

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

Commission file number 001-33852



**VirnetX Holding Corporation**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**77-0390628**

(I.R.S. Employer Identification No.)

**5615 Scotts Valley Drive, Suite 110**

**Scotts Valley, California**

(Address of Principal Executive Offices)

**95066**

(Zip Code)

**(831) 438-8200**

(Registrant's Telephone Number, Including Area Code)

**Not applicable**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting  
company)

Smaller reporting company

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

The number of shares outstanding of the Registrant's Common Stock as of November 4, 2010 was 48,840,172.

VIRNETX HOLDING CORPORATION

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## PART I — FINANCIAL INFORMATION

## ITEM 1. — FINANCIAL STATEMENTS.

**VIRNETX HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2010 <u>(Unaudited)</u>	December 31, 2009 <u></u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 74,548,759	\$ 2,011,470
Accounts receivable, net	---	6,842
Prepaid expense and other current assets	129,658	43,863
<b>Total current assets</b>	<b>74,678,417</b>	<b>2,062,175</b>
Property and equipment, net	21,156	23,430
Intangible and other assets	120,000	156,000
Deferred tax benefit	2,600,000	---
<b>Total assets</b>	<b>\$ 77,419,573</b>	<b>\$ 2,241,605</b>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 404,359	\$ 4,478,325
Income tax liability	7,200,000	—
Current portion of long-term obligation	—	40,000
<b>Total current liabilities</b>	<b>7,604,359</b>	<b>4,518,325</b>
Long-term obligation, net of current portion	—	120,000
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, par value \$0.0001 per share		
Authorized 10,000,000 shares issued and outstanding: 0 shares at September 30, 2010 and December 31, 2009, respectively	—	—
Common stock, par value \$0.0001 per share		
Authorized 100,000,000 shares, issued and outstanding: 47,682,130 shares at September 30, 2010 and 39,750,927 at December 31, 2009, respectively	4,768	3,975
Additional paid in capital	55,037,594	33,730,217
Retained earnings (Deficit accumulated during the development stage)	14,772,852	(36,130,912)
Total stockholders' equity (deficit)	<b>69,815,214</b>	<b>(2,396,720)</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 77,419,573</b>	<b>\$ 2,241,605</b>

See accompanying notes to condensed consolidated financial statements

**VIRNETX HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	<b>Three Months Ended September 30, 2010</b>	<b>Three Months Ended September 30, 2009</b>
Revenue — royalties	\$ 15,538	\$ 3,233
Operating expense:		
Research and development	192,587	215,243
General, selling and administrative	2,256,515	2,412,101
Total operating expense	<u>(2,449,102)</u>	<u>(2,627,344)</u>
Loss from operations	(2,433,564)	(2,624,111)
Interest and other income, net	79,830	1,360
Loss before taxes	<u>(2,353,734)</u>	<u>(2,622,751)</u>
Income tax benefit	(200,000)	—
<b>Net Loss</b>	<b>\$ (2,153,734)</b>	<b>\$ (2,622,751)</b>
Basic loss per share:	\$ (0.05)	\$ (0.07)
Diluted loss per share:	\$ (0.05)	\$ (0.07)
Weighted average shares outstanding basic	<u>47,427,288</u>	<u>37,264,263</u>
Weighted average shares outstanding dilutive	<u>51,771,964</u>	<u>37,264,263</u>
Dividends declared per common share	\$ 0.00	\$ 0.00
	<b>Nine Months Ended September 30, 2010</b>	<b>Nine Months Ended September 30, 2009</b>
Revenue — royalties	\$ 200,059,699	\$ 13,594
Operating expense:		
Royalty expense	59,239,274	—
Research and development	1,942,510	657,499
General, selling and administrative	30,667,457	9,313,786
Total operating expense	<u>(91,849,241)</u>	<u>(9,971,285)</u>
Income (loss) from operations	108,210,458	(9,957,691)
Interest and other income, net	92,744	4,832
Income (loss) before taxes	<u>108,303,202</u>	<u>(9,952,859)</u>
Income taxes	33,800,000	—
<b>Net Income (loss)</b>	<b>\$ 74,503,202</b>	<b>\$ (9,952,859)</b>
Basic earnings (loss) per share:	\$ 1.68	\$ (0.27)
Diluted earnings (loss) per share:	\$ 1.56	\$ (0.27)
Weighted average shares outstanding basic	<u>44,306,040</u>	<u>37,264,263</u>
Weighted average shares outstanding dilutive	<u>47,668,761</u>	<u>37,264,263</u>
Dividends declared per common share	\$ 0.50	\$ 0.00

