MWE Fees") shall be included as part of SAIC's out-of-pocket costs to be reimbursed pursuant to the previous sentence. If such M&A Entities Recovery is less than the Parties combined out-of-pocket costs then the M&A Entities Recovery shall be divided between the Parties as a equitably proportionate split, so that each Party is reimbursed the same percentage of its total out-of-pocket costs.

(b) Second, any remaining M&A Entities Recovery after payment of the above amounts shall be shared by the Parties as follows: 35% to SAIC and 65% to Transferee.

5. **OTHER PROCEEDS**. Notwithstanding anything else in the Original Agreement to the contrary, Transferee shall have the first right from and after the Amendment Effective Date to negotiate with or bring a lawsuit against any and all third parties for purposes of enforcing the SAIC Patent Rights and shall have the rights afforded it under Section 6.3.3 of the Original Agreement. If Transferee fails to either terminate such infringement, enter into a reasonable license agreement to terminate such infringement subject to SAIC's rights under the Original Agreement, or bring an action or proceeding with respect to infringement or enforcement of the SAIC Patent Rights then SAIC may exercise the rights afforded it under Section 6.3.3 of the Original Agreement. Notwithstanding Sections 6.3.4 and 7.1 of the Original Agreement, with respect to negotiations with, or lawsuits brought against any Infringement Notice Party (as hereinafter defined), in lieu of any amounts otherwise owing pursuant to the provisions of the Original Agreement (and subject to Section of this Amendment No. 1), any proceeds, revenues, monies or any other form of compensation paid to Transferee as an award in a lawsuit brought against an Infringement Notice Party for purposes of enforcing the SAIC Patent Rights, or received in settlement of such litigation matter from an Infringement Notice Party or paid to Transferee as a result of negotiations with an Infringement Notice Party relating to enforcement of the SAIC Patent Rights, except for Acquisition Proceeds as defined in Section below (hereinafter collectively referred to as "Other Party Recovery"), whether such proceeds are allocable to past damages for infringement or future royalties for an ongoing license, shall be allocated as follows:

(a) first to cover all out-of-pocket costs, including legal fees and expenses, of both Parties as actually incurred in connection with litigation brought against the Infringement Notice Party, including any appeals or settlement thereof, as the case may be. If such Other Party Recovery is less than the Parties combined out-of-pocket costs, then the Other Party Recovery shall be divided between the Parties as a equitably proportionate split, so that each Party is reimbursed the same percentage of its total out-of-pocket costs.

(b) second, any remaining Other Party Recovery after payment of the above amounts shall be shared by the Parties as follows: 25% to SAIC and 75% to Transferee.

(c) As used herein, "Infringement Notice Party" shall refer to any entity, other than the M&A Entities, that is the subject of a notice provided by Transferee to SAIC pursuant to Section 6.3 of the Original Agreement, or a notice provided by SAIC to Transferee pursuant to Section 6.3 of the Original Agreement (where SAIC has obtained a written legal opinion concluding the entity that is the subject of such notice infringes the SAIC Patent Rights and has provided a copy to Transferee of such written legal opinion under conditions of confidentiality as may be reasonably necessary to avoid waiver of SAIC's attorney-client and related privileges).

6. **ACQUISITION PROCEEDS**. In addition (subject to Section of this Amendment No. 1), SAIC shall be entitled to receive ten percent (10%) of any proceeds, revenues, monies or any other form of compensation paid to Transferee as consideration for the acquisition of Transferee by any of the M&A Entities or any Infringement Notice Party, including, without limitation, any stock purchase, asset purchase, merger or change of control occurring for any reason, whether as a result of negotiations, litigation or settlement discussions relating to infringement of the SAIC Patent Rights ("Acquisition Proceeds") up to a maximum amount of thirty five million dollars ($35,000,000).

7. **ROYALTY COVERAGE**. Any amounts paid to SAIC hereunder pursuant to Sections , and shall count towards fulfillment of the Maximum Amount and towards fulfillment of the amounts payable as set forth in the definition of the term "Reversion

Trigger Event" in the Original Agreement, in each case, for all purposes under the Original Agreement.

8. **EXTENSION OF DATES**.

(a) The term "Project Completion" shall mean January 1, 2007 for all purposes under the Original Agreement and this Amendment No. 1.

(b) The first due date for payment of the first Minimum Guaranteed Royalty pursuant to Section 7.2 of the Original Agreement is hereby extended from the first anniversary date of Project Completion until eighteen months after Project Completion.

(c) The date specified in clause (i) of the defined term "Reversion Trigger Event" set forth in Section 1.31 of the Original Agreement is hereby extended from five years after Project Completion to seven years after Project Completion.

9. **NO OTHER CHANGES**. Except as expressly modified hereby, the Original Agreement shall remain in full force and effect.

10. **MISCELLANEOUS PROVISIONS**.

(a) Entire Agreement. This Amendment No. 1 constitutes the Parties entire agreement and understanding with respect to modification of the Original Agreement, supersedes and replaces any and all prior or contemporaneous proposals, agreements understandings, commitments or representations of any kind, whether written or oral, relating to the Parties modification of the Original Agreement.

(b) Conflicting Provisions. This Amendment No. 1 and the Original Agreement are intended to be read and construed in harmony with each other, but in the event any provision in the Original Agreement conflicts with any provision of this Amendment No. 1, then this Amendment No. 1 shall be deemed to control, and such conflicting provision, to the extent it conflicts, shall be deemed removed and replaced with the governing provision herein.

(c) Multiple Copies or Counterparts of the Agreement. This Amendment No. 1 may be executed in one or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument and be binding upon the Parties. This Amendment No. 1 shall not be effective until the execution and delivery between each of the parties of at least one set of the counterparts.

(d) Governing Law. This Amendment No. 1 shall be governed by and construed in accordance with the laws of the State of California in all respects without giving effect to the principles of conflicts of law thereof.

(e) Remaining Miscellaneous Provisions. The Parties agree the remaining Miscellaneous Provisions of the Original Agreement shall be applicable to this Amendment No. 1 and are hereby incorporated by reference herein as if restated in their entirety herein with references to the "Agreement" meaning the Original Agreement as amended by this Amendment No. 1.

IN WITNESS WHEREOF, the Parties have executed this Amendment No. 1 as of the Effective Date.

VIRNETX INC.

By: /s/ Kendall Larsen Name:
Kendall Larsen
Title: President and CEO

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

By: /s/ Pamela J. Bumann Name:
Pamela J. Bumann
Title: Sr. Vice President

Exhibit 10.7

ASSIGNMENT

THIS ASSIGNMENT is made and entered into by and between Science Applications International Corporation, a Delaware corporation ("SAIC"), and VirnetX Inc., a Delaware corporation ("Transferee").

RECITALS

WHEREAS, SAIC has the entire rights, title, and interest in and to the issued patents and pending patent applications listed in Exhibit A (the "Patents");

WHEREAS, SAIC and Transferee entered into an agreement dated as of August 12, 2005 entitled, "Patent License and Assignment Agreement" (the "Original Agreement");

WHEREAS, SAIC and Transferee entered into an amendment to the Original Agreement on or about November 2, 2006 entitled, "Amendment No. 1 to Patent License and Assignment Agreement" (the "Amendment"); and

WHEREAS, Transferee is desirous of acquiring, and SAIC is desirous of transferring to Transferee, all of SAIC's rights, title, and interest in and to the Patents pursuant to the terms of the Original Agreement and the Amendment.

NOW, THEREFORE, for good and valuable consideration, the receipt for and sufficiency of which are hereby acknowledged, SAIC does hereby assign, convey, transfer and quitclaim to Transferee all of SAIC's rights, title, and interest in and to the Patents, including, without limitation, the right to claim priority based on the Patents in subsequent patent applications filed anywhere throughout the world, including, without limitation, any and all international applications, national applications, national stage applications, regional applications, continuations, divisionals, substitutes, renewals, reissues, re-examinations, and extensions of the Patents, which have been or may be filed in the United States or any and all other countries and regions worldwide, including without limitation, any and all Letters Patents which have been or may be issued for the Patents in the United States or in any a nd all other countries and regions worldwide, including, without limitation, the right to enforce the Patents and such Letters Patents for past infringement, including, without limitation, the right to sue for injunction, damages, and otherwise, and collect damages and fees for Transferee including, without limitation, the right to file in Transferee's own name applications for patents in the United States and any and all other countries and regions worldwide for inventions claimed in the Patents and to secure in Transferee's own name Letters Patent or Patents issued thereon.

AND SAIC authorizes and requests the Commissioner of Patents and Trademarks or any other proper officer or agency of any country to issue all said Letters Patents to Transferee.

IN WITNESS WHEREOF, the parties have hereunto set hand and executed this AGREEMENT as of December 21, 2006:

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION	VIRNETX INC
By: /s/ Pamela J. Bumann	By: /s/ Kendall Larsen
Name: Pamela J. Bumann	Name: Kendall Larsen
Title: Sr. Vice President	Title: President & CEO

EXHIBIT A

SAIC PATENT RIGHTS

Country	Patent/Application No.	Filing Date	Title	Docket Nos.
JP	JP Application No. 2000-580354	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-JAP BW 000479.00042
CA	CA Application No. 2,349,520	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-CAN BW 000479.00043
AU	AU Application No. 16003/00	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-AUS BW 000479.00046
EU	EPO Application No. 99 958693.6	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-EPO BW 000479.00047
US	U.S. Application No. 09/429,643	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-US BW 000479.84602
US	U.S. Application No. 10/401,551	3/31/03	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-DIV BW 000479.00102
JP	JP Application No. 2000-580350	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-JAP2 BW 000479.00040
CA	CA Application No. 2,349,519	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-CAN2 BW 000479.00041
AU	AU Application No. 14553/00	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-AUS2 BW 000479.00048
EU	EPO Application No. 99 971606.1	10/29/99	An Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 98-10-EPO-2 BW 000479.00049
US	U.S. Patent No. 6,502,135	2/15/00	Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10003 BW 000479.85672
EU	EPO Application No. 01 910528.7	2/15/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10003-EPO BW 000479.00080
JP	JP Application No. 2001-560062	2/15/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10003-JAP BW 000479.00081
US	U.S. Patent No. 6,618,761	2/26/02	Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 10003-DIV BW 000479.00067
US	U.S. Patent No. 6,907,473	3/31/03	Improvements to an Agile Network Protocol For Secure Communications With Assured System Availability	SAIC 10003-DIV-1 BW 00049.00101
US	U.S. Patent No. 6,834,310	2/26/02	Preventing Packet Flooding of a Computer on a Computer Network	SAIC 10003-DIV-2 000479.00068
US	U.S. Application No. 10/259,494	9/30/02	Establishment of a Secure Communication Link Based on a Domain Name Service (DNS) Request	SAIC 10003-DIV-3 BW 000479.00082
EU	EPO Application No. 01 932629.7	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10006-EPO BW 000479.00085
JP	JP Application No. 2001-583006	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10006-JAP BW 000479.00086
US	U.S. Patent No. 6,839,759	11/7/03	Method for Establishing Secure Communications Link Between Computers of Virtual Private Network Without User Entering Any Cryptographic Information	SAIC 10006-Cont BW 000479.00110

EU	EPO Application No. 01 932628.9	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10007-EPO BW 000479.00087
JP	JP Application No. 2001-501144	4/26/00	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10007-JAP 000479.00088
US	U.S. Application No. 10/714,849	11/18/03	An Agile Network Protocol for Secure Communications Using Secured Domain Names	SAIC 10007-Cont 000479.00111
EU	EPO Application No. 05 102086.5-2413	3/16/05	Improvements to an Agile Network Protocol for Secure Communications with Assured System Availability	SAIC 10007-EPO-DIV BW 000479.00145
US	U.S. Application No. 09/874,258	6/6/01	Third Party VPN Certification	SAIC 10101-US BW 000479.00032
EU	EPO Application No. 02 718836.6	1/17/02	Third Party VPN Certification	SAIC 10101-EPO BW 000479.00108
US	U.S. Application No. 10/702,486	11/7/03	Method for Establishing Secure Communication Link Between Computers of Virtual Private Network	SAIC 10006-DIV(1) BW 000479.00112
US	U.S. Patent No. 6,826,616	11/7/03	Method for Establishing Secure Communication Link Between Computers of Virtual Private Network	SAIC 10006-DIV (2) BW 000479.00113

Exhibit 10.8

Confidential Treatment Requested:
Confidential portions of this document have been redacted and have been filed separately with the Commission.

Professional Services Agreement
(Time and Materials)
Contract No. VIRNETX-05-001

This Agreement, effective August 12, 2005, is between VirnetX Inc. ("Customer"), a Delaware: corporation, having an office at 157 Provincetown Ct., Aptos, California 95003 and Science Applications International Corporation ("SAIC"), a Delaware corporation, having an office at 10260 Campus Point Drive, San Diego, California 92121.

I. DESCRIPTION OF PROFESSIONAL SERVICES

SAIC shall provide to Customer the Professional Services ("Services") described in Exhibit A. The Services shall be provided subject to the Terms and Conditions, which follow.

II. CUSTOMER AND SAIC ADMINISTRATIVE CONTACTS

Kendall Larsen
President
VirnetX Inc.
157 Provincetown Ct.
Aptos, California 95003
Tel. No. 831-685-0117
Fax No. 831-685-0117

Sean M. Goodwin
Contracts Manager
Science Applications International Corporation
1710 SAIC Drive
MS T1-11-3
McLean, VA 22102
Tel. No. 703-676-8015
Fax No. 703-676-8320

In consideration of the mutual obligations assumed under this Agreement, SAIC and Customer agree to the Terms and Conditions attached hereto and incorporated by reference and represent that this Agreement is executed by duly authorized representatives as of the dates below.

AGREED BY:

VirnetX Inc.

By: /s/ Kendall S. Larsen
Name: Kendall S. Larsen
Title: President
Date: 12 August 2005

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

By: /s/ Sean M. Goodwin
Name: Sean M. Goodwin
Title: Contracts Manager
Date: 12 August 2005

TERMS AND CONDITIONS

1. Services

SAIC will perform the services ("Services") and deliver the deliverables ("Deliverables") described in the Statement of Work, set forth in Exhibit A.

2. Place of Performance

Unless otherwise provided in this Agreement, SAIC may perform the Services in whole or in part at SAIC's place of business, Customer's place of business, and/or such other locations as SAIC may select.

3. Effective Date; Term

This Agreement shall be effective as of the date first above written (the "Effective Date"), and shall continue in full force and effect until the Services have been completed, the Estimated Price (as defined in section 4) has been reached, or the Agreement has been terminated in accordance with Section 9 hereof.

4. Payment Terms

(a) Customer will pay SAIC on a "time and materials" basis for labor expended and costs and expenses incurred, as hereinafter described. SAIC will use good faith efforts to complete the Services and deliver the Deliverables within the estimated price ("Estimated Price") set forth in Exhibit B, but does not guarantee that the Services can be completed or the Deliverables can be delivered within the Estimated Price.

(b) Customer shall pay to SAIC for labor expended in performing the Services an amount computed by multiplying the applicable hourly billing rate set forth in Exhibit B by the number of hours worked. Fractional parts of an hour shall be payable on a prorated basis.

(c) In addition to paying for labor expended, Customer shall reimburse SAIC for the cost of all goods and materials purchased exclusively for use in performing the Services or which are incorporated into any Deliverable, as well as for all reasonable travel expenses and miscellaneous out-of-pocket expenses incurred in performing the Services. Such costs and expenses shall be subject to the administrative and overhead charge provided in Exhibit B.

(d) Customer shall have no obligation to pay SAIC more than the Estimated Price. SAIC shall have no obligation to provide labor or incur costs or expenses having a combined value more than the Estimated Price, even if the Services have not been completed or the Deliverables delivered, or the results desired by Customer have not been achieved. The parties may, by mutual written agreement, increase the Estimated Price.

(e) Customer shall make payment to SAIC according to the schedule and provisions of Exhibit B. SAIC shall have a lien upon and may retain or repossess any and all Deliverables if Customer does not make payment in full to SAIC.

(f) Invoiced amounts are immediately due and payable by either electronic funds transfer (EFT) or by mail to the following location(s):

Electronic Funds Transfer	By Check
Science Applications International Corporation Citibank, N.A. 399 Park Avenue New York, New York 10043 Account No. 30547584 ABA No. 021000089 Reference: VIRNETX-05-001	Science Applications International Corporation P.O. Box 223058 Pittsburgh, PA 15251-2058 Reference: VIRNETX-05-001

(g) If Customer' s action or inaction results in non-receipt of payment by SAIC for the total amount of an invoice within thirty (30) days of such invoice, interest compounded at the rate of one percent (1%) per month shall be charged on all amounts unpaid and outstanding. If Customer's action or inaction results in non-receipt of payment by SAIC, SAIC shall have the right, exercisable in SAIC's sole discretion, in addition to its other rights and remedies, to cease further performance of the Services hereunder.

(h) Bill To Address. The invoice will be mailed to:

Address		157 Provincetown Ct. Aptos, CA 95003
Attn:		Kendall Larsen
Phone:		831-685-0117
Fax:		831-685-0117

5. <u>Resources to be Provided by Customer</u>

(a) Customer shall provide, maintain and make available to SAIC, at Customer's expense and in a timely manner, the resources described in this Section 5 and such other additional resources, as SAIC may from time to time reasonably request in connection with SAIC's performance of the Services. Delays in the provision of these resources may result in delays and/or additional cost in performing the Services or Delivering the Deliverables.

(b) Customer will designate and make available to SAIC qualified Customer personnel or representatives who will consult with SAIC on a regular basis in connection

with the Services. Customer will furnish such documentation or other information as is reasonably necessary to perform the Services.

(c) Customer shall furnish access to Customer's premises, and appropriate workspace for any SAIC personnel working at Customer's premises, as necessary for performance of those portions of the Services to be performed at Customer's premises.

(d) Customer shall provide SAIC with two (2) Software Development Kits (SDKs) for Unified Communication. Unified Communication consists of instant messaging (IM), voice over internet protocol (VoIP), and streaming realtime video (SRV). The SDKs may be in the form of source code or object code and will have modules which are instrumental in initiating connections. The Customer shall also provide Application Programming Interface (API) definitions and documentation that will allow integration of Session Initiation Protocol (SIP). Customer will provide an SDK for the proxy server which will define the initiation of the connection sessions over the Internet by Session Initiation Protocol (SIP). These packages must be received by SAIC prior to SAIC performing under this Agreement.

6. Confidentiality

The Parties have executed a Non-Disclosure Agreement, in form and content of Exhibit C attached hereto. The Non-Disclosure Agreement is independent of this Agreement, and shall survive termination of this Agreement. Nothing in this Agreement or in the Non-Disclosure Agreement referred to in this section shall be deemed to restrict or prohibit SAIC from providing to others services and deliverables the same as or similar to the Services and Deliverables. In providing any such similar services or deliverables to any third party, SAIC shall keep confidential any Customer confidential, proprietary or trade secret information which is subject to the Non-Disclosure Agreement executed pursuant to this section, in accordance with the requirements of such agreement.

7. Intellectual Property

(a) Customer and SAIC shall each retain ownership of, and all right, title and interest in and to, their respective, pre-existing Intellectual Property, and no license therein, whether express or implied, is granted by this Agreement or as a result of the Services performed hereunder. To the extent the parties wish to grant to the other rights or interests in pre-existing Intellectual Property, separate license agreements on mutually acceptable terms will be executed. Each party grants to the other a royalty-free, paid-up, worldwide, perpetual, nonexclusive license to use, copy, modify, improve, make, have made, make derivative works, and sublicense any preexisting copyrights and trade secrets incorporated into the Ordered IP.

(b) All Intellectual Property developed by SAIC pursuant to this Agreement ("Ordered IP') shall be jointly owned by Customer and SAIC. Each party agrees to assign, and hereby does assign, to the other an undivided, one-half ownership interest in and to such Ordered IP. Except as set out in this Agreement or a separate written agreement between the parties, neither party shall be obligated to pay the other any

royalties or other consideration, nor account to the other for any royalties or other consideration it may receive, for any licenses, assignment, sale, lease, or other distribution of the Ordered IP or any derivatives or improvements to such Ordered IP. To enable the other to have such joint ownership rights, each party agrees that it shall execute and deliver such instruments and take such action as may be reasonably requested by the other to perfect or protect the other's right in Ordered IP and to carry out the assignments contemplated in this Section, and shall assist the other and its nominees to secure, maintain, protect and defend for the other's benefit all such rights in the Ordered W in any and all countries.

(c) With respect to Ordered IP for which a patent application is filed or a patent is issued which comes within the scope of the SAIC Patent Rights claims licensed or assigned as set out in the Patent License and Assignment Agreement entered into by the parties and dated 12 August 2005 (the "Patent Agreement"), SAIC hereby grants and agrees to grant to Customer, only under the claims in such new patent applications or patents which fall within the scope of the SAIC Patent Rights claims, the sole and exclusive, worldwide right and license solely in the Field of Use to make, have made, import, use, offer for sale and sell products and services under such claims and make improvements under such claims and to sublicense subject to the limitations set out in Section 12.2 of the Patent Agreement. The license grant set out in this Section 7(c) shall automatically become non- exclusive if Customer has not paid SAIC, within thirty six (36) months of Project Completion, a cumulative amount under the Patent Agreement equal to at least two million dollars ($2,000,000). This license grant is subject to the terms and conditions of both this Agreement and the Patent Agreement, including without limitation Customer's obligations to pay the amounts set out in Section 7 of the Patent Agreement and SAIC's ability to terminate the license set out in Section 10 of the Patent Agreement. For purposes of this Section (c): (i) "SAIC Patent Rights" shall have the meaning set out in Section 1.29 of the Patent Agreement; (ii) "Field of Use" shall have the meaning set out in Section 1.8 of the Patent Agreement; and (iii) "Project Completion" shall have the meaning set out in Section 1.21 of the Agreement.

(d) Each party shall promptly notify the other if it becomes aware of any infringement or misappropriation by any party of any Ordered IP.

(e) Customer shall have the first right, but not the obligation, to prepare, file and prosecute, at its expense, patent, copyright and trademark applications, and all other applications for foreign letters patent for all intellectual property included in the Ordered IP. If Customer elects (either on its own initiative or thirty (30) days after SAIC's request) not to prosecute any such applications, then Customer shall provide SAIC timely notice of Customer's election, and after thirty (30) days receipt by Customer of a notice from SAIC indicating that SAIC wishes to prosecute such application(s), then SAIC shall have the right to file and prosecute such application(s) at its own expense. In connection with any such applications, each party shall, at no expense to the other, upon the request of the party prosecuting the same, execute and deliver to the other party such documents and provide such other reasonable assistance as the party prosecuting the

same deems necessary or advisable in order to cause said patents to be issued. All such applications shall be in the name of both Customer and SAIC.

