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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from ________________ to _____________________

Commission File Number: 001-33852

VirnetX Holding Corporation
(Exact name of registrant as specified in its charter)

Delaware	**77-0390628**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
308 Dorla Court, Suite 206 **Zephyr Cove, Nevada**	**89448**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: 775-548-1785
Former name, former address and former fiscal year, if changed since last report:
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2014, was $908,164,887 based upon the closing price of the common shares of the Registrant on June 30, 2014. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

51,996,701 shares of Registrant's Common Stock were outstanding as of February 20, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of this Annual Report on Form 10-K incorporate by reference information from the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2014 in connection with the solicitation of proxies for the Registrant's 2015 Annual Meeting of Stockholders.

INDEX

WARNING CONCERNING FORWARD LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. We have included or incorporated by reference in this Annual Report on Form 10-K (including in the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations), and from time to time we may make statements that may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based upon our current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and costs and potential liability for environmental-related matters. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as "expects," "anticipates," "believes," "will," "will likely result," "will continue," "plans to" and similar expressions. These statements include our belief and statements regarding general industry and market conditions and growth rates, as well as general domestic and international economic conditions. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from such statements and from our historical results and experience. These risks, uncertainties and other factors include, but are not limited to those described in Item 1A - Risk Factors of this Annual Report on Form 10-K and elsewhere in the Annual Report and those described from time to time in our future reports filed with the Securities and Exchange Commission. Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the risks described herein should not be considered to be a complete list. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

EXCEPT AS REQUIRED BY LAW, WE UNDERTAKE NO OBLIGATION TO UPDATE OR REVISE ANY FORWARD LOOKING STATEMENT AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

PART I

Item 1. Business.

The Company

We are an Internet security software and technology Company with patented technology for secure communications including 4G LTE security. Our software and technology solutions, including our Secure Domain Name Registry and GABRIEL Connection Technology™, are designed to facilitate secure communications and provide the security platform required by next-generation Internet-based applications such as instant messaging, or IM, voice over Internet protocol, or VoIP, mobile services, streaming video, file transfer, remote desktop and Machine-to-Machine, or M2M communications. Our technology generates secure connections on a “zero-click” or “single-click” basis, significantly simplifying the deployment of secure real-time communication solutions by eliminating the need for end-users to enter any encryption information. Our portfolio of intellectual property is the foundation of our business model. We currently own approximately 39 U.S. and 66 foreign patents with approximately 75 pending patent applications worldwide. Our patent portfolio is primarily focused on securing real-time communications over the Internet, as well as related services such as the establishment and maintenance of a secure domain name registry. Our patented methods also have additional applications in the key areas of device operating systems and network security for Cloud services, M2M communications in the new initiatives like "Smart City", "Connected Car" and "Connected Home" that would connect everything from social services and citizen engagement to public safety, transportation and economic development to the internet to enable more productivity, features and efficiency in our everyday lives. The subject matter of all our U.S. and foreign patents and pending applications relates generally to securing communication over the internet, and as such covers all our technology and other products. Our issued U.S. and foreign patents expire at various times during the period from 2019 to 2024. Some of our issued patents and pending patent applications were acquired by our principal operating subsidiary; VirnetX, Inc., from Leidos, Inc., (f/k/a Science Applications International Corporation, or SAIC) in 2006 and we are required to make payments to Leidos, based on cash or certain other values generated from those patents. The amount of such payments depends upon the type of value generated, and certain categories are subject to maximums and other limitations.

Our product Gabriel Secure Communication Platform™, unlike other collaboration and communication products and services on the market today, does not require access to user’s confidential data and minimizes the threat of hacking and data mining. It enables individuals and organizations to maintain complete ownership and control over their personal and confidential data, secured within their own private network, while enabling authorized secure encrypted access from anywhere at any time. Our Gabriel Collaboration Suite™ is a set of applications that run on top of our Gabriel Secure Communication Platform™. It enables seamless and secure cross-platform communications between user’s devices that have our software installed. Our products have undergone extensive internal testing and are currently undergoing beta testing at over 80 small and medium businesses. Our products are expected to be released for sale to general public in the first-half of 2015 after successful completion of our public beta testing program.

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

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

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

We have signed Patent License Agreements with Avaya Inc., Aastra USA, Inc., Microsoft, Mitel Networks Corporation, NEC Corporation and NEC Corporation of America, Siemens Enterprise Communications GmbH & Co. KG, and Siemens Enterprise Communications Inc. to license certain of our patents, for a one-time payment and an ongoing royalty for all future sales through the expiration of the licensed patents with respect to certain current and future IP-encrypted products. In December 2014, we received an additional $23,000 cash settlement resulting from subsequent litigation with Microsoft (see Note 14 "Legal Proceedings"). The 2010 settlement agreement was amended in December 2014 to settle the subsequent lawsuit with Microsoft, raising the total cash settlement with Microsoft, as amended, to $223,000.

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

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

Our employees include the core development team behind our patent portfolio, technology and software. This team has worked together for over ten years and is the same team that invented and developed this technology while working at Leidos, Inc. Leidos, Inc. is a FORTUNE 500® scientific, engineering and technology applications company that uses its deep domain knowledge to solve problems of vital importance to the nation and the world, in national security, energy and the environment, critical infrastructure and health. The team has continued its research and development work started at Leidos, and expanded the set of patents we acquired in 2006 from Leidos, into a larger portfolio of over 100 U.S. and international patents and with over 75 pending applications. This portfolio now serves as the foundation of our licensing business and planned service offerings and is expected to generate the majority of our future revenue in license fees and royalties. We intend to continue our research and development efforts to further strengthen and expand our patent portfolio. Please see Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Operations – Research and Development Expenses for a description of our research and development expenses for the past three fiscal years.

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

Industry Overview

We believe that the rapid growth of mobile devices (smartphones/tablets/ultra-mobile PCs), with always-on network access, and need to socially interact with friends and family while maintaining a constant online presence has transformed the "Internet of Web 2.0" in to the "The Internet of the People". It has become an evolving, rich and complex medium used by individuals and businesses to conduct commerce, share information and engage in real-time communications including email, text messaging, IM, and voice and video calls. We believe the user demand for high speed broadband access along with the quality of experience wherever they are and whatever BYOD (bring your own device) they may be using; Mobility, IP video delivery, and the move to cloud have dramatically changed the way service providers deliver services. While wireline networks remain the primary mechanism for delivering premium and high bandwidth services, its growth has held steady compared to the growth of the mobile communications. The cost barrier to obtaining a mobile device with data access has disappeared allowing billions of people to have online access on fixed and mobile networks, and those users accessing social networking websites, using peer-to-peer, or P2P applications, and uploading live content over the internet, which in turn is downloaded by millions, has led to staggering growth in packet traffic. Not only is traffic growing and changing in nature, it's location of origin and timing has become completely unpredictable. There is a significant impact on the mobile signaling network, brought on by smartphone penetration and consumer use of "chatty" applications that do frequent network queries.

We believe that as the users become more comfortable with using their smartphones/tablets and other connected devices, they will increasingly treat their mobile and fixed/WiFi networks as a single network and demand seamless transition from one network type to another without any disruption of service. The 4G/LTE standard was developed with the goal of creating a single IP network that is efficient, flexible, open up new business models and services revenues and eventually lead to true "virtual networks" or software-defined networks (SDN). The service providers were forced to perform complete overhaul of their telecom network infrastructure in order to move from TDM paradigm to next generation IP networks based on 4G/LTE for dealing with this rapidly growing demand. Before these network overhauls could be completed, some service providers decided to mislabel their hybrid 3.5G/HSPA+/partial LTE implementations as 4G networks in order to stem the loss of revenue and protect themselves against the threat of being forever relegated to the role of pipe provider. This marketing ploy has led to significant confusion and misunderstanding among users.

Adding further fuel to the demand for mobile and fixed broadband services is the fast adoption of connected machines or devices, or embedded systems capable of M2M communication. These M2M communications are made possible by a device (non-phone/tablet/pc such as a sensor) that is attached to a machine to capture an event that is relayed over a network via 3G/4G routers or fixed broadband lines, delivering data or events (such as temperature, location, consumption, heart rate, stress levels, light, movement, altitude and speed) to applications creating an "Internet of Things" or IoT. As the service providers start deploying true 4G (Long Term Evolution-Advanced, or LTE-Advanced) and this pace picks up, we believe that almost every device will get its own unique identity and a high-speed connection to the internet over a high speed IP (Internet Protocol) based telecommunication network making it an "Internet of Everything".

We believe that growing security concerns and vulnerabilities in a large number of use-case scenarios due to the inherent "open" nature of this architecture can throttle the successful adoption of these technologies. Security can no longer exist as a point solution, and enterprises everywhere are currently upgrading core IT infrastructure (systems, networks, and management) to integrate security into everything. Because of the complexity of today's networks and the requirement to connect users from any location at any time on any device, enterprise buyers looking to improve security posture have to evaluate everything from software solutions for smartphones to routers and switches with integrated security, massive security appliances for data centers, cloud-based security services, and security solutions for virtualized environments and public and private clouds.

The portions of the IP-telephony, mobility, fixed-mobile convergence and unified communications markets that could benefit from our software and technology solutions, as forecasted by Infonetics and by our internal estimates, are expected to grow from approximately $96 billion of worldwide revenues in 2012 to approximately $342 billion by 2017, representing a compound annual growth rate, or CAGR, of approximately 29%. We believe that this growing trend represents a significant opportunity for us to license our technology and software, and establish our secure domain name registry.

Enterprise Telephony – Unified Communications, VoIP, Telepresence and Video Conferencing

Enterprise Telephony includes technologies that use Internet Protocol's packet-switched connections to exchange voice, fax, and other forms of information traditionally carried over the dedicated circuit-switched connections of the public switched telephone network, or PSTN. The adoption of Enterprise Telephony has helped businesses significantly lower network operating costs by using a common network for voice and data. As the workforce becomes increasingly dispersed, mobile features enabled by Internet protocol-based communications such as presence, unified messaging, peer-to-peer applications, find me/follow me, white-boarding and document sharing have become more commonplace. However, the development of the related security infrastructure has lagged behind, leaving next-generation networks vulnerable to a multitude of threats including man-in-middle, eavesdropping, domain hijacking, distributed denial of service, or DDoS, spam over Internet telephony, or SPIT, and spam over instant messaging, or SPIM. These threats continue to highlight the need for securing next-generation networks. As the use of Enterprise Telephony systems extends beyond the boundaries of an organization's private network, security is likely to become an even bigger concern. Enterprises are increasingly deploying an array of communication methodologies integrated into a single communications experience is often referred to as unified communications. We believe that unified communications have higher utility and can increase productivity for users. The basic components of unified communications include: a directory for storing addresses, various modes of communication with each user/contact (desk phone, mobile phone, IM, etc.), message storage for all messages regardless of communication method and secure presence of a user's status for each mode of communication (available, away, busy, etc.).

Based on our estimates using Infonetics and other market data, we believe that worldwide revenue from IP telephony products like IP-PBX including IP phones, service provider VoIP and IMS equipment, VoIP gateways, Enterprise Telepresence and Video Conferencing for businesses and Unified Communication clients, is expected to grow from approximately $38 billion in 2012 to approximately $60 billion in 2017, representing a CAGR of approximately 9%. We believe our unique and patented solution provides the robust security platform required for providing on-demand secure communication links between enterprises intending to communicate securely without manually configuring the connections. We believe a standard security solution such as ours will further accelerate the adoption of Enterprise telephony products in the market and allow enterprises to take full advantage of these rich content applications and real-time communications over the Internet, thereby significantly increasing their return on investment.

IP Mobility- Smartphones, Embedded Devices, Machine-to-Machine (M2M) Devices (LTE)

We believe that telecommunication markets are rapidly changing and presenting new challenges to the equipment and service providers, including but not limited to increasing user demand for mobile, always-on connections with multiple devices. We also believe that traffic growth, video acceleration, cloud services and a rapidly growing number of subscribers challenge currently available network architectures and that, because of this, service providers and carriers will eventually use a single network for fixed and mobile communications, private/premium communications and Internet access, in spite of the difficulties involved challenging their business models and forcing the consideration of new network architectures. We believe that LTE technology will deliver users the benefits of faster data speeds and new services by creating a new radio access technology that's optimized for IP-based traffic and offers operators a simple upgrade path from 3G networks.

Smartphones are multi-functional devices that handle a wide variety of business-critical applications and support increasingly complex functions including enhanced data processing, Internet access, e-mail access, calendars and scheduling, contact management and the ability to view electronic documents. Users have continual access to these applications while on the move making them an increasingly essential business tool for the mobile worker. These devices enable mobile workers to have similar functionality inside or outside the office thereby increasing employee efficiency. However, it is critical that this mobile environment have the same level of security as an enterprise's internal network.