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net Income (loss)	\$ 74,503,202	\$ (9,952,859)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock-based compensation	2,473,349	2,232,876
Depreciation and amortization	44,218	47,999
Deferred tax benefit	(2,600,000)	---
Changes in assets and liabilities:		
Receivables and other current assets	(78,951)	100,993
Accounts payable and accrued liabilities	3,126,034	2,534,586
Net cash provided (used) by operating activities	<u>77,467,852</u>	<u>(5,036,405)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(5,943)	(3,430)
Net cash used in investing activities	<u>(5,943)</u>	<u>(3,430)</u>
Cash flows from financing activities:		
Payment of royalty obligation less imputed interest	(160,000)	(44,000)
Payment of dividend	(23,599,439)	---
Proceeds from exercise of options	282,625	—
Proceeds from exercise of warrants	18,552,194	—
Proceeds from sale of common stock	—	8,642,928
Net cash (used) provided by financing activities	<u>(4,924,620)</u>	<u>8,598,928</u>
Net increase in cash and cash equivalents	72,537,289	3,559,093
Cash and cash equivalents, beginning of period	2,011,470	457,155
Cash and cash equivalents, end of period	<u>\$ 74,548,759</u>	<u>\$ 4,016,248</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for taxes	<u>\$ 29,200,000</u>	<u>\$ 5,373</u>
Cash paid during the period for interest	<u>\$ 10,000</u>	<u>\$ 6,000</u>
Supplemental disclosure of noncash investing and financing activities:		

See accompanying notes to condensed consolidated financial statements

**VIRNETX HOLDING CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)****Note 1 — Basis of Presentation**

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted. Results of operations for the interim periods presented are not necessarily indicative of results which may be expected for any other interim period or for the year as a whole. The accompanying unaudited interim financial statements include all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation. The information contained in this quarterly report on Form 10-Q should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2009 which are contained in our Annual Report on Form 10 - K filed with the Securities and Exchange Commission (“SEC”), on March 31, 2010.

**Note 2 — Formation and Business of the Company**

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

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

Our principal business activities to date are our efforts to commercialize our patent portfolio, and our primary source of significant revenue has been from the Settlement and License Agreement we entered into with Microsoft Corporation on May 14, 2010, or the Settlement. We also conduct the remaining activities of PASW, Inc., which are generally limited to the collection of royalties on certain internet-based communications by a wholly owned Japanese subsidiary of PASW pursuant to the terms of a single license agreement. The revenue generated by this agreement is not significant.

The company is no longer considered to be in the development stage as principal operations have commenced and significant revenues have been recognized. As such, the cumulative amounts and other disclosure required for development stage companies are omitted in the September 30, 2010 quarterly statements.

**Note 3 — Summary of Significant Accounting Policies*****Basis of Presentation***

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

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, 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.

***Earnings Per Share***

Basic earnings per share is based on the weighted average number of shares outstanding for a period. Diluted earnings per share is based upon the weighted average number of shares and potentially dilutive common shares outstanding. Potential common shares outstanding principally include stock options, warrants, restricted stock and other equity awards under our VirnetX Holding Corporation 2007 Stock Plan, or the plan.

### **Revenue Recognition**

We recognize revenue in accordance with Staff Accounting Bulletin 104. We are a licensor of software and generate revenue primarily from the one-time sale of licensed software. Generally, revenue is recognized upon shipment of licensed software. For multiple element arrangements, the license fee is allocated to the various elements based on fair value.

### **Cash and Cash Equivalents**

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

### **Concentration of Credit Risk and Other Risks and Uncertainties**

Our cash and cash equivalents are primarily maintained at two financial institutions in the United States. 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 (FDIC). During the period ended September 30, 2010 we had, at times, funds that were uninsured. The uninsured balance at September 30, 2010 was in excess of approximately \$5,700,000. We have not experienced any losses on our deposits of cash and cash equivalents.