(f) Customer shall have the first right, but not the obligation, to bring, prosecute and settle infringement claims with respect to the Ordered IP. If Customer elects not to bring or prosecute such claims, the Customer shall provide SAIC timely notice of Customer's election and, after thirty (30) days after receipt by Customer of a notice from SAIC indicating that SAIC wishes to bring or prosecute such claims, the Customer shall provide SAIC timely notice of Customer's election, and then SAIC shall have the right to bring, prosecute and settle such claims, at its own expense. Any party that exercises this right will keep the other reasonably and promptly informed concerning the material developments regarding such action and, to the extent practical or necessary, shall request the cooperation or participation of the other in such action. Each party shall r easonably and promptly cooperate with any such request. Each party shall take all steps necessary and appropriate to maintain attorney-Customer and work-product privileges regarding any information relating to such action, and to maintain the confidentiality of any trade secrets or confidential information owned or identified by either party that may be subject to discovery or disclosure in such action, including but not limited to obtaining and observing an appropriate protective order.

(g) Customer shall have the first right to defend infringement claims arising out of or related to the Ordered IP. In the event that Customer elects not to defend such claim (either on its own initiative or thirty (30) days after SAIC's request), SAIC will have the right to defend such claim. Neither party shall settle or otherwise resolve or dispose of such action or proceeding in any manner that affects the validity, enforceability or operativeness of any patents for the Ordered IP, or imposes any obligation on the other, without the express consent of the other. Each party will keep the other reasonably and promptly informed concerning the material developments regarding such action and, to the extent practical or necessary, shall request the cooperation or participation of the other in such action.

(h) For sake of clarity and not by way of limitation, SAIC shall retain an unrestricted right to use any Intellectual Property acquired, created or developed during the performance of this Agreement, on behalf of itself and its future Customers. SAIC may perform the same or similar services for others, provided that any Customer confidential, proprietary or trade secret information is treated in accordance with any Non-Disclosure Agreement executed pursuant to Section 6 of this Agreement.

(i) As used herein, "Intellectual Property" shall mean inventions (whether or not patentable), works of authorship, trade secrets, techniques, know-how, ideas, concepts, algorithms, and other intellectual property.

8. Taxes

(a) Customer shall pay any and all sales, use, value added, excise, import, privilege, or similar taxes, levies or payments in lieu thereof, including interest and penalties thereon, arising out of or in connection with the performance of this Agreement (other

than those levied on SAIC's income), imposed by any authority, government or governmental agency, and shall comply with all applicable treaties, laws, rules or regulations relating thereto.

(b) In the event a taxing authority conducts an audit of this Agreement and determines that an additional tax should have been imposed on the Services or Deliverables provided by SAIC to Customer (other than those taxes levied on SAIC's income), Customer shall reimburse SAIC for any such additional tax, including interest and penalties thereon. Similarly, if a taxing authority determines that a refund of tax is due as it relates to the Services or Deliverables provided by SAIC to Customer (except those taxes relating to SAIC's income), SAIC shall reimburse Customer such refund, including any interest paid thereon by the taxing authority.

9. Termination

Either party may terminate this Agreement for any reason upon 30 days written notice to the other party. Termination will not affect payment obligations incurred under this Agreement for Services performed and reimbursable costs and expenses incurred prior to the effective date of termination, including without limitation commitments to purchase products or services from third parties, which were entered into by SAIC in the course of performance hereunder prior to the effective date of termination. Such reimbursable costs may include, but are not limited to, cancellation fees, minimum consulting or material fees, and non-refundable charges or fees for third party products or services.

10. Limited Warranty

(a) SAIC warrants that the Services provided under this Agreement shall be performed with that degree of skill and judgment normally exercised by recognized professional firms performing services of the same or substantially similar nature. In the event of any breach of the foregoing warranty, provided Customer has delivered to SAIC timely notice of such breach as hereinafter required, SAIC shall, at its own expense, in its discretion either: (1) re-perform the non-conforming Services and correct the non-conforming Deliverables to conform to this standard; or (2) refund to Customer that portion of the amounts received by SAIC attributable to the non-conforming Services and/or Deliverables. No warranty claim shall be effective unless Customer has delivered to SAIC written notice specifying in detail the non-conformities within 90 days after performance of the non-conformin g Services or tender of the non-conforming Deliverables. The remedy set forth in this Section 10(a) is the sole and exclusive remedy for breach of the foregoing warranty.

(b) **SAIC SPECIFICALLY DISCLAIMS ANY OTHER EXPRESS OR IMPLIED STANDARDS, GUARANTEES, OR WARRANTIES, INCLUDING WITHOUT LIMITATION ANY WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT, AND ANY WARRANTIES THAT MAY BE ALLEGED TO ARISE AS A RESULT OF CUSTOM OR USAGE, ANY WARRANTY OF ERROR-FREE PERFORMANCE, OR ANY WARRANTY OF THIRD PARTY PRODUCTS, OR FUNCTIONALITY**

OF THE CUSTOMER'S HARDWARE, SOFTWARE, FIRMWARE, OR COMPUTER SYSTEMS.

(c) Customer represents and warrants to SAIC that Customer has the right to use and furnish to SAIC for SAIC's use in connection with this Agreement, any information, specifications, data or Intellectual Property that Customer has provided or will provide to SAIC in order for SAIC to perform the Services and to create the Deliverables identified in Exhibit A.

11. Limitation of Liability

(a) SAIC's total liability to Customer for any and all liabilities, claims or damages arising out of or relating to this Agreement, howsoever caused and regardless of the legal theory asserted, including breach of contract or warranty, tort, strict liability, statutory liability or otherwise, shall not, in the aggregate, exceed the amount actually paid to SAIC under this Agreement, or under the specific task order at issue, whichever is less.

(b) In no event shall either SAIC or Customer be liable to the other for any punitive, exemplary, special, indirect, incidental or consequential damages (including, but not limited to, lost profits, lost business opportunities, loss of use or equipment down time, and loss of or corruption to data) arising out of or relating to this Agreement, regardless of the legal theory under which such damages are sought, and even if the parties have been advised of the possibility of such damages or loss.

12. Non-Waiver of Rights

The failure of either party to insist upon performance of any provision of this Agreement, or to exercise any right, remedy or option provided herein, shall not be construed as a waiver of the right to assert any of the same at any time thereafter.

13. Rights and Remedies Not Exclusive

Unless otherwise expressly provided herein, no right or remedy of a party expressed herein shall be deemed exclusive, but shall be cumulative with, and not in substitution for, any other right or remedy of that party.

14. Severability

If any covenant, condition, term, or provision contained in this Agreement is held or finally determined to be invalid, illegal, or unenforceable in any respect, in whole or in part, such covenant, condition, term, or provision shall be severed from this Agreement, and the remaining covenants, conditions, terms and provisions contained herein shall continue in force and effect, and shall in no way be affected, prejudiced or disturbed thereby.

15. Conflicting Provisions

This Agreement and all of the exhibits, schedules, and documents attached hereto are intended to be read and construed in harmony with each other, but in the event any provision in any attachment conflicts with any provision of this Agreement, then this Agreement shall be deemed to control, and such conflicting provision to the extent it conflicts shall be deemed removed and replaced with the governing provision herein.

16. Assignment

Neither party may sell, assign, transfer, or otherwise convey any of its rights or delegate any of its duties under this Agreement without the prior written consent of the other party, which shall not be unreasonably withheld or delayed, which consent shall be contingent upon the party and the potential assignee providing the other party with all commercially reasonable information necessary for such party to make a fully informed consent. Any such assignment or transfer without the other party's prior written consent shall be null and void. Notwithstanding the foregoing, (i) SAIC may without violation of this paragraph engage the services of independent contractors to assist in the performance of its duties hereunder; and (ii) Customer shall have the right to assign or otherwise transfer or convey any of its rights or delegate any of its duties under this Agreement in whole or in party to any Subsidiary, without the written consent of SAIC; however, in this event, Customer shall remain subject to the obligations and other terms and conditions of this Agreement and guarantee the obligations of the Subsidiary under this Agreement (including without limitation, Customer shall remain subject to all audit and payment obligations under this Agreement). "**Subsidiary**" means a majority owned subsidiary of VirnetX whose financial statements are consolidated into VirnetX's financial statements.

17. Applicable Law

This Agreement shall be governed by and construed under the laws of the State of California, without regard to its laws relating to conflict or choice of laws.

18. Interpretation

The captions and headings used in this Agreement are solely for the convenience of the parties, and shall not be used in the interpretation of the text of this Agreement. Each party has read and agreed to the specific language of this Agreement; therefore no conflict, ambiguity, or doubtful interpretation shall be construed against the drafter.

19. Disputes

Any controversy, claim or dispute ("Dispute") arising out of or relating to this Agreement shall be resolved by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. Before commencing any such arbitration, the parties agree to enter into negotiations to resolve the Dispute. If the parties are unable to resolve the Dispute by good faith negotiation, either party may refer

the matter to arbitration. The arbitration shall take place in the County of San Diego, State of California if initiated by Customer and in the City of San Francisco, State of California if initiated by SAIC. The arbitrator(s) shall be bound to follow the provisions of this Agreement in resolving the dispute, and may not award any damages, which are excluded by this Agreement. The decision of the arbitrator(s) shall be final and binding on the parties, and any award of the arbitrator(s) may be entered or enforced in any court of competent jurisdiction. Any request for arbitration of a claim by either party against the other relating to this Agreement must be filed no later than one year after the date on which SAIC concludes performance under this Agreement.

20. Force Majeure

Neither party shall be liable for any failure of or delay in performance of its obligations (except for payment obligations) under this Agreement to the extent such failure or delay is due to acts of God, acts of a public enemy, fires, floods, power outages, wars, civil disturbances, sabotage, terrorism, accidents, insurrections, blockades, embargoes, storms, explosions, labor disputes (whether or not the employees' demands are reasonable and/or within the party's power to satisfy), failure of common carriers, Internet Service Provides, or other communication devices, acts of cyber criminals, terrorists or other criminals, acts of any governmental body (whether civil or military, foreign or domestic), failure or delay of third parties or governmental bodies from whom a party is obtaining or must obtain approvals, authorizations, licenses, franchises or permits, inability to obtain labor, materials, power, equipment, or transportation, or other circumstances beyond its reasonable control (collectively referred to herein as "Force Majeure Occurrences"). Any such delays shall not be a breach of or failure to perform this Agreement or any part thereof and the date on which the obligations hereunder are due to be fulfilled shall be extended for a period equal to the time lost as a result of such delays. Neither party shall be liable to the other for any liability claims, damages or other loss caused by or resulting from a Force Majeure Occurrence.

21. Multiple Copies or Counterparts of Agreement

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement shall not be effective until the execution and delivery between each of the parties of at least one set of the counterparts.

22. Notices

All notices or other written communication required or permitted to be given under any provision of this Agreement shall be deemed to have been given by the notifying party if mailed by certified mail, return receipt requested, to the receiving party addressed to the mailing address set forth in the first paragraph of this Agreement, or such other address as the parties may designate in writing to the other parties. Additionally, notices sent by any other means (i.e., facsimile, overnight delivery, courier, etc.) may be acceptable subject to written confirmation of both the transmission and receipt of the notice.

23. Relationship of Parties

SAIC is an independent contractor in all respects with regard to this Agreement. Nothing contained in this Agreement shall be deemed or construed to create a partnership, joint venture, agency, or other relationship other than that of contractor and customer.

24. Third Party Beneficiaries

This Agreement does not create, and shall not be construed as creating, any rights or interests enforceable by any person not a party to this Agreement.

25. Waiver or Modification

This Agreement may be modified, or part or parts hereof waived, only by an instrument in writing specifically referencing this Agreement and signed by an authorized representative of the party against whom enforcement of the purported modification or waiver is sought.

26. Non-solicitation Provision

Each Party agrees that it will not solicit for employment, directly or indirectly, the personnel of the other Party assigned to carry out such Party's obligations under this Agreement, at any time during the Term of the Agreement and for one (1) year thereafter. This provision shall not, however, preclude either Party from discussing employment with or offering employment to an employee of the other Party when discussions or negotiations leading to such an offer have been initiated by advertising in publications of general circulation, posting vacancy announcements, or conducting job fairs which may lead to contacts or employment between that Party and employees of the other Party.

27. Entire Agreement

This Agreement, including any and all Exhibits attached hereto, which are hereby incorporated by reference, constitutes the entire agreement and understanding between the parties and supersedes and replaces any and all prior or contemporaneous proposals, agreements, understandings, commitments or representations of any kind, whether written or oral, relating to the subject matter hereof or the Services or Deliverables to be provided hereunder.

28. Survival

The provisions of sections 4, 6, 7, 9, 10 and 11 through 28 shall survive the termination or expiration of this Agreement.

Exhibit A

Statement of Work
Phase I

Description of Services:

SAIC will perform the following tasks:

1. Collaborate with the Customer staff to develop functional design requirements for beta software that provides encrypted connections between two Unified Communication Clients packages with instant message client software, voice over internet protocol, and real time streaming video packages provided by the Customer at the start of the task utilizing the Session Initiation Protocol (SIP) extended by .scom technology. The customer will provide proxy server source code or object code to SAIC for development prior to the start of design by SAIC. It is anticipated that SAIC will provide the instant secure connect controllers, name server, and certificate authority server design for the Customer's development of the mutually agreed functional system as described in the Statement of Work.
2. Conduct a feasibility design for the beta software.
3. Provide a recommended software development plan report for the Customer's development of the beta software.
4. Provide a statement of work for SAIC consulting support to the Customer's development of the beta software.

Anticipated Period of Performance: Fifty Six (56) days after Customer provides SAIC with two (2) instant message client software packages.

Deliverable Items:

Task No.	Deliverable
1	Beta Requirements Report
2	Feasibility Design Report
3	Recommended Software Development Plan Report
4	Statement of Work

Each deliverable shall be in SAIC format.

Acceptance Criteria:

Submission of the reports by SAIC to Customer constitutes conclusive acceptance, and SAIC shall be entitled to payment in accordance with the payment schedule (Exhibit B).

Exhibit B

Hourly Rates (by labor category):

LABOR CATEGORY	RATE
Program Manager	[***]
Sr. System Architect	[***]
Sr. Software Engineer	[***]
Software Engineer	[***]
Project Control	[***]

These rates are valid through 1 March 2006 and are subject to negotiation after this date.

Estimated Number of Hours (by labor category):

LABOR CATEGORY	HOURS
Program Manager	116
Sr. System Architect	45
Sr. Software Engineer	202
Software Engineer	86
Project Control	8
	457

Estimated Material, Travel and Other Costs and Expenses:
SAIC anticipates $8 in FedEx/Reproduction charges. No Material or Travel expenses are anticipated at this time. However, should it be necessary for SAIC to incur these costs, or additional FedEx/Reproduction charges, they will be invoiced at actual cost plus the Administrative Charge.

Administrative Charges to be applied to Material, Travel and Other Expenses:
An Administrative Charge of twelve (12%) percent will be applied to the actual cost for Material, Travel and Other Costs and Expenses.

Estimated Price: One Hundred Thousand Dollars ($100,000) US.
Customer shall deposit the sum of $100,000.00 with SAIC prior to SAIC providing services under this Agreement to secure payment for Services rendered. The deposit will be credited against fees earned, costs and expenses incurred and administrative charges all as provided for under this Agreement. In the event that upon completion of the Services or earlier termination of this Agreement any amount of the deposit remains unused, SAIC shall promptly refund to Customer any such amount. The estimated number of hours by labor category, estimated costs and expenses, and the Estimated Price are estimates only and may vary. SAIC, in its discretion, may use a greater or lesser number of hours in any labor category, and may incur a greater or lesser amount of costs and expenses, but may not charge more than the total Estimated Price for all labor unless Customer agrees in writing.

Exhibit C

NON DISCLOSURE AGREEMENT

NON-DISCLOSURE AGREEMENT

This is an Agreement, effective August 10, 2005, between Science Applications International Corporation (hereinafter referred to as “SAIC”) and VirnetX Inc. (hereinafter referred to as “Customer”). It is recognized that it may be necessary or desirable to exchange information between SAIC and Customer in regards to developing functional design requirements for beta software that provides encrypted connections between two unified communication client software packages and one proxy server package. In addition, the Parties anticipate sharing proprietary information as necessary to perform under the Patent License and Assignment Agreement (the “Programs”).

It may be necessary for either Party to provide proprietary information to the other. With respect to such information, the Parties agree as follows:

(1) “Proprietary Information” shall include, but not be limited to, performance, sales, financial, contractual and special marketing information, ideas, technical data and concepts originated by the disclosing Party, not previously published or otherwise disclosed to the general public, not previously available without restriction to the receiving Party or others, nor normally furnished to others without compensation, and which the disclosing Party desires to protect against unrestricted disclosure or competitive use, and which is furnished pursuant to this Non-Disclosure Agreement and appropriately identified as being proprietary when furnished.

(2) In order for proprietary information disclosed by one Party to the other to be protected in accordance with this Non-Disclosure Agreement, it must be: (a) in writing; (b) clearly identified as proprietary information at the time of its disclosure by each page thereof being marked with an appropriate legend indicating that the information is deemed proprietary by the disclosing Party; and (c) delivered by letter of transmittal to the individual designated in Paragraph 3 below, or his designee. Where the proprietary information has not been or cannot be reduced to written form at the time of disclosure and such disclosure is made orally and with prior assertion of proprietary rights therein, such orally disclosed proprietary information shall only be protected in accordance with this Non-Disclosure Agreement provided that complete written summaries of all proprietary aspects of any such oral d isclosures shall have been delivered to the individual identified in Paragraph 3 below, within 20 calendar days of said oral disclosures. Neither Party shall identify information as proprietary which is not in good faith believed to be confidential, privileged, a trade secret, or otherwise entitled to such markings or proprietary claims.

(3) In order for either Party’s proprietary information to be protected as described herein, it must be submitted in written form as set forth in Paragraph (2) above to the individuals identified below:

Science Applications International Corporation		VirnetX Inc.	
Name:	Gary Bowen	Name:	Kendall Larsen
Title:	Program Manager	Title:	President
Address:	4001 N. Fairfax Dr. Suite 850 Arlington, VA 22203	Address:	157 Provincetown Ct. Aptos, CA 95003
Telephone:	703-816-4878	Telephone:	831-685-0117
FAX No:	703-816-5958	FAX No:	831-685-0117

(4) Each Party covenants and agrees that it will, notwithstanding that this Non-Disclosure Agreement may have terminated or expired, keep in confidence, and prevent the disclosure to any person or persons outside its organization or to any unauthorized person or persons, any and all information which is received from the other under this Non-Disclosure Agreement and has been protected in accordance with paragraphs 2 and 3 hereof; provided however, that a receiving Party shall not be liable for disclosure of any such information if the same:

A. Was in the public domain at the time it was disclosed, or

B. Becomes part of the public domain without breach of this Agreement, or

C. Is disclosed with the written approval of the other Party, or

D. Is disclosed after 3 years from receipt of the information, or

E. Was independently developed by the receiving Party, or

F. Is or was disclosed by the disclosing Party to a third Party without restriction, or

G. Is disclosed pursuant to the provisions of a court order.

As between the Parties hereto, the provisions of this Paragraph 4 shall supersede the provisions of any inconsistent legend that may be affixed to said data by the disclosing Party, and the inconsistent provisions of any such legend shall be without any force or effect.

Any protected information provided by one Party to the other shall be used only in furtherance of the purposes described in this Agreement, and shall be, upon request at any time, returned to the disclosing Party. If either Party loses or makes unauthorized disclosure of the other Party's protected information, it shall notify such other Party immediately and take all steps reasonable and necessary to retrieve the lost or improperly disclosed information.

(5) The standard of care for protecting Proprietary Information imposed on the Party receiving such information, will be that degree of care the receiving Party uses to prevent disclosure, publication or dissemination of its own proprietary information.

(6) Neither Party shall be liable for the inadvertent or accidental disclosure of Proprietary Information if such disclosure occurs despite the exercise of the same degree of care as such Party normally takes to preserve its own such data or information.

(7) In providing any information hereunder, each disclosing Party makes no representations, either express or implied, as to the information's adequacy, sufficiency, or freedom from defect of any kind, including freedom from any patent infringement that may result from the use of such information, nor shall either Party incur any liability or obligation whatsoever by reason of such information, except as provided under Paragraph 4, hereof.

(8) Notwithstanding the termination or expiration of any Professional Services Agreement executed in conjunction with this Agreement, the obligations of the Parties with respect to proprietary information shall continue to be governed by this Non-Disclosure Agreement.

(9) This Non-Disclosure Agreement contains the entire agreement relative to the protection of information to be exchanged hereunder, and supersedes all prior or contemporaneous oral or written understandings and agreements regarding this issue. This Non-Disclosure Agreement shall not be modified or amended, except in a written instrument executed by the Parties.

(10) Nothing contained in this Non-Disclosure Agreement shall, by express grant, implication, estoppel or otherwise, create in either Party any right, title, interest, or license in or to the inventions, patents, technical data, computer software, or software documentation of the other Party.

(11) Nothing contained in this Non-Disclosure Agreement shall grant to either Party the right to make commitments of any kind for or on behalf of any other Party without the prior written consent of that other Party.

(12) The effective date of this Non-Disclosure Agreement shall be the date stipulated at the beginning of this Agreement. This Agreement shall expire three (3) years from the effective date unless extended in writing by both parties or terminated sooner by a Party giving thirty (30) days written notice to the other party.

(13) This Non-Disclosure Agreement shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the Parties represent and warrant that this Agreement is executed by duly authorized representatives of each Party as set forth below on the date first stated above.

Science Applications International Corporation		**VirnetX Inc.**	
Signature:	/s/ Sean M. Goodwin	Signature:	/s/ Kendall Larsen
Name:	Sean M. Goodwin	Name:	Kendall Larsen
Title:	Contracts Manager	Title:	President
Address:	1710 SAIC Drive MS T1-11-3 McLean, VA 22102	Address:	157 Provincetown Ct. Aptos, CA, 95003
Telephone:	(703) 676-8015	Telephone:	831-685-0117
FAX No.:	(703) 676-8320	FAX No.:	831-685-0117

Exhibit 10.9

STANDARD OFFICE/MULTI-TENANT LEASE – NNN

by and between

GRANITE CREEK BUSINESS CENTER

(“Landlord”)

and

VirnetX, INC.