Embedded mobile broadband computing devices include PCs, netbooks, tablets, and mobile Internet devices (MIDs) with embedded mobile broadband modems to enable Internet access via a mobile broadband network. A growing number of these devices are now shipping enabled with LTE/4G. Mobile Internet devices (MIDs) include handheld mobile Internet devices; e.g. eReader, gaming console, digital picture frame, digital camera, with embedded mobile broadband modems. Mobile broadband routers have mobile broadband modems or antenna as the broadband connection; have multiple Ethernet ports and integrated wireless access points for local area connectivity and bandwidth sharing; can have integrated hub or switch; may have an integrated stateful firewall or IPSec VPN and are also known as mobile hotspot routers.

Machine-to-Machine, or M2M, connected devices, or embedded systems, connected machines are fast becoming the eyes and ears of the enterprise. By adding sensors and networking technologies to the products they sell and the equipment they employ, companies are finding new ways to gather powerful insights and use new forms of data, thus creating a vast “internet of things”. This communication is made possible by a device (such as an intelligent sensor) that is attached to a machine to capture an event, such as such as temperature, location, consumption, heart rate, stress levels, light, movement, altitude and speed, that is relayed over a network delivering data to applications. The potential applications for this technology are numerous and as such include smart meters in energy and utilities (the “smart grid”), connected vehicles in automotive and logistics, heart monitors in healthcare, RFID tagged inventory in retail and manufacturing, and digital signage in media and communications to name a few. Another fast growing application is in the wearable technology products namely, fitness and wellness, infotainment (information-based media content), healthcare and medical, and industrial and military. The fitness and wellness segment comprises products like smart clothing and smart sensors, activity monitors, sleep sensors and others, whereas the Infotainment sector consists of products like smart watches, heads-up displays, smart glasses and others. The products like continuous glucose monitor, drug delivery, monitors, wearable patches and others have been covered under healthcare and medical segment and products like hand worn terminals, augmented reality headsets and others have been mentioned under industrial and military segment. We believe that the large revenue potential for M2M services that has attracted the attention of carriers globally risks being thwarted by the growing security concerns in M2M applications. Porous security is exposing vulnerabilities in a large number of use-case scenarios, including cars, energy management systems, telemedicine, and telemetry. While built-in security is a high priority in all other information and communication technologies, it is yet to be considered, even at a basic level, in most M2M applications. The rapid and successful adoption of M2M in automobiles, healthcare, industrial installations, and consumer homes may be jeopardized if communication security is not designed in to all M2M devices and applications. All these new devices will require a unique identity addressable by a secure domain name and all their communications, with application servers and other devices, completely secured automatically and on-demand.

IP mobility services require an environment where wired and wireless phones work together with Internet Protocol to deliver services (voice, video, data and combinations thereof) uniformly across multiple access networks, including, among others, LTE, WiMAX, WiFi cellular and fixed. Based on our estimates using Infonetics and other market data, we believe that worldwide revenue from IP mobility products like smartphones, embedded devices, hotspots and mobile data cards, femtocell equipment, M2M communication devices and services is expected to grow from approximately $57 billion in 2012 to approximately $282 billion by 2017, representing a CAGR of approximately 37%. We believe in order to realize the full functionality of IP mobility, several challenges including security must be overcome. When users are mobile, connections and data need to cross multiple network boundaries, each of which poses a security threat. Wireless networks may be threatened or compromised by rogue users who enter through (insecure wireless access points. We believe that providing authenticated access to the M2M networks and enterprise applications are important requirements and represent a significant market opportunity for our patented technology and secure domain names to provide users or machines fully authenticated secure access on a "zero-click" or "single-click" basis.

Our Solutions

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

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

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

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

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

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

Our Products

Our Gabriel Secure Communication Platform™, unlike other collaboration and communication products and services on the market today, does not require access to user's confidential data and minimizes the threat of hacking and data mining. It enables individuals and organizations to maintain complete ownership and control over their personal and confidential data, secured within their own private network, while enabling authorized secure encrypted access from anywhere at any time. Our Gabriel Collaboration Suite™ is a set of applications that run on top of our Gabriel Secure Communication Platform™. It enables seamless and secure cross-platform communications between user's devices. The following applications are included in the current release and can be easily accessed through the Gabriel interface:

- SECURE CHAT - allows users to quickly send and receive text, files and screen shots

- SECURE SHARE - allows users to grant coworkers read/write access to desired folders

- SECURE VIDEO/VOICE - provides users ability to conduct audio and/or video conferencing securely with any other Gabriel user

- SECURE MAIL - allows users to send email and attachments directly from sender to recipient without requiring a centralized mail server

- SECURE SYNC/BACKUP - allows users to quickly push single files or automatically backup your files to one or multiple Gabriel destinations

Gabriel Secure Communication Platform™ and Gabriel Collaboration Suite™ of applications has undergone extensive internal testing with employees, contractors, shareholders and private beta testers and are now in Public Beta at a number of small and medium businesses who chose to sign-up for this program. General Public Release of our products is expected in the first-half of 2015 upon successful conclusion of our ongoing public beta program.

Competitive Strengths

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

- **Unique patented technology**. We are focused on developing innovative technology for securing real-time communications over the Internet, and establishing the exclusive secure domain name registry in the United States and other key markets around the world. Our unique solutions combine industry standard encryption methods and communication protocols with our patented techniques for automated DNS lookup mechanisms. Our technology and patented approach enables users to create a secure communication link by generating secure domain names. We currently own approximately 39 U.S. and 66 foreign patents with approximately 75 pending patents applications worldwide. Our portfolio includes patents and pending patent applications in the United States and other key markets that support our secure domain name registry service for the Internet.

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

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

Our Strategy

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

- Introduce our Gabriel Secure Communication Platform™ and Gabriel Collaboration Suite™ products in the general market in the first-half of 2015 for sale directly to end-user enterprises.

- Continue to grow our technology licensing program to commercialize our intellectual property, including our GABRIEL Connection Technology™ by adding more licensees.

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

We have submitted a declaration with the 3rd Generation Partnership Project, or 3GPP, identifying a group of our patents and patent applications that we believe are or may become essential to certain developing specifications in the 3GPP LTE, SAE project. We have agreed to make available a non-exclusive patent license under fair, reasonable and non-discriminatory terms and conditions, with compensation, or FRAND, to 3GPP members desiring to implement the technical specifications identified by us. We have also submitted a number of updates to our original declaration, identifying additional technical specifications that would also require a license to our US and International patents.

License and Service Offerings

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

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

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

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

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

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

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

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

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

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

Customers

Over 80 small and medium businesses have installed our Gabriel Secure Communication Platform™ and Gabriel Collaboration Suite™ products in their corporate networks and are actively testing them as a part of our public Beta program. General Public Release of our products is expected in the first-half of 2015 upon successful conclusion of our ongoing public beta program.

We have signed Patent License Agreements with Aastra USA, Inc. Avaya, Inc., Microsoft, Mitel Networks Corporation, NEC Corporation and NEC Corporation of America, Siemens Enterprise Communications GmbH & Co. KG, and Siemens Enterprise Communications Inc. to license certain of our patents, for a one-time payment and an ongoing royalty for all future sales through the expiration of the licensed patents with respect to certain current and future IP-encrypted products.

We intend to seek further license of our technology, including our GABRIEL Connection Technology™ to developers and original equipment manufacturers, or OEMs, of chips, servers, smart phones, tablets, e-Readers, laptops, net books and other devices, within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets including 4G/LTE. We have published our royalty rates and guidelines on our website. All forward moving licenses have adhered to these guidelines and have met or exceeded these rates and we will use these rates and guidelines in all future license negotiations.

Marketing and Sales

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

We plan to directly market our Gabriel Secure Communication Platform™ and Gabriel Collaboration Suite™ products, domain name registry services to our service provider and system integrator customers. We hope to leverage our relationship with Leidos, to extend our offering to departments and agencies within the federal government. Leidos, is a FORTUNE 500® scientific, engineering and technology applications company that uses its deep domain knowledge to solve problems of vital importance to the nation and the world, in national security, energy and the environment, critical infrastructure, and health. We intend to build a sales force that will be responsible for managing accounts and pursuing technology licensing and sales opportunities with new customers.

Competition

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

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

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

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

Intellectual Property and Patent Rights

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

We currently own approximately 39 U.S. and 66 foreign patents with approximately 75 pending patents applications worldwide. Our portfolio includes a number of patents that describe unique systems and methods for securing real-time communications over the Internet, as well as related services such as the establishment and maintenance of a secure domain name registry. Our software and technology solutions also have additional applications relating to operating systems and network security. A complete list of our US patents is available on our website located at www.virnetx.com. Each patent is publicly accessible on the Internet website of the U.S. Patent and Trademark Office at www.uspto.gov. The term of each of our issued U.S. and foreign patents will expire during the period from 2019 to 2024.

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

Assignment of Patents

Some of our issued patents and pending patent applications were acquired by our principal operating subsidiary, VirnetX, Inc., from Leidos, 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 recorded the assignment from Leidos, with the U.S. Patent Office on December 21, 2006.

Key terms of these agreements are as follows:

Patent Assignment. Leidos, unconditionally and irrevocably conveyed, transferred, assigned and quitclaimed all its right, title and interest in and to the patents and patent applications, as specifically set forth on Exhibit A to the assignment document recorded with the U.S. Patent Office, including, without limitation, the right to sue for past infringement.

License to Leidos, Outside the Field of Use. On November 2, 2006, we granted to Leidos, an exclusive, royalty free, fully paid, perpetual, worldwide, irrevocable, sub licensable and transferable right and license permitting Leidos, and its assignees to make, have made, import, use, offer for sale, and sell products and services covered by, and to make improvements to, the patents and patent applications we acquired from Leidos, solely outside our field of use. We have, and retain, all right, title and interest to all our patents within our field of use. On March 12, 2008, Leidos, relinquished the November 2, 2006, exclusive right and license outside our field of use referred to above, as well as any right to obtain such exclusive license in the future. Effective March 12, 2008, we granted to Leidos, a non-exclusive, royalty free, fully paid, perpetual, worldwide, irrevocable, sub licensable and transferable right and license permitting Leidos, and its assignees to make, have made, import, use, offer for sale, and sell products and services covered by, and to make improvements to, the patents and patent applications we acquired from Leidos, solely outside our field of use.

Compensation Obligations. As consideration for the assignment of the patents and for the rights we obtained from Leidos, as amended, we are required to make payments to Leidos, based on cash or certain other values generated from those patents. The amount of such payments depends upon the type of value generated, and certain categories are subject to maximums and other limitations. As of June 30, 2010, we met our maximum royalty payment requirement; however, Leidos, is also entitled under certain circumstances to receive a portion of the proceeds paid to us for certain acquisitions of VirnetX, from the settlement of certain patent infringement claims of ours.

Government Regulation

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

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

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

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

We are aware of the recent announcements made by ICANN related to the anticipated launch of new domain name extensions and an ICANN-supervised Trademark Clearinghouse to assist brand owners with protecting their trademarks during the initial launch of the new domain name extensions. We are currently evaluating whether we will apply to become an ICANN-accredited registry provider with respect to one or more customized generic top-level domain (gTLD), or create our own alternative DNS root directory to manage the assignment of non-standard secure domain names. We have not yet begun discussions with ICANN and we cannot assure you that we will be successful in obtaining ICANN accreditation for our registry service on terms acceptable to us or at all. Whether or not we obtain accreditation from ICANN, we will be subject to the ongoing risks arising out of the delegation of the U.S. government's responsibilities for the domain name system to the U.S. Department of Commerce and ICANN and the evolving government regulatory environment with respect to domain name registry services.

Employees

As of December 31, 2014, we had 14 full-time employees.

Corporate Overview and History

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

Available Information

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

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

Item 1A. *Risk Factors*

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common and capital stock. You should carefully consider the following information and the other information in this Form 10-K in evaluating our business and prospects before making an investment decision with respect to our common stock. The risks and uncertainties we describe below are not the only ones facing us. Additional risks not presently known to us or that we currently deem immaterial may also affect our business.

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

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

- Although we have to date entered into a limited number of settlement and license agreements, we may not be successful in entering into further licensing relationships and existing settlement and license agreements may not generate the financial results we expect;

- Third parties may challenge the validity of our patents;

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

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

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

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

We believe our patents are valid, enforceable and valuable. Notwithstanding this belief, third parties may make claims of non-infringement or invalidity claims with respect to our patents and such claims could give rise to material cost for defense or settlement or both, jeopardize or substantially delay a successful outcome of litigation we are or may become involved in, divert resources away from our other activities, or otherwise materially and adversely affect our business. Similar challenges could also prevent us from obtaining additional patents in the future. Even if we are successful in enforcing our rights, our patents may not ultimately provide us with any competitive advantages and may be less valuable than we currently expect. These risks may be heightened in countries other than the United States, and may be negatively affected by the fact that legal standards in the United States and elsewhere for protection of intellectual property rights in Internet-related businesses are uncertain and still evolving. In addition, there are a significant number of United States and foreign patents and patent applications in our areas of interest, and we expect that significant litigation in these areas will continue, and will add uncertainty to the value of certain patents and other intellectual property rights in our areas of interest. If we are unable to protect our intellectual property rights or otherwise realize value from them, our business would be negatively affected.