### **Intangible Assets**

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

### **Impairment of Long-Lived Assets**

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

### **Research and Development**

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

### **Income Taxes**

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

We adopted Accounting for Uncertainty in Income Taxes using the prospective method allowed by Accounting Standards Codification ("ASC") Topic 740, Income Taxes. The adoption of ASC Topic 740, Income Taxes, did not have a material impact on our financial statements.

### **Fair Value of Financial Instruments**

Carrying amounts of our financial instruments, including cash and cash equivalents, accounts payable, notes payable and accrued liabilities approximate their fair values due to their short maturities.

**Stock-Based Compensation**

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

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

**Note 4 — Patent Portfolio**

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

**Note 5 — Income Taxes**

The Company had pre-tax income during the nine months ended September 30, 2010 for the first time since inception. The components of income tax expense are as follows:

	September 30, 2010	September 30, 2009
Current	\$ 36,400,000	\$ ---
Deferred	(2,600,000)	---
Total	<u>\$ 33,800,000</u>	<u>\$ ---</u>

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

	September 30, 2010	September 30, 2009
Tax provision (benefit at statutory rate)	\$ 37,900,000	\$ ---
State taxes, net of federal benefit	5,000,000	---
Change in deferred tax allowance	(9,500,000)	---
Other	400,000	---
Total	<u>\$ 33,800,000</u>	<u>\$ ---</u>

Prior to the nine months ended September 30, 2010, the tax benefit of the Company's net operating loss carryforwards were fully reserved as utilization was uncertain.

	September 30, 2010	September 30, 2009
Deferred tax benefit of net operating loss carryforwards	\$ 1,500,000	\$ 10,500,000
California franchise tax deduction	2,700,000	---
Other	3,800,000	500,000
Subtotal	<u>8,000,000</u>	<u>11,000,000</u>
Less utilization allowance	<u>(5,400,000)</u>	<u>(11,000,000)</u>
Total	<u>\$ 2,600,000</u>	<u>\$ ---</u>



**Note 6 — Commitments**

We lease our office facility under a non-cancelable operating lease that was amended in 2008 and ends in 2012. We recognize rent expense on a straight-line basis over the term of the lease.

<b>For the Year</b>	<b>Minimum Required Lease Payments in Period</b>
October 1 through December 31, 2010	\$ 14,520
2011	59,242
2012	30,202
	<u>\$ 103,964</u>

**Note 7 — Stock Plan**

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

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

There were 5,042,892 options outstanding at September 30, 2010 and 5,785,790 at December 31, 2009 with an average exercise price of \$3.24 and \$2.57 respectively. As of September 30, 2010, there were 1,103,479 shares available to be granted under the Plan.

During the period from January 1, 2010 through September 30, 2010, 1,056,649 options were exercised.

**Note 8 — Stock-Based Compensation**

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

Stock-based compensation expense is included in general and administrative expense for the period ended September 30, 2010. Total stock-based compensation expense was \$2,473,349 and \$2,232,876 for the nine months September 30, 2010 and 2009, respectively.

As of September 30, 2010, the unrecorded deferred stock-based compensation balance related to stock options was \$4,934,034, which will be amortized as expense over an estimated weighted average vesting amortization period of approximately 1.4 years.

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

	<b>Period Ended September 30, 2010</b>	<b>Year Ended December 31, 2009</b>
Volatility	110%	120%
Risk-free interest rate	3.66%	2.93%
Expected life	7.0 years	6.6 years
Expected dividends	0%	0%

The expected life was determined using the simplified method outlined in Staff Accounting Bulletin 111, taking the average of the vesting term and the contractual term of the option. Expected volatility of the stock options was based upon historical data and other relevant factors, such as the volatility of comparable publicly-traded companies at a similar stage of the life cycle. We have not provided an estimate for forfeitures because we have no history of forfeited options and believe that all outstanding options at September 30, 2010 will vest. In the future, we may change this estimate based on actual and expected future forfeiture rates.