(“Tenant”)

For the approximately 995 sq. ft. premises at
5615 Scotts Valley Drive, Suite 110, Scotts Valley, California

TABLE OF CONTENTS

		Page
1.	PARTIES	1
2.	PREMISES	1
3.	DEFINITION	1
	A. Alterations	1
	B. Building	1
	C. Commencement Date	1
	D. Common Area	1
	E. HVAC	1
	F. Interest Rate	1
	G. Landlord’s Agents	1
	H. Monthly Rent	1
	I. Outside Area	1
	J. Project	2
	K. Real Property Taxes	2
	L. Rent	2
	M. Security Deposit	2
	N. Sublet	2
	O. Subrent	2
	P. Subtenant	2
	Q. Tenant Improvements	2
	R. Tenant Improvements Allowance	2
	S. Tenant’s Percentage	2
	T. Tenant’s Personal Property	3
	U. Term	3
	V. Consent	3
4.	LEASE TERM	3
	A. Term	3
	B. Early Entry	3
5.	RENT	3
	A. Monthly Rent	3
	B. Additional Rent	4
6.	LATE PAYMENT CHARGES	4
7.	SECURITY DEPOSIT	4
8.	HOLDING OVER	4
9.	TENANT IMPROVEMENTS	5
10.	CONDITION OF PREMISES	5
11.	USE OF THE PREMISES	5
	A. Tenant’s Use	5
	B. Compliance	5
12.	QUIET ENJOYMENT	6
13.	ALTERATIONS	6
14.	SURRENDER OF THE PREMISES	6
15.	REAL PROPERTY TAXES	7
	A. Payment by Tenant	7
	B. Taxes on Tenant Improvements and Personal Property	7
	C. Proration	8
16.	UTILITIES AND SERVICES	8
17.	REPAIR AND MAINTENANCE	8
	A. Landlord’s Obligations	8
	B. Tenant’s Obligations	9
	C. Tenant to Pay Expenses	9
	D. Monthly Payments	9
	E. Compliance with Governmental Regulations	10
18.	LIENS	10
19.	LANDLORD’S RIGHT TO ENTER THE PREMISES	10
20.	SIGNS	10

21. INSURANCE 11

A. Indemnification 11
B. Tenant's Insurance 11
C. Premises Insurance 11
D. Increased Coverage 12
E. Co-Insurer 12
F. Insurance Requirements 12
G. Landlord's Disclaimer 12

22. WAIVER OF SUBROGATION 12

23. DAMAGE OR DESTRUCTION 13

A. Landlord's Obligation to Rebuild 13
B. Right to Terminate 13
C. Limited Obligation to Repair 13
D. Abatement of Rent 14
E. Damage Near End of Term 14

24. CONDEMNATION 14

25. ASSIGNMENT AND SUBLETTING 15

A. Landlord's Consent 15
B. Information to be Furnished 15
C. Landlord's Alternatives 15
D. Exempt Sublets 15

26. DEFAULT 15

A. Tenant's Default 15
B. Remedies 16
C. Landlord's Default 17

27. SUBORDINATION 17

28. ESTOPPEL CERTIFICATES 18

29. TRANSFER OF THE BUILDING OR THE PROJECT BY LANDLORD 19

30. LANDLORD'S RIGHT TO PERFORM TENANT'S COVENANTS 19

31. TENANT'S REMEDY 19

32. MORTGAGEE PROTECTION 19

33. BROKERS 19

34. MODIFICATIONS FOR LENDER 19

35. PARKING 20

36. GENERAL 20

A. Notices 20
B. Attorneys' Fees 20
C. Acceptance 20
D. Captions 20
E. Executed Copy 20
F. Time 20
G. Separability 20
H. Choice of Law 21
I. Gender; Singular, Plural 21
J. Binding Effect 21
K. Waiver 21
L. Entire Agreement 21
M. Authority 21
N. Exhibits 21
O. Lease Summary 21

Exhibits 24

LEASE AGREEMENT

1. **Parties**. THIS LEASE (the "Lease"), dated March 15, 2006 is entered into by and between Granite Creek Business Center, a California general partnership ("Landlord"), whose address is c/o Toeniskoetter & Breeding, Inc., Development, 1960 The Alameda, San Jose, CA 95126 and VirnetX Inc., a Delaware Corporation ("Tenant"), whose address is 157 Provincetown Court, Aptos, California 95003.

2. **Premises**. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord those certain premises consisting of approximately nine hundred ninety-five (995) rentable square feet, as shown in EXHIBIT A (the "Premises") in that certain building, commonly known as 5615 Scotts Valley Drive (the "Building"), as further defined in Paragraph 3.B., in the City of Scotts Valley (the "City"), County of Santa Cruz, (the "County"), California, together with a right in common to the Common Area as defined in Paragraph 3.D., and a right in common to the Outside Area, as defined in Paragraph 3.1. Tenant's right to use the Common Area and Outside Area shall be a right in common with other tenants of the Building.

3. **Definition**. The following terms shall have the following meanings in this Lease:

A. Alterations. Any alterations, additions or improvements made in, on or about the Building or the Premises after the Commencement Date.

B. Building. That certain building on the Project consisting of approximately thirty-two thousand (32,000) rentable square feet.

C. Commencement Date. The Commencement Date of this Lease shall be the first day of the Term determined in accordance with Paragraph 4.A.

D. Common Area. All areas and facilities within the Building provided and designated by Landlord for the general use and convenience of Tenant and other tenants and occupants of any part of the Building, subject to the reasonable rules and regulations and changes therein from time to time promulgated by Landlord governing the use of the Common Area.

E. HVAC. Heating, ventilating and air conditioning.

F. Interest Rate. Twelve percent (12%) per annum, however, in no event to exceed the maximum rate of interest permitted by law.

G. Landlord's Agents. Landlord's authorized agents, partners, subsidiaries, directors, officers, and employees.

H. Monthly Rent. The rent payable pursuant to Paragraph 5.A., as adjusted from time to time pursuant to the terms of this Lease.

I. Outside Area. All areas and facilities within the Project, exclusive of the interior of the Building and the Adjacent Buildings, provided and designated by Landlord for the general use and convenience of Tenant and other tenants and occupants of the Project, subject to the reasonable rules and regulations and changes therein from time to time promulgated by Landlord governing the use of the Outside Area.

J. Project. That certain real property described in EXHIBIT B consisting of approximately 5.35 acres, upon which are located the Building, together with two (2) buildings of approximately fifty-eight thousand (58,000) total rentable square feet (the "Adjacent Buildings").

K. Real Property Taxes. Any form of assessment, property tax, fee, rent tax, or penalty (if a result of Tenant's delinquency), imposed by any authority having the direct or indirect power to tax, or by any city, county, state or federal government or any improvement or other district or division thereof, whether such tax is: (i) determined by the area of the Project or any part thereof or the rent and other sums payable hereunder by Tenant or by other tenants; (ii) upon any legal or equitable interest of Landlord in the Project or the Premises or any part thereof; (iii) upon this transaction or any document to which Tenant is a party creating or transferring any interest in the Project; (iv) levied or assessed in lieu of, in substitution for, or in addition to, existing or additional taxes against the Project whether or not now customary or within the contemplation of the partie s; or (v) surcharged against the parking area.

L. Rent. Monthly Rent plus the Additional Rent defined in Paragraph 5.B.

M. Security Deposit. That amount paid by Tenant pursuant to Paragraph 7.

N. Sublet. Any transfer, sublet, assignment, license or concession agreement, change of ownership, mortgage, or hypothecation of this Lease or the Tenant's interest in the Lease or in and to all or a portion of the Premises.

O. Subrent. Any consideration of any kind received, or to be received, by Tenant from a subtenant if such sums are related to Tenant's interest in this Lease or in the Premises, including, but not limited to, bonus money and payments (in excess of book value) for Tenant's assets.

P. Subtenant. The person or entity with whom a Sublet agreement is proposed to be or is made.

Q. Tenant Improvements. Those certain improvements to the Premises to be constructed by Landlord pursuant to Paragraph 9.

R. Tenant Improvements Allowance. That allowance to be provided by Landlord for construction of the Tenant Improvements.

S. Tenant's Percentage.

(i) Tenant's Building Percentage. The percentage of the area of the Premises to the total area of the Building. Tenant's Building Percentage is agreed to be three and 11/100 percent (3.11%) for the purpose of this Lease.

(ii) Tenant's Project Percentage. The percentage of the area of the Premises to the total area of all of the buildings on the Project. Tenant's Project Percentage is agreed to be one and 11/100 percent (1.11%) for the purpose of this Lease.

T. Tenant's Personal Property. Tenant's trade fixtures, furniture, equipment and other personal property in the Premises.

U. Term. The term of this Lease set forth in Paragraph 4.A., as it may be extended hereunder pursuant to any options to extend granted herein.

V. Consent. Where consent is required herein by either party, such consent shall not be unreasonably withheld or delayed.

4. Lease Term.

A. Term. The Term of this Lease shall be twelve (12) months, commencing April 1, 2006 (the "Commencement Date") and ending March 31, 2007, subject to any sooner termination of this Lease pursuant to the terms hereof. Tenant agrees that if Landlord, for any reason whatsoever, is unable to deliver possession of the Premises by April 1, 2006, Landlord shall not be liable to Tenant for any loss or damage therefrom, nor shall this Lease be void or voidable. In such event, the Commencement Date, termination date and all other dates of this Lease shall be extended to conform to the date of Landlord's tender of possession of the Premises to Tenant and Tenant shall not be obligated to pay Monthly Rent or other sums due Landlord hereunder until possession of the Premises is tendered to Tenant.

B. Early Entry. If Tenant is permitted to enter the Premises prior to the Commencement Date for the purpose of fixturing or any other purpose permitted by Landlord, such early entry shall be at Tenant's sole risk and subject to all the terms and provisions hereof, except for the payment of Rent, which shall commence on the Commencement Date. Landlord shall have the right to impose such additional conditions on Tenant's early entry as Landlord shall deem appropriate, and shall further have the right to require that Tenant execute an early entry agreement containing such conditions prior to Tenant's early entry.

5. Rent.

A. Monthly Rent. Tenant shall pay to Landlord, in lawful money of the United States, for each calendar month of the Term, net Monthly Rent in advance, on the first day of each calendar month, without abatement, deduction, claim, offset, prior notice or demand in accordance with the schedule set forth below. Additionally, Tenant shall pay, as and with the net Monthly Rent, Tenant's Building Percentage of the estimated monthly Common Area Expenses and Tenant's Project Percentage of the estimated monthly Outside Area Expenses, as set forth in Paragraph 17.C., and Tenant's Building Percentage of the monthly cost of insurance premiums required pursuant to Paragraph 21.C., as adjusted from time to time hereunder. Tenant shall deposit with Landlord upon execution of this Lease One Thousand One Hundred Forty-Four and

25/100 Dollars ($1,144.25) to be applied toward the net Monthly Rent due for the first month of the Term.

Months of Term	Net Monthly Rent
April 1, 2006 - May 31, 2006	$ 0.00 *
June 1, 2006 - October 31, 2006	$1,144.25/month
November 1, 2006 - March 31, 2007	$1,243.75/month

* Triple net expenses to be paid during free rent period

B. Additional Rent. All monies required to be paid by Tenant under this Lease, including, without limitation, Real Property Taxes pursuant to Paragraph 15, Outside Area and Common Area Expenses pursuant to Paragraph 17, and insurance premiums pursuant to Paragraph 21, shall be deemed Additional Rent.

6. Late Payment Charges. Tenant acknowledges that late payment by Tenant to Landlord of Rent and other charges provided for under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of such costs being extremely difficult or impracticable to fix. Therefore, if any installment of Rent or any other charge due from Tenant is not received by Landlord within five (5) days of becoming due, then Tenant shall pay to Landlord an additional sum equal to five percent (5%) of the amount overdue as a late charge. The parties agree that this late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of the late payment by Tenant.

Initials:

Landlord Tenant

7. Security Deposit. Upon execution of this Lease, Tenant shall deposit with Landlord the sum of One Thousand Two Hundred Forty Three and 75/100 Dollars ($1,243.75) as a Security Deposit. The Security Deposit shall be held by Landlord as security for the full and faithful performance of every provision of this Lease to be performed by Tenant. If Tenant defaults with respect to any provision of this Lease, Landlord may apply all or any part of the Security Deposit for the payment of any Rent or other sum in default, the repair of such damage to the Premises or the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default to the full extent permitted by law. If any portion of the Security Depos it is so applied, Tenant shall, within ten (10) days after written demand therefor, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount. If Tenant is not otherwise in default, the Security Deposit or any balance thereof shall be returned to Tenant within thirty (30) days after the later of the termination of the Lease or the surrender of the Premises by Tenant.

8. Holding Over. If Tenant remains in possession of all or any part of the Premises after the expiration of the Term, with the express or implied consent of Landlord, such tenancy shall be month-to-month only and shall not constitute a renewal or extension for any further term. If Tenant remains in possession either with or without Landlord's consent, Monthly Rent shall be increased to an amount equal to one hundred fifty percent (150%) of the Monthly Rent payable during the last month of the Term, and any other sums due under this Lease shall be payable in the amount and at the times specified in this Lease. Such month-to-month tenancy shall be subject to every other term, condition, and covenant contained herein.

9. Tenant Improvements. None – Premises delivered in as-is condition.

10. Condition of Premises. By taking possession of the Premises, Tenant shall be deemed to have accepted the Premises in good, clean and completed condition and repair, subject to all applicable laws, codes and ordinances. Any damage to the Premises caused by Tenant's move-in shall be repaired or corrected by Tenant, at its expense. Tenant acknowledges that neither Landlord nor its Agents have made any representations or warranties as to the suitability or fitness of the Premises for the conduct of Tenant's business or for any other purpose, nor has Landlord or its Agents agreed to undertake any Alterations or construct any Tenant Improvements to the Premises except as expressly provided in this Lease.

11. Use of the Premises.

A. Tenant's Use. Tenant shall use the Premises solely for general office purposes and shall not use the Premises for any other purpose without obtaining the prior written consent of Landlord.

B. Compliance.

(i) Tenant shall not use the Premises or suffer or permit anything to be done in or about the Premises or the Project which will in any way conflict with any law, statute, zoning restriction, ordinance or governmental law, rule, regulation or requirement of public authorities now in force or which may hereafter be in force, relating to or affecting the condition, use or occupancy of the Premises or the Project. Tenant shall not commit any public or private nuisance or any other act or thing which might or would disturb the quiet enjoyment of any other tenant of Landlord or any occupant of nearby property. Tenant shall place no loads upon the floors, walls or ceilings in excess of the maximum designed load determined by Landlord or which endanger the structure; nor place any harmful liquids in the drainage systems; nor dump or store waste materials or refuse or allow such to remain outside the Building proper, except in the enclosed trash areas provided. Tenant shall not store or permit to be stored or otherwise placed any other material of any nature whatsoever outside the building.

(ii) In particular, Tenant, at its sole cost, shall comply with all laws relating to the storage, use and disposal of hazardous, toxic or radioactive matter, including those materials identified in Sections 66680 through 66685 of Title 22 of the California Administrative Code, Division 4, Chapter 30 ("Title 22") as they may be amended from time to time (collectively "Toxic Materials"). If Tenant does store, use or dispose of any Toxic Materials, Tenant shall notify Landlord in writing at least ten (10) days prior to their first appearance on the Premises. Tenant shall be solely responsible for and shall defend, indemnify and hold Landlord and its Agents harmless from and against all claims, costs and liabilities, including attorneys' fees and costs, arising out of or in connection with its storage, use and disposal of Toxic Materials. Tenant shall further be s olely responsible for and shall defend, indemnify and hold Landlord and its Agents harmless from and against any and all claims, costs, and liabilities, including attorneys' fees and costs, arising out of or in connection with the removal, clean-up and restoration work and materials necessary to return the Premises and the Project and any other property of whatever nature to their condition existing prior to the appearance of the Toxic Materials on the Premises. Tenant's obligations hereunder shall survive the termination of this Lease.

12. Quiet Enjoyment. Landlord covenants that Tenant, upon performing the terms, conditions and covenants of this Lease, shall have quiet and peaceful possession of the Premises as against any person claiming the same by, through or under Landlord.

13. Alterations. After the Commencement Date, Tenant shall not make or permit any Alterations in, on or about the Premises, except for nonstructural Alterations that do not impact the Building systems nor exceed One Thousand Dollars ($1,000.00) in cost, without the prior written consent of Landlord, and according to plans and specifications approved in writing by Landlord, which consent shall not be unreasonably withheld. Notwithstanding the foregoing Tenant shall not, without the prior written consent of Landlord, make any: (i) Alterations to the exterior of the Building; (ii) Alterations to and penetrations of the roof of the Building; and (iii) Alterations visible from outside the Premises, including the Common Area, to which Landlord may withhold Landlord's consent on wholly aesthetic grounds.

All Alterations shall be installed at Tenant's sole expense, in compliance with all applicable laws, by a licensed contractor, shall be done in a good and workmanlike manner conforming in quality and design with the Premises existing as of the Commencement Date, and shall not diminish the value of either the Building or the Premises. All Alterations made by Tenant shall be and become the property of Landlord upon installation and shall not be deemed Tenant's Personal Property; provided, however, that if Landlord informed Tenant at the time of its approval of any Alterations that Tenant would be required to remove such Alterations from the Premises at the expiration or sooner termination of this Lease, then Tenant shall, at Tenant's expense, remove such Alterations from the Premises at the expiration or sooner termination of this Lease and restore the Premises to their condition existing prior to the installation of such Alterations. Notwithstanding any other provision of this Lease, Tenant shall be solely responsible for the maintenance and repair of any and all Alterations made by it to the Premises. Tenant shall give Landlord written notice of Tenant's intention to perform work on the Premises at least twenty (20) days prior to the commencement of such work to enable Landlord to post and record a Notice of Nonresponsibility or other notice deemed proper before the commencement of any such work.

14. Surrender of the Premises. Upon the expiration or earlier termination of the Term, Tenant shall surrender the Premises to Landlord in its condition existing as of the Commencement Date, normal wear and tear and fire or other casualty excepted, with all interior

walls repaired if damaged, all carpets shampooed and cleaned, all broken, marred or nonconforming acoustical ceiling tiles replaced, all windows washed, the plumbing and electric systems and lighting in good order and repair, including replacement of any burned out or broken light bulb or ballasts, and all floors cleaned and waxed, all to the reasonable satisfaction of Landlord. Tenant shall remove from the Premises all of Tenant's Alterations required to be removed pursuant to Paragraph 13 and all Tenant's Personal Property, and repair any damage and perform any restoration work caused by such removal. &n bsp;If Tenant fails to remove such Alterations and Tenant's Personal Property, and such failure continues after the termination of this Lease, Landlord may retain such property and all rights of Tenant with respect to it shall cease, or Landlord may place all or any portion of such property in public storage for Tenant's account. Tenant shall be liable to Landlord for costs of removal of any such Alterations and Tenant's Personal Property and storage and transportation costs of same, and the cost of repairing and restoring the Premises, together with interest at the Interest Rate from the date of expenditure by Landlord. If the Premises are not so surrendered at the termination of this Lease, Tenant shall indemnify Landlord and its Agents against all loss or liability, including attorneys' fees and costs, resulting from delay by Tenant in so surrendering the Premises.

Normal wear and tear, for the purposes of this Lease, shall be construed to mean wear and tear caused to the Premises by a natural aging process which occurs in spite of prudent application of the best standards for maintenance, repair, and janitorial practices. It is not intended, nor shall it be construed, to include items of neglected or deferred maintenance which would have or should have been attended to during the Term of the Lease if the best standards had been applied to properly maintain and keep the Premises at all times in good condition and repair.

15. Real Property Taxes.

A. Payment by Tenant. On or before April 1 and December 1 of each calendar year during the Term, Tenant shall pay to Landlord, as Additional Rent, Tenant's Project Percentage of all Real Property Taxes as set forth on the County assessor's tax statement for the Project. Landlord shall give Tenant at least fifteen (15) days' prior written notice of the amount so due. Upon Landlord's receipt of the Real Property Tax payment from Tenant and other tenants of the Property, Landlord shall pay the taxes to the County. If Tenant fails to pay Tenant's Project Percentage of the Real Property Taxes on or before April 1 and December 1, respectively, Tenant shall pay to Landlord any penalty incurred by such late payment. Tenant shall pay Tenant's Project Percentage of any Real Property Tax not included within the County tax assessor's tax stat ement within thirty (30) days after being billed for same by Landlord. The foregoing dates are based on the dates established by the County as the dates on which Real Property Taxes become delinquent if not paid. If such delinquency dates change, the dates on which Tenant must pay Tenant's Project Percentage of such taxes shall be at least ten (10) days prior to the delinquency dates. Notwithstanding the foregoing, at any time, upon prior written notice to Tenant, Landlord shall have the right to require that Tenant pay one-twelfth (1/12th) of the Real Property Taxes payments to Landlord directly, on the first (1st) day of each calendar month. Assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such purposes as fire protection, street, sidewalk, road, utility construction and maintenance, refuse removal and for other governmental services which may formerly have been provided without charge to property owners or occupants. It is the inte ntion of the parties that all new and increased assessments, taxes, fees, levies and charges are to be included within the definition of Real Property Taxes for purposes of this Lease.

B. Taxes on Tenant Improvements and Personal Property. Tenant shall pay any increase in Real Property Taxes resulting from any and all Alterations and Tenant Improvements of any kind whatsoever placed in, on or about the Premises for the benefit of, at the request of, or by Tenant. Tenant shall pay prior to delinquency all taxes assessed or levied against Tenant's Personal Property in, on or about the Premises or elsewhere. When possible, Tenant shall cause its Personal Property to be assessed and billed separately from the real or personal property of Landlord.

C. Proration. Tenant's liability to pay Real Property Taxes shall be prorated on the basis of a 365-day year to account for any fractional portion of a fiscal tax year included at the commencement or expiration of the Term. With respect to any assessments which may be levied against or upon the Property, or which under the laws then in force may be evidenced by improvements or other bonds or may be paid in annual installments, only the amount of such annual installment (with appropriate proration for any partial year) and interest due thereon shall be included within the computation of the annual Real Property Taxes levied against the Premises.

16. Utilities and Services. Tenant shall be responsible for and shall pay promptly all charges for water, gas, electricity, telephone, refuse pickup, janitorial service and all other utilities,

materials and services furnished directly to or used by Tenant in, on or about the Premises during the Term, together with any taxes thereon. If such utilities are not separately metered to the Premises, Landlord shall bill Tenant for Tenant's pro rata share based on Tenant's Building Percentage or other equitable basis as determined by Landlord. Landlord shall not be liable in damages or otherwise for any failure or interruption of any utility service or other service furnished to the Premises, except that resulting from the willful misconduct of Landlord.

17. Repair and Maintenance.

A. Landlord's Obligations. Landlord shall keep in good order, condition and repair, at Landlord's sole cost and expense, the roof membrane and the structural parts of the Building, which structural parts include only the foundation, subflooring, roof structure, exterior walls and exterior plumbing, except that any damage thereto caused by the negligence or willful misconduct of Tenant or Tenant's agents, employees or invitees, or by reason of the failure of Tenant to perform or comply with any terms of this Lease, or caused by Alterations made by Tenant or by Tenant's agents, employees or contractors, shall be repaired at Tenant's expense. Landlord shall also maintain in good order, condition and repair the Common Areas of the Building and the Outside Area of the Project and Tenant shall reimburse Landlord for the cost thereof as provided in Paragraphs 17.C and 17.D. The manner in which the Common Area and the Outside Area shall be maintained and the expenditures therefor shall be at the sole discretion of Landlord. Landlord shall at all times have exclusive control of the Common Area and Outside Area and may at any time temporarily close any part thereof, exclude and restrain anyone from any part thereof, except the bona fide customers, employees and invitees of Tenant who use the Common Area and Outside Area in accordance with the rules and regulations as Landlord may from time to time promulgate, and may change the configuration or location of the Common Area and Outside Area. In exercising any such rights, Landlord shall make a reasonable effort to minimize any disruption of Tenant's business. Tenant waives the provisions of Sections 1941 and 1942 of the California Civil Code and any similar or successor law regarding Tenant's right to make repairs and deduct the expenses of such repairs from the Rent due under this Lease.< /P>

B. Tenant's Obligations. Tenant shall at all times and at its own expense clean, keep and maintain in good order, condition and repair every part of the Premises which is not within Landlord's obligation pursuant to Paragraph 17.A. Tenant's repair and maintenance obligations shall include, all plumbing and sewage facilities within the Premises, fixtures, interior walls and ceiling, floors, windows, doors, entrances, plateglass, showcases, skylights, all electrical facilities and equipment, including lighting fixtures, lamps, fans and any exhaust equipment and systems, any automatic fire extinguisher equipment within the Premises, electrical motors and all other appliances and equipment of every kind and nature located in, upon or about the Premises. Tenant shall also be responsible for all pest control within the Premises.