Our litigation can be time-consuming, costly and we cannot anticipate the results.

We spend a significant amount of our financial and management resources to pursue our current litigation matters. We believe that these litigation matters and others that we may in the future determine to pursue could continue for years and continue to consume significant financial and management resources. The counterparties to our litigation are all large, well-financed companies with substantially greater resources than us. We cannot assure you that any of our current or future litigation matters will result in a favorable outcome for us. In addition, even if we obtain favorable interim rulings or verdicts in particular litigation matters, they may not be predictive of the ultimate resolution of the dispute. Also, we cannot assure you that we will not be exposed to claims or sanctions against us which may be costly or impossible for us to defend. Any future intellectual property litigation, whether or not determined in our favor or settled by us, is costly, may cause delays (including delays in negotiating licenses with other actual or potential customers). Unfavorable or adverse outcomes may result in losses, exhaustion of financial resources or other adverse effects which could encumber our ability to develop and commercialize products, which may impact our stock price.

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

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

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

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

More aggressive domestic or international regulation of the Internet in general, and Internet telephony providers and services specifically, or a lack of growth in acceptance of the Internet as a long term viable marketplace for communications services, may materially and adversely affect our business, financial condition, operating results and future prospects.

We compete in a rapidly changing competitive environment and the success of our business depends upon continued market acceptance and utilization of certain applications and communications channels.

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

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

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

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

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

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

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

We expect to 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 the security or reliability of our services. Additionally, an actual or perceived security breach of our customers or their end-customers, regardless of whether the breach is attributable to the failure of our data security technologies, could adversely affect the market's perception of our security technologies.

A security breach could require a substantial amount of expense to rectify and could result in a product liability claim that causes us to incur substantial liability and related legal and other costs. A security breach may also harm our reputation and make it more difficult or impossible for us to successfully market to others. We may not be able to correct any security flaws or vulnerabilities promptly, or at all. These matters could harm our operating results and financial condition.

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;
- Even if successful there can be no assurance that our technologies will be used in a product that is ultimately brought to market, achieves commercial acceptance or results in significant royalties to us;
- Customers’ budgetary constraints;
- The timing of customers’ budget cycles; and
- Delays caused by customers’ internal review processes.

Long sales cycles may increase the risk that our financial resources are exhausted before we are able to generate significant revenue. If our sales and licensing efforts are very lengthy or unsuccessful, it may adversely affect our business and results of operations as a result of failure to obtain or an undue delay in obtaining royalties.

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.

Our products Gabriel Secure Communication Platform™ and Gabriel Collaboration Suite™ are expected to be released for sale in the first half of 2015. The revenue from the sale of these products is expected to take some time to ramp before it can contribute a large portion to our overall revenue. Until such time, we expect that in the future, a significant portion of our revenues will be generated from a limited number of customers that have signed Settlement and License Agreements with us over the last few years. There can be no guarantee that we will be able to obtain additional customers, or if we do so, to sustain our revenue levels from these prospective customers. If we are not able to establish, maintain or replace the limited group of prospective customers that we anticipate may generate a substantial majority of our revenues in the future, or if they do not generate revenues at the levels or at the times that we anticipate, our ability to maintain or grow our revenues will be adversely affected.

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, could contain errors or defects. Despite rigorous internal and external beta 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.

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

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 that 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 or is incapable of adapting to system interruptions, which could 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 system, to meet the demands of an increasing number of secure domain name requests, could result in the breakdown of our customer support service to and inhibit 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 or are perceived as not effectively assisting our customers in deploying our products, helping them quickly resolve post-deployment issues and providing effective ongoing support, 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. Our failure to deliver and maintain high-quality technical support services to our customers in the U.S. and internationally could result in customers choosing to use our competitors' products instead of ours in the future.

We rely upon the accuracy of our customers' recordkeeping, and any inaccuracies or payment disputes for amounts owed to us under our licensing agreements may harm our results of operations

Many of our license agreements require our customers to document the manufacture and sale of products that incorporate our technology and report this data to us. While licenses with such terms give us the right to audit books and records of our customers to verify this information, audits rarely are undertaken because they can be expensive, time consuming, and potentially detrimental to our ongoing business relationship with our customers. Therefore, we typically rely on the accuracy of the reports from customers without independently verifying the information in them. Our failure to audit our customers' books and records may result in our receiving more or less royalty revenue than we are entitled to under the terms of our license agreements. If we conduct royalty audits in the future, such audits may trigger disagreements over contract terms with our customers and such disagreements could hamper customer relations, divert the efforts and attention of our management from normal operations and impact our business operations and financial condition.

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

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

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

Our success largely depends on the skills, experience and efforts of our key personnel, including Kendall Larsen, our Chief Executive Officer and President. We have no employment agreements with any of our key executives that prevent them from leaving us at any time. The loss of the services of any key employees could be disruptive to our ability to execute our strategic plan and could cause our business and operations to suffer. 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, engineering, sales and executive personnel as well as engineers. Inability to attract and retain such personnel could adversely affect our business. Competition for operations, marketing, engineering, sales and executive personnel is intense, particularly in the technology sector and in the region in which our facility is located. We can provide no assurance that we will attract or retain such personnel.

Our consolidated financial statements were restated in 2011 in connection with our identification of a material weakness in our internal control over financial reporting; we may identify future material weaknesses which may result in late filings, increased costs or declines in our share price.

In early 2011, we restated our previously filed financial statements for the fiscal quarter ended September 30, 2010, each of the then previous five fiscal quarters and the fiscal year ended December 31, 2009, to adjust our accounting for our Series I Warrants. In connection with these restatements, we determined that we had not maintained effective control over our accounting for these Series I Warrants and, as a result, that a material weakness existed with respect to our reporting of complex, non-routine transactions as of the end of the periods covered by the Form 10-K and Form 10-Qs that included the financial statements referenced above. Although we believe that we currently maintain effective control over our disclosure controls and procedures and internal control over financial reporting as regards this issue, we may in the future identify deficiencies regarding the design and effectiveness of our system of internal control over financial reporting. If we experience any material weaknesses in our internal control over financial reporting in the future or are unable to provide unqualified management or attestation reports about our internal controls, we may be unable to meet financial and other reporting deadlines and may incur costs associated with remediation, any of which could cause our share price to decline.

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

Although we paid a special cash dividend to holders of our common stock in 2010, we do not pay regular dividends on our common stock. Instead, we intend to retain our cash and future earnings, if any, to fund our business plan. Our future dividend policy is within the discretion of our Board of Directors and the decision to declare a dividend will depend upon various factors, including our business, financial condition, results of operations, capital requirements, and investment opportunities. We therefore cannot determine whether our Board of Directors will determine to pay regular or special dividends in the future. Accordingly, unless our Board of Directors determines to pay dividends, stockholders will be required to look to appreciation of our common stock, which may or may not occur, to realize a gain on their investment.

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

The exercise of our outstanding vested stock options would dilute the ownership interests of our existing stockholders. As of December 31, 2014, we had outstanding options and restricted stock units to purchase an aggregate of 4,806,922 shares of common stock (representing 9.24% of our total shares outstanding as of December 31, 2014) of which 3,975,630 are vested and therefore exercisable. To the extent outstanding stock options are exercised, additional shares of common stock will be issued, and such issuance would dilute non-exercising stockholders' percentage voting interests and increase the number of shares eligible for resale in the public market.

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

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

Trading in our common shares is limited and the price of our common shares 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 MKT LLC, 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 January 1, 2014, and December 31, 2014, the reported last sale price for our common stock ranged between $4.09 and $20.93 per share. The price of our common stock may continue to be volatile as a result of a number of factors, some of which are beyond our control. These factors include, 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 or derivatives transactions related to our stock;
- actual or anticipated announcements of new products or services by us or competitors;
- general conditions in the markets in which we compete; and
- economic and financial conditions

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

Our reported net income has fluctuated in the past due to several factors. We expect that our future operating results may also fluctuate due to the same or similar factors. We had a net loss $26.9 million for the year ended December 31, 2012, a net loss of $27.6 million for the year ended December 31, 2013 and a net loss of $9.9 million for the year ended December 31, 2014 with an accumulated deficit of $100.4 million. The following include some of the factors that may cause our operating results to fluctuate:

- the outcome of actions to enforce our intellectual property rights currently in progress or that we may undertake in the future, and the timing thereof;
- the amount and timing of receipt of license fees from potential infringers, licensees or customers;

- the rate of adoption of our patented technologies;

- the number of new license arrangements we may execute, or that may expire, within a particular period and the scope of those licenses, including the number of our patents which are licensed, the extent of prior infringement of our patent rights, royalty rates, timing of payment obligations, expiration date etc.;

- the success of a licensee in selling products that use our patented technologies; and

- the amount and timing of expenses related to our patent filings and enforcement proceedings, including litigation, related to our intellectual property rights

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

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

As of December 31, 2014, our executive officers and directors beneficially owned approximately 18% 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 11%, 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.

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

We have a number of protective provisions 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 because it would take two annual meetings to effectively replace a majority of the Board of Directors.

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

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

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

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

- **No ability of stockholders to call a special meeting of the stockholders**: Only the Board of Directors or management can call special meetings of the stockholders. This could mean that stockholders, even those who represent a significant percentage of our shares of common stock, may need to wait for the annual meeting before nominating directors or raising other business proposals to be voted on by the stockholders.

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

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

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

None

Item 2. Properties.

Our principal executive offices are located at 308 Dorla Court, Suite 206, Zephyr Cove, Nevada, 89448. We lease this property, which comprises approximately 2,090 square feet of office space, from a third party for a term that ends in 2015. We have no other properties and believe that our office facility is suitable and appropriately supports our current business needs.

Item 3. Legal Proceedings

We have three intellectual property infringement lawsuits pending against Apple, Inc. in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that these parties infringe on certain of our patents. We seek damages and injunctive relief in all the complaints.

VirnetX Inc. et al., v. Microsoft Corporation (Case 6:13-CV-00351-LED)
On April 22, 2013, we initiated a lawsuit by filing a complaint against Microsoft Corporation in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that Microsoft has infringed U.S. Patent Nos. 6,502,135, 7,188,180, 7,418,504, 7,490,151, 7,921,211, and 7,987,274. We seek an unspecified amount of damages and injunctive relief. A hearing on claims construction and multiple motions by both parties was held on September 4, 2014. On September 10, 2014, the court issued an order granting in part and denying-in-part our sealed motion to compel interrogatory responses, denying Microsoft's sealed motion to enter order focusing patent claims and prior art, denying Microsoft's sealed motion to compel, denying Microsoft's sealed motion to stay the case and granting our request for leave to file a Motion for Partial Summary Judgment. On December 17, 2014, we entered into an Amended Settlement and License Agreement with Microsoft Corporation. The agreement amends and restates certain terms of the original Settlement and License Agreement, dated May 14, 2010, between VirnetX, Inc. and Microsoft Corporation. As a result of the agreement, both parties have settled their pending patent disputes including the patent infringement case brought by us against Microsoft before the U.S. District Court for the Eastern District of Texas and jointly move to terminate the pending Inter Partes Review (IPR) proceedings between Microsoft and VirnetX as to Microsoft.

Under the terms of the amended agreement, Microsoft paid us $23 million to settle the patent dispute and expand Microsoft's license. Under the amended agreement, Microsoft received a worldwide, irrevocable, nonexclusive, non-sublicensable, royalty-free, fully paid-up license to all our patents.

VirnetX Inc. v. Cisco Systems, Inc. et al (13-1489-LP VirnetX, Case 6:10-CV-00417-LED)
On August 11, 2010, we initiated a lawsuit by filing a complaint against Aastra, Apple, Cisco, and NEC in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we alleged that these parties infringe on certain of our patents. We sought damages and injunctive relief. Subsequently, on February 4, 2011, we amended our original complaint, filed on August 11, 2010, against Aastra, Apple, Cisco and NEC, to assert U.S. Patent No. 7,418,504 against Apple and Aastra. On April 5, 2011, we further amended our complaint to include Apple's iPad 2 in the list of Apple products that are accused of infringing our patents and to assert our newly-issued patent, U.S. Patent No. 7,921,211 against all of the defendants in that lawsuit. A claim construction hearing was held on January 5, 2012 and the court issued a Markman ruling on April 25, 2012. Aastra and NEC agreed to sign license agreements with us and we agreed to drop all the accusations of infringement against them. At the pre-trial hearing, the judge decided to conduct separate jury trial for each defendant, and just try the case against Apple on the scheduled trial date. The jury trial against Cisco was held on March 4, 2013. The jury against Cisco came back with a verdict of non-infringement also determined that all our patents-in-suit patents are not invalid. Our motions for a new trial and Cisco's infringement of certain VirnetX patents was denied and the case against Cisco was closed.