## Note 9 — Warrants

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

### Warrant Activity as of the Nine Months Ended September 30, 2010

Original Number of Warrants Issued	Exercise Price per Common Share	Exercisable at December 31, 2009	Became Exercisable	Exercised	Terminated / Cancelled / Expired	Adjustment	Exercisable at September 30, 2010	Termination
300,000	\$ 4.80	300,000	-	(192,000)	-	-	108,000	December 2012
1,235,000	\$ 2.00 (1)	1,235,000	-	(1,233,741)	(1,259)	-	-	n/a
1,235,000	\$ 3.00 (1)	1,235,000	-	(1,235,000)	-	-	-	n/a
1,235,000	\$ 4.00 (1)	1,235,000	-	(1,235,000)	-	-	-	n/a
220,000	\$ 1.80	220,000	-	(220,000)	-	-	-	n/a
2,619,036	\$ 3.93 (2)	-	2,619,036 (2)	(212,926)	-	(2,406,110)	-	n/a
	\$ 3.59 (2)	-	2,406,110	(195,307)	-	241,029	2,451,832	March 2015
2,419,023	\$ 0.01 (3)	-	-	-	(2,419,023)	-	-	n/a
2,380,942	\$ 2.52	2,380,942	-	(2,380,942)	-	-	-	n/a
<b>Total</b>				<u>(6,904,916)</u>	<u>(2,420,282)</u>		<u>2,559,832</u>	

(1) Subject to call by us under certain conditions.

(2) Represents the exercise price and number of shares of common stock issuable as adjusted to reflect the impact of the Company's payment of a special cash dividend to stockholders of record on July 1, 2010.

(3) These warrants were exercisable under certain conditions. Those conditions were not met, and accordingly, these warrants terminated.

**Note 10 — Litigation**

We commenced two patent infringement lawsuits against Microsoft Corporation in February 2007 and March 2010.

On May 14, 2010, we entered into a Settlement and License Agreement with Microsoft to settle all claims asserted by us against Microsoft. Pursuant to the Settlement, Microsoft paid us \$200,000,000 in June 2010 and we dismissed both lawsuits and granted Microsoft a worldwide, irrevocable, nonexclusive, non-sub licensable fully paid up license under our patents. The license will not impact our plans to operate a secure domain name service. The foregoing description of the Settlement is not complete and is qualified in its entirety by reference to the complete Settlement and License Agreement, by and between VirnetX, Inc. and the Microsoft Corporation, dated as of May 14, 2010, a copy of which was filed with the SEC on Form 10-Q for the quarter ended June 30, 2010. On May 25, 2010 and June 1, 2010 all claims asserted by us against Microsoft with respect to the Microsoft litigation were dismissed with prejudice by the U.S. District Court for the Eastern District of Texas, Tyler Division, respectively.

On May 18, 2010, Microsoft filed notices with the U.S. Patent and Trademark office, or USPTO, to end its challenges, commenced in December 2009, of the validity of certain of our patents.

On June 16, 2010, the USPTO confirmed all of our claims in our U.S. Patent No. 6,502,135 and U.S. Patent No. 7,188,180 as patentable and valid and closed all reexamination proceedings for these patents.

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

**Note 11 — Special Cash Dividend**

On June 15, 2010, the Company's Board of Directors declared a special cash dividend of \$0.50 per share of the Company's common stock to holders of record on July 1, 2010.

## ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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

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

### Company Overview

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

Our portfolio of intellectual property is the foundation of our business model. We currently have twelve patents in the United States and eight international patents, as well as several pending U.S. and foreign patent applications. Our patent portfolio is primarily focused on securing real-time communications over the Internet, as well as related services such as the establishment and maintenance of a secure domain name registry. Our patented methods also have additional applications in operating systems and network security. On December 2, 2009, we declared to the (3rd Generation Partnership Project) or 3GPP that our U.S. and international patents are or may be essential to Long Term Evolution or (LTE) and 4G wireless specifications. We believe that we will hold the majority of 4G essential patents related to Series 33 specifications that define security standards for LTE/4G and are prepared to license the use of our patents for incorporation into 4G related products such as chips, servers, smartphones, tablets, netbooks, laptop computers, etc. Our employees include the core development team behind our patent portfolio, technology and software. This team has worked together for over ten years and is the same team that invented and developed this technology while working at Science Application International Corporation, or SAIC. SAIC is a FORTUNE 500® scientific, engineering and technology applications company that uses its deep domain knowledge to solve problems of vital importance to the nation and the world, in national security, energy and the environment, critical infrastructure and health. We acquired this patent portfolio in 2006, and it now serves as the foundation of our licensing business and planned service offerings. We expect to continue to derive the majority of our revenue from license fees and royalties associated with these patents. We also intend to continue our research and development efforts to further strengthen and expand our patent portfolio, and over time, we plan to leverage this portfolio to develop a product suite that can be sold to original equipment manufacturers, or OEMs, enterprise customers and developers.