C. Tenant to Pay Expenses. Tenant shall pay, as Additional Rent, Tenant's Building Percentage of all reasonable costs and expenses paid or incurred by Landlord during the Term in operating, maintaining, repairing and replacing the Common Area (the "Common Area Expenses"), and Tenant's Project Percentage of all reasonable costs and expenses paid or incurred by Landlord in operating, maintaining, repairing and replacing the Outside Area (the "Outside Area Expenses"). The Common Area Expenses and Outside Area Expenses may include, as appropriate, the cost of labor, materials, supplies and services used or consumed in operating, maintaining, repairing and replacing the HVAC system, Common Area lighting, the Building elevator, if any, and the Outside Area, including landscaping and sprinkler systems, concrete walkways and paved parking areas; maintaining and repairing signs and site lighting; all utilities provided to the Building and the Outside Area; any alterations or improvements required by governmental authority to comply with applicable laws (excluding, however, any alterations or improvements required by the Americans with Disabilities Act); the cost of maintaining, repairing and replacing exterior windows; and a management fee. Any Common Area Expenses or Outside Area Expense that constitute capital expenditures shall be amortized over their useful life in accordance with generally accepted accounting principles.

D. Monthly Payments. From and after the Commencement Date, Tenant shall pay to Landlord on the first day of each calendar month of the Term an amount estimated by Landlord to be Tenant's Building Percentage of the monthly Common Area Expenses and Tenant's Project Percentage of the monthly Outside Area Expenses. The foregoing estimated monthly charges may be adjusted by Landlord at the end of any calendar quarter on the basis of Landlord's experience and reasonably anticipated costs. Any such adjustment shall be effective as of the calendar month next succeeding receipt by Tenant of written notice of such adjustment. Within one hundred twenty (120) days following the end of each calendar year Landlord shall furnish Tenant a statement of the actual Common Area Expenses and Outside Area Expenses ("Actual Expenses") for the calendar year and the paym ents made by Tenant with respect to such period. If Tenant's payments for the Common Area Expenses or the Outside Area Expenses, as the case

may be, do not equal the amount of the Actual Expenses, Tenant shall pay Landlord the deficiency within ten (10) days after receipt of such statement. If Tenant's payments exceed the Actual Expenses, Landlord shall either offset the excess against the Common Area Expenses or Outside Area Expenses, as appropriate, next thereafter to become due to Landlord, or shall refund the amount of the overpayments to Tenant, in cash, as Landlord shall elect. There shall be appropriate adjustments of the Common Area Expenses and Outside Area Expenses as of the Commencement Date and expiration of the Term.

E. Compliance with Governmental Regulations. Tenant shall, at its cost, comply with all present and future regulations, rules, laws, ordinances, and requirements of all governmental authorities (including, without limitation state, municipal, County and federal governments and their departments, bureaus, boards and officials) arising from Tenant's use or occupancy of the Premises.

18. Liens. Tenant shall keep the Building and the Project free from any liens arising out of any work performed, materials furnished or obligations incurred by or on behalf of Tenant and hereby indemnifies and holds Landlord and its Agents harmless from all liability and cost, including attorneys' fees and costs, in connection with or arising out of any such lien or claim of lien. Tenant shall cause any such lien imposed to be released of record by payment or posting of a proper bond acceptable to Landlord within ten (10) days after written request by Landlord. Tenant shall give Landlord written notice of Tenant's intention to perform work on the Premises which might result in any claim of lien at least ten (10) days prior to the commencement of such work to enable Landlord to post and record a Notice of Nonresponsibility. If Tenant fails to so remove any such lien within the prescribed ten (10) day period, then Landlord may do so at Tenant's expense and Tenant shall reimburse Landlord for such amounts upon demand. Such reimbursement shall include all costs incurred by Landlord including Landlord's reasonable attorneys' fees with interest thereon at the Interest Rate.

19. Landlord's Right to Enter the Premises. Tenant shall permit Landlord and its Agents to enter the Premises at all reasonable times with reasonable notice, except for emergencies in which case no notice shall be required, to inspect the same, to post Notices of Nonresponsibility and similar notices, and "For Sale" signs, to show the Premises to interested parties such as prospective lenders and purchasers, to make necessary repairs, to discharge Tenant's obligations hereunder when Tenant has failed to do so within a reasonable time after written notice from Landlord, and at any reasonable time within one hundred and eighty (180) days prior to the expiration of the Term, to place upon the Building and the Outside Area ordinary "For Lease" signs and to show the Premises to prospective tenants. The above rights are subject to reasonable security re gulations of Tenant, and to the requirement that Landlord shall at all times act in a manner to cause the least possible interference with Tenant's business.

20. Signs. Landlord shall provide Tenant space for Tenant's identification sign on an exterior monument sign in the Outside Area in common with other tenants of the Project and shall provide Tenant with Building-standard signage at the entrance to the Premises and a listing in the Building directory. Tenant shall have no right to maintain any Tenant identification sign in any other location in, on or about the Building or the Project, and shall not display or erect any other Tenant identification sign, display or other advertising material that is visible from the exterior of the Building. The size, design, color and other physical aspects of Tenant's monument signage shall be subject to Landlord's written approval prior to installation. Tenant shall pay all costs associated with Tenant's monument signage, including installation, maintenance, re pair and removal. Upon the expiration or sooner termination of this Lease, Tenant shall remove its signage from the monument sign and repair any damage to the monument sign caused by the installation and/or removal of Tenant's sign. If Tenant fails to maintain its sign, or, if Tenant fails to remove its sign upon termination of this Lease and repair any damage to the monument sign as required herein, Landlord may do so at Tenant's expense.

21. Insurance.

A. Indemnification. Tenant hereby agree to defend, indemnify and hold harmless Landlord and its Agents from and against any and all damage, loss, liability or expense including attorneys' fees and legal costs suffered directly or by reason of any claim, suit or judgment brought by or in favor of any person or persons for damage, loss or expense due to, but not limited to, bodily injury and property damage sustained by such person or persons which arises out of, is occasioned by or in any way attributable to the use or occupancy of the Premises or the Project or any part thereof and adjacent areas by Tenant, the acts or omissions of the Tenant, its agents, employees or any contractors brought onto the Premises or the Project by Tenant, except to the extent caused by the gross negligence or willful misconduct of Landlord or its Agents. Tenant agrees that the obligations assumed h erein shall survive this Lease.

B. Tenant's Insurance. Tenant agrees to maintain in full force and effect at all times during the Term, at its own expense, for the protection of Tenant and Landlord, as their interests

may appear, policies of insurance issued by a responsible carrier or carriers which afford the following coverages:

(i) Commercial general liability insurance in an amount not less than Two Million and no/100th Dollars ($2,000,000.00) combined single limit for both bodily injury and property damage which includes blanket contractual liability broad form property damage, personal injury, completed operations, products liability, and fire damage legal (in an amount not less than Fifty Thousand Dollars ($50,000)), naming Landlord and its Agents as additional insureds.

(ii) Special form property insurance (including, without limitation, vandalism, malicious mischief, inflation endorsement, and sprinkler leakage endorsement) on Tenant's Personal Property located on or in the Premises. Such insurance shall be in the full amount of the replacement cost, as the same may from time to time increase as a result of inflation or otherwise, and shall be in a form providing coverage comparable to the coverage provided in the standard ISO All-Risk form. As long as this Lease is in effect, the proceeds of such policy shall be used for the repair and replacement of such items so insured. Landlord shall have no interest in the insurance proceeds on Tenant's Personal Property.

(iii) Boiler and machinery insurance, including steam pipes, pressure pipes, condensation return pipes and other pressure vessels and HVAC equipment, including miscellaneous electrical apparatus, in an amount satisfactory to Landlord.

C. Premises Insurance. During the Term Landlord shall maintain special form property insurance (including inflation endorsement, sprinkler leakage endorsement, and, at Landlord's option, earthquake and flood coverage) on the Building and the Adjacent Building(s), excluding coverage of all Tenant's Personal Property located on or in the Premises, but including the Tenant Improvements, if any are provided for in Paragraph 9 of this Lease. Such insurance shall also include insurance against loss of rents, including, at Landlord's option, earthquake and flood, in an amount equal to the Monthly Rent and Additional Rent, and any other sums payable under the Lease, for a period of at least twelve (12) months commencing on the date of loss. Such insurance shall name Landlord and its Agents as named insureds and include a lender's loss payable endorsement in favor o f Landlord's lender (Form 438 BFU Endorsement). Tenant shall reimburse Landlord for Tenant's Project Percentage of Landlord's annual cost of such insurance as Additional Rent, monthly on the first day of each calendar month of the Term, prorated for any partial month, or on such other periodic basis as Landlord shall elect. If the Project insurance premiums are increased after the Commencement Date, due to an increase in the value of the Building or the Adjacent Building(s) or their replacement cost, Tenant shall pay Tenant's Percentage of such increase within ten (10) days of notice of such increase. If such insurance premiums are increased due to Tenant's use of the Premises, improvements installed by Tenant, or any other cause solely attributable to Tenant, Tenant shall be required to pay the full amount of the increase.

D. Increased Coverage. Upon demand, Tenant shall provide Landlord, at Tenant's expense, with such increased amount of existing insurance, and such other insurance as Landlord or Landlord's lender may reasonably require to afford Landlord and Landlord's lender adequate protection.

E. Co-Insurer. If, on account of the failure of Tenant to comply with the foregoing provisions, Landlord is adjudged a co-insurer by its insurance carrier, then, any loss or damage, Landlord shall sustain by reason thereof, including attorneys' fees and costs, shall be borne by Tenant and shall be immediately paid by Tenant upon receipt of a bill therefor and evidence of such loss.

F. Insurance Requirements. All insurance shall be in a form satisfactory to Landlord and shall be carried with companies that have a general policy holder's rating of not less than "A" and a financial rating of not less than Class "X" in the most current edition of Best's Insurance Reports; shall provide that such policies shall not be subject to material alteration or cancellation except after at least thirty (30) days' prior written notice to Landlord; and shall be primary as to Landlord. The policy or policies, or duly executed certificates for them, together with satisfactory evidence of payment of the premium thereon shall be deposited with Landlord prior to the Commencement Date, and upon renewal of such policies, not less than thirty (30) days prior to the expiration of the term of such coverage. If Tenant fails to procure an d maintain the insurance required hereunder, Landlord may, but shall not be required to, order such insurance at Tenant's expense and Tenant shall reimburse Landlord. Such reimbursement shall include all costs incurred by Landlord including Landlord's reasonable attorneys' fees, with interest thereon at the Interest Rate.

G. Landlord's Disclaimer. Landlord and its Agents shall not be liable for any loss or damage to persons or property resulting from fire, explosion, falling plaster, glass, tile or

sheetrock, steam, gas, electricity, water or rain which may leak from any part of the Building, or from the pipes, appliances or plumbing works therein or from the roof, street or subsurface, or from any cause whatsoever, unless caused by or due to the sole negligence or willful acts of Landlord. Landlord and its Agents shall not be liable for any latent defect in the Premises. Tenant shall give prompt written notice to Landlord in case of a casualty, accident or repair needed in the Premises.

22. **Waiver of Subrogation**. Landlord and Tenant each hereby waive all rights of recovery against the other on account of loss or damage occasioned to such waiving party for its property or the property of others under its control to the extent that such loss or damage is insured against under any property policy then in effect or would be insured against under a standard ISO special form causes of loss, CP 0030, policy of insurance. Tenant and Landlord shall, upon obtaining policies of insurance required hereunder, give notice to the insurance carrier that the foregoing mutual waiver of subrogation is contained in this Lease and Tenant and Landlord shall cause each insurance policy obtained by such party to provide that the insurance company waives all right of recovery by way of subrogation against either Landlord or Tenant in connection with any damage covered by such policy.

23. **Damage or Destruction**.

A. Landlord's Obligation to Rebuild. If the Premises or the Building is damaged or destroyed, Landlord shall promptly and diligently repair the same unless it has the right to terminate this Lease as provided herein and it elects to so terminate.

B. Right to Terminate. Landlord shall have the right to terminate this Lease in the event any of the following events occur:

(i) Insurance proceeds together with such sums which Tenant may in its sole discretion elect to contribute toward the cost of such repair are not available to pay one hundred percent (100%) of the cost of such repair; excluding Tenant's pro rata share of the deductible for which Tenant shall be responsible;

(ii) The Premises or the Building cannot, with reasonable diligence, be fully repaired by Landlord within one hundred eighty (180) days after the date of the damage or destruction; or

(iii) The Premises or Building cannot be safely repaired because of the presence of hazardous factors, including, but not limited to, earthquake faults, radiation, chemical waste and other similar dangers.

If Landlord elects to terminate this Lease, Landlord may give Tenant written notice of its election to terminate within thirty (30) days after such damage or destruction, and this Lease shall terminate fifteen (15) days after the date Tenant receives such notice. If Landlord elects not to terminate the Lease, Landlord shall promptly, following the date of such damage or destruction, commence the process of obtaining necessary permits and approvals, and shall commence repair of the Premises or the Building as soon as practicable and thereafter prosecute the same diligently to completion, in which event this Lease will continue in full force and effect. All insurance proceeds from insurance under Paragraph 21., excluding proceeds for Tenant's Personal Property, shall be disbursed and paid to Landlord. Tenant shall be required to pay to Landlord the amount of any deductibles payable in connection with any insured casualties, unless the casualty was caused by the sole negligence or willful misconduct of Landlord.

C. Limited Obligation to Repair. Landlord's obligation, should it elect or be obligated to repair or rebuild, shall be limited to the basic Premises, the Tenant Improvements, or the basic Building, as the case may be.

D. Abatement of Rent. Rent shall be temporarily abated proportionately during any period when, by reason of such damage or destruction, Landlord reasonably determines that there is substantial interference with Tenant's use of the Premises, having regard to the extent to which Tenant may be required to discontinue Tenant's use of the Premises. Such abatement shall commence upon such damage or destruction and end upon substantial completion by Landlord of the repair or reconstruction which Landlord is obligated or undertakes to do. Tenant shall not be entitled to any compensation or damages from Landlord for loss of the use of the Premises, damage to Tenant's Personal Property or any inconvenience occasioned by such damage, repair or restoration. Tenant hereby waives the provisions of Section 1932, Subdivision 2, and Section 1933, Subdivision 4, of the California Civil Code, and the provisions of any similar law hereinafter enacted.

E. Damage Near End of Term. Anything herein to the contrary notwithstanding, if the Premises or the Building is destroyed or damaged during the last twelve (12) months of the

Term, then Landlord may, at its option, cancel and terminate this Lease as of the date of the occurrence of such damage. If Landlord does not elect to so terminate this Lease, the repair of such damage shall be governed by Paragraphs 23.A. and 23.B.

24. **Condemnation**. If title to all of the Premises or Building or so much thereof is taken for any public or quasi-public use under any statute or by right of eminent domain so that reconstruction of the Premises or Building will not, in Landlord's and Tenant's mutual opinion, result in the Premises being reasonably suitable for Tenant's continued occupancy for the uses and purposes permitted by this Lease, this Lease shall terminate as of the date that possession of the Premises or Building or part thereof be taken. A sale by Landlord to any authority having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed a taking under the power of eminent domain for all purposes of this paragraph.

If any part of the Premises or Building is taken and the remaining part is reasonably suitable for Tenant's continued occupancy for the purposes and uses permitted by this Lease, this Lease shall, as to the part so taken, terminate as of the date that possession of such part of the Premises or Building is taken. The Rent and other sums payable hereunder shall be reduced in the same proportion that Tenant's use and occupancy of the Premises is reduced. If any portion of the Common Area or Outside Area is taken, Tenant's Rent shall be reduced only if such taking materially interferes with Tenant's use of the Common Area or Outside Area and then only to the extent that the fair market rental value is diminished by such partial taking. If the parties disagree as to the amount of Rent reduction, the matter shall be resolved by arbitration and such arbitration shall comply with and be governed by the California Arbitration Act, Sections 1280 through 1294.2 of the California Code of Civil Procedure. Each party hereby waives the provisions of Section 1265.130 of the California Code of Civil Procedure allowing either party to petition the Superior Court to terminate this Lease in the event of a partial taking of the Property or Premises.

No award for any partial or entire taking shall be apportioned. Tenant assigns to Landlord its interest in any award which may be made in such taking or condemnation, together with any and all rights of Tenant arising in or to the same or any part thereof. Nothing contained herein shall be deemed to give Landlord any interest in or require Tenant to assign to Landlord any separate award made to Tenant for the taking of Tenant's Personal Property, for the interruption of Tenant's business, or its moving costs, or for the loss of its good will.

25. **Assignment and Subletting**.

A. Landlord's Consent. Tenant shall not enter into a Sublet without Landlord's prior written consent, which consent shall not be unreasonably withheld. Any attempted or purported Sublet without Landlord's prior written consent shall be void and confer no rights upon any third person and, at Landlord's election, shall terminate this Lease. Each subtenant shall agree in writing, for the benefit of Landlord, to assume, to be bound by, and to perform the terms, conditions and covenants of this Lease to he performed by Tenant. Notwithstanding anything contained herein, Tenant shall not be released from personal liability for the performance of each term, condition and covenant of this Lease by reason of Landlord's consent to a Sublet unless Landlord specifically grants such release in writing.

B. Information to be Furnished. If Tenant desires at any time to Sublet the Premises or any portion thereof, it shall first notify Landlord of its desire to do so and shall submit in writing to Landlord: (i) the name of the proposed Subtenant; (ii) the nature of the proposed Subtenant's business to be carried on in the Premises; (iii) the terms and provisions of the proposed Sublet and a copy of the proposed Sublet form containing a description of the subject premises; and (iv) such financial information, including financial statements, as Landlord may reasonably request concerning the proposed Subtenant.

C. Landlord's Alternatives. Within five (5) days after Landlord's receipt of the information specified in Paragraph 25.B., Landlord shall, by written notice to Tenant, elect: (i) to consent to the Sublet by Tenant; (ii) to refuse its consent to the Sublet, or (iii) to terminate this Lease. If Landlord consents to the Sublet, Tenant may thereafter enter into a valid Sublet of the Premises or portion thereof, upon the terms and conditions and with the proposed Subtenant set forth in the information furnished by Tenant to Landlord pursuant to Paragraph 25.B., subject, however, at Landlord's election, to the condition that any excess of the Subrent over the Rent required to be paid by Tenant under this Lease less reasonable attorneys' fees, brokerage commissions, and tenant improvement costs paid by Tenant in connection with the Sublet, shall be paid to Landlord.

D. Exempt Sublets. Notwithstanding the above, Landlord's prior written consent shall not be required for a Sublet to (i) an entity that controls, is controlled by, or is under common control with, Tenant, or (ii) an entity resulting from a merger with, consolidation or

other corporate reorganization of Tenant, if Tenant gives Landlord prior written notice of the name of any such Subtenant and, in the event of an assignment, the assignee assumes, in writing, for the benefit of Landlord all of Tenant's obligations under this Lease. An assignment or other transfer of this Lease to a purchaser of all or substantially all of the assets of Tenant shall be deemed a Sublet requiring Landlord's prior written consent.

26. Default.

A. Tenant's Default. A default under this Lease by Tenant shall exist if any of the following occurs:

(i) If Tenant fails to pay Rent or any other sum required to be paid hereunder when due; or

(ii) If Tenant fails to perform any term, covenant or condition of this Lease except those requiring the payment of money, and Tenant fails to cure such breach within twenty (20) days after written notice from Landlord where such breach could reasonably be cured within such twenty (20) day period; provided, however, that where such failure could not reasonably be cured within the twenty (20) day period; that Tenant shall not be in default if it commences such performance within the twenty (20) day period and diligently thereafter prosecutes the same to completion; or

(iii) If Tenant assigns its assets for the benefit of its creditors; or

(iv) If the sequestration or attachment of or execution on any material part of Tenant's Personal Property essential to the conduct of Tenant's business occurs, and Tenant fails to obtain a return or release of such Personal Property within thirty (30) days thereafter, or prior to sale pursuant to such sequestration, attachment or levy, whichever is earlier; or

(v) If a court makes or enters any decree or order other than under the bankruptcy laws of the United States adjudging Tenant to be insolvent; or approving as properly filed a petition seeking reorganization of Tenant; or directing the winding up or liquidation of Tenant and such decree or order shall have continued for a period of thirty (30) days.

B. Remedies. Upon a default, Landlord shall have the following remedies, in addition to all other rights and remedies provided by law or otherwise provided in this Lease, to which Landlord may resort cumulatively or in the alternative:

(i) Landlord may continue this Lease in full force and effect, and this Lease shall continue in full force and effect as long as Landlord does not terminate this Lease, and Landlord shall have the right to collect Rent when due.

(ii) Landlord may terminate Tenant's right to possession of the Premises at any time by giving written notice to that effect, and relet the Premises or any part thereof. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in reletting the Premises or any part thereof, including, without limitation, broker's commissions, expenses of cleaning and redecorating the Premises required by the reletting and like costs. Reletting may be for a period shorter or longer than the remaining term of this Lease. No act by Landlord other than giving written notice to Tenant shall terminate this Lease. Acts of maintenance, efforts to relet the Premises or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession. On termination, La ndlord has the right to remove all Tenant's Personal Property and store same at Tenant's cost and to recover from Tenant as damages:

(a) The worth at the time of award of unpaid Rent and other sums due and payable which had been earned at the time of termination; plus

(b) The worth at the time of award of the amount by which the unpaid Rent and other sums due and payable which would have been payable after termination until the time of award exceeds the amount of such Rent loss that Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid Rent and other sums due and payable for the balance of the Term after the time of award exceeds the amount of such Rent loss that Tenant proves could be reasonably avoided; plus

(d) Any other amount necessary which is to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which, in the ordinary course of things, would be likely to result therefrom, including, without limitation, and costs or expenses incurred by Landlord: (i) in retaking possession of the Premises; (ii) in maintaining, repairing, preserving, restoring, replacing,

cleaning, altering or rehabilitating the Premises or any portion thereof, including such acts for reletting to a new tenant or tenants; (iii) for leasing commissions; or (iv) for any other costs necessary or appropriate to relet the Premises; plus

(e) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by the laws of the State of California.

The "worth at the time of award" of the amounts referred to in Paragraphs 26.B(ii)(a) and 26.B(ii)(b) is computed by allowing interest at the Interest Rate on the unpaid rent and other sums due and payable from the termination date through the date of award. The "worth at the time of award" of the amount referred to in Paragraph 26.B(ii)(c) is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other present or future law, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any default of Tenant hereunder.

(iii) Landlord may, with or without terminating this Lease, re-enter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant. No re-entry or taking possession of the Premises by Landlord pursuant to this paragraph shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant.

C. Landlord's Default. Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within thirty (30) days after receipt of written notice by Tenant to Landlord specifying the nature of such default; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed to be in default if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecute the same to completion.