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

On July 3, 2013, Apple filed an appeal of the judgment dated February 27, 2013 and order dated June 4, 2013 denying Apple's motion to alter or amend the judgment to the United States Court of Appeals for the Federal Circuit (USCAFC). On October 16, 2013 Apple filed its opening appeal brief to the USCAFC. Our response to the opening brief was filed on December 2, 2013, and on December 19, 2013, Apple filed its final response to complete the briefing of the court. A hearing was held on March 3, 2014 at the USCAFC. On September 16, 2014, USCAFC issued their opinion, affirming the jury's finding that all 4 of our patents are valid, confirming the jury's finding of infringement of VPN on Demand under many of the asserted claims of our '135 and '151 patents, and confirming the district's court's decision to allow evidence concerning our licenses and royalty rates in connection with the determination of damages. In its opinion, the USCAFC also vacated the jury's damages award and the district court's claim construction with respect to parts of our '504 and '211 patents and remanded the damages award and determination of infringement with respect to FaceTime –for further proceedings consistent with its opinion. On October 16, 2014, we filed a petition with the USCAFC, requesting a rehearing and rehearing en banc of the Federal Circuit's September 14, 2014, decision concerning VirnetX's litigation against Apple Inc. In our petition, we have asked the court to rehear its decision with respect to damages and affirm the district court's damages award against Apple in full because the Federal Circuit's decision is contrary to the patent statute and Supreme Court precedent. We are also asking the Federal Circuit to reinstate the jury's award that Apple infringed the '504 and '211 patents on the basis that the district court correctly construed the claim term "secure communication link". On December 16, 2014, USCAFC denied our petition requesting a rehearing and rehearing en banc of the Federal Circuit's September 14, 2014, decision and remanded the case back to the Eastern District of Texas, Tyler Division, for further proceedings consistent with its opinion. We are currently awaiting a scheduling order from the court.

VirnetX, Inc. v. Apple, Inc. (Case 6:13-CV-00211-LED)
The Court ordered the parties to mediate over an ongoing license in the following 45 days for Apple's future infringing use not covered by the Court's Order, and ordered us to file an appropriate motion with the court if the parties fail to agree to a license. On March 28, 2013, Apple filed a motion to alter or amend the judgment entered by the Court. The mediation was held on April 9, 2013 and the parties did not come to an agreement on an ongoing royalty rate for infringing Apple products. We filed our opposition to this motion on April 10, 2013. As ordered by the Court, we filed a sealed motion with the Court on April 16, 2013, requesting the Court's assistance in deciding an appropriate royalty rate for all infringing products shipped by Apple that are "not more than colorably different" with regards to the accused functionality. On August 1, 2013, a hearing was held in the United States District Court for the Eastern District of Texas, Tyler Division on our motion for an ongoing royalty. On March 6, 2014, the court issued a public version of the order previously issued under seal on March 3, 2014, awarding us an on-going royalty of 0.98% on adjudicated products and products "not colorably" different from those adjudicated at trial that incorporate any of the FaceTime or VPN on Demand features found to infringe at trial. On March 27, 2014, Apple filed its notice of appeal to the United States Court of Appeals for the Federal Circuit. On March 28, 2014 Apple also filed a motion for Entry of Final Judgment by Apple Inc. with the United States District Court for the Eastern District of Texas, Tyler Division. The Court had stayed the proceedings in this matter while the Court's ruling in the Case 6:10-CV-00417-LED was pending. With the denial of the rehearing request by USCAFC on December 16, 2014, this case has also been remanded back to the Eastern District of Texas, Tyler Division, for further processing with the Case 6:10-CV-00417-LED. We are currently awaiting a scheduling order from the court.

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

One or more potential intellectual property infringement claims may also be available to us against certain other companies who have the resources to defend against any such claims. Although we believe these potential claims are worth pursuing, commencing a lawsuit can be expensive and time-consuming, and there is no assurance that we will prevail on such potential claims. In addition, bringing a lawsuit may lead to potential counterclaims which may preclude our ability to commercialize our initial products, which are currently in development. Currently, we are not a party to any other pending legal proceedings, and are not aware of any proceeding threatened or contemplated against us by any governmental authority or other party.

Item 4. Mine Safety Disclosure.

Not applicable

PART II

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

Market Information

Our common stock currently trades under the symbol "VHC" on the NYSE MKT LLC.

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

Quarter Ended	High	Low
3/31/13	$ 36.84	$ 17.98
6/30/13	$ 26.25	$ 16.10
9/30/13	$ 22.41	$ 16.70
12/31/13	$ 23.20	$ 17.16
3/31/14	$ 25.49	$ 12.68
6/30/14	$ 18.57	$ 12.10
9/30/14	$ 18.24	$ 4.18
12/31/14	$ 6.85	$ 3.80

The closing price of our common stock on the NYSE MKT LLC on February 20, 2015 was $6.27 per share.

Holders

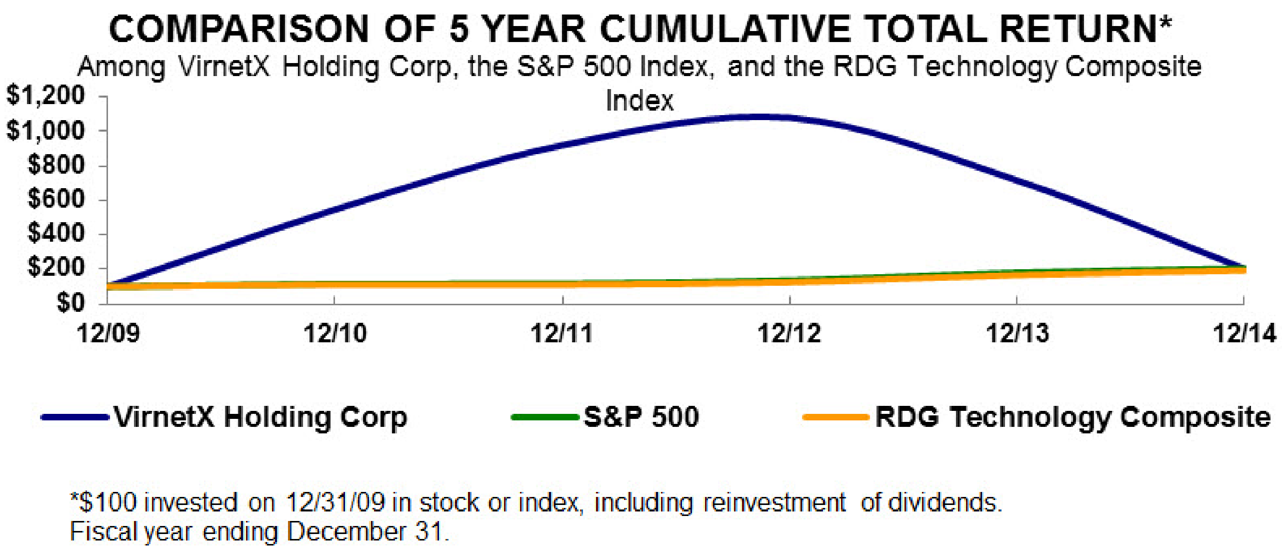
As of February 20, 2015, we had 36 stockholders of record. Because many of our shares of common stock are held of record by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by such record holders.

Dividends

On June 15, 2010, our Board of Directors declared a special cash dividend of $0.50 per share of our common stock to holders of record on July 1, 2010. We do not currently intend to begin paying a regular dividend in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of VirnetX under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.



The stock price performance reflected on this graph is not necessarily indicative of future stock price performance. See the disclosure in part I, Item 1A. "Risk Factors"

	12/09	12/10	12/11	12/12	12/13	12/14
VirnetX Holding Corp	**100.00**	**547.55**	**920.69**	**1079.61**	**715.68**	**202.43**
S&P 500	**100.00**	**115.06**	**117.49**	**136.30**	**180.44**	**205.14**
RDG Technology Composite	**100.00**	**111.01**	**110.85**	**126.07**	**167.16**	**193.22**

Recent Sales of Unregistered Securities

During the year ended December 31, 2014, we had no sales of unregistered securities and no repurchases of stock.

Item 6. Selected Financial Data.

The consolidated statement of operations data for the three years ended December 31, 2014, 2013 and 2012 and the balance sheet data at December 31, 2014 and 2013, are derived from our audited financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data for the two years ended December 31, 2011 and 2010 and the balance sheet data at December 31, 2012, 2011 and 2010 are derived from our audited financial statements not included in this annual report on Form 10-K.

The selected consolidated financial data below are not necessarily indicative of future performance and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K.

	For the year ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Consolidated Statement of Operations Data:					
Revenue	$ 1,249	$ 2,197	$ 412	$ 20	$ 68
Gain on settlement	$ 23,000	$ —	—	—	$ 200,000
Other operating expenses	$ (36,414)	$ (30,784)	$ (39,273)	$ (17,396)	$ (95,383)
Income tax (expense) benefit	$ (15)	$ (751)	$ 12,535	$ 5,480	$ (34,062)
Net (loss) income	$ (9,902)	$ (27,608)	$ (26,924)	$ (17,263)	$ 41,417
Earnings (loss) per share	$ (0.19)	$ (0.54)	$ (0.53)	$ (0.35)	$ 0.91
Dividends declared per common share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.50
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 18,658	$ 19,173	$ 19,661	$ 49,482	$ 34,635
Investments available for sale	$ 22,571	$ 19,815	$ 26,493	$ 14,438	$ 43,457
Total assets	$ 45,090	$ 39,398	$ 61,313	$ 74,633	$ 81,694
Long-term obligation	—	—	—	—	---
Stockholders' equity (deficit)	$ 32,627	$ 34,024	$ 53,944	$ 68,277	$ 59,453

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

Company Overview

We develop 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, and enables users to create a secure communication link using secure domain names over wired or wireless (4G/LTE) networks. We are currently beta testing our GABRIEL Connection Technology™ as part of our Secure Domain Name Initiative, or (SDNI), on various platforms including PCs, smart phones and tablets. We also intend to establish the exclusive secure domain name registry in the United States and other key markets around the world.

Our portfolio of intellectual property is the foundation of our business model. We currently own over 100 U.S. and international patents with over 75 pending 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 the key areas of device operating systems and network security for Cloud services, M2M communications in areas of Smart City, Connected Car and Connected Home.

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

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

We intend to license our patent portfolio, technology and software, including our secure domain name registry service, to domain infrastructure providers, communication service providers as well as to system integrators. We intend to seek further license of our technology, including our GABRIEL Connection Technology™ to enterprise customers, developers and original equipment manufacturers, or OEMs, of chips, servers, smart phones, tablets, e-Readers, laptops, net books and other devices, within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets including 4G/LTE. We have published our royalty rates and guidelines on our website. All forward moving licenses have adhered to these guidelines and have met or exceeded these rates and we will use these rates and guidelines in all future license negotiations.

Our software and technology solutions, including our Secure Domain Name Registry and GABRIEL Connection Technology™, are designed to facilitate secure communications and provide the security platform required by next-generation Internet-based applications such as instant messaging, or IM, voice over Internet protocol, or VoIP, mobile services, streaming video, file transfer, remote desktop and, or M2M communications. Our technology generates secure connections on a "zero-click" or "single-click" basis, significantly simplifying the deployment of secure real-time communication solutions by eliminating the need for end-users to enter any encryption information.

Our product Gabriel Secure Communication Platform™, unlike other collaboration and communication products and services on the market today, does not require access to user's confidential data and minimizes the threat of hacking and data mining. It enables individuals and organizations to maintain complete ownership and control over their personal and confidential data, secured within their own private network, while enabling authorized secure encrypted access from anywhere at any time. Our Gabriel Collaboration Suite™ is a set of applications that run on top of our Gabriel Secure Communication Platform™. It enables seamless and secure cross-platform communications between user's devices that have our software installed. Our products have undergone extensive internal testing with employees, contractors, shareholders and private beta testers and are now in Public Beta at a number of small and medium businesses who chose to sign-up for this program. General Public Release of our products is expected in the first-half of 2015 upon successful conclusion of our ongoing public beta program.