Microsoft Corporation is our first licensee and has been granted a worldwide, irrevocable, nonexclusive, non-sublicenseable fully paid up license of our patents for Microsoft products. The license will not impact our plans to operate a secure domain name service. We also intend to license our patents and our GABRIEL Connection Technology™ to manufacturers of chips, servers, smart phones, tablets, e-Readers, laptops, net books and other devices, within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets including 4G/LTE. The leaders in these markets include Alcatel-Lucent, Apple Inc., Avaya Inc., Cisco Systems, Inc., Juniper Networks, Inc., LM Ericsson Telephone Company, Motorola, Inc., NEC Corporation, Nokia Corporation, Nortel Networks Corporation, Samsung Electronics Co. Ltd. and Sony Ericsson Mobile Communications AB, among others.

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

We also intend to license our patent portfolio, technology and software, including our secure domain name registry service, to domain infrastructure providers, communication service providers as well as to system integrators. We believe that the market opportunity for our software and technology solutions is large and expanding as secure domain names are now an integral part of securing the next generation 4G/LTE wireless networks. All 4G mobile devices will require their own individual and unique secure domain name and become part of a secure domain name registry. As part of our licensing strategy, ipCapital Group, a leading advisor on licensing technology and intellectual property, continues to assist us in building relationships with several major potential licensees. Since its founding in 1998, ipCapital Group has supported the licensing efforts of clients across a variety of technologies and markets, resulting in transactions representing several hundred million dollars of value.

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

### **Recent Developments in the Three Months Ended September 30, 2010**

In June 2010, the Board of Directors declared a special cash dividend of \$.50 per share (\$24,600,000 in the aggregate) to our shareholders of record on July 1, 2010. This amount was paid in July 2010.

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

### **Critical Accounting Policies**

There were no material changes in the application of the Company's critical accounting policies since the end of the most recent fiscal year. For further information, see the "Critical Accounting Policies" section of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 31, 2010.

### **Recent Accounting Pronouncements**

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

For further information, see the "Recent Accounting Pronouncements" section of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 31, 2010.

**Results of Operations****Three and Nine Months Ended September 30, 2010  
Compared with Three and Nine Months Ended September 30, 2009*****Revenue — Royalties***

Revenue generated increased to \$15,538 for the three months ended September 30, 2010, from \$3,233 for the three months ended September 30, 2009, and to \$200,059,699 for the nine months ended September 30, 2010, from \$13,594 for the nine months ended September 30, 2009. Our revenue in 2009 was solely limited to the royalties earned under our single license agreement through our Japanese subsidiary. We expect the revenue from this license to decrease substantially in the future. We do not intend to seek additional licenses or other revenue through our Japanese subsidiary.

Our revenue in 2010 was largely attributable to the revenue generated from the Settlement and License Agreement entered into with Microsoft Corporation on May 14, 2010. See Part II, Item 1 “Legal Proceedings” for additional information regarding the Microsoft Settlement.

***Royalty Expense***

There was no royalty expense for the three months ended September 30, 2010 and September 30, 2009. Royalty expense increased to \$59,239,274 for the nine months ended September 30, 2010 from \$0.00 for the nine months ended September 30, 2009.

Under our agreements with SAIC, we were obligated to pay SAIC 35% of the proceeds from the settlement of litigation with Microsoft after reduction for costs, including legal fees and expenses, incurred by us and SAIC in connection with the Microsoft litigation. In June 2010 we paid SAIC \$59,239,274 in connection with our obligations under the SAIC agreements. We remain obligated to make future payments to SAIC equal to a portion of certain revenues we may generate in the future, as described in our Annual Report on Form 10-K dated December 31, 2009.

### **Research and Development Expenses**

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

Our research and development expenses decreased by \$22,656 to \$192,587 for the three months ended September 30, 2010, from \$215,243 for the three months ended September 30, 2009, and increased to \$1,942,510 for the nine months ended September 30, 2010, from \$657,499 for the nine months ended September 30, 2009. This increase is primarily due to increased engineering activities for product development, salary increase and bonuses paid in March 2010 as well as compensation paid to options holders as of June 15, 2010, in connection with the special cash dividend.