27. Subordination. This Lease is subject and subordinate to ground and underlying leases, mortgages and deeds of trust (collectively "Encumbrances") which may now or hereafter affect the Building or the Project, provided, however, if the holder or holders of any such Encumbrance ("Holder") shall require that this Lease to be prior and superior thereto, within seven (7) days of written request of Landlord to Tenant, Tenant shall execute, have acknowledged and deliver any and all documents or instruments, in the form presented to Tenant, which Landlord or Holder deems necessary or desirable for such purposes. Landlord shall have the right to cause this Lease to be and become and remain subject and subordinate to any and all Encumbrances which are now or may hereafter be executed covering the Premises or any renewals, modifications, consolidations, replacement s or extensions thereof, for the full amount of all advances made or to be made thereunder and without regard to the time or character of such advances, together with interest thereon and subject to all the terms and provisions thereof; provided only, that in the event of termination of any such lease or upon the foreclosure of any such mortgage or deed of trust, so long as Tenant is not in default, Holder agrees to recognize Tenant's rights under this Lease as long as Tenant shall pay the Rent and observe and perform all the provisions of this Lease to be observed and performed by Tenant. Within ten (10) days after Landlord's written request, Tenant shall execute any and all documents required by Landlord or the Holder required to make this Lease subordinate to any lien of the Encumbrance. If Tenant fails to do so, it shall be deemed that this Lease is subordinated.

Notwithstanding anything to the contrary set forth in this paragraph, Tenant hereby attorns and agrees to attorn to any entity purchasing or otherwise acquiring the Building or the Project at any sale or other proceeding or pursuant to the exercise of any other rights, powers or remedies under such Encumbrance.

28. Estoppel Certificates. Tenant shall within seven (7) days following written request by Landlord,

(i) Execute and deliver to Landlord any documents, including estoppel certificates, in the form prepared by Landlord (a) certifying that this Lease is unmodified and in fall force and effect or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect and the date to which the Rent and other charges are paid in advance, if any; (b) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord, or, if there are uncured defaults on the part of the Landlord, stating the nature of such uncured defaults; and (c) evidencing the status of the Lease as may be required either by a lender making a loan to Landlord to be secured by deed of trust or mortgage covering the Building or the Project or a purchaser of the Building or the Project from Landlord. Tenant's failure to deliver an es toppel certificate within seven (7) days after delivery

of Landlord's written request therefor shall be conclusive upon Tenant (a) that this Lease is in full force and effect, without modification except as may be represented by Landlord (b) that there are now no uncured defaults in Landlord's performance and (c) that no Rent has been paid in advance.

(ii) Deliver to Landlord the current financial statements of Tenant, and financial statements of the two (2) years prior to the current financial statements year, with an opinion of a certified public accountant, including a balance sheet and profit and loss statement for the most recent prior year, all prepared in accordance with generally accepted accounting principles consistently applied.

29. **Transfer of the Building or the Project by Landlord**. In the event of any conveyance of the Building or the Project and assignment by Landlord of this Lease, Landlord shall be and is hereby entirely released from all liability under any and all of its covenants and obligations contained in or derived from this Lease occurring after the date of such conveyance and assignment and Tenant agrees to attorn to such transferee provided such transferee assumes Landlord's obligations under this Lease.

30. **Landlord's Right to Perform Tenant's Covenants**. If Tenant shall at any time fail to make any payment or perform any other act on its part to be made or performed under this Lease, Landlord may, but shall not be obligated to and without waiving or releasing Tenant from any obligation of Tenant under this Lease, make such payment or perform such other act to the extent Landlord may deem desirable, and in connection therewith, pay expenses and employ counsel. All sums so paid by Landlord and all penalties, interest and costs in connection therewith shall be due and payable by Tenant on the next day after any such payment by Landlord, together with interest thereon at the Interest Rate from such date to the date of payment by Tenant to Landlord, plus collection costs and attorneys' fees. Landlord shall have the same rights and remedies for the nonpayment t hereof as in the case of default in the payment of Rent.

31. **Tenant's Remedy**. If, as a consequence of a default by Landlord under this Lease, Tenant recovers a money judgment against Landlord, such judgment shall be satisfied only out of the proceeds of sale received upon execution of such judgment and levied thereon against the right, title and interest of Landlord in the Building and out of Rent or other income from such property receivable by Landlord or out of consideration received by Landlord from the sale or other disposition of all or any part of Landlord's right, title or interest in the Building, and neither Landlord nor its agents shall be liable for any deficiency.

32. **Mortgagee Protection**. If Landlord defaults under this Lease, Tenant will notify any beneficiary of a deed of trust or mortgagee of a mortgage covering the Building or the Project, and offer such beneficiary or mortgagee a reasonable opportunity to cure the default, including time to obtain possession of the Building or the Project by power of sale or a judicial foreclosure, if such should prove necessary to effect a cure.

33. **Brokers**. Tenant and Landlord warrants and represents that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease other than JR Parrish, and that it knows of no other real estate broker or agent who is or might be entitled to a commission in connection with this Lease. Tenant agrees to indemnify, defend and hold Landlord and its Agents harmless from and against any and all liabilities or expenses, including attorneys' fees and costs, arising out of or in connection with claims made by any other broker or individual for commissions or fees resulting from Tenant's execution of this Lease.

34. **Modifications for Lender**. If, in connection with obtaining financing for the Building or the Project or any portion thereof, Landlord's lender shall request reasonable modification to this Lease as a condition to such financing, Tenant shall not unreasonably withhold, delay or defer its consent thereto, provided such modifications do not materially adversely affect Tenant's rights hereunder.

35. **Parking**. Tenant shall have the right to use its pro rata share of the Project's parking facilities in common with other tenants of the Project upon terms and conditions, as may from time to time be established by Landlord. Tenant agrees not to overburden the parking facilities and agrees to cooperate with Landlord and other tenants in the use of the parking facilities. Landlord reserves the right in its discretion to determine whether the parking facilities are becoming crowded and to allocate and assign parking spaces among Tenant and the other tenants.

36. **General**.

A. Notices. Any notice or demand required or desired to be given under this Lease shall be in writing and shall be personally served or in lieu of personal service may be given by mail. If given by mail, such notice shall be deemed to have been given when seventy-

two (72) hours have elapsed from the time when such notice was deposited in the United States mail, registered or certified, and postage prepaid, addressed to the party to be served. At the date of execution of this Lease, the addresses of Landlord and Tenant are as set forth in Paragraph 1. After the Commencement Date, the address of Tenant shall be the address of the Premises. All notices shall be served to both the Premises and the address set forth in Paragraph 1. Either party may change its address by giving notice of same in accordance with this paragraph.

B. Attorneys' Fees. If either party brings any action or legal proceeding for damages for an alleged breach of any provision of this Lease, to recover rent, or other sums due, to terminate the tenancy of the Premises or to enforce, protect or establish any term, condition or covenant of this Lease or right of either party, the prevailing party shall be entitled to recover as a part of such action or proceedings, or in a separate action brought for that purpose, reasonable attorneys' fees and costs.

C. Acceptance. This Lease shall only become effective and binding upon full execution hereof by Landlord and delivery of a signed copy to Tenant. Neither party shall record this Lease nor a short form memorandum thereof.

D. Captions. The captions and headings used in this Lease are for the purpose of convenience only and shall not be construed to limit or extend the meaning of any part of this Lease.

E. Executed Copy. Any fully executed copy of this Lease shall be deemed an original for all purposes.

F. Time. Time is of the essence for the performance of each term, condition and covenant of this Lease.

G. Separability. If one or more of the provisions contained herein, except for the payment of Rent, is for any reason held invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Lease, but this Lease shall be construed as if such invalid, illegal or unenforceable provision had not been contained herein.

H. Choice of Law. This Lease shall be construed and enforced in accordance with the laws of the State of California. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant.

I. Gender; Singular, Plural. When the context of this Lease requires, the neuter gender includes the masculine, the feminine, a partnership or corporation or joint venture, and the singular includes the plural.

J. Binding Effect. The covenants and agreement contained in this Lease shall be binding on the parties hereto and on their respective successors and assigns to the extent this Lease is assignable.

K. Waiver. The waiver by Landlord of any breach of any term, condition or covenant, of this Lease shall not be deemed to be a waiver of such provision or any subsequent breach of the same or any other term, condition or covenant of this Lease. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach at the time of acceptance of such payment. No covenant, term or condition of this Lease shall be deemed to have been waived by Landlord unless such waiver is in writing signed by Landlord.

L. Entire Agreement. This Lease is the entire agreement between the parties, and there are no agreements or representations between the parties except as expressed herein. Except as otherwise provided herein, no subsequent change or addition to this Lease shall be binding unless in writing and signed by the parties hereto.

M. Authority. If Tenant is a corporation or a partnership, each individual executing this Lease on behalf of said corporation or partnership, as the case may be, represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said entity in accordance with its corporate bylaws, statement of partnership or certificate of limited partnership, as the case may be, and that this Lease is binding upon said entity in accordance with its terms. Landlord, at its option, may require a copy of such written authorization to enter into this Lease.

N. Exhibits. All exhibits, amendments, riders and addenda attached hereto are hereby incorporated herein and made a part hereof.

O. Lease Summary. The Lease Summary attached to this Lease is intended to provide general information only. In the event of any inconsistency between the Lease Summary and the specific provisions of this Lease, the specific provisions of this Lease shall prevail.

THIS LEASE is effective as of the date the last signatory necessary to execute the Lease shall have executed this Lease:

TENANT:

VirnetX Inc., a Delaware corporation

By: /s/ Kendall Larsen

Its: CEO

Date: 3/21/06

LANDLORD:

GRANITE CREEK BUSINESS CENTER, a California general partnership

By: TBI-SV III, a California limited Partnership, General Partner

By: /s/ Charles J. Toeniskoetter
Charles J. Toeniskoetter, Trustee of the Toeniskoetter Family Trust dated December 19, 2001

By: Westwood Company – Scotts Valley, a California general partnership, General Partner

By: /s/ Anthony C. Morici
Anthony C. Morici, Trustee of the Morici Separate Property Trust dated June 3, 1983

Date: 3/23/06

LEASE SUMMARY

LEASE DATE:	March 15, 2006
LANDLORD:	Granite Creek Business Center
LANDLORD'S ADDRESS:	c/o Toeniskoetter & Breeding, Inc., Development, 1960 The Alameda, San Jose, CA 95126
TENANT:	VirnetX Inc., a Delaware corporation
TENANT'S ADDRESS:	157 Provincetown Ct., Aptos, CA 95003
CONTACT PERSON/TELEPHONE #:	Kendall Larsen (650) 642-4838
PREMISES:	approximately 995 rentable square feet
BUILDING ADDRESS:	5615 Scotts Valley Drive, Scotts Valley, Ca. 95066
BUILDING SQUARE FOOTAGE:	approximately 38,000 rentable square feet
PROJECT SQUARE FOOTAGE:	approximately 90,000 rentable square feet
TENANT'S BUILDING PERCENTAGE:	3.11%
TENANT'S PROJECT PERCENTAGE:	1.11%
ANTICIPATED COMMENCEMENT DATE:	April 1, 2006
LEASE TERM:	Twelve (12) months
INITIAL MONTHLY RENT:	$1,144.25/ MONTH, NNN
SECURITY DEPOSIT:	$1,248.75

GRANITE CREEK BUSINESS CENTER
Scotts Valley, California

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE ("First Amendment") is entered into as of April 1, 2007, by and between Granite Creek Business Center, a California general partnership ("Landlord") and VirnetX Inc., a Delaware Corporation ("Tenant") and is an Amendment to the Lease Agreement dated March 15, 2006 ("Lease"), relating to the Premises consisting of approximately nine hundred ninety-five (995) rentable square feet, as shown on EXHIBIT A of the Lease (the "Premises") in that certain building, commonly known as 5615 Scotts Valley Drive, Scotts Valley, CA 95066 (the "Building")

The parties now desire to amend the Lease as follows:

1. **LEASE TERM**. Paragraph 4.A. of the Lease is amended to provide the termination date to be March 31, 2008.

2. **RENT**. Paragraph 5.A. of the Lease is amended to reflect the following monthly rent schedule (NNN):

Months of Term	Monthly Rent (NNN)
April 1, 2007 - March 31, 2008	$1,243.75 per month

Except as specifically amended herein, the Lease dated March 15, 2006 is hereby ratified and affirmed.

LANDLORD	TENANT
GRANITE CREEK BUSINESS CENTER A CALIFORNIA GENERAL PARTNERSHIP	VIRNETX, INC.
By /s/ Brad Krouskup	By /s/ Kendall Larsen
Its Member	Its President
Date 4/23/07	Date 4/17/07

VIRNETX, INC.

MASTER CONSULTING AGREEMENT

This Consulting Agreement (the "Agreement") is made as of February 23, 2006 by and between VirnetX, Inc., a Delaware corporation (the "Company"), and Magenic Technologies, Inc. ("Consultant").

1. **Consulting Relationship.** During the term of this Agreement, Consultant will provide consulting services to the Company as described on Exhibit A attached to this Agreement (the "Services"). Consultant represents that Consultant is duly licensed (as applicable) and has the qualifications, the experience and the ability to properly perform the Services. Consultant shall use Consultant's best efforts to perform the Services such that the results are satisfactory to the Company.

2. **Fees.** As consideration for the Services to be provided by Consultant and other obligations, the Company shall pay to Consultant the amounts specified in Exhibit A attached to this Agreement at the times specified therein.

3. **Expenses.** Consultant shall not be authorized to incur on behalf of the Company any expenses and will be responsible for all expenses incurred while performing the Services except as expressly specified in Exhibit A unless otherwise agreed to by the Company's President, which consent shall be evidenced in writing for any expenses in excess of $1,000. As a condition to receipt of reimbursement, Consultant shall be required to submit to the Company reasonable evidence that the amount involved was both reasonable and necessary to the Services provided under this Agreement.

4. **Term and Termination.** Consultant shall serve as a consultant to the Company for a period specified in Exhibit A; provided however the Consulting Relationship shall terminate prior to such date if (a) Consultant completes the provision of the Services to the Company under this Agreement, or (b) Consultant shall have been paid the maximum amount of consulting fees as provided in Exhibit A.

Notwithstanding the above, either party may terminate this Agreement at any time upon ten days' written notice. In the event of such termination, Consultant shall be paid for any portion of the Services that have been performed prior to the termination.

Should either party default in the performance of this Agreement or materially breach any of its obligations under this Agreement, including but not limited to Consultant's obligations under the Confidential Information and Invention Assignment Agreement between the Company and Consultant referenced below, the non-breaching party may terminate this Agreement immediately if the breaching party fails to cure the breach within 20 business days after having received written notice by the non-breaching party of the breach or default.

5. **Independent Contractor.** Consultant's relationship with the Company will be that of an independent contractor and not that of an employee.

(a) **Method of Provision of Services.** Consultant shall be solely responsible for determining the method, details and means of performing the Services. Consultant may, at Consultant's own expense, employ or engage the services of such employees, subcontractors, partners or agents, as Consultant deems necessary to perform the Services (collectively, the "Assistants"). The Assistants are not and shall not be employees of the Company, and Consultant shall be wholly responsible for the professional performance of the Services by the Assistants such that the results are satisfactory to the Company. Consultant shall expressly advise the Assistants of the terms of this Agreement, and shall require each Assistant to execute and deliver to the Company a Confidential Information and Invention Assignment Agreement substantially in the form attached to this Agreement as Exhibit B (the "Confidentiality Agreement").

(b) **No Authority to Bind Company.** Consultant acknowledges and agrees that Consultant and its Assistants have no authority to enter into contracts that bind the Company or create obligations on the part of the Company without the prior written authorization of the Company.

(c) **No Benefits.** Consultant acknowledges and agrees that Consultant and its Assistants shall not be eligible for any Company employee benefits and, to the extent Consultant otherwise would be eligible for any Company employee benefits but

for the express terms of this Agreement, Consultant (on behalf of itself and its employees) hereby expressly declines to participate in such Company employee benefits.

(d) **Withholding; Indemnification.** Consultant shall have full responsibility for applicable withholding taxes for all compensation paid to Consultant or its Assistants under this Agreement, and for compliance with all applicable labor and employment requirements with respect to Consultant's self-employment, sole proprietorship or other form of business organization, and with respect to the Assistants, including state worker's compensation insurance coverage requirements and any U.S. immigration visa requirements. Consultant agrees to indemnify, defend and hold the Company harmless from any liability for, or assessment of, any claims or penalties with respect to such withholding taxes, labor or employment requirements, including any liability for, or assessment of, withholding taxes imposed on the Company by the relevant taxing authorities with respect to any compensation paid to C onsultant or its Assistants.

6. **Supervision of Consultant's Services.** All of the services to be performed by Consultant, including but not limited to the Services, will be as agreed between Consultant and the Company's President or supervisor designated by the President. Consultant will be required to report to the President or supervisor designated by the President concerning the Services performed under this Agreement. The nature and frequency of these reports will be left to the discretion of the President or supervisor designated by the President.

7. **Consulting or Other Services for Competitors.** Consultant represents and warrants that Consultant does not presently perform or intend to perform, during the term of the Agreement, consulting or other services for, or engage in or intend to engage in an employment relationship with, companies who businesses or proposed businesses in any way involve products or services which would be competitive with the Company's products or services, or those products or services proposed or in development by the Company during the term of the Agreement (except for those companies, if any, listed on Exhibit C attached hereto). If, however, Consultant decides to do so, Consultant agrees that, in advance of accepting such work, Consultant will promptly notify the Company in writing, specifying the organization with which Consultant proposes to consult, provide services, or become employed by and to provide information sufficient to allow the Company to determine if such work would conflict with the terms of this Agreement, including the terms of the Confidentiality Agreement, the interests of the Company or further services which the Company might request of Consultant. If the Company determines that such work conflicts with the terms of this Agreement, the Company reserves the right to terminate this Agreement immediately. In no event shall any of the Services be performed for the Company at the facilities of a third party or using the resources of a third party.

8. **Confidentiality Agreement.** Consultant shall sign, or has signed, a Confidentiality Agreement, on or before the date Consultant begins providing the Services.

9. **Conflicts with this Agreement.** Consultant represents and warrants that neither Consultant nor any of the Assistants is under any pre-existing obligation in conflict or in any way inconsistent with the provisions of this Agreement. Consultant represents and warrants that Consultant's performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by Consultant in confidence or in trust prior to commencement of this Agreement. Consultant warrants that Consultant has the right to disclose and/or or use all ideas, processes, techniques and other information, if any, which Consultant has gained from third parties, and which Consultant discloses to the Company or uses in the course of performance of this Agreement, without liability to such third parties. Notwithstanding the foregoing, Consultant agrees that Consultant shall not bundle with or incorporate into any deliveries provided to the Company herewith any third party products, ideas, processes, or other techniques, without the express, written prior approval of the Company. Consultant represents and warrants that Consultant has not granted and will not grant any rights or licenses to any intellectual property or technology that would conflict with Consultant's obligations under this Agreement. Consultant will not knowingly infringe upon any copyright, patent, trade secret or other property right of any former client, employer or third party in the performance of the Services.

10. **Miscellaneous.**

(a) **Amendments and Waivers.** Any term of this Agreement may be amended or waived only with the written consent of the Company.

(b) **Sole Agreement.** This Agreement, including the Exhibits hereto, constitutes the sole agreement of the parties and supersedes all oral negotiations and prior writings with respect to the subject matter hereof.

(c) **Notices.** Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon receipt, when delivered personally or by courier, overnight delivery service or confirmed facsimile, 48 hours after being deposited in the regular mail as certified or registered mail (airmail if sent internationally) with postage prepaid, if such notice is addressed to the party to be notified at such party's address or facsimile number as set forth below, or as subsequently modified by written notice.

(d) **Choice of Law.** The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California, without giving effect to the principles of conflict of laws.

(e) **Severability.** If one or more provisions of this Agreement are held to be unenforceable under applicable law, 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.

(f) **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

(g) **Advice of Counsel.** EACH PARTY ACKNOWLEDGES THAT, IN EXECUTING THIS AGREEMENT, SUCH PARTY HAS HAD THE OPPORTUNITY TO SEEK THE ADVICE OF INDEPENDENT LEGAL COUNSEL, AND HAS READ AND UNDERSTOOD ALL OF THE TERMS AND PROVISIONS OF THIS AGREEMENT. THIS AGREEMENT SHALL NOT BE CONSTRUED AGAINST ANY PARTY BY REASON OF THE DRAFTING OR PREPARATION HEREOF.

[Signature Page Follows]

The parties have executed this Agreement as of the date first written above.

THE COMPANY:

VIRNETX, INC.

By: (Signature)

Name: Title:

-

Address:

157 Provincetown Ct.

Aptos, CA 95003

CONSULTANT:

(Print Consultant's Name)

(Signature)

Address:

EXHIBIT A

DESCRIPTION OF CONSULTING SERVICES

Virnet X, Inc.

Work Order #1

This Work Order is attached to and made a part of the VirnetX, Inc. Master Consulting Agreement and is effective on February 23rd, 2006. Terms in this Work Order shall have the same meaning as in the Master Consulting Agreement.

Client Name: VirnetX	Client #:
Project Name: Client Services Portal	Project #:
Client's Reference:	Account Rep: Matthew Aberbach

SERVICES
Magenic shall perform the following services for Client in a "work for hire" capacity:

Type of Service:

☐ Application Development Consulting ☐ ERP Consulting
☐ E-Commerce Consulting ☐ EDS Consulting

Description of Services:

Project Summary
Objective
Provide a quality project and quality product on time and within budget.
Provide improved functionality with data integrity, and improved case-of-use in an extensible architecture.

Roles and Responsibilities

Who	Role	Responsibility
Kendall Larson	Product Manager/ Project Sponsor	
Sameer Mathur	Project Manager, VirnetX point of contact,	product quality, project decisions and approvals
Matt Aberbach	Account Executive	Customer Relationship Management
Sandy White	Engagement Management	Engagement Issues
Kenny Goers	Architect & Technical Lead	Open architecture design; technical decisions that are project and product affecting; activity definition and duration estimating, schedule development; product quality; coordinating set-up of the development environment; technical documentation; product deployment; defect resolution
Jeff Cowan	Developer	Product development, product quality, product deployment, defect resolution
TBD	Web/.NET Developer	Product development, product quality, product deployment, defect resolution

Assumptions
Magenic will be responsible for:

- Project Management of software components
- Application architecture and design
- Code development
- Providing their own development software
- Installation and configuration of servers for the project development environment at the Magenic site
- Technical implementation documentation
- Defect resolution and reporting
- The Magenic Project Plan will assume that there is a fixed scope. Critical needs may be identified which were missed in the requirements gathering or which arise out of the actual development of the application. These will be considered changes that need to be evaluated to ensure that only those that are required for the success of the project are being included in the revised scope. The timeline requires strict adherence to the change management process. Changes that are not critical will be logged and included in any future phases

of the project. Every scope change can affect the timely completion of the project.

VirnetX will be responsible for:

- Over all Project Management
- Technical requirements definition
- Provide a four hour response time to critical questions and issues raised by Magenic
- The schedule and timeline are contingent upon VirnetX's on-time delivery of a streaming encryption algorithm and library and approval of the scope of work in a timely manner.

Constraints

The Magenic team will work its standard business hours, Monday through Friday, with the exception of national holidays and planned time off.