We have signed Patent License Agreements with Avaya Inc., Aastra USA, Inc., Microsoft, Mitel Networks Corporation, NEC Corporation and NEC Corporation of America, Siemens Enterprise Communications GmbH & Co. KG, and Siemens Enterprise Communications Inc. to license certain of our patents, for a one-time payment and an ongoing royalty for all future sales through the expiration of the licensed patents with respect to certain current and future IP-encrypted products. In December 2014, we received an additional $23,000 cash settlement resulting from subsequent litigation with Microsoft (see Note 14 "Litigation"). The 2010 settlement agreement was amended in December 2014 to settle the subsequent lawsuit with Microsoft, raising the total cash settlement with Microsoft, as amended, to $223,000.

Our employees include the core development team behind our patent portfolio, technology and software. This team has worked together for over ten years and is the same team that invented and developed this technology while working at Leidos, is a FORTUNE 500® scientific, engineering and technology applications company that uses its deep domain knowledge to solve problems of vital importance to the nation and the world, in national security, energy and the environment, critical infrastructure and health. The team has continued its research and development work started at Leidos, and expanded the set of patents we acquired in 2006 from Leidos, into a larger portfolio with over 100 U.S. and international patents with over 75 pending applications. This portfolio now serves as the foundation of our licensing business and planned service offerings and is expected to generate the majority of our future revenue in license fees and royalties. We intend to continue our research and development efforts to further strengthen and expand our patent portfolio. See – Operations – Research and Development Expenses for a description of our research and development expenses for the past three fiscal years discussed below.

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

Developments in the Year Ended December 31, 2014

Litigation

We have three intellectual property infringement lawsuits pending against Apple, Inc. in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that these parties infringe on certain of our patents. We seek damages and injunctive relief in all the complaints.

VirnetX Inc. et al., v. Microsoft Corporation (Case 6:13-CV-00351-LED)
On April 22, 2013, we initiated a lawsuit by filing a complaint against Microsoft Corporation in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that Microsoft has infringed U.S. Patent Nos. 6,502,135, 7,188,180, 7,418,504, 7,490,151, 7,921,211, and 7,987,274. We seek an unspecified amount of damages and injunctive relief. A hearing on claims construction and multiple motions by both parties was held on September 4, 2014. On September 10, 2014, the court issued an order granting in part and denying-in-part our sealed motion to compel interrogatory responses, denying Microsoft's sealed motion to enter order focusing patent claims and prior art, denying Microsoft's sealed motion to compel, denying Microsoft's sealed motion to stay the case and granting our request for leave to file a Motion for Partial Summary Judgment. On December 17, 2014, we entered into an Amended Settlement and License Agreement with Microsoft Corporation. The agreement amends and restates certain terms of the original Settlement and License Agreement, dated May 14, 2010, between VirnetX, Inc. and Microsoft Corporation. As a result of the agreement, both parties have settled their pending patent disputes including the patent infringement case brought by us against Microsoft before the U.S. District Court for the Eastern District of Texas and jointly move to terminate the pending Inter Partes Review (IPR) proceedings between Microsoft and VirnetX as to Microsoft.

Under the terms of the amended agreement, Microsoft paid us $23 million to settle the patent dispute and expand Microsoft's license. Under the amended agreement, Microsoft received a worldwide, irrevocable, nonexclusive, non-sublicensable, royalty-free, fully paid-up license to all our patents.

VirnetX Inc. v. Cisco Systems, Inc. et al (13-1489-LP VirnetX, Case 6:10-CV-00417-LED)
On August 11, 2010, we initiated a lawsuit by filing a complaint against Aastra, Apple, Cisco, and NEC in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we alleged that these parties infringe on certain of our patents. We sought damages and injunctive relief. Subsequently, on February 4, 2011, we amended our original complaint, filed on August 11, 2010, against Aastra, Apple, Cisco and NEC, to assert U.S. Patent No. 7,418,504 against Apple and Aastra. On April 5, 2011, we further amended our complaint to include Apple's iPad 2 in the list of Apple products that are accused of infringing our patents and to assert our newly-issued patent, U.S. Patent No. 7,921,211 against all of the defendants in that lawsuit. A claim construction hearing was held on January 5, 2012 and the court issued a Markman ruling on April 25, 2012. Aastra and NEC agreed to sign license agreements with us and we agreed to drop all the accusations of infringement against them. At the pre-trial hearing, the judge decided to conduct separate jury trial for each defendant, and just try the case against Apple on the scheduled trial date. The jury trial against Cisco was held on March 4, 2013. The jury against Cisco came back with a verdict of non-infringement also determined that all our patents-in-suit patents are not invalid. Our motions for a new trial and Cisco's infringement of certain VirnetX patents was denied and the case against Cisco was closed.

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

On July 3, 2013, Apple filed an appeal of the judgment dated February 27, 2013 and order dated June 4, 2013 denying Apple's motion to alter or amend the judgment to the United States Court of Appeals for the Federal Circuit (USCAFC). On October 16, 2013 Apple filed its opening appeal brief to the USCAFC. Our response to the opening brief was filed on December 2, 2013, and on December 19, 2013, Apple filed its final response to complete the briefing of the court. A hearing was held on March 3, 2014 at the USCAFC. On September 16, 2014, USCAFC issued their opinion, affirming the jury's finding that all 4 of our patents are valid, confirming the jury's finding of infringement of VPN on Demand under many of the asserted claims of our '135 and '151 patents, and confirming the district's court's decision to allow evidence concerning our licenses and royalty rates in connection with the determination of damages. In its opinion, the USCAFC also vacated the jury's damages award and the district court's claim construction with respect to parts of our '504 and '211 patents and remanded the damages award and determination of infringement with respect to FaceTime –for further proceedings consistent with its opinion. On October 16, 2014, we filed a petition with the USCAFC, requesting a rehearing and rehearing en banc of the Federal Circuit's September 14, 2014, decision concerning VirnetX's litigation against Apple Inc. In our petition, we have asked the court to rehear its decision with respect to damages and affirm the district court's damages award against Apple in full because the Federal Circuit's decision is contrary to the patent statute and Supreme Court precedent. We are also asking the Federal Circuit to reinstate the jury's award that Apple infringed the '504 and '211 patents on the basis that the district court correctly construed the claim term "secure communication link". On December 16, 2014, USCAFC denied our petition requesting a rehearing and rehearing en banc of the Federal Circuit's September 14, 2014, decision and remanded the case back to the Eastern District of Texas, Tyler Division, for further proceedings consistent with its opinion. We are currently awaiting a scheduling order from the court.

VirnetX, Inc. v. Apple, Inc. (Case 6:13-CV-00211-LED)

The Court ordered the parties to mediate over an ongoing license in the following 45 days for Apple's future infringing use not covered by the Court's Order, and ordered us to file an appropriate motion with the court if the parties fail to agree to a license. On March 28, 2013, Apple filed a motion to alter or amend the judgment entered by the Court. The mediation was held on April 9, 2013 and the parties did not come to an agreement on an ongoing royalty rate for infringing Apple products. We filed our opposition to this motion on April 10, 2013. As ordered by the Court, we filed a sealed motion with the Court on April 16, 2013, requesting the Court's assistance in deciding an appropriate royalty rate for all infringing products shipped by Apple that are "not more than colorably different" with regards to the accused functionality. On August 1, 2013, a hearing was held in the United States District Court for the Eastern District of Texas, Tyler Division on our motion for an ongoing royalty. On March 6, 2014, the court issued a public version of the order previously issued under seal on March 3, 2014, awarding us an on-going royalty of 0.98% on adjudicated products and products "not colorably" different from those adjudicated at trial that incorporate any of the FaceTime or VPN on Demand features found to infringe at trial. On March 27, 2014, Apple filed its notice of appeal to the United States Court of Appeals for the Federal Circuit. On March 28, 2014 Apple also filed a motion for Entry of Final Judgment by Apple Inc. with the United States District Court for the Eastern District of Texas, Tyler Division. The Court had stayed the proceedings in this matter while the Court's ruling in the Case 6:10-CV-00417-LED was pending. With the denial of the rehearing request by USCAFC on December 16, 2014, this case has also been remanded back to the Eastern District of Texas, Tyler Division, for further processing with the Case 6:10-CV-00417-LED. We are currently awaiting a scheduling order from the court.

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

On November 6, 2012, we filed a new complaint against Apple Inc., in the United States District Court for the Eastern District of Texas, Tyler Division for willfully infringing four of our patents, U.S. Patent Nos. 6,502,135, 7,418,504, 7,921,211 and 7,490,151, and seeking both an unspecified amount of damages and injunctive relief. The accused products include the iPhone 5, iPod Touch 5th Generation, iPad 4th Generation, iPad mini, and the latest Macintosh computers. Due to their release dates, these products were not included in the previous lawsuit that concluded with a Jury verdict on November 6, 2012 that was subsequently upheld by the United States District Court for the Eastern District of Texas, Tyler Division, on February 26, 2013. On July 1, 2013, we filed a consolidated and amended complaint to include U.S. Patent No. 8,051,181 and consolidate Civil Action No. 6:11-cv-00563-LED. On August 27, 2013, we filed an amended complaint including allegations of willful infringement related to U.S. Patent No. 8,504,697 seeking both damages and injunctive relief. The Markman hearing in this case was held on May 20, 2014 and on August 8, 2014, issued its Markman Order, denying Apple's motion for summary judgment of indefiniteness, in which Apple alleged that some of the disputed claims terms in the patents asserted by us were invalid for indefiniteness. In a separate order, the court granted in part and denied in part our motion for partial summary judgment on Apple's invalidity counterclaims, precluding Apple from asserting invalidity as a defense against infringement of the claims that were tried before a jury in our prior litigation against Apple (VirnetX vs. Cisco et. al., Case 6:10-CV-00417-LED). The jury trial in this case is scheduled for October 13, 2015.

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.

Patents

On June 5, 2014, the United States Patent and Trademark Office ("USPTO") denied all seven petitions for inter partes review filed by RPX. These petitions sought review of certain claims of our U.S. Patent Nos. 6,502,135, 7,418,504, 7,490,151 and 7,921,211. The USPTO found that Apple is an unlisted real party-in interest in all the petitions filed by RPX and the Petitions were not filed within the time limit imposed by the applicable statute. The USPTO thereby declined to institute inter partes reviews of the challenged patents.

On July 23, 2014, the USPTO denied three petitions for inter partes review (IPR) filed by Microsoft. These petitions sought review of certain claims of our U.S. Patent Nos. 6,502,135 and 7,188,180.

On July 31, 2014, the USPTO granted two petitions for inter partes review (IPR) filed by Microsoft Corporation. These petitions seek review of certain claims of our U.S. Patent No. 7,987,274.

On September 19, 2014, the USPTO has terminated partially certain inter partes reexamination proceedings initiated by Cisco Systems Inc. In particular, the USPTO has terminated the reexamination proceedings with respect to certain claims of our U.S. Patent Nos. 6,502,135; 6,839,759; 7,418,504; and 7,921,211.

On November 20, 2014, we announced that our updated licensing declaration to European Telecommunications Standards Institute (ETSI) and the Alliance for Telecommunications Industry Solutions (ATIS) has been accepted. In the updated declaration, we identified one (1) additional developing specifications in the 3GPP LTE, SAE project to which our patents and patent applications are or may become essential and identified current Releases (12 or 13) of previously-identified specifications.

On December 19, 2014, we submitted a joint motion, along with Microsoft, to the USPTO, to terminate all the pending inter partes review proceedings, filed by Microsoft, seeking review of certain claims of our U.S. Patent No. 7,188,180, 7,987,274, 7,418,504, 7,490,151 and 7,921,211. On January 27, 2015, the USPTO accepted our joint motion and terminated inter partes review (IPR) of claims of our U.S. Patent Nos. 7,188,180, 7,418,504, 7,490,151, and 7,921,211 and subsequently terminated all of them on February 17, 2015.

Commitments

Our lease agreement for our corporate headquarters commenced in October 2011 and includes monthly payments of $5 until the lease term expired in October 2013. In August 2013, we extended the terms of the lease agreement for two years to expire in October 2015.

Critical Accounting Policies

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

Use of Estimates

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

Basis of Consolidation

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

Revenue Recognition

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

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

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

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

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

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

Deferred revenue

In August 2013 we began receiving annual payments on a contract that requires payments to us over 4 years of $10,000 ("August 2013, Contract Settlement"). From the inception of that license to December 31, 2014, we received cash totaling $5,000, all of which is non-refundable. We recognized $1,167 and $1,833 of revenue related from the August 2013 Contract Settlement during the years ended December 31, 2014 and 2013.