### **Selling, General and Administrative Expenses**

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

Our selling, general and administrative expenses decreased by \$155,586 to \$2,256,515 for the three months ended September 30, 2010 from \$2,412,101 for the three month period ended September 30, 2009, and increased to \$30,667,457 for the nine months ended September 30, 2010, from \$9,313,786 for the nine months ended September 30, 2009. The increase was primarily due to increased legal fees and expenses associated with our Microsoft litigation and the settlement license agreement, as well as bonuses paid in March 2010 and compensation paid to options holders as of June 15, 2010, in connection with the special cash dividend

Within selling, general and administrative expenses, legal fees decreased by \$396,147 to \$727,799 for the three months ended September 30, 2010 from \$1,123,946 for the three months ended September 30, 2009, and increased to \$24,401,902 for the nine months ended September 30, 2010, from \$5,346,143 for the nine months ended September 30, 2009. The increase in fees incurred was due primarily to fees and expenses associated with our Microsoft litigation and the settlement license agreement.

### **Liquidity and Capital Resources**

As of September 30, 2010, our cash, cash equivalents and short-term investments totaled \$74,548,759.

Before entering into the Microsoft Settlement, we allocated a large part of our cash and cash equivalents to the fees and expenses associated with the Microsoft litigation. We expect that our cash and cash equivalents as of September 30, 2010 to be sufficient to fund our operations and provide working capital for general corporate purposes and legal expenses including the expenses for the new complaint against Aastra USA, Inc., Aastra Technologies Ltd., Apple Inc., Cisco Systems, Inc., NEC Corporation, and NEC Corporation of America filed on Form 8-K on August 12, 2010, for at least the next 36 months. While we do not expect a significant increase in revenue in the near term similar to that associated with the increase in revenue during the three months ended June 30, 2010 as a result of the Settlement, we do expect to derive the majority of our future revenue from license fees and royalties associated with our patent portfolio, technology, software and Secure domain name registry in the United States and other markets around the world over the long term. Investors should not expect the Company to receive revenues for the new complaint unless and until the new complaint is resolved in the Company's favor.

### **Off-Balance Sheet Arrangements**

None.

### **ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we intend to invest in short-term, high-quality, interest-bearing securities. Our investments in debt securities are subject to interest rate risk. To minimize our exposure to an adverse shift in interest rates, we invest in short-term securities and maintain an average maturity of one year or less. If interest rates were to increase or decrease by 100 basis points, the change in the fair market value of our short-term investments would not be material.

## ITEM 4 — CONTROLS AND PROCEDURES.

(a) *Disclosure controls and procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such items are defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of the end of the period covered by this Quarterly Report are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) *Changes in internal control over financial reporting.* There was no change in our internal control over financial reporting during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1 — LEGAL PROCEEDINGS.

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

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

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

### ITEM 1A — RISK FACTORS.

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

#### Risks Related to Our Business and Our Industry

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

In order to capitalize on our patent portfolio, our business strategy calls for us to enter into licensing relationships with the leading companies in our target market in order to reach a larger end-user base than we could reach through direct sales and marketing efforts. Although we entered into a Settlement and License Agreement with Microsoft Corporation, there can be no assurance that we will be able to continue to capitalize on our patent portfolio or any potential market opportunity in the foreseeable future. We have engaged ipCapital Group to help develop our licensing strategy and to introduce us to five potential strategic licensees of our technology. In connection with this engagement, we agreed to pay ipCapital Group 10% of the royalties of each resulting licensing arrangement, up to an aggregate of \$2 million per licensee, or \$10 million in the aggregate. There can be no assurance that we or ipCapital Group will be successful in these efforts. Our inability to generate licensing revenues associated with the potential market opportunity could result from a number of factors, including, but not limited to:

- our management team may not have sufficient bandwidth to successfully capitalize on all of the opportunities identified by ipCapital Group;



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

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

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

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

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

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

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

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

Disputes regarding the ownership of technologies and intellectual property rights are common and we may have intellectual property infringement claims against parties similar to those that we pursued against Microsoft Corporation. If we decide to commence actions against any additional parties, doing so may be expensive and time-consuming, which may adversely affect our financial condition and results of operations. Moreover, there can be no assurance that we would be successful in these additional legal proceedings and the existence and outcome of any such litigation could harm our business. In addition, commencing lawsuits may lead to potential counterclaims which may preclude our ability to develop and commercialize our initial products.