Goals, Deliverables, Work Plan, and Schedule

Project Goal

The goal of the project, in short, is to come up with a solution for encrypted secure communication stream between multiple messaging endpoints. This will be accomplished by implementing a first phase of a wheel and spoke architecture with VirnetX at the center, connecting differing corporate architectures.
This needs to be accomplished using as simple a method as possible while utilizing VirnetX's patents, specifically:

- Patent 6,502,135 – Secure real time communication between two computers using DNS (IETF RFC3263 reference or "SIPS").
- Patent 6,839,759 – Method for establishing secure communication link between computers of virtual private network without user entering any cryptographic information.

Magenic Technologies will be following an agile methodology and will be continuously updating the schedule as we work with VirnetX. The primary reason for this tact is that the deliverables are at this point envisioned and there are questions in many areas of the over all architecture that will be determined as we go.

Deliverables and Platform Target

The initial target will be Microsoft Office Communicator 2005, Live Communication Server 2005 SP1 and a single chosen 3rd party IM client. We will install 2-3 Virtual servers running Windows 2003 Enterprise Server, one containing a domain controller, Active Directory and DNS, another running Live Communication Server and possibly a third running SQL server, to be added if needed. These deliverables are being created as a proof-of-concept for VirnetX's business model moving forward. They are not intended to be of beta quality but as a vehicle to demonstrate the functionality and implementation to investors and others. Installation will be on Magenic virtual servers initially but may need to be hosted on dedicated hardware in the near future, if required this hardware will be acquired by VirnetX.

The initial deliverables for the first three months are agreed upon after a few working sessions Magenic and VirnetX are:

- A VirnetX Directory Service – Built on a LDAP/Active Directory architecture, the internal implementation will be determined by the development team with input by VirnetX. It will include DNS services that implement RFC 3263 for use in establishing end-to-end secure communications between IM clients. The directory service will house metadata for Corporate and Individual users relating to creating the secure point to point connections.
- A VirnetX Gateway/Clearinghouse – Built on top of a LCS server configuration. Will initially support IM Text and Voice services, will be capable of connecting LCS servers and one 3rd party IM service to be determined by the development group. Application development activities will possibly include building a bridge between the 3rd parties.
- A VirnetX Management Website for applying for secure credentials and access to the VirnetX Directory Service. Site will include a store for applying for and purchasing GeoTrust certificates to access the system. VirnetX will provide the appropriate access and methods needed to interface with GeoTrust.

Work Plan

We will be working roughly in parallel on the Directory Service, the Gateway and the Web Management and GeoTrust interface, and breaking the first few weeks' worth of work into the follow categories:

- Verify the SIP/S and RTP/S functionality and compatibility in current 3rd party IM clients.
- Verify TLS and DNS inter-op for SIP.
- Identity the required metadata to place in the server side store and then evaluate if that metadata can be stored in the existing Microsoft DNS store or if a new store (and new DNS service) will need to be constructed.
- Additional investigation pieces as required to complete a detailed architecture for Proof-Of-Concept.

Project Schedule

Presented here are initial project estimates for areas of investigation and project implementation, times are estimated will be re-evaluated on a weekly bases with the Project Manager.

Activity	**Duration**	**Who**
Investigation Phase		
Environment Setup	5 Days	Dev Team
SIP/S "RFC3263" and RTP/S (RFC 3711) Protocol Investigation (3rd Party implementations, LCS implementation verification, Verify full point-to-point encryption)	10 Days	Dev Team
DNS, Directory Architecture and RFC 3263 Integration	10 Days	Dev Team
Investigate Microsoft LCS provided bridges to AOL/MSN/Yahoo	5 Days	Dev Team
TLS Implementation	5 Days	Dev Team
Web site requirement development, GeoTrust and VirnetX Directory interfaces	10 Days	Dev Team
MILESTONE Meeting (end of investigation phase) - - Results of discovery - - Review open issues - - Go/No go on starting pilot activities	1-2 hours	Everyone
Pilot Construction Phase		
Environment Refinement	5 Days	Dev Team
VirnetX Gateway Implementation	40 Days	Dev Team
VirnetX Directory Implementation	40 Days	Dev Team
VirnetX Management Website Implementation	40 Days	Dev Team
MILESTONE Meeting(end of 1st Month) - - Progress - - Open Issues - - Steps before next milestone	1-2 hours	Everyone
MILESTONE Meeting (end of phase) - - Progress - - Open Issues - - Steps before next meeting	1-2 hours	Everyone
Pilot Testing	15 days	Dev Team
MILESTONE Meeting - - Pilot Status - - Open Issues - - Go/No Go to proceed to Beta Phase	1-2 hours	Everyone

Additionally, there will be activities to test and stabilize the pilot, not in the above activities. **The plan is to time box the pilot to three Magenic Development Team members for 3 months.**

Project Management

Communications Management

Magenic will expose a secure project extranet http://px.magenic.com/sites/VirnetX/ which will be generally available 24x7 and will house all project artifacts, documents,

and deliverables.
The Magenic will be responsible for revisions to Scope of Work and Project Plan documentation. The Magenic architect will be responsible for changes to technical documentation, including the Requirements documentation. The documents must be versioned, with a revision history of summarizing changes made. Changes must be reviewed by Magenic and VirnetX and accepted as complete and accurate on a new signature page. The SharePoint site at px.magenic.com will be the repository for all project documentation and Magenic will maintain source code with revision history in team server.
The Technical Lead will be the primary point of contact into the Magenic team. All communications to or from the VirnetX team should flow through that key contact, except when special arrangements have been defined (for example for technical communications). In all cases the Magenic Lead should be copied on written communications.
Deliverables shown in the Project Schedule will be posted to the collaboration SharePoint web-site as it becomes available. Documentation will be provided in the same fashion. Hard-copies of acceptance documentation will be provided for signature.
The Magenic Lead will manage an issues list; selected items will be published in the weekly status report (when VirnetX resources are required for resolution).
VirnetX will make its best effort to quickly turnaround requested decision, requests for clarification or information, etc.
The developers will report status weekly to the Architect/Technical Lead. The Architect/Technical Lead will report status and progress weekly to the Project Manager as well as the Magenic Engagement Manager. A status meeting will be scheduled at least weekly to discuss progress and current issues.

Scope Management

The Project Agreement and Requirements documents are the baseline for project work, and will be used for project and product acceptance. They are “living documents” and can be changed per the change management process. Approved changes to scope will be made, following the documented Change Management process, using a Change Request form. The Scope of Work will be updated with changes by the PM, and circulated for review. VirnetX will approve the documentation change by signing an addendum signature page.
Changes to Scope can be communicated by any stakeholder with a change request form to the Magenic Lead, but will require approval by the designated VirnetX point of contact, per the Change Management process before work can proceed.

Time Management

Any and all changes to time estimates will be made according to the documented Change Management process, using a Change Request form. If Magenic initiates the request, a basis of estimate will be included, and the request provided to the VirnetX approver(s).
Magenic team members will capture time spent weekly, in the Magenic time reporting tool. Time will be entered by week’s end, or the last working day of the week, should team members be on holiday or PTO.
Magenic team members will not plan on having any overtime except as approved in writing by the customer. Magenic developers will provide advanced notice of Planned Time Off (PTO)
Should VirnetX request non-standard development hours, a minimum of 1-week advance notice is required. Magenic recognizes that critical situations may arise outside the scope of this engagement, and will make its best effort to support VirnetX. However, Magenic reserves the right to treat these requests as changes to scope and assess the time and budget impacts.

Cost management

Any and all changes to cost estimates, or new procurement requests, will be made according to the documented Change Management process, using a Change Request form.

Quality Management

- Magenic will perform unit and functional tests.
- VirnetX will perform acceptance testing.

Risk Management

Risks will be managed by the Magenic Team Lead with the assistance of the Magenic CRM and EM with the customer.
All team members are responsible for continually identifying and reporting risks to the Magenic Lead Risk assessment and response planning will be done on a continual basis.

Change Management

Changes may require a revision to documentation previously delivered. At a minimum, documentation will be versioned, the revision history noted with a summary of the change and/or the change requests referenced in the documentation.

Dates
The date of this work order shall start February 22nd, and end on May 26th. Should Client wish to extend the work order beyond this end date, Magenic Technologies requires Two (2) weeks notice, prior to the end date. Should this work order be terminated prior to the agreed upon end date, any discount calculations that were based on project length will be reversed, and a new rate schedule will be applied on a prorated basis.

Partnership
Magenic Technologies is a true business partner to VirnetX. In that spirit, Magenic Technologies will make available client or industry relationships as mutually agreed upon for the purposes of technical or market readiness of the VirnetX product.

MATERIALS
Magenic to provide all necessary hardware, software and hosting for the duration of this project. The monthly cost is .

EXPENSES
Client agrees to pay for the following incidental expenses incurred by Magenic while performing the above services if dictated by client:

☒ Airfare ☐ Entertainment ☒ Lodging ☐ Parking ☐ Telephone
☒ Meals☒ Ground Transport ☐ Mileage ☐Supplies ☐ Other ________

COMPENSATION

Client agrees to pay for Magenic's time as per the following schedule for services. A retainer on a monthly renewal basis will be paid prior to the beginning of the engagement and on the following dates for the following amounts:

February 23rd (Feb 23rd – March 31st) : $106,920

March 28th (April 3rd – April 28th) : $79,200

April 26th (May 1 – May 26): $79,200

Total estimated labor: $265,320

Invoices will be sent to:

Attention:	**Kathleen Sheehan**
Company:	**VirnetX**
Address:	**157 Provincetown Ct.**
City, State, Zip:	**Aptos, CA 95003**
Phone:	
Fax:	

Payments and Inquiries should be directed to:

Attn: Accounts Receivable
Magenic Technologies International
4150 Olson Memorial Drive, Ste 400
Golden Valley, MN 55422

Phone: 763-398-4800/ Fax: 763-521-4090

THEREFORE, the parties have executed this Work Order to the Magenic & Technologies International Master Consulting Agreement in duplicate originals.

Magenic Technologies, Inc.	Address
4150 Olson Memorial Drive	
Suite 400	157 Provincetown
Golden Valley, MN 55422	Aptos, CA 95003

/s/ Gregory G. Frankenfield (Sign) /s/ Kendall Larsen (Sign)

Gregory G. Frankenfield (Print)	Name	Kendall Larsen (Print)	Name
President	Title	President & CEO	Title
3/1/2006	Date	2/27/06	Date

Account Representative

EXHIBIT B

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT

(see attached)

EXHIBIT C

LIST OF COMPANIES
<u>EXCLUDED UNDER SECTION 7</u>

___ No conflicts

___ Additional Sheets Attached

Signature of Consultant:

Print Name of Consultant:

Date:

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Form 8-K of our report (which contains an explanatory paragraph relating to VirnetX, Inc.'s ability to continue as a going concern as described in Note 2 to the financial statements) dated April 30, 2007, relating to the financial statements of VirnetX, Inc. as of December 31, 2005 and 2006 and for the period from August 2, 2005 (date of inception) to December 31, 2005 and the year ended 2006, which appears in such Form 8-K.

/s/ Burr, Pilger & Mayer LLP

Palo Alto, CA
July 10, 2007

Exhibit 99.1

(a development stage enterprise)

REPORT ON THE AUDITS

OF FINANCIAL STATEMENTS

for the year ended December 31, 2006
and for the period August 2, 2005 (date of inception) to December 31, 2005, and
cumulatively for the period from August 2, 2005 (date of inception) to December 31, 2006

VirnetX

(a development stage enterprise)

CONTENTS

	Page
Independent Auditors' Report	1
Balance Sheets	2
Statements of Operations	3
Statements of Stockholders' Equity (Deficit)	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 14

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
VirnetX, Inc., Inc.

We have audited the accompanying balance sheets of VirnetX, Inc., (a development stage enterprise) as of December 31, 2006 and 2005, and the related statements of operations, stockholders' equity (deficit), and cash flows for the year ended December 31, 2006 and the period from August 2, 2005 (date of inception) to December 31, 2005, and cumulatively for the period from August 2, 2005 (date of inception) to December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VirnetX, Inc., as of December 31, 2006 and 2005, and the results of its operations and cash flows for the year ended December 31, 2006 and for the period from August 2, 2005 (date of inception) to December 31, 2005 and for the cumulative period from August 2, 2005 (date of inception) to December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company has incurred net losses since its inception and operating cash flow deficiencies, which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Burr, Pilger & Mayer, LLP

Palo Alto, CA
April 30, 2007

Virnetx, Inc.

(a development stage enterprise)

BALANCE SHEETS

December 31, 2006 and 2005

Assets

	2006	2005
Current assets:		
Cash and cash equivalents	$ 139,997	$ 86,552
Prepaid expenses and other current assets	26,945	61,170
Total current assets	166,942	147,722
Property and equipment, net	27,087	-
Other assets	1,094	-
Total assets	$ 195,123	$ 147,722

Liabilities and Stockholders' Equity (Deficit)

	2006	2005
Current liabilities:		
Accounts payable	$ 87,386	$ -
Advance from preferred shareholders	-	230,000
Total current liabilities	87,386	230,000
Commitments and contingencies		
Stockholders' equity (deficit):		
Convertible preferred stock, par value $0.0001 Authorized: 12,285,715 shares; Issued and outstanding: 1,404,000 and no shares at December 31, 2006 and 2005, respectively Liquidation Preference: $1,377,625	1,377,625	-
Common Stock, par value $0.0001, Authorized: 60,000,000 shares; Issued and outstanding: 4,235,000 and 4,000,000 shares at December 31, 2006 and 2005, respectively	424	400
Additional paid-in capital	1,013,655	799,800
Due from Stockholder	(150)	-
Deficit accumulated during the development stage	(2,283,817)	(882,478)
Total stockholders' equity (deficit)	107,737	(82,278)
Total liabilities and stockholders' equity (deficit)	$ 195,123	$ 147,722

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

Virnetx, Inc.

(a development stage enterprise)

STATEMENTS OF OPERATIONS

for the year ended December 31, 2006 and for the period August 2, 2005 (date of inception) to December 31, 2005

and for the cumulative period from August 2, 2005 (date of inception) to December 31, 2006

	For the Year Ended December 31, 2006	**For the Period August 2, 2005 (date of inception) to December 31, 2005**	**Cumulative Period from August 2, 2005 (date of inception) to December 31 2006**
Operating expenses:			
Research and development	$ 554,187	$ 56,000	$ 610,187
General and administrative	853,488	826,478	1,679,966
Total operating expenses:	1,407,675	882,478	2,290,153
Loss from operations	(1,407,675)	(882,478)	(2,290,153)
Interest income and other, net	6,336	-	6,336
Net loss	$ (1,401,339)	$ (882,478)	$ (2,283,817)

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

Virnetx, Inc.

(a development stage enterprise)

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

for the period from August 2, 2005 (date of inception) to December 31, 2005 and for the year ended December 31, 2006

	Series A Preferred Stock		Common Stock		Additional Paid-In Captial	Due From Stockholder	Deficit accumulated during development stage	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount				
Balances at inception (August 2, 2005)	-	$ -	-	$ -	$ -	$ -	$ -	$ -
Common stock issued at $0.0000625 per share to founders in August 2005			3,200,000	320	(120)			200
Proceeds from issuance of restricted stock units to employees at $0.0001 per share in October 2005			800,000	80				80
Stock-based compensation from restricted stock units					799,920			799,920
Net loss							(882,478)	(882,478)
Balances at December 31, 2005	-	-	4,000,000	400	799,800	-	(882,478)	(82,278)
Proceeds from issuance of preferred stock at $1.00 per share in February 2006, net of issuance costs of $26,375	1,404,000	1,377,625						1,377,625
Proceeds of issuance of restricted stock units to employees at $0.01 in March and October 2006			235,000	24	2,026	(150)		1,900
Stock-based compensation from restricted stock units					130,210			130,210
Stock-based compensation from employee stock options					81,619			81,619
Net loss							(1,401,339)	(1,401,339)
	1,404,000	$ 1,377,625	4,235,000	$ 424	$ 1,013,655	$ (150)	$ (2,283,817)	$ 107,737

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

Virnetx, Inc.

(a development stage enterprise)

STATEMENTS OF CASH FLOWS

for the year ended December 31, 2006

and for the period August 2, 2005 (date of inception) to December 31, 2005

	For the Year Ended December 31, 2006	For the Period August 2, 2005 (date of inception) to December 31, 2005	Cumulative Period from August 2, 2005 (date of inception) to December 31 2006
Cash flows from operating activities:			
Net loss	($1,401,339)	($882,478)	($2,283,817)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	211,829	799,920	1,011,749
Depreciation and amortization	7,689	-	7,689
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	34,225	(61,170)	(26,945)
Other assets	(1,094)	-	(1,094)
Accounts payable	87,386	-	87,386
Net cash used in operating activities	(1,061,304)	(143,728)	(1,205,032)
Cash flows from investing activities:			
Purchase of property and equipment	(34,776)	-	(34,776)
Net cash used in investing activities	(34,776)	-	(34,776)
Cash flows from financing activities:			
Proceeds from issurance of Series A preferred stock, net of issuance costs	1,147,625	-	1,147,625
Proceeds from issuance of restricted stock units	1,900	280	2,180
Proceeds from advance from preferred shareholders	-	230,000	230,000
Net cash provided by financing activities	1,149,525	230,280	1,379,805
Net increase in cash and cash equivalents	53,445	86,552	139,997
Cash and cash equivalents, beginning of period	86,552	-	-
Cash and cash equivalents, end of period	$ 139,997	$ 86,552	$ 139,997
Supplemental disclosure of cash flow information:			
Cash paid during the year for taxes	$ 800	$ -	$ 800
Supplemental disclosure of noncash investing and financing activities:			
Conversion of advance into Series A preferred stock	$ 230,000	$ -	$ 230,000

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

Continued

NOTES TO FINANCIAL STATEMENTS

1. Formation and Business of the Company

VirnetX, Inc. ("VirnetX" or the "Company") was incorporated in the state of Delaware on August 2, 2005. VirnetX, Inc. is a development stage company that has commercialized its extensive patent portfolio to provide solutions for secure "real time" communications such as Instant Messaging (IM) and Voice over Internet Protocol (VoIP).

VirnetX, Inc.'s issued and pending patents were acquired from SAIC, a systems, solutions and technical services company based in San Diego, California, in 2005. VirnetX has granted SAIC a limited license under these patents, but retains all right title and interest within the field of secure communications in the following areas: Virtual Private Networks; Secure Voice Over Internet Protocol; Electronic Mail (E-mail); Video Conferencing; Communications Logging; Dynamic Uniform Resource Locators; Denial of Service; Prevention of Functional Intrusions; IP Hopping; Voice Messaging and Unified Messaging; Live Voice and IP PBXs; Voice Web Video Conferencing and Collaboration; Instant Messaging; Minimized Impact of Viruses; and Secure Session Initiation Protocol. The Field of Use is not limited by any predefined transport mode or medium of communication (e.g., wire, fiber, wireless, or mixed medium) .

The Company is in the development stage and consequently, the Company is subject to the risks associated with development stage companies, including the need for additional financings; the uncertainty of the Company's intellectual property resulting in successful commercial products as well as the marketing and customer acceptance of such products; competition from larger organizations; dependence on key personnel; uncertain patent protection; and dependence on corporate partners and collaborators. To achieve successful operations, the Company may require additional capital to continue research and development and marketing efforts. No assurance can be given as to the timing or ultimate success of obtaining future funding.

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements are prepared on a going concern basis that contemplates the realization of assets and discharged liabilities in the normal course of business. The Company has incurred net operating losses and negative cash flows from operations. At December 31, 2006, the Company had an accumulated deficit of $2,283,817. In order to continue its operations, the Company must achieve profitable operations or obtain additional financing. Management is currently pursuing financing alternatives, including private equity or debt financing, collaborative or other arrangements with corporate partners or other sources. There can be no assurance, however, that such a financing will be successfully completed on terms acceptable to the Company. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Continued

2. Summary of Significant Accounting Policies, continued

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Property and Equipment

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

Concentration of Credit Risk and Other Risks and Uncertainties

The Company's cash and cash equivalents are primarily maintained at one financial institution in the United States. Deposits held with these financial institutions may exceed the amount of insurance provided on such deposits. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At December 31, 2006, the Company's uninsured cash balances were $46,153. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Comprehensive Income (Loss)

The Company reports comprehensive income (loss) in accordance with the provisions of Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income,* which establishes standards for reporting comprehensive income (loss) and its components in the financial statements. Comprehensive loss was equal to net loss for the years ended December 31, 2006 and 2005.

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.

During 2006, 76% of research and development expenses were related to one outside design consultant.

Continued

2. **Summary of Significant Accounting Policies,** continued

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases 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.

Fair value of Financial Instruments

Carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts payable, and accrued liabilities, approximate their fair values due to their short maturities.

Stock-Based Compensation

The Company accounts for share-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") 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 SFAS 123(R), the herein financial statements presented reflect compensation expense for stock-based awards as if the provisions of SFAS 123(R) had been applied from the date of inception.

In addition, as required by Emerging Issues Task Force Consensus No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services*, the Company records stock and options granted to non-employees at fair value of the consideration received or the fair value of the equity investments issued as they vest over the performance period.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 ("FIN 48"), which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim-period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on its financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently assessing the potential impact that the adoption of SFAS No. 157 will have on its financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Liabilities" ("SFAS 159"). SFAS 159 provides entities with the option to report selected financial assets and liabilities at fair value. Business entities adopting SFAS

Continued

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

159 will report unrealized gains and losses in earnings at each subsequent reporting date on items for which fair value option has been elected. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement

attributes for similar types of assets and liabilities. SFAS 159 requires additional information that will help investors and other financial statement users to understand the effect of an entity's choice to use fair value on its earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company is currently assessing the impact that the adoption of SFAS 159 may have on our financial position, results of operations or cash flows.

3. Property and equipment, net

	Useful life (in years)	**December 31, 2006**	**December 31, 2005**
Furniture and fixture	7	$ 9,150	$ -
Computers and equipment	5	25,626	-
		34,776	-
Less: Accumulated depreciation		(7,689)	-
		$ 27,087	$ -

The Company's fixed assets are all located in the United States. Depreciation and amortization expense was $7,689 and $0 for the year ended December 31, 2006 and for the period August 2, 2005 to December 31, 2005, respectively. Depreciation and amortization expense was $7,689 for the period from August 2, 2005 (date of inception) to December 31, 2006.

4. Commitments

Operating Lease Agreements

The Company leases its office space under a noncancelable operating lease that expires in April 2007. The Company recognizes rent expenses on a straight-line basis over the lease period.

Future minimum facility lease payments at December 31, 2006 are as follows:

2007	$ 3,731

Rent expense for the years ended December 31, 2006 and for the period August 2, 2005 to December 31, 2005 was $8,209 and $0, respectively. Rent expense for the period from August 2, 2005 (date of inception) to December 31, 2006 was $8,209.

Patent Assignment Agreement with SAIC

The Company's patents are based on patents originally acquired from SAIC. VirnetX acquired these patents from SAIC pursuant to the Assignment Agreement by and between VirnetX and SAIC dated December 21, 2006, and certain other related agreements. Under the terms of these agreements, the Company will pay SAIC a minimum guaranteed royalty of $50,000 annually beginning in July, 2008. In

Continued

Continued

addition, the Company will pay to SAIC royalties in the amount of 15% of gross revenues up to a maximum amount of $35 million less any amounts already paid by the Company to SAIC. At March 31, 2007 no payments have been made to SAIC under the terms of these agreements.