Activity under the August 2013 Contract Settlement was as follows:

	2014	2013
Deferred Revenue, beginning of year	$ 667	$ -
Payment received	2,500	2,500
Less: Amount amortized as revenue	1,167	1,833
Deferred Revenue, end of year	$ 2,000	$ 667

Earnings Per Share

Basic earnings per share are computed by dividing earnings available to common stockholders by the weighted average number of outstanding common shares during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. During the years ended 2014, 2013 and 2012 we incurred losses. Therefore, the effect of any Common Stock equivalent is anti-dilutive during those periods.

Concentration of Credit Risk and Other Risks and Uncertainties

Our cash and cash equivalents are primarily maintained at two major financial institutions in the United States. A portion of those balances are insured by the Federal Deposit Insurance Corporation. During the year ended December 31, 2014, and 2013 we had, at times, funds which were uninsured. We do not believe that we are subject to any unusual financial risk beyond the normal risk associated with commercial banking relationships with major financial institutions. We have not experienced any losses on our deposits of cash and cash equivalents.

Derivative Instruments

Our Series I Warrants contain an anti-dilution provision which prevents them from being considered indexed to our stock. As a result, the warrants are required to be accounted for as derivative instruments.

We recognize derivative instruments as either assets or liabilities on the accompanying Consolidated Balance Sheets at fair value. We record changes in the fair value (i.e., gains or losses) of the derivatives in the accompanying Consolidated Statements of Operations.

Impairment of Long-Lived Assets

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

Income Taxes

We account for income taxes using the asset and liability method. The asset and liability method requires the recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between the tax basis and financial reporting basis of our assets and liabilities. We calculate current and deferred tax provisions based on estimates and assumptions that could differ from actual results reflected on the income tax returns filed during the following years. Adjustments based on filed returns are recorded when identified in the subsequent years. The effect on deferred taxes for a change in tax rates is recognized in income in the period that the tax rate change is enacted. In assessing if we will realize our deferred tax assets, we consider whether it is more likely than not that some portion of the deferred tax assets will not be realized.

A valuation allowance is provided for deferred income tax assets when, in our judgment, based upon currently available information and other factors, it is more likely than not that all or a portion of such deferred income tax assets will not be realized. The determination of the need for a valuation allowance is based on an on-going evaluation of current information including, among other things, historical operating results, estimates of future earnings in different taxing jurisdictions and the expected timing of the reversals of temporary differences. We believe the determination to record a valuation allowance to reduce a deferred income tax asset is a significant accounting estimate because it is based, among other things, on an estimate of future taxable income in the United States and certain other jurisdictions, which is susceptible to change and may or may not occur, and because the impact of adjusting a valuation allowance may be material. In determining when to release the valuation allowance established against our net deferred income tax assets, we consider all available evidence, both positive and negative. Consistent with our policy, and because of our history of operating losses, we do not currently recognize the benefit of all of our deferred tax assets, including tax loss carry forwards, that may be used to offset future taxable income. We continually assess our ability to generate sufficient taxable income during future periods in which our deferred tax assets may be realized. If and when we believe it is more likely than not that we will recover our deferred tax assets, we will reverse the valuation allowance as an income tax benefit in our statements of operations.

We account for our uncertain tax positions in accordance with U.S. GAAP. The purpose of this method is to clarify accounting for uncertain tax positions recognized. The U.S. GAAP method of accounting for uncertain tax positions utilizes a two-step approach to evaluate tax positions. Step one, recognition, requires evaluation of the tax position to determine if based solely on technical merits it is more likely than not to be sustained upon examination. Step two, measurement, is addressed only if a position is more likely than not to be sustained. In step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement with tax authorities. If a position does not meet the more likely than not threshold for recognition in step one, no benefit is recorded until the first subsequent period in which the more likely than not standard is met, the issue is resolved with the taxing authority, or the statute of limitations expires. Positions previously recognized are derecognized when we subsequently determine the position no longer is more likely than not to be sustained. Evaluation of tax positions, their technical merits, and measurements using cumulative probability are highly subjective management estimates. Actual results could differ materially from these estimates.

Stock-based Compensation

We account for stock-based compensation using the fair value recognition method. We recognize these compensation costs net of the applicable forfeiture rate and recognize the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of 4 years. We estimate the forfeiture rate based on our historical experience, if any.

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

Fair Value

We apply fair value accounting to all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.
Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3 – Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability.

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

New Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, "*Presentation of Financial Statements – Going Concern"*, Subtopic 205-40, "*Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern."* The amendments in this ASU apply to all entities and require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term *substantial doubt,* (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. We are currently evaluating the impact this guidance will have on our financial position and results of operations.

In June 2014, the FASB issued ASU No. 2014-12, *"Compensation - Stock Compensation* (Topic 718)," which makes amendments to the codification topic 718, "*Accounting for Share-Based Payments*," when the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance becomes effective for annual reporting periods beginning after December 15, 2015, early adoption is permitted. We are currently evaluating the impact this guidance will have on our financial position and results of operations.

In May 2014, the FASB issued ASU No. 2014-09 "*Revenue from Contracts with Customers*" (Topic 606). Topic 606 supersedes the revenue recognition requirements in Topic 605, *"Revenue Recognition",* including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments create a new Subtopic 340-40, *"Other Assets and Deferred Costs—Contracts with Customers".* In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For a public entity, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently evaluating the impact this guidance will have on our financial position and statement of operations.

Operations (all amounts in this section are expressed in thousands)

Revenue

	2014	2013	2012
Revenue	$ 1,249	$ 2,197	$ 412

Revenue generated for the year ended December 31, 2014 was $1,249 compared to December 31, 2013 of $2,197, and the December 31, 2012 revenue of approximately $412. Revenue for the year ended December 31, 2014 of $1,249, was largely a result of the 2013 Contract Settlement described under "Deferred Revenue" above. Under the terms of the 2013 Contract Settlement we are to be paid minimum annual payments of $2,500 over the contract period for a total of $10,000. During the year ended December 31, 2013 we recognized $1,500 of revenue for historical royalties (a portion of the settlement allocated to the use of our patented technology prior the execution of the license agreement) and $697 of revenue for royalties earned subsequent to the settlement, and other licensees. Revenues for historical royalties were estimated based on estimated past and future usage of our IP on our customer's products. During the year ended December 31, 2014 we recognized $1,167 of revenue for royalties from the 2013 Contract Settlement and $82 of revenue for royalties from other licensees.

In addition to the settlement discussed above, during 2014, 2013 and 2012 we recognized royalty revenue as part of license agreements entered into with customers during the patent infringement actions (see Note 14 "Litigation"). These revenues relate to both payment for use of our patented technology prior to the signing of a license agreement, and royalty payments after the execution of the license agreements. No amounts were allocable to settlement fees, expense reimbursement, damages or any other amounts other than historical and future sales as no such amounts were requested or received.

Research and Development Expenses

	2014	2013	2012
Research and Development	$ 2,004	$ 1,782	$ 1,555

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 for the year ended December 31, 2014 was $2,004 compared to December 31, 2013 of $1,782 and $1,555 for the year ended December 31, 2012. The increase in 2014 was primarily due to the increase in wages and bonuses paid in 2014 compared to 2013. Similarly, the increase in 2013 was primarily due to the increase in wages and bonuses paid in 2013 compared to 2012.

Selling, General and Administrative Expenses

	2014	2013	2012
Selling, General and Administrative	$ 28,310	$ 29,002	$ 37,718

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

Our selling, general and administrative expenses for the year ended December 31, 2014 was $28,310 compared to December 31, 2013 of $29,002 and $37,718 for the year ended December 31, 2012. The decreases in 2014 and 2013 were primarily due to the decrease in legal fees. The higher level of expense in 2012 was associated with the settlement of the Aastra, Mitel and NEC cases as well as the ongoing Apples, Cisco and Avaya cases in 2012. Legal fees represent approximately 50% of general and administrative expenses for 2014 as compared to 56% for 2013 and 71% for 2012.

Within selling, general and administrative expenses, legal fees for the year ended December 31, 2014 were $14,012 compared to December 31, 2013 of $16,363 and $26,537 for the year ended December 31, 2012. The increase in 2012 was associated with the settlement of the Aastra, Mitel and NEC cases as well as the ongoing Apple, Cisco and Avaya cases in 2012.

Also included in operating expense in 2014 is royalty expense of $6,100, to be paid to Leidos, in connection with the settlement with Microsoft in December 2014. There were no royalty expenses in 2013 and 2012.

Gain on Settlement

	2014	2013	2012
Gain on Settlement	$ (23,000)	$ —	$ —

In December 2014, we received a $23,000 cash settlement resulting from litigation with Microsoft (see Note 14 “Litigation”). In June 2010, we received a $200,000 cash settlement from litigation with Microsoft, in which we agreed to dismiss the pending lawsuits and any damages. The 2010 settlement agreement was amended in December 2014 to settle a subsequent lawsuit with Microsoft, raising the total cash settlement with Microsoft, as amended, to $223,000. In both the original settlement and the December 2014 amendment, we could not practically and objectively separate any settlement portion from the revenue element as discussed under the guidance of Accounting Standards Codification, or ASC, 605 and as a result, the settlement proceeds are classified as a gain on settlement in our statement of operations.

Other Income and Expenses

	2014	2013	2012
Other Income and Expense	$ 2,238	$ 1,608	$ (927)

Our non-cash gain (loss) related to the periodic revaluation of our Series I Warrants liability for the year ended December 31, 2014 was $2,238 compared to $1,608 for the year ended December 31, 2013 and ($927) for the year ended December 31, 2012. Our non-cash gain (loss) related to the periodic revaluation of our Series I Warrants liability decreased by $630 in the year ended December 31, 2014, as compared to the comparable period in 2013 as a result of a lower common share price during the year ended December 31, 2014.

Interest income for the year ended December 31, 2014 was $40 compared to $122 for the year ended December 31, 2013, and $329 for the year ended December 31, 2012. These changes are due to timing on the maturity of the investments as well as the amount of cash available for investments.

Effective Income Tax Rate

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

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
United States federal statutory rate	35.00%	35.00%	35.00%
State taxes, net of federal benefit	(0.02)%	(1.48)%	1.07%
Valuation allowance	(41.67)%	(37.11)%	(4.41)%
Stock options	0.39%	(0.17)%	0.14%
Prior year adjustment	(0.13)%	(1.32)%	1.03%
Warrants	7.92%	2.10%	(0.82)%
Other	(1.64)%	0.18%	(0.32)%
Effective income tax rate	(0.15)%	(2.80)%	31.69%

In 2014 and 2013, we had taxable losses of $10 and $27 million, respectively, which are available for carried forward to offset future taxable income. We made determinations to provide full valuation allowances for our net deferred tax assets at the end of 2014 and 2013, including NOL carryforwards generated during the years, based on our evaluation of positive and negative evidence, including our history of operating losses and the uncertainty of generating future taxable income that would enable us to realize our deferred tax assets. The small provision in 2014 was related to the payment of miscellaneous penalties and minimum taxes. The 2013 tax provision of $0.75 million was due primarily to a change in our estimate of taxable income for the 2012 period and a tax reserve for the California research & development credit utilized in the 2010 tax return.

The income tax benefit for the year ended December 31, 2012 resulted from recognition of net operating losses ("NOLs") generated during the year that could be carried back to generate refunds of taxes paid in prior years. Generally, NOLs can be carried back to the two years preceding the loss year and then forward for twenty years following the loss year. In 2010, we had a taxable income of $75 million, which allowed us to carry back its 2012 NOL in the amount $42 million for tax refunds. Due to the tax refunds derived from carrying back the 2012 NOLs, we recognized the tax benefit of $12 million in 2012. In addition, we made a determination to provide a full valuation allowance for its net deferred tax assets at the end of 2012 based on its evaluation of positive and negative evidence, including our history of operating losses and the uncertainty of generating future taxable income that would enable it to realize its deferred tax assets.

Liquidity and Capital Resources

For the year ended December 31, 2014, our cash and cash equivalents totaled $18,658 and our short-term investments totaled $22,571 compared to $19,173 and $19,815, respectively, for the year ended December 31, 2013 and $19,661 and $26,493, respectively, as of December 31, 2012.

We expect that our cash and cash equivalents as of December 31, 2014, will be sufficient to meet our short-term capital needs. While we do not expect to generate net income in the near term, generally attributable to the Microsoft 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. However, we will not receive any proceeds from these claims unless and until they may be resolved in our favor, and we expect to continue to incur substantial legal and other costs associated with pursuit of our claims.

Contractual Commitments

	Total	2015	There after
Leases	**46**	**46**	**—**
Total	**$ 46**	**$ 46**	**—**

Off-Balance Sheet Arrangements

As of December 31, 2014, we had no off-balance sheet arrangements.

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

We invest our excess cash primarily in highly liquid debt instruments including municipal and federal agency securities. By policy, we limit the amount of credit exposure to any one issuer.