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

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

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

- our applications for patents, trademarks and copyrights relating to our business may not be granted and, if granted, may be challenged or invalidated;
- issued trademarks, copyrights, or patents may not provide us with any competitive advantages;
- our efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology; or
- our efforts may not prevent the development and design by others of products or technologies similar to or competitive with, or superior to those we develop.

In addition, we may not be able to effectively protect our intellectual property rights in certain foreign countries where we may do business in the future or from which competitors may operate. While we have numerous pending 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 patented rights would have a negative impact on our operations and revenues.

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

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

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

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

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

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

On June 26, 2008, ICANN announced that it will be relaxing its prior position and will begin to issue generic top level domain names, or gTLDs, more broadly than it had previously. ICANN expects to begin to take applications for gTLDs in April or May of 2009 with an application fee of \$100,000 or more per application. ICANN expects the first of these customized gTLDs to be issued in the fourth quarter of 2009.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We expect that in the future, a significant portion of our revenues will be generated from a limited number of customers. There can be no guarantee that we will be able to obtain such customers, or if we do so, to sustain our revenue levels from these prospective customers. If we are not able to establish, maintain or replace the limited group of prospective customers that we anticipate may generate a substantial majority of our revenues in the future, or if they do not generate revenues at the levels or at the times that we anticipate, our ability to maintain or grow our revenues will be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Failing to maintain the effectiveness of our internal control over financial reporting could cause the cost related to remediation to increase and could cause our stock price to decline.***

In the future, our management may identify deficiencies regarding the design and effectiveness of our system of internal control over financial reporting that we engage in pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, as part of our periodic reporting obligations. Such deficiencies could include those arising from turnover of qualified personnel or arising as a result of acquisitions, which we may not be able to remediate in time to meet the continuing reporting deadlines imposed by Section 404 and the costs of which may harm our results of operations. In addition, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time; we may not be able to ensure that our management can conclude on an ongoing basis that we have effective internal controls. We also may not be able to retain an independent registered public accounting firm with sufficient resources to attest to and report on our internal controls in a timely manner. Moreover, our registered public accounting firm may not agree with our management's future assessments and may deem our controls ineffective if we are unable to remediate on a timely basis. If in the future we are unable to assert that we maintain effective internal controls, our investors could lose confidence in the accuracy and completeness of our financial reports which could cause our stock price to decline.



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

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

- challenges caused by distance, language and cultural differences;
- legal, legislative and regulatory restrictions;
- currency exchange rate fluctuations;
- economic instability;
- longer payment cycles in some countries;
- credit risk and higher levels of payment fraud;
- potentially adverse tax consequences; and
- other higher costs associated with doing business internationally.

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

### **Risks Related to Our Stock**

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

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

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

The exercise of some or all of our outstanding warrants could significantly dilute the ownership interests of our existing stockholders. As of September 30, 2010, we had outstanding warrants to purchase an aggregate of 2,559,832 shares of common stock. To the extent outstanding warrants are exercised, additional shares of common stock will be issued, and such issuance may dilute existing stockholders and increase the number of shares eligible for resale in the public market. Additionally, the issuance of up to 4,317,199 shares of common stock issuable upon exercise of vested stock options and other stock awards outstanding as of September 30, 2010 pursuant to our stock incentive plan may further dilute our existing stockholders' voting interest.

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

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

Our common stock is listed on NYSE Amex, but its daily trading volume has been limited, sporadic and volatile. Over the past years the market price of our common stock has experienced significant fluctuations. Between December 31, 2008 and September 30, 2010, the reported last sale price for our common stock has ranged from \$14.68 to \$1.06 per share. We expect the price of our common stock to continue to be volatile as a result of a number of factors, including, but not limited to, the following:

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

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

As of September 30, 2010, our executive officers and directors beneficially owned an aggregate of 8,386,533 shares, or approximately 17.6% of our then outstanding common stock. In addition, a group of stockholders that, as of December 31, 2007, held 4,766,666 shares, or approximately 12% of our then outstanding common stock, have entered into a voting agreement with us that requires them to vote all of their shares of our voting stock in favor of the director nominees approved by our Board of Directors at each director election going forward, and in a manner that is proportional to the votes cast by all other voting shares as to any other matters submitted to the stockholders for a vote. However, we cannot be certain how many shares of our common stock this group of stockholders currently owns. Because of their beneficial ownership interest, our officers and directors could significantly influence stockholder actions of which you disapprove or that are contrary to your interests. This ability to exercise significant influence could prevent or significantly delay another company from acquiring or merging with us.