Our business depends on our rights to and under the Patents, which were assigned to us by SAIC. Our agreements with SAIC impose obligations on us, such as payment obligations. If SAIC believes that we have failed to meet these obligations, SAIC could seek to limit or reacquire the assigned Patent rights, which could lead to costly and time-consuming litigation and, potentially, a loss of our rights in the Patents. During the period of any such litigation, our ability to carry out the development and commercialization of potential products could be significantly and negatively affected. If our rights in our Patents were restricted or ultimately lost, our ability to continue our business based on the affected technology platform could be severely adversely affected.

5. Convertible Preferred Stock

Preferred stock at December 31, 2006 consists of the following:

Series	Date Issued	Original Issue Price	Shares Authorized	Shares Outstanding
Preferred Series A	March 27, 2006	$ 1.00	2,000,000	1,404,000

Voting

Each share of convertible preferred stock has voting rights equal to an equivalent number of shares of common stock into which it is convertible and votes together as one class with the common stock.

Dividends

Holders of convertible preferred stock are entitled to receive dividends prior to and in preference to any declaration or payment of any dividends on the common stock, at the rate of $0.08 per share per annum on each outstanding share of Series A preferred stock, payable quarterly. Such dividends shall be payable only when, as, and if declared by the Board of Directors and shall not be cumulative. After payment of such dividends, any additional dividends shall be distributed among the Series A preferred stock and common stock pro rata based on the number of shares of common stock then held by each holder (assuming conversion of all such Series A preferred stock into common stock).

Continued

5. Convertible Preferred Stock, continued

Liquidation

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series A preferred stock is entitled to receive, prior and in preference to any distribution of any assets of the Corporation to the holders of common stock, an amount per share equal to $1.00 per share for each share of Series A preferred stock then held by them, plus any declared but unpaid dividends. The remaining assets, if any, shall be distributed among the holders of common stock and convertible preferred stock, pro rata based on the number of shares of common stock held by each holder assuming the conversion of all such redeemable convertible preferred stock. If the Company's legally available assets are insufficient to satisfy the liquidation preferences, the funds will be distributed ratably among the holders of Series A preferred stock, in proportion to the amounts each holder would receive if the Company had sufficient assets and funds to pay the full preferential amount.

Conversion

Each share of convertible preferred stock is convertible, at the option of the holder, into a number of fully paid and nonassessable shares of common stock as is determined by dividing $1.00 by the conversion price applicable to such share, determined as hereafter provided, in effect on the due date the certificate is surrendered for conversion. The initial conversion price per share of Series A Preferred Stock shall be $1.00 and is subject to adjustments in accordance with antidilution provisions, including stock splits and stock dividends, contained in the Company's Certificate of Incorporation.

Each share of Series A preferred stock automatically converts into shares of common stock at the conversion price at the time in effect for such share immediately upon the earlier of (1) the Company's sale of its common stock in a firm commitment underwritten public offering which results in aggregate cash proceeds to the Company of not less than $8,000,000, (2) any reverse merger that yields working capital to the Company of at least $8,000,000 and which results in the Company's shares being registered under Securities Exchange Act of 1934, (3) the date specified by the written consent or agreement of the holders of a majority of the then outstanding shares of Series A preferred stock.

At December 31, 2006, the Company has reserved sufficient shares of common stock for issuance upon conversion of the convertible preferred stock.

Redemption

The Series A preferred stock is not mandatory redeemable.

In February 2006, the Company issued 1,404,000 shares of Series A preferred stock at $1.00 per share and received net proceeds of $1,377,625. A portion of the proceeds were advanced by the preferred shareholders in 2005 totaling $230,000.

6. Common Stock

Each share of common stock has the right to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared by the Board from inception through December 31, 2006. The Company's restated Certificate of Incorporation, as amended in March 2006, authorizes the Company to issue 60,000,000 shares of $0.0001 par value common stock.

Continued

6. **Common Stock,** continued

In August 2005, the Company issued 3,200,000 shares of common stock to founders at $0.0000625 per share for aggregate proceeds of $200.

The Company has also issued Restricted Stock Units ("RSUs") to employees and consultants as discussed in Note 7.

7. Stock Plan

In 2005, the Company adopted the 2005 Stock Plan (the "Plan"). The Plan provides for the granting of stock options and restricted stock units to employees and consultants of the Company. Stock options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to Company employees and consultants. The Company has reserved 2,800,000 shares of common stock for issuance under the Plan.

Options under the Plan may be granted for periods of up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors, provided, however, that the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively, and the exercise price of an ISO and NSO granted to a 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant.

Activity under the Plan is as follows:

		Options Outstanding	
	Shares Available for Grant	**Number of Shares**	**Weighted Average Exercise Price**
Shares reserved for the Plan at inception	2,800,000	-	-
Restricted stock units granted	(800,000)	-	-
Options granted	-	-	-
Options exercised	-	-	-
Options canceled	-	-	-
Balance at December 31, 2005	2,000,000	-	-
Restricted stock units granted	(255,000)	-	-
Options granted	(450,000)	450,000	$ 1.00
Options exercised	-	-	-
Options canceled	-	-	-
Balance at December 31, 2006	1,295,000	450,000	$ 1.00

The Company had during the year ended December 31, 2006 restricted stock units granted for 20,000 shares that had been approved by the Board of Directors, but not signed by the restricted stock holders. Accordingly, these shares have been reflected to reduce shares available for grant.

Continued

8. Stock-Based Compensation

The Company accounts for equity instruments issued to employees in accordance with the provisions of SFAS 123R which requires that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustments as the underlying equity instruments vest.

At December 31, 2006 and December 31, 2005, the fair value of common stock was $1.00 per share. The Company has recorded $211,829 and $799,920 in employee stock-based compensation expense for the year ended December 31, 2006 and the five month period ending December 31, 2005, respectively.

The Company elected to adopt the modified retrospective application method as provided by SFAS No. 123(R) and accordingly, financial statement amounts for the periods presented herein reflect results as if the fair value method of expensing equity awards had been applied from the date of inception. The effect of recording stock-based compensation for the five month period ended December 31, 2005 and year ended December 31, 2006 was as follows:

Stock-Based Compensation by Type of Award	**Five Month Period Ended December 31, 2005**
Restricted stock units	$799,920
Employee stock options	-
Total stock-based compensation	$799,920

Stock-Based Compensation by Type of Award	**Year Ended December 31, 2006**
Restricted stock units	$130,210
Employee stock options	81,619
Total stock-based compensation	$211,829

As of December 31, 2006, the unrecorded deferred stock-based compensation balance related to stock options was $282,986 and will be recognized over an estimate weighted average amortization period of approximately 3.4 years.

The fair value of each option grant during the year ended December 31, 2006 was estimated on the date of grant using the following assumptions.

Volatility	100%
Risk-free interest rate	4.77%
Expected life	6 years
Expected dividends	0%

The expected life was determined using the simplified method outlined in Staff Accounting Bulletin No. 107 (“SAB 107”) taking the average of the vesting term and the contractual term of the option. Expected volatility of the stock options was based upon historical data and other relevant factors, such as the volatility of comparable publicly traded companies at a similar stage of life cycle. The Company has not provided an estimate for forfeitures because the Company has no history of forfeited options and believes that all outstanding options at December 31, 2006 will vest. In the future, the Company may change this estimate based on actual and expected future forfeiture rates. Based on the Black-

Continued

8. Stock-Based Compensation, continued

Scholes option pricing model, the weighted average estimated fair value of employee stock option grants was $0.81 for the year ended December 31, 2006.

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	-			
Options granted	450,000	$1.00	9.4	-
Options exercised	-			
Options cancelled	-			
Outstanding at December 31, 2006	450,000	$1.00	9.4	-

The following table summarizes information about stock options at December 31, 2006:

Options Outstanding				Options Vested and Exercisable		
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$1.00	450,000	9.4	$1.00	40,000	$1.00	9.2
$1.00	450,000	9.4	$1.00	40,000	$1.00	9.2

9. Income Taxes

As of December 31, 2006, the Company had approximately $1,236,000 of federal and $1,219,000 of state net operating loss carryforwards available to offset future taxable income. Federal and state net operating losses expire in varying amounts beginning in 2025 and 2015, respectively. Under the Tax Reform Act of 1986, the amounts of and benefits from net operating loss carryforwards may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50%, as defined, over a three year period.

As of December 31, 2006, the Company had credit carryforwards of approximately $95,000 and $112,000 available to reduce future taxable income, if any, for both federal and state income tax purposes, respectively. The federal credit carryforwards expire beginning 2025, the state credits have no expiration date.

Continued

9. Income Taxes, continued

Temporary differences and carryforwards which gave rise to significant portions of deferred tax assets are as follows:

Deferred Tax Asset	December 31, 2006	December 31, 2005
Tax benefit of net operating loss carryforwards	$ 542,000	$ 36,000
Research Tax Credit	207,000	-
Subtotal	749,000	36,000
Less valuation allowance	(749,000)	(36,000)
Total	$ -	$ -

Management believes that, based on a number of factors, it is more likely than not that the deferred tax assets will not be utilized, such that a full valuation allowance has been recorded. The valuation allowance increased by $713,000 for the year ended December 31, 2006.

10. Subsequent Events

In January 2007, the Company's preferred stock shareholders voted to convert their shares of preferred stock to common stock upon the planned reverse merger.

In January 2007, the Company announced that it had entered into a non-binding term sheet to merge (the "Merger") with PASW, Inc. ("PASW") (OTC:PASW.OB). Under the terms of the agreement, the two companies will enter into a reverse merger in which PASW will acquire all of the common stock of Company. Following the close of the acquisition, PASW will change its name to such other alternate name as shall be approved by the Company. The Company and PASW have not yet determined the closing date of the acquisition or the ownership structure upon closing.

In February 2007, the Company received a loan of $500,000 from several of its Series A shareholders. The notes have an annual interest rate of 6% and will be converted into the Company's common stock upon the close of the Merger. These preferred shareholders agreed to convert their Series A preferred shares to shares of the Company's common stock upon the close of the Merger.

VIRNETX, INC.
(a development stage enterprise)

FINANCIAL STATEMENTS

for the quarters ended March 31, 2007 and 2006
and cumulatively for the period from
August 2, 2005 (date of inception) to March 31, 2007

CONTENTS

	Page
Unaudited Balance Sheets	1
Unaudited Statements of Operations	2
Unaudited Statements of Cash Flows	3
Unaudited Notes to Financial Statements	4 - 17

VIRNETX, INC.

(a development stage enterprise)

BALANCE SHEETS

March 31, 2007 and December 31, 2006

UNAUDITED

ASSETS

	March 31, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	$572,248	$139,997
Prepaid expenses and other current assets	504,054	26,945
Total current assets	1,076,302	166,942
Property and equipment, net	24,896	27,087
Other assets	1,244	1,094
Total assets	$1,102,442	$195,123

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	March 31, 2007	December 31, 2006
Current liabilities:		
Accounts payable	$254,524	$87,386
Convertible notes payable	1,500,000	0
Total current liabilities	1,754,524	87,386
Commitments and contingencies		
Stockholders' equity (deficit):		
Convertible preferred stock, par value $0.0001 Authorized: 12,285,715 shares Issued and outstanding: 1,404,000 and 1,404,000 shares at March 31, 2007 and December 31, 2006, respectively Liquidation preference: $1,377,625	1,377,625	1,377,625
Common stock, par value $0.0001 Authorized: 60,000,000 shares Issued and outstanding: 4,235,000 and 4,235,000 shares at March 31, 2007 and December 31, 2006, respectively	424	424
Additional paid-in capital	1,034,512	1,013,655
Due from stockholders	0	(150)
Deficit accumulated during the development stage	(3,064,643)	(2,283,817)
Total stockholders' equity (deficit)	(652,082)	107,737
Total liabilities and stockholders' equity (deficit)	$1,102,442	$195,123

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

VIRNETX, INC.
(a development stage enterprise)

STATEMENTS OF CASH FLOWS

for the three months ended March 31, 2007 and 2006
and for the cumulative period from August 2, 2005 (date of inception) to March 31, 2007
UNAUDITED

	For the 3 Months ended March 31, 2007	For the 3 Months ended March 31, 2006	Cumulative Period from August 2, 2005 (date of inception) March 31, 2007
Operating expenses:			
Research and development	$101,674	$150,920	$711,861
General and administrative	664,654	225,086	2,344,620
Total operating expenses:	766,328	376,006	3,056,481
Loss from operations	(766,328)	(376,006)	(3,056,481)
Interest income (expense) and other, net	(14,498)	2,025	(8,162)
Net loss	$(780,826)	$(373,981)	$3,064,643

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

VIRNETX, INC.

(a development stage enterprise)

STATEMENTS OF CASH FLOWS

for the three months ended March 31, 2007 and 2006
and for the cumulative period from August 2, 2005 (date of inception) to March 31, 2007

UNAUDITED

	For the three months ended March 31, 2007	For the three months ended March 31, 2006	Cumulative Period from August 2, 2005 (date of inception) to March 31, 2007
Cash flows from operating activities:			
Net loss	$(780,826)	$(373,981)	$(3,064,643)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	20,857	161,672	1,032,606
Depreciation and amortization	2,191	130	9,880
Changes in operating assets and liabilities:			-
Prepaid expenses and other current assets	(477109)	61170	(504054)
Other assets	(150)	0	(1244)
Accounts payable	167138	105776	254524
Net cash used in operating activities	(1067899)	(45233)	(2272931)
Cash flows from investing activities:			
Purchase of property and equipment	0	(7609)	(34776)
Net cash used in investing activities	0	(7609)	(34776)
Cash flows from financing activities:			
Proceeds from issuance of Series A preferred stock, net of issuance costs	-	1,147,625	1,147,625
Proceeds from issurance of restricted stock units	150	-	2,330
Proceeds from advance from preferred shareholders	-	-	230,000
Proceeds from convertible notes	1,500,000	-	1,500,000
Net cash provided by financing activities	1,500,150	1,147,625	2,879,955
Net increase in cash and cash equivalents	432,251	1,094,783 0	572,248
Cash and cash equivalents, beginning of period	139,997	$86,552	-
Cash and cash equivalents, end of period	$572,248	$1,181,335	$572,248

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

1. Formation and Business of the Company

VirnetX (the “Company”) was incorporated in the state of Delaware on August 2, 2005. The Company is a development stage company that has commercialized its extensive patent portfolio to provide solutions for secure “real time” communications such as Instant Messaging (“IM”) and Voice over Internet Protocol (“VoIP”).

VirnetX, Inc.’s issued and pending patents were acquired from SAIC, a systems, solutions and technical services company based in San Diego, California, in 2005. VirnetX has granted SAIC a limited license under these patents, but retains all right title and interest within the field of secure communications in the following areas: Virtual Private Networks; Secure Voice Over Internet Protocol; Electronic Mail (E-mail); Video Conferencing; Communications Logging; Dynamic Uniform Resource Locators; Denial of Service; Prevention of Functional Intrusions; IP Hopping; Voice Messaging and Unified Messaging; Live Voice and IP PBXs; Voice Web Video Conferencing and Collaboration; Instant Messaging; Minimized Impact of Viruses; and Secure Session Initiation Protocol. The Field of Use is not limited by any predefined transport mode or medium of communication (e.g., wire, fiber, wireless, or mixed medium).

The Company is in the development stage and consequently, the Company is subject to the risks associated with development stage companies, including the need for additional financings; the uncertainty of the Company’s intellectual property resulting in successful commercial products as well as the marketing and customer acceptance of such protection; and dependence on corporate partners and collaborators. To achieve successful operations, the Company may require additional capital to continue research and developing and marketing efforts. No assurance can be given as to the timing or ultimate success of obtaining future funding.

These financial statements are prepared on a going concern basis that contemplates the realization of assets and discharged liabilities in the normal course of business. The Company has incurred net operating losses and negative cash flows from operations. At March 31, 2007, the Company had an accumulated deficit of $3,064,643. In order to continue its operations, the Company must achieve profitable operations or obtain additional financing. Management is currently pursuing financing alternatives, including private equity or debt financing, collaborative or other arrangements with corporate partners or other sources. There can be no assurance, however, that such a financing will be successfully completed on terms acceptable to the Company. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Summary of Significant Accounting Policies

~~**Summary of Significant Accounting Policies**~~

Use of Estimates

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

Continued

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

~~**Summary of Significant Accounting Policies,** continued~~

Property and Equipment

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

Concentration of Credit Risk and Other Risks and Uncertainties

The Company's cash and cash equivalents are primarily maintained at one financial institution in the United States. Deposits held with these financial institutions may exceed the amount of insurance provided on such deposits. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At March 31, 2007, the Company's uninsured cash balances were $472,248. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Impairment of Long-Lived Assets

The Company identifies and records impairment losses on long-lived assets used in operations when events and changes in circumstances indicate that the carrying amount of an asset might not be recoverable. 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.

Comprehensive Income (Loss)

The Company reports comprehensive income (loss) in accordance with the provisions of Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*, which establishes standards for reporting comprehensive income (loss) and its components in the financial statements. Comprehensive loss was equal to net loss for the years ended December 31, 2006 and 2005 and the three months ended March 31, 2007.

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.

Continued

2. Summary of Significant Accounting Policies, continued

Income Taxes

The Company accounts for income taxes under the 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.

Fair Value of Financial Instruments

Carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts payable, and accrued liabilities, approximate their fair values due to their short maturities.

Stock-Based Compensation

On inception, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") 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 SFAS 123(R), the Company began recognizing compensation expense for stock-based awards granted or modified after August 2, 2005.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157 "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective in fiscal years beginning after November 15, 2007.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Liabilities" ("SFAS 159"). SFAS 159 provides entities with the option to report selected financial assets and liabilities at fair value. Business entities adopting SFAS 159 will report unrealized gains and losses in earnings at each subsequent reporting date on items for which fair value option has been elected. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 requires additional information that will help investors and other financial statement users to understand the effect of an entity's choice to use fair value on its earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2 007, with earlier adoption permitted. The Company is currently assessing the impact that the adoption of SFAS 159 may have on our financial position, results of operations or cash flows.

Continued

3. Property and Equipment, net

	Useful Life (in years)	March 31, 2007	December 31, 2006
Furniture and fixtures	7	$9,150	$9,150
Computers and equipment	5	25,626	25,626
		34,776	34,776
Less: Accumulated depreciation		(9,880)	(7,689)
		$24,896	$27,087

Depreciation and amortization expense was $2,191, $130 and $9,880 for the three months ended March 31, 2007 and March 31, 2006, and for the period from August 2, 2005 (date of inception) to March 31, 2007, respectively.

4. Commitments and Contingencies

Operating Lease Agreements

The Company leases its office space under a noncancelable operating lease that expires in April 2008. The Company recognizes rent expenses on a straight-line basis over the lease period.

Future minimum facility lease payments at March 31, 2007 are as follows:

2007	$11,194
2008	$ 3,731

Rent expense was $3,731, $0 and $11,940 for the three months ended March 31, 2007 and March 31, 2006, and for the period from August 2, 2005 (date of inception) to March 31, 2007, respectively.

Patent Assignment Agreement with SAIC

The Company's patents are based on patents originally acquired from SAIC. VirnetX acquired these patents from SAIC pursuant to the Assignment Agreement by and between VirnetX and SAIC dated December 21, 2006, and certain other related agreements. Under the terms of these agreements, the Company will pay SAIC a minimum guaranteed royalty of $50,000 annually beginning in July, 2008. In addition, the Company will pay to SAIC royalties in the amount of 15% of gross revenues up to a maximum amount of $35 million less any amounts already paid by the Company to SAIC. At March 31, 2007 no payments have been made to SAIC under the terms of these agreements.

Our business depends on our rights to and under the Patents, which were assigned to us by SAIC. Our agreements with SAIC impose obligations on us, such as payment obligations. If SAIC believes that we have failed to meet these obligations, SAIC could seek to limit or reacquire the assigned Patent rights, which could

Continued

lead to costly and time-consuming litigation and, potentially, a loss of our rights in the Patents. During the period of any such litigation, our ability to carry out the development and commercialization of potential products could be significantly and negatively affected. If our rights in our Patents were restricted or ultimately lost, our ability to continue our business based on the affected technology platform could be severely adversely affected.

See NOTE 11 for a description of pending litigation.

5. Convertible Preferred Stock

Preferred stock at March 31, 2007 and December 31, 2006 consists of the following:

Series	Date Issued	Original Issue Price	Shares Authorized	Shares Outstanding
Preferred Series A	March 27, 2006	$1.00	2,000,000	1,404,000

Voting

Each share of convertible preferred stock has voting rights equal to an equivalent number of shares of common stock into which it is convertible and votes together as one class with the common stock.

Dividends

Holders of convertible preferred stock are entitled to receive dividends prior to and in preference to any declaration or payment of any dividends on the common stock, at the rate of $0.08 per share per annum on each outstanding share of Series A Preferred Stock, payable quarterly. Such dividends shall be payable only when, as, and if declared by the Board of Directors and shall not be cumulative. After payment of such dividends, any additional dividends shall be distributed among the Series A preferred stock and Common stock pro-rata based on the number of shares of Common Stock then held by each holder (assuming conversion of all such Series A preferred stock into common stock).

Continued

Liquidation

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series A Preferred Stock is entitled to receive, prior and in preference to any distribution of any assets of the Corporation to the holders of common stock, an amount per share equal to $1.00 per share for each share of Series A Preferred Stock then held by them, plus any declared but unpaid dividends. The remaining assets, if any, shall be distributed among the holders of common stock and convertible preferred stock, pro rata based on the number of shares of common stock held by each holder assuming the conversion of all such redeemable convertible preferred stock. If the Company's legally available assets are insufficient to satisfy the liquidation preferences, the funds will be distributed ratably among the holders of Series A Preferred Stock, in proportion to the amounts each holder would receive if the Company had sufficient assets and funds to pay the full preferential amount.

Continued

Conversion

Each share of convertible preferred stock is convertible, at the option of the holder, into a number of fully paid and non-assessable shares of common stock as is determined by dividing $1.00 by the conversion price applicable to such share, determined as hereafter provided, in effect on the due date the certificate is surrendered for conversion. The initial conversion price per share of Series A Preferred Stock shall be $1.00 and is subject to adjustments in accordance with anti-dilution provisions, including stock splits and stock dividends, contained in the Company's Certificate of Incorporation.

5. Convertible Preferred Stock, continued

Conversion, continued

Each share of Series A Preferred Stock automatically converts into shares of common stock at the conversion price at the time in effect for such share immediately upon the earlier of (1) the Company's sale of its Common Stock in a firm commitment underwritten public offering which results in aggregate cash proceeds to the Corporation of not less than $8,000,000; (2) any reverse merger that yields working capital to the Company of at least $8,000,000 and which results in the Company's shares being registered under Securities Exchange Act of 1934; (3) the date specified by the written consent or agreement of the holders of a majority of the then outstanding shares of Series A preferred Stock.

At March 31, 2007, the Company has reserved sufficient shares of common stock for issuance upon conversion of the convertible preferred stock.