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

We considered the historical volatility of short-term interest rates and determined that it was reasonably possible that an adverse change of 100 basis points could be experienced in the near term but would have an immaterial impact in the fair value of our marketable securities as they will be maturing in six months or less.

Although we have no obligation to settle our Series I Warrant obligations in cash or an unknown number of shares, the embedded liability in the Series I Warrant obligations is recorded at estimated fair value. That estimated fair value is determined in large part by reference to our assumptions and estimates of various factors. Notably, our liability will increase and we may incur significant non-cash expenses, all other factors being constant, if the market price of our common shares increases. Conversely, our liability will decrease and we may recognize significant non-cash gains, all other factors being constant, if the market price of our common shares decreases.

We considered the historical volatility of our stock prices and determined that it was reasonably possible that the fair market value of our stock price could significantly increase in the near term but we believe it would have an immaterial impact to our consolidated balance sheets and statement of operations as there are only approximately 157,000 warrants outstanding as of December 31, 2014, that matures in March 2015.

Item 8. Financial Statements and Supplementary Data.

FINANCIAL STATEMENTS

Financial Statements Index

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
VirnetX Holding Corporation

We have audited the accompanying consolidated balance sheets of VirnetX Holding Corporation (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. VirnetX Holding Corporation's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VirnetX Holding Corporation, Inc. as of December 31, 2014 and 2013, and the consolidated results of their operations, and cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), VirnetX Holding Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2015 expressed an unqualified opinion as to the effectiveness of the Company's control over financial reporting.

/s/ *Farber Hass Hurley LLP*

Chatsworth, California
March 2, 2015

VirnetX Holding Corporation

CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	As of December 31, 2014	As of December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,658	$ 19,173
Investments available for sale	22,571	19,815
Prepaid expenses - current	653	357
Total current assets	41,882	39,345
Prepaid expenses – non-current	3,144	—
Property and equipment, net	64	53
Total assets	$ 45,090	$ 39,398
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,554	$ 1,748
Royalty payable	6,100	—
Related-party payable	81	—
Income tax liability	408	395
Deferred revenue, current portion	1,500	667
Derivative liability	320	2,564
Total current liabilities	11,963	5,374
Deferred revenue, non-current portion	500	—
Commitments and contingencies (Note 5)	—	—
Stockholders' equity:		
Preferred stock, par value $0.0001 per share		
Authorized: 10,000,000 shares at December 31, 2014 and 2013,		
Issued and outstanding: 0 shares at December 31, 2014 and 2013	—	—
Common stock, par value $0.0001 per share		
Authorized: 100,000,000 shares at December 31, 2014 and 2013, Issued and outstanding: 51,996,701 shares and 51,236,141 shares, at December 31, 2014 and 2013, respectively	5	5
Additional paid-in capital	133,072	124,589
Accumulated deficit	(100,435)	(90,533)
Accumulated other comprehensive loss	(15)	(37)
Total stockholders' equity	32,627	34,024
Total liabilities and stockholders' equity	$ 45,090	$ 39,398

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

VirnetX Holding Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Revenue	$ 1,249	$ 2,197	$ 412
Operating expenses:			
Royalty expense	6,100	—	—
Research and development	2,004	1,782	1,555
General, selling and administrative	28,310	29,002	37,718
Gain on settlement (Note 3)	(23,000)	—	—
Total operating expenses	13,414	30,784	39,273
Loss from operations	(12,165)	(28,587)	(38,861)
Gain (loss) on change in value of embedded derivative and warrants	2,238	1,608	(927)
Interest income, net	40	122	329
Loss before taxes	(9,887)	(26,857)	(39,459)
Income tax (expense) benefit	(15)	(751)	12,535
Net loss	$ (9,902)	$ (27,608)	$ (26,924)
Basic and diluted loss per share:	$ (0.19)	$ (0.54)	$ (0.53)
Weighted average shares outstanding basic and diluted	51,570,472	51,188,006	50,934,266

VirnetX Holding Corporation
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Net loss	$ (9,902)	$ (27,608)	$ (26,924)
Other comprehensive income (loss), net of tax:			
Change in equity adjustment from foreign currency translation, net of tax	—	(12)	—
Change in unrealized gain (loss) on investments, net of tax	22	(33)	12
Total other comprehensive income (loss), net of tax	22	(45)	12
Comprehensive loss	$ (9,880)	$ (27,653)	$ (26,912)

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

VirnetX Holding Corporation
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income (Expense)	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance at December 31, 2011	**50,619,136**	**$ 5**	**$ 104,277**	**$ (36,001)**	**$ (4)**	**$ 68,277**
Stock issued for cash exercise of warrants at $3.93-3.59 per share, net	44,941		161			161
Stock-based compensation			6,162			6,162
Deferred tax benefit related to stock based compensation			3,111			3,111
Derivative liability			1,454			1,454
Exercise of options	486,165		1,691			1,691
Comprehensive income:						
Net loss				(26,924)		(26,924)
Other comprehensive income net of tax					12	12
Comprehensive loss						(26,912)
Balance at December 31, 2012	**51,150,242**	**$ 5**	**$ 116,856**	**$ (62,925)**	**$ 8**	**$ 53,944**
Stock-based compensation			7,563			7,563
Exercise of options	39,833		170			170
Vested RSUs	46,066					
Comprehensive income:						
Net loss				(27,608)		(27,608)
Other comprehensive income net of tax					(45)	(45)
Comprehensive loss						(27,653)
Balance at December 31, 2013	**51,236,141**	**$ 5**	**$ 124,589**	**$ (90,533)**	**$ (37)**	**$ 34,024**
Stock issued for cash exercise of warrants at 3.59 per share, net	2,500		9			9
Stock-based compensation			8,189			8,189
Exercise of options	679,321		278			278
Vested RSUs	78,739					
Derivative liability			7			7
Comprehensive income:						
Net loss				(9,902)		(9,902)
Other comprehensive income net of tax					22	22
Comprehensive loss						(9,880)
Balance at December 31, 2014	**51,996,701**	**$ 5**	**$ 133,072**	**$ (100,435)**	**$ (15)**	**$ 32,627**

VirnetX Holding Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Cash flows from operating activities:			
Net (loss)	$ (9,902)	$ (27,608)	$ (26,924)
Adjustments to reconcile net (loss) to net cash used in operating activities:			
Depreciation and amortization	25	36	71
Stock-based compensation	8,189	7,563	6,162
Net change in deferred taxes	—	—	3,158
Change in value of derivative liability	(2,238)	(1,608)	927
Changes in assets and liabilities:			
Prepaid expenses and other current assets	(296)	(243)	(23)
Prepaid expenses – Non-current	(3,144)	—	—
Prepaid taxes	—	14,963	(4,934)
Deferred revenue	1,333	667	—
Accounts payable and accrued liabilities	1,806	(1,449)	1,970
Royalty payable	6,100	—	—
Related-party payable	81	—	—
Income tax liability	13	395	—
Net cash provided by (used in) operating activities	1,967	(7,284)	(19,593)
Cash flows from investing activities:			
Purchase of property and equipment	(35)	(7)	(37)
Purchase of investments	(45,500)	(92,729)	(59,342)
Proceeds from sale, maturity of investments	42,766	99,362	47,299
Net cash provided by (used in) investing activities	(2,769)	6,626	(12,080)
Cash flows from financing activities:			
Proceeds from exercise of options	278	170	1,691
Proceeds from exercise of warrants	9	—	161
Net cash provided by financing activities	287	170	1,852
Net decrease in cash and cash equivalents	(515)	(488)	(29,821)
Cash and cash equivalents, beginning of year	19,173	19,661	49,482
Cash and cash equivalents, end of year	$ 18,658	$ 19,173	$ 19,661
Supplemental disclosure of cash flow information:			
Cash paid during the year for taxes	$ 2	$ —	$ —
Cash paid during the year for interest	$ —	$ —	$ —

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

VirnetX Holding Corporation
NOTES TO FINANCIAL STATEMENTS
(in thousands except share and per share amounts)

Note 1 - Formation and Business of the Company

VirnetX Holding Corporation, which we refer to as" we", "us", "our", "the Company" or "VirnetX", is engaged in the business of commercializing a portfolio of patents. We seek to license our technology, including GABRIEL Connection Technology™, to various original equipment manufacturers, or OEMs, that use our technologies in the development and manufacturing of their own products within the IP-telephony, mobility, fixed-mobile convergence and unified communications markets. Prior to 2012 our revenue was limited to an insignificant amount of software royalties pursuant to the terms of a single license agreement. During 2013 and 2012 we had revenues from settlements of patent infringement disputes whereby we received consideration for past sales of licensees that utilized our technology, where there was no prior patent license agreement (see "Revenue Recognition").

Our portfolio of intellectual property is the foundation of our business model. We currently own approximately 39 U.S. and 66 foreign patents with approximately 75 pending patent applications worldwide. Our patent portfolio is primarily focused on securing real-time communications over the Internet, as well as related services such as the establishment and maintenance of a secure domain name registry. Our patented methods also have additional applications in the key areas of device operating systems and network security for Cloud services, M2M communications in areas of Smart City, Connected Car and Connected Home. The subject matter of all our U.S and foreign patents and pending applications relates generally to securing communications over the internet and such covers all our technology and other produtcs. Our issued U.S. and foreign patents expire at various times during the period from 2019 to 2024. Some of our issued patents and pending patent applications were acquired by our principal operating subsidiary; VirnetX, Inc., from Leidos, (f/k/a Science Applications International Corporation or SAIC) in 2006 and we are required to make payments to Leidos, based on cash or certain other values generated from those patents. The amount of such payments depends upon the type of value generated, and certain categories are subject to maximums and other limitations.

Note 2 - Summary of Significant Accounting Policies

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

Use of Estimates

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

Basis of Consolidation

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

Revenue Recognition

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

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

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

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

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

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

Deferred revenue

In August 2013 we began receiving annual payments on a contract that requires payment to us over 4 years of $10,000 ("August 2013 Contract Settlement"). From the inception of that license to December 31, 2014, we received cash totaling $5,000, all of which is non-refundable. We recognized $1,167 and $1,833 of revenue related from the August 2013 Contract Settlement during the years ended December 31, 2014 and 2013.

Activity under the August 2013 Contract Settlement was as follows:

	2014	2013
Deferred Revenue, beginning of year	$ 667	$ -
Payment received	2,500	2,500
Less: Amount amortized as revenue	1,167	1,833
Deferred Revenue, end of year	$ 2,000	$ 667

Cash and Cash Equivalents

We consider all highly liquid investments purchased with original maturities of three months or less at the date of purchase to be cash equivalents. Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these investments.

Prepaid Expenses and Other Current Assets

Prepaid Expense and Other Current Assets at December 31, 2014 includes the current portion of prepaid rent for a facility lease for corporate promotional and marketing purposes. Beginning March 2014, the prepayment totaling $4,000 is being amortized over the 10 year term of the lease. The unamortized non-current portion of the prepayment is included in Prepaid expenses-Non-current on the consolidated balance sheet.

Investments

Investments are classified as available-for-sale and are recorded at fair market value. Unrealized gains and losses are reported as other comprehensive income. Realized gains and losses are recorded in income in the period they are realized. We invest our excess cash primarily in highly liquid debt instruments including municipal and federal agency securities, with contractual maturities less than two years. By policy, we limit the amount of credit exposure to any one issuer.

Property and Equipment

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

Concentration of Credit Risk and Other Risks and Uncertainties

Our cash and cash equivalents are primarily maintained at two major financial institutions in the United States. Deposits held with these financial institutions may exceed the amount of insurance provided on such deposits. A portion of those balances are insured by the Federal Deposit Insurance Corporation, or FDIC. During the year ended December 31, 2014 and 2013, we had, at times, funds that were uninsured. We do not believe that we are subject to any unusual financial risk beyond the normal risk associated with commercial banking relationships. We have not experienced any losses on our deposits of cash and cash equivalents.

Fair Value

The carrying amounts of our financial instruments, including cash equivalents, accounts payable, and accrued liabilities, approximate fair value because of their generally short maturities.

Intangible Assets

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

Impairment of Long-Lived Assets

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

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 using the asset and liability method. The asset and liability method requires the recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between the tax basis and financial reporting basis of our assets and liabilities. We calculate current and deferred tax provisions based on estimates and assumptions that could differ from actual results reflected on the income tax returns filed during the following years. Adjustments based on filed returns are recorded when identified in the subsequent years. The effect on deferred taxes for a change in tax rates is recognized in income in the period that the tax rate change is enacted. In assessing if we will realize our deferred tax assets, we consider whether it is more likely than not that some portion of the deferred tax assets will not be realized.