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

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

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

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

- **A staggered Board of Directors:** This means that only one or two directors (since we have a five-person Board of Directors) will be up for election at any given annual meeting. This has the effect of delaying the ability of stockholders to effect a change in control of us since it would take two annual meetings to effectively replace at least three directors which represents a majority of the Board of Directors.
- **Blank check preferred stock:** Our Board of Directors has the authority to establish the rights, preferences and privileges of our 10,000,000 authorized, but unissued, shares of preferred stock. Therefore, this stock may be issued at the discretion of our Board of Directors with preferences over your shares of our common stock in a manner that is materially dilutive to existing stockholders. In addition, blank check preferred stock can be used to create a “poison pill” which is designed to deter a hostile bidder from buying a controlling interest in our stock without the approval of our Board of Directors. We have not adopted such a “poison pill;” but our Board of Directors has the ability to do so in the future, very rapidly and without stockholder approval.
- **Advance notice requirements for director nominations and for new business to be brought up at stockholder meetings:** Stockholders wishing to submit director nominations or raise matters to a vote of the stockholders must provide notice to us within very specific date windows and in very specific form in order to have the matter voted on at a stockholder meeting. This has the effect of giving our Board of Directors and management more time to react to stockholder proposals generally and could also have the effect of disregarding a stockholder proposal or deferring it to a subsequent meeting to the extent such proposal is not raised properly.
- **No stockholder actions by written consent:** No stockholder or group of stockholders may take actions rapidly and without prior notice to our Board of Directors and management or to the minority stockholders. Along with the advance notice requirements described above, this provision also gives our Board of Directors and management more time to react to proposed stockholder actions.
- **Super majority requirement for stockholder amendments to the By-laws:** Stockholder proposals to alter or amend our By-laws or to adopt new By-laws can only be approved by the affirmative vote of at least 66 2/3% of the outstanding shares.
- **Elimination of the ability of stockholders to call a special meeting of the stockholders:** Only the Board of Directors or management can call special meetings of the stockholders. This could mean that stockholders, even those who represent a significant block of our shares, may need to wait for the annual meeting before nominating directors or raising other business proposals to be voted on by the stockholders.

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

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

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

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

**ITEM 6 — EXHIBITS.**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

**SIGNATURES**

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

**VIRNETX HOLDING CORPORATION**

By: /s/ Kendall Larsen

Kendall Larsen  
Chief Executive Officer (Principal Executive Officer)

By: /s/ William E. Sliney

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

Date: November 8, 2010

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
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<a href="#">32.2</a>	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

CERTIFICATIONS

I, Kendall Larsen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VirnetX Holding Corporation for the quarter ended September 30, 2010;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Kendall Larsen

Kendall Larsen

*President and Chief Executive Officer*  
*(Principal Executive Officer)*

Date: November 8, 2010

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CERTIFICATIONS

I, William E. Sliney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VirnetX Holding Corporation for the quarter ended September 30, 2010;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ William E. Sliney

William E. Sliney

Chief Financial Officer

(Principal Accounting and Financial Officer)

Date: November 8, 2010

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

In connection with the Quarterly Report of VirnetX Holding Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2010 as filed with the Securities and Exchange Commission on November 8, 2010 (the "Report"), I, Kendall Larsen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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

Date: November 8, 2010

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

In connection with the Quarterly Report of VirnetX Holding Corporation (the "Company"), on Form 10-Q for the quarter ended September 30, 2010 as filed with the Securities and Exchange Commission on November 8, 2010 (the "Report"), I, William E. Sliney, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

*/s/ William E. Sliney*

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William E. Sliney

*Chief Financial Officer*

*(Principal Accounting and Financial Officer)*

Date: November 8, 2010

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