Redemption

The Series A Preferred stock is not mandatory redeemable.

Continued

6. Common Stock

Each share of common stock has the right to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available stock has the right to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared by the Board from inception through December 31, 2006. The Company's Restated Certificate of Incorporation, as amended in March 2006, authorizes the Company to issue 60,000,000 shares of $0.0001 per value common stock.

7. Stock Plan

In 2005, the Company adopted the 2005 Stock Plan (the "Plan"). The Plan provides for the granting of stock options and Restricted Stock Units ("RSUs") to employees and consultants of the Company. Stock options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to Company employees (including officers and directors who are also

Continued

employees). Nonqualified stock options (“NSO”) may be granted to Company employees and consultants. The Company has reserved 2,800,000 shares of common stock for issuance under the plan.

Options under the Plan may be granted for periods of up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors, provided, however, that the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively, and the exercise price of an ISO and NSO granted to a 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant.

Continued

7. Stock Plan, continued

Activity under the Plans is as follows:

		Options Outstanding	
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price
Shares reserved for the Plan at inception	2,800,000	-	-
Restricted stock units granted	(800,000)	-	-
Options granted	0	-	-
Options exercised	0	-	-
Options canceled	0	-	-
Balance at December 31, 2005	2,000,000	-	-
Restricted stock units granted	(255,000)	-	-
Options granted	(450,000)	450,000	$1.00
Options exercised	-	-	-
Options canceled	-	-	-
Balance at December 31, 2006	1,295,000	450,000	$1.00
Restricted stock units granted	-	-	-
Options granted	-	-	-
Options exercised	-	-	-
Options canceled	-	-	-
Balance at March 31, 2007	1,295,000	450,000	$1.00

8. Stock-based Compensation

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS 123(R) which requires that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustments as the underlying equity instruments vest.

At March 31, 2007 and December 31, 2006, the fair value of common stock is $1.00 per share. The Company has recorded $20,857, $161,672 and $1,032,606 in employee stock-based compensation expense for the three months ended March 31, 2007 and March 31, 2006 and for the period from August 2, 2005 (date of inception) to March 31, 2007, respectively.

Continued

8. Stock-based Compensation, continued

The Company elected to adopt the modified retrospective application method as provided by SFAS No. 123(R) and accordingly, financial statement amounts for the periods presented herein reflect results as if the fair value method of expensing equity awards had been applied from the date of inception. The effect of recording stock-based compensation for the three months ended March 31, 2007 and 2006 and for the period from August 2, 2005 (date of inception) to March 31, 2007 was as follows:

Stock-Based Compensation by Type of Award	For the three months ended March 31, 2007	For the three months ended March 31, 2006	August 2, 2005 (date of inception) to March 31, 2007
Restricted stock units	$-	$130,210	$930,130
Employee stock options	20,857	31,462	102,476
Total stock-based compensation	$20,857	$161,672	$1,032,606

As the Company has provided for a full valuation allowance against deferred tax assets, there is no anticipated tax effect of stock-based compensation expense.

As of March 31, 2007, the unrecorded deferred stock-based compensation balance related to stock options was $262,129, respectively and will be recognized over an estimate weighted average amortization period of approximately 3.1 years.

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

	March 31, 2007	March 31, 2006
Volatility	-	100.00%
Rick-free interest rate	-	4.77%
Expected life	-	6 years
Expected dividends	-	0.00%

The expected life was determined using the simplified method outlined in Staff Accounting Bulletin No. 107 (“SAB 107”) taking the average of the vesting term and the contractual term of the option. Expected volatility of the stock options was based upon historical data and other relevant factors, such as the volatility of comparable publicly traded companies at a similar stage of life cycle. The Company has not provided an estimate for forfeitures because the Company has no history of forfeited options and believes that all outstanding options at December 31, 2006 will vest. In the future, the Company may change this estimate based on actual and expected future forfeiture rates. Based on the Black-Scholes option pricing model, the weighted average estimated fair value of employee stock option grants was $0.81 for the three months ended March 31, 2007 and year ended December 3 1, 2006.

Continued

8. Stock-based Compensation, continued

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	-	-	-	-
Options granted	450,000	1.00	9.4	-
Options exercised	-	-	-	-
Options cancelled	-	-	-	-
Outstanding at December 31, 2006	450,000	1.00	9.4	-
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options cancelled	-	-	-	-
Outstanding at March 31, 2007	450,000	$1.00	9.1	-

The following table summarizes information about stock options at March 31, 2007:

Options Outstanding				Options Vested and Exercisable		
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contratual Life
$1.00	450,000	9.1	$1.00	40,000	$1.00	8.9

9. Convertible Notes Payable

During February 2007 the company obtained bridge financing in the form of notes payable convertible into common stock upon the merger with PASW, Inc. (OTC: PASW.OB (“PASW”)).

In February 2007, the Company received a loan of $500,000 from several of its Series A shareholders. The notes have an annual interest rate of 6% and will be paid in cash upon the close of the Merger. These preferred shareholders agreed to convert their Series A preferred shares to shares of the Company’s common stock upon the close of the Merger.

Continued

9. Convertible Notes Payable, continued

In February 2007, the Company received another loan from a new investor for $1,000,000. This note has an annual interest rate of 10% payable monthly. Of the $1,000,000 proceeds, the Company was obligated to use $350,000 to be deposited as a retainer for legal counsel. This $350,000 is classified in prepaid expenses and other current assets on the Company's March 31, 2007 balance sheet. This investor has committed to purchasing an additional $3,000,000 of Company's common stock upon consummation of the merger with PASW. This $3,000,000 has been placed into escrow and will be remitted to the Company upon the close of the merger with PASW.

10. Merger with PASW, Inc.

In January 2007, a majority of the Company's preferred stock shareholders committed to convert their Series A preferred stock to common stock upon the planned reverse merger at a conversion price of $1.00 per share.

In January 2007 the Company announced that it entered into a non-binding term sheet to merge ("the Merger") with PASW, Inc. ("PASW"). Under the terms of the agreement, the two companies will enter into a reverse merger in which PASW or its acquisition corporation would acquire all of the common stock of the Company. Following the close of the acquisition, PASW will change its name as shall be approved by the Company.

If the transaction is concluded as currently proposed, as to which no assurance can be given, PASW:

- would merge with VirnetX, Inc. in a transaction that is intended to be completed before July 15, 2007;
- would cause its management to be replaced upon completion of the transaction so that the officers and directors of VirnetX, Inc. will become the officers and directors of PASW;
- will have obtained added equity funds of not less than $4.5 million; See Note 9 above
- will change its name to that selected by VirnetX, Inc.; and
- anticipates that the current shareholders of PASW will then own approximately 5% of the outstanding capital stock of the Company and the shareholders of VirnetX, Inc., as well as those providing the additional equity funding, will own the balance.

11. Litigation

On February 15, 2007, the Company filed a complaint against Microsoft in the United States District Court for the Eastern District of Texas, Tyler Division. Pursuant to the complaint, the Company alleges that Microsoft infringes two of our U.S. patents: U.S. Patent No. 6,502,135 B1, entitled "Agile Network Protocol for Secure Communications with Assured System Availability," and U.S. Patent No. 6,839,759 B2, entitled "Method for Establishing Secure Communication Link Between Computers of Virtual Private Network

Continued

Without User Entering Any Cryptographic Information." On April 5, 2007, the Company filed an amended complaint specifying certain accused products at issue and alleging infringement of a third, recently issued U.S. patent: U.S. Patent No. 7,188,180 B2, entitled "Method for Establishing Secure Communication Link Between Computers of Virtual Private Network." The Company is seeking both damages, in an amount subject to proof at trial, and injunctive relief. Microsoft answered the amended complaint and asserted counterclaims against the Company on May 4, 2007. Microsoft counterclaimed for declarations that the three patents are not infringed, are invalid and are unenforceable. Microsoft seeks an award of its attorney's fees and costs. The Company filed a reply to Microsoft's counterclaims on May 24, 2007. The outcome of the litigation c annot be estimated at this time and hence the financial statements have not been adjusted for this litigation.

Continued

Exhibit 99.2

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Introduction

At the closing date of the Merger, VirnetX security holders owned approximately 95% of the combined company on a fully-diluted basis, VirnetX directors and executive management constituted a majority of the combined company's board of directors and executive management, respectively. Due to the foregoing, VirnetX is deemed to be the acquiring company for accounting purposes and the merger transaction will be accounted for as a reverse merger and a recapitalization. The financial statements of the combined entity reflect the historical results of VirnetX prior to the merger and do not include the historical financial results of PASW prior to the merger except for those operations of PASW expected to continue after the merger. Stockholders' equity and earnings per share of the combined entity will be retroactively restated to reflect the number of shares of common stock received by VirnetX security holders in the merger, after giving effect to the difference between the par values of the capital stock of VirnetX and PASW, offset by additional paid-in capital.

The following unaudited pro forma combined financial statements have been prepared to give effect to the merger of VirnetX and PASW which, in accordance with accounting principles generally accepted in the United States is considered a reverse acquisition of assets and a recapitalization with VirnetX deemed to be acquiring PASW. It is assumed that PASW does not meet the definition of a business in accordance with Statement of Financial Accounting Standards, or SFAS No. 141, Business Combinations, and Emerging Issue Task Force 98-3, or EITF 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business.

For accounting purposes, PASW is being viewed as a publicly-held shell company because it had $250,000 of cash and no other material assets or liabilities at the time of closing of the merger, VirnetX security holders owned approximately 95% of the combined company on a fully-diluted basis post merger and, post merger, VirnetX directors and executive management constituted a majority of the combined company's board of directors and executive management, respectively. Based on the above and in accordance with accounting principles generally accepted in the United States, the merger is considered to be a reverse acquisition and recapitalization and as such the cost of the proposed merger is measured as net assets acquired and goodwill will not be recognized.

The actual amounts recorded pursuant to the merger may differ materially from the information presented in these unaudited pro forma combined condensed consolidated financial statements as a result of:

- the impact of any sale of all or part of the operating assets of PASW,
- cash cost of PASW's operations between the signing of the merger agreement and the closing of the merger,
- the timing of completion of the merger,
- the cost of liquidation of any operating assets should PASW or VirnetX fail to divest of such assets or liabilities, and
- other changes in PASW's assets that occur prior to completion of the merger, which could cause material differences in the information presented below.

The unaudited pro forma combined condensed consolidated financial statements presented below are based on the historical financial statements of VirnetX and PASW, adjusted to give effect to the merger. The pro forma adjustments are described in the accompanying notes presented on the following pages.

The unaudited pro forma consolidated balance sheet assumes that the merger was completed as of March 31, 2007. The unaudited pro forma combined condensed consolidated statement of operations for the year ended December 31, 2006 and the three months ended March 31, 2007 assume that the merger was completed as of January 1, 2006.

The unaudited pro forma consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have actually been reported had the merger occurred at the dates stated above, nor is it necessarily indicative of future financial position or results of operations. The unaudited pro forma combined condensed consolidated financial information has been derived from and should be read in conjunction with the historical consolidated financial statements and related notes of VirnetX and PASW which are included in this Form 8-K Report.

	As of March 31, 2007				As of March 31, 2007
	VirnetX (unaudited)	PASW (unaudited)	Pro Forma Adjustments		Proforma As Adjusted
Cash and cash equivalents	$572,248	$241,192	-		$813,440
Accounts receivable	-	25,680	-		25,680
Prepaid expenses and other current assets	504,054	-	-		504,054
Assets held for sale	-	-	1,434	A	1,434
Total current assets	1,076,302	266,872	1,434		1,344,608
Property and equipment, net	24,896	1,434	(1,434)	A	24,896
Other assets	1,244	-	-		1,244
Total assets	$1,102,442	$268,306	$-		$1,370,748
Accounts payable	$254,524	$43,750	-		$298,274
Accrued expenses	-	-	1,100,000	B	1,100,000
Convertible notes payable	1,500,000	-	(1,500,000)	C	-
	1,754,524	43,750	(400,000)		1,398,274
Commitments and contingencies					
Stockholders' equity (deficit):					
Convertible preferred stock	1,377,625	-	(1,377,625)	C	-
Common stock	424	4,998	-		5,422
Additional paid-in capital	1,034,512	6,398,754	(1,100,000)	B	3,031,695
			2,877,625	C	
			(6,179,196)	D	
Accumulated deficit	(3,064,643)	(6,131,638)	6,131,638	D	(3,064,643)
					-
Accumulated comprehensive income	-	(47,558)	47,558	D	-
					-
Total stockholders' equity (deficit)	(652,082)	224,556	400,000		(27,526)
Total liabilities and stockholders' equity (deficit)	$1,102,442	$268,306	$-		$1,370,748

SEE ACCOMPANYING NOTES TO UNAUDITED PROFORMA FINANCIAL STATEMENTS

	As of March 31, 2007				As of March 31, 2007
	VirnetX Unaudited	PASW Unaudited	Pro Forma Adjustments		Proforma As Adjusted
Revenues					
Royalties	$-	$49,554	-	E	$49,554
Operating expenses:					-
Research and development	101,674	-	-		101,674
General and administrative	664,654	94,528	(69,525)	F	689,657
Total operating expenses:	766,328	94,528	(69,525)		840,885
Loss from operations	(766,328)	(44,974)	69,525		(741,777)
Interest (expense) and other, net	(14,498)	-	-		(14,498)
Net loss	(780,826)	(44,974)	69,525		(756,275)
Income Taxes	-	-	-		-
	$(780,826)	$(44,974)	$69,525		$(756,275)
Net Income Loss Per share					
Basis and Diluted	$(0.14)	$(0.01)			(0.01)
Weighted average Common Stock					
Shares Outstanding					
Basis and Diluted	5,639,000	4,997,400	61,857,184	G	89,792,276
			17,298,692	H	

SEE ACCOMPANYING NOTES TO UNAUDITED PROFORMA FINANCIAL STATEMENTS

	As of December 31, 2006				As of December 31, 2006
	VirnetX	PASW	Pro Forma Adjustments		Proforma As Adjusted
Revenues					
Royalties	$-	$191,287	-	E	191,287
Operating expenses:					
Research and development	554,187	-	-		554,187
General and administrative	853,488	144,365	(136,205)	F	861,648
Total operating expenses:	1,407,675	144,365	(136,205)		1,415,835
Loss from operations	(1,407,675)	46,922	136,205		(1,224,548)
Interest income (expense) and other, net	6,336	5,035	-		11,371
Forgivness of Accrued Expenses	-	8,461	(8,461)	F	-
Net loss	(1,401,339)	60,418	127,744		(1,213,177)
Income Taxes	-	-	-		-
	$(1,401,339)	$60,418	$127,744		$(1,213,177)
Net Income Loss Per share					
Basis and Diluted	$(0.25)	$0.01			$(0.01)
Weighted average Common Stock					
Shares Outstanding					
Basis and Diluted	5,639,000	4,997,400	61,857,184	G	89,792,276

17,298,692 H

SEE ACCOMPANYING NOTES TO UNAUDITED PROFORMA FINANCIAL STATEMENTS

Notes to the Unaudited Pro Forma Combined Condensed Consolidated Financial Statements

1. Basis of Presentation

On April 18, 2007, shareholders owning a majority of the outstanding shares of PASW, Inc. have acted by written consent to approve a merger which changed PASW's state of incorporation from the State of California to the State of Delaware.

On June 12, 2007, PASW entered into the Merger Agreement with VirnetX, the terms of which provide for a change in control of the Company. As part of the Merger, PASW entered into a Merger Agreement with VirnetX, pursuant to which, among other things, PASW's wholly-owned subsidiary, VirnetX Acquisition, Inc. merged with and into VirnetX, with VirnetX becoming our wholly-owned subsidiary thereafter. Additionally, the securityholders of VirnetX collectively exchanged their (i) shares of capital stock and the Convertible Debt for shares of our Common Stock; (ii) options to purchase shares of capital stock of VirnetX (each a "VirnetX Option") for similar options to purchase shares of our Common Stock and (iii) warrant rights for a warrant to purchase shares of our Common Stock (the "Warrant Rights"). Th e existing securityholders of VirnetX owned shares of our Common Stock and options or warrants to purchase shares of our Common Stock, collectively constituting approximately 95% of our issued and outstanding capital stock (assuming the exercise of all outstanding options) immediately after the consummation of the Merger.

More specifically, upon the consummation of the Merger:

- in exchange for each share of common stock, par value $.0001 per share of VirnetX ("VirnetX Common Stock") outstanding as of immediately prior to the consummation of the Merger, PASW issued to such VirnetX stockholders (other than any Dissenting Stockholders) approximately 12.45479 shares of PASW Common Stock, for an aggregate of approximately 70,481,648 shares of PASW Common Stock;

- upon conversion of and in exchange for each $1.00 of principal amount of Convertible Debt outstanding as of immediately prior to the consummation of the Merger we issued to such Convertible Debt holders 4 shares of PASW Common Stock, for an aggregate of 18,000,000 shares of PASW Common Stock;

- in exchange for each VirnetX Option outstanding as of immediately prior to the consummation of the Merger we issued to such VirnetX Option holders an option to purchase 12.45479 shares of PASW Common Stock, for options exercisable for an aggregate of 8,469,256 shares of our Common Stock, at a per share exercise price equal to the exercise price applicable to each such VirnetX Option divided by 12.45479, and upon such other terms and conditions provided with respect to such VirnetX Option (except that 3,113,697 of the 8,469,256 options to be granted were granted after the closing in connection with a new hire and the exercise price of these new hire options will be the fair market value of the PASW shares at the time of grant); and

- we issued a warrant to purchase 800,000 shares of our common stock to MDB Capital Group, Incorporated ("MDB") pursuant to an Advisory Services Agreement between MDB and VirnetX, as amended to date, with an exercise price of $0.25 per share.

Upon the closing of the Merger and the conversion of all of the securities described above, VirnetX became a wholly-owned subsidiary of PASW.

For accounting purposes, PASW is being viewed as a publicly-held shell company because (i) it had $250,000 of cash and no other material assets or liabilities at the time of closing the
proposed merger, (ii) at the closing date of the Merger, VirnetX security holders owned approximately 95% of the combined company on a fully-diluted basis, (iii) VirnetX directors and executive management constituted a majority of the combined company's board of directors and executive management, respectively. Additionally, due to the foregoing, VirnetX will be deemed to be the acquiring company for accounting purposes and the merger is considered to be a reverse acquisition and recapitalization. As a result, the cost of the proposed merger is measured as net assets acquired and goodwill will not be recognized.

2. Pro forma adjustments

(A) To reflect the reclassification of certain of PASW' operating assets as assets held for sale excluding cash and cash equivalents and interest and trade receivables that are to be assumed by VirnetX at the close of the merger.

(B) To reflect the accrual of estimated costs of $1,100,000 to be incurred after March 31, 2007 by VirnetX, Inc. and PASW in connection with the consummation of the merger. Merger costs include fees payable for investment banking services, legal, accounting, printing and other consulting services.

(C) To reflect the exchange of all outstanding common stock of VirnetX and convertible notes payable for an estimated 88.5 million shares of PASW' common stock, par value of $0.001, which represents the total of (i) 70,481,648 shares of PASW' common stock that were issued to the stockholders of VirnetX at the closing of the merger, which equals twelve times the number of fully diluted shares of PASW' common stock issued and outstanding immediately prior to the closing of the merger, and (ii) 18,000,000 shares of PASW common stock that were issued to the holders of convertible debt based on the written consent to convert the debt to stock upon the merger.

(D) To reflect the elimination of PASW's common stock, additional paid in capital, accumulated comprehensive loss and accumulated deficit except of the value of acquired PASW net assets.

(E) Royalties paid to the Company pursuant to a contract that is renewed annually but may be cancelled by either party at the renewal date will continue until December 31, 2007 but are not assured beyond this date.

(F) To reflect the elimination of expenses of PASW, excluding costs related to being a public company, expenses related to the merger and the expenses that are expected to remain in the consolidated company.

(G) Holders of VirnetX common stock (including shares of VirnetX preferred stock converted to VirnetX common stock immediately prior to the closing of the Merger) will receive 12.45479 newly-issued shares of PASW Common Stock for each share of VirnetX Common Stock exchanged in connection with the Merger.

(H) The holders of convertible debt of VirnetX, in an aggregate principal amount of $4,500,000, will receive a total of 18,000,000 shares of PASW Common Stock in exchange for the entire aggregate principal amount of such convertible debt and shall be paid any and all interest accrued thereon in cash.

Exhibit 99.3

Press Release

LOS ANGELES--(BUSINESS WIRE)--PASW, Inc. (OTCBB:PASW - News) announced today that it has completed the merger with VirnetX, Inc., a development stage corporation that is engaged in software development for secure real time communications.

Under the terms of the merger agreement:

VirnetX has become a wholly owned subsidiary of PASW;

PASW has caused the officers and directors of VirnetX to become officers and directors of PASW and;

A $4.5 million bridge loan consisting of $1.5 million previously made available and $3 million made available at the closing of the merger has been converted to PASW equity,

The merger has resulted in the current stockholders of PASW owning approximately 4.852% of the company on a fully diluted basis and the security holders of VirnetX, together with certain new investors, option holders and warrant holders owning the balance.

About PASW:

PASW, Inc., formerly Pacific Softworks, Inc., was incorporated in California in November 1992. It was reincorporated in Delaware in May 2007.The Company developed and licensed Internet and Web related software and software development tools that enable communications, based on a set of rules known as protocols. From January 2001 the operations, consisting of sales of software and licenses, were conducted principally through an administrative office in Northern California and the sales office of a subsidiary, National Research Corporation - Japan ("NRCJ"). In January 2003 the Company sold the operating assets of NRCJ and the sales office was closed. However, the Company has continued to receive royalty income from a former NRCJ customer.

About VirnetX:

VirnetX, Inc., is a development stage company that is engaged in developing products for "real time" communications such as Instant Messaging and Voice over Internet Protocol, licensing its patent portfolio and providing contract research, prototyping, systems integration and technical services to numerous branches of the U.S. Federal government, network service providers and OEM partners. The company's technology is designed to provide:

Single-click security solutions for real time communications; and

Provide end-to-end security for VoIP, Video Conferencing and other types of peer-to-peer collaboration without degradation in quality of service.

The company is currently engaged in litigation against Microsoft Corporation in the Eastern District of Texas regarding Microsoft's infringement of VirnetX's patents. The name VirnetX is derived from the core function of the company's technology, namely Virtual Network Exchange. VirnetX is a Delaware corporation incorporated in November 2005 and is headquartered in Scotts Valley, California.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of any securities of PASW in any state in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

Forward Looking Statements:

This release contains forward-looking statements. Actual results may differ from those projected due to a number of risks and uncertainties, including, but not limited to the possibility that some or all of the pending matters and transactions considered by the PASW may not proceed as contemplated, particularly if any conditions to closing are not satisfied, and by all other matters specified in PASW's filings with the Securities and Exchange Commission. These statements are made based upon current expectations that are subject to risk and uncertainty. PASW does not undertake to update forward-looking statements in this news release to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information. Assumptions and other information that could cause results to differ from those set forth in the forward-

looking information can be found in the PASW's filings with the Securities and Exchange Com mission, including its most recent periodic report.

Contact:

PASW, Inc.

Bill Sliney, 925-828-0934