A valuation allowance is provided for deferred income tax assets when, in our judgment, based upon currently available information and other factors, it is more likely than not that all or a portion of such deferred income tax assets will not be realized. The determination of the need for a valuation allowance is based on an on-going evaluation of current information including, among other things, historical operating results, estimates of future earnings in different taxing jurisdictions and the expected timing of the reversals of temporary differences. We believe the determination to record a valuation allowance to reduce a deferred income tax asset is a significant accounting estimate because it is based, among other things, on an estimate of future taxable income in the United States and certain other jurisdictions, which is susceptible to change and may or may not occur, and because the impact of adjusting a valuation allowance may be material. In determining when to release the valuation allowance established against our net deferred income tax assets, we consider all available evidence, both positive and negative. Consistent with our policy, and because of our history of operating losses, we do not currently recognize the benefit of all of our deferred tax assets, including tax loss carry forwards, that may be used to offset future taxable income. We continually assess our ability to generate sufficient taxable income during future periods in which our deferred tax assets may be realized. If and when we believe it is more likely than not that we will recover our deferred tax assets, we will reverse the valuation allowance as an income tax benefit in our statements of operations.

We account for our uncertain tax positions in accordance with U.S. GAAP. The purpose of this method is to clarify accounting for uncertain tax positions recognized. The U.S. GAAP method of accounting for uncertain tax positions utilizes a two-step approach to evaluate tax positions. Step one, recognition, requires evaluation of the tax position to determine if based solely on technical merits it is more likely than not to be sustained upon examination. Step two, measurement, is addressed only if a position is more likely than not to be sustained. In step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement with tax authorities. If a position does not meet the more likely than not threshold for recognition in step one, no benefit is recorded until the first subsequent period in which the more likely than not standard is met, the issue is resolved with the taxing authority, or the statute of limitations expires. Positions previously recognized are derecognized when we subsequently determine the position no longer is more likely than not to be sustained. Evaluation of tax positions, their technical merits, and measurements using cumulative probability are highly subjective management estimates. Actual results could differ materially from these estimates.

Derivative Instruments

Our Series I Warrants are accounted for as derivative instruments as a result of an anti-dilution provision which, in accordance with U.S. GAAP, prevents them from being considered indexed to our stock and qualified for an exception to derivative accounting.

We recognize derivative instruments as either assets or liabilities on the accompanying Consolidated Balance Sheets at fair value. We record changes in the fair value (i.e., gains or losses) of the derivatives in the accompanying Consolidated Statements of Operations.

Stock-Based Compensation

We account for stock-based compensation using the fair value recognition method in accordance with U.S. GAAP. We recognize these compensation costs net of the applicable forfeiture rate and recognize the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term of 4 years. We estimate the forfeiture rate based on our historical experience if any. See Note 7 - Stock-Based Compensation for additional information concerning our share-based compensation awards.

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

Earnings per Share

Basic earnings per share are computed by dividing earnings available to common stockholders by the weighted average number of outstanding common shares during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. During 2014, 2013 and 2012 we incurred losses; therefore the effect of any common stock equivalent would be anti-dilutive during these periods.

New Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, "*Presentation of Financial Statements – Going Concern"*, Subtopic 205-40, "*Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern."* The amendments in this ASU apply to all entities and require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term *substantial doubt,* (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. We are currently evaluating the impact this guidance will have on our financial position and results of operations.

In June 2014, the FASB issued ASU No. 2014-12, *"Compensation - Stock Compensation* (Topic 718)," which makes amendments to the codification topic 718, "*Accounting for Share-Based Payments*," when the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance becomes effective for annual reporting periods beginning after December 15, 2015, early adoption is permitted. We are currently evaluating the impact this guidance will have on our financial position and results of operations.

In May 2014, the FASB issued ASU No. 2014-09 "*Revenue from Contracts with Customers*" (Topic 606). Topic 606 supersedes the revenue recognition requirements in Topic 605, *"Revenue Recognition",* including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments create a new Subtopic 340-40, *"Other Assets and Deferred Costs—Contracts with Customers".* In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For a public entity, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently evaluating the impact this guidance will have on our financial position and statement of operations.

Note 3 - Gain on Settlement

In December 2014, we received a $23,000 cash settlement resulting from litigation with Microsoft (see Note 14 "Litigation"). In June 2010, we received a $200,000 cash settlement from litigation with Microsoft, in which we agreed to dismiss the pending lawsuits and any damages. The 2010 settlement agreement was amended in December 2014 to settle a subsequent lawsuit with Microsoft, raising the total cash settlement with Microsoft, as amended, to $223,000. In both the original settlement and the December 2014 amendment, we could not practically and objectively separate any settlement portion from the revenue element as discussed under the guidance of Accounting Standards Codification, or ASC, 605 *"Revenue Recognition"*, and as a result, the settlement proceeds are classified as a gain on settlement in our consolidated statement of operations.

Note 4 - Property and Equipment

Our major classes of property and equipment were as follows:

	December 31		
	2014	**2013**	**2012**
Office furniture	$ 70	$ 70	$ 70
Computer equipment	157	121	115
Total	227	191	185
Less accumulated depreciation	(163)	(138)	(115)
	$ 64	$ 53	$ 70

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was $25, $24 and $23 respectively.

Note 5 – Commitments and Related Party Transactions

We lease our offices under an operating lease with a third party expiring in October 2015. We recognize rent expense on a straight-line basis over the term of the lease. Rent expense was $56, $56 and $56 for the years ended December 31, 2014, 2013 and 2012, respectively.

During 2014 we leased the use of an aircraft from K2 Investment Fund LLC ("LLC") for business travel for employees of the Company. We incurred approximately $296 in rental fees (including fees and other reimbersements) to the LLC during the year ended December 31, 2014 for such use of which $81 remains payable at December 31, 2014. Our Chief Executive Officer and Chief Administrative Officer are the managing partners of the LLC and control the equity interests of the LLC. Subsequent to the year ended December 31, 2014, on January 31, 2015 we entered into a 12 month non-exclusive lease with the LLC for use of the plane at a rate of $8 per flight hour, with no minimum usage requirement. The agreement contains other terms and conditions normal in such transactions and can be cancelled by either us or the LLC with 30 days notice.

Note 6 - Stock Plan

We have a stock incentive plan for employees and others called the VirnetX Holding Corporation 2013 Equity Incentive Plan (the "Plan"), which has been approved by our stockholders. The 2013 Plan provides for the issuance of up to 2,500,000 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 2013 Plan. The 2013 Plan provides for the granting of stock options and restricted stock purchase rights (“RSU”) to our employees and consultants. Stock options granted under the 2013 Plan may be incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may only be granted to our employees (including officers and directors). Nonqualified stock options ("NSO") and stock purchase rights may be granted to our employees and consultants.

The 2013 Plan will expire in 2023. Options may be granted under the 2013 Plan with an exercise price determined by our Board of Directors, or a duly appointed committee thereof, provided, however, that the exercise price of an option granted to any employee shall be not less than 100% of the fair market value at the date of grant in the case of ISO or 85% of the fair market value at the date of grant in the case of an NSO. The exercise price of an ISO or NSO granted to one of our Named Executive Officers shall not be less than 100% fair market value of the shares at the date of grant and the exercise price of an ISO granted to a 10% shareholder shall not be less than 110% of the fair market value of the shares on the date of grant. Stock options granted under the 2013 Plan typically vest over four years and have a 10 year term. All RSUs are considered to be granted at the fair value of our stock on the date of grant because they have no exercise price. RSUs typically vest over four years. At December 31, 2014 there were 1,886,217 shares available for grant under the 2013 Plan.

Note 7 - Stock-Based Compensation

The following tables summarize information about stock-options and RSUs outstanding at December 31, 2014:

	Options Outstanding				Options Vested and Exercisable		
Date of Option Issue	**Range of Exercise Prices**	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**
2006	$ 0.24	41,516	1.22	$ 0.24	41,516	1.22	$ 0.24
2007	$ 4.20	1,277,574	2.56	4.20	1,277,574	2.56	4.20
2007	$ 5.88-6.47	563,931	2.99	5.88	563,931	2.99	5.88
2008	$ 1.74-6.20	129,500	3.40	5.00	129,500	3.40	5.00
2009	$ 1.15- 1.58	922,986	4.26	1.16	922,986	4.26	1.16
2010	$ 5.48-6.03	259,896	5.17	5.49	259,896	5.17	5.49
2011	$ 19.85-23.62	405,000	6.37	23.62	367,499	6.37	23.62
2012	$ 23.84 – 35.25	357,500	7.40	27.03	242,083	7.38	27.03
2013	$ 23.72 – 35.05	269,625	8.37	25.40	128,717	8.37	25.41
2014	$ 14.52-15.40	261,500	9.50	15.21	41,928	9.46	14.97
		4,489,028	4.61	$ 9.33	3,975,630	4.11	$ 7.79

The following tables summarize activity under the Plan for the indicated periods:

	Options			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	4,906,998	$ 5.12	—	—
Options granted	367,500	26.97	—	—
Options exercised	(486,165)	3.48	—	—
Options cancelled	(12,109)	17.34	—	—
Outstanding at December 31, 2012	4,776,224	6.94	—	—
Options granted	274,625	25.37	—	—
Options exercised	(39,833)	4.27	—	—
Options cancelled	(34,167)	20.57	—	—
Outstanding at December 31, 2013	4,976,849	7.86	—	—
Options granted	261,500	15.21	—	—
Options exercised	(679,321)	0.41	—	—
Options cancelled	(70,000)	13.38	—	—
Outstanding at December 31, 2014	4,489,028	$ 9.33	4.61	$ 6,000

	RSUs		
	Number of RSUs	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding at December 31, 2011	—	—	—
RSUs granted	151,665	25.60	—
Outstanding at December 31, 2012	151,665	$ 25.60	$ —
RSUs granted	156,415	23.72	—
RSUs vested	(55,832)	27.06	—
RSUs cancelled	(3,333)	24.75	—
Outstanding at December 31, 2013	248,915	$ 24.10	$ —
RSUs granted	154,332	15.30	—
RSUs vested	(88,686)	24.08	—
RSUs cancelled	(4,167)	24.13	—
Outstanding at December 31, 2014	310,394	$ 19.74	$ —

Intrinsic value is calculated as the difference between the per-share market price of our common stock on the last trading day of 2014, which was $5.49, and the exercise price of the options. For options exercised, the intrinsic value is the difference between market price and the exercise price on the date of exercise. We received cash proceeds of $278, $170 and $1,691 from stock options exercised in 2014, 2013 and 2012 respectively. The total intrinsic value of options exercised was $3,575, $676 and $11,509 during the years ended December 31, 2014, 2013 and 2012, respectively. For RSUs vested, the intrinsic value is the difference between market price and the vested price on the date of vest. The total intrinsic value of the RSUs vested was zero during the year ended December 31, 2014.

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

Stock-Based Compensation by Type of Award	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Employee stock options	$ 5,951	$ 6,488	$ 5,171
RSUs	2,238	1,075	991
Total stock-based compensation expense	$ 8,189	$ 7,563	$ 6,162

As of December 31, 2014, there was $8,583 of unrecognized stock-based compensation expense expected to be recognized related to unvested employee stock options and $4,814 of unrecognized stock-based compensation expense to be recognized related to unvested RSUs. These costs are expected to be recognized over a weighted-average period of 2.38 and 2.58 years, respectively.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Expected stock price volatility	88%	93%	111%
Risk-free interest rate	2.56%	2.04%	1.90%
Expected life term (in years)	6.0 years	6.10 years	6.8 years
Expected dividends	0%	0%	0%

Based on the Black-Scholes option pricing model, the weighted average estimated fair value of employee stock options granted was $11.26, $19.24 and $23.17 per share during the years ended December 31, 2014, 2013 and 2012, respectively.

The expected life was determined using the simplified method outlined in ASC 718, *"Compensation - Stock Compensation",* taking the average of the vesting term and the contractual term of the option. Expected volatility of the stock options was based upon historical data and other relevant factors, such as the volatility of comparable publicly-traded companies at a similar stage of life cycle. We have not provided an estimate for forfeitures because we have had nominal forfeited options and RSUs and believe that all outstanding options and RSUs at December 31, 2014, will vest. In the future, we may change this estimate based on actual and expected future forfeiture rates.

Note 8 - Earnings Per Share

Basic earnings per share are based on the weighted average number of shares outstanding for a period. Diluted earnings per share are based upon the weighted average number of shares and potentially dilutive common shares outstanding. Potential common shares outstanding principally include stock options, under our stock plan and warrants. During 2014, 2013 and 2012 we incurred losses; therefore the effect of any common stock equivalent would be anti-dilutive during those periods.

The table below sets forth the basic loss per share calculations:

	Year Ended December 31,		
	2014	2013	2012
Net loss	$ (9,902)	$ (27,608)	$ (26,924)
Basic weighted average number of shares outstanding	51,570	51,188	50,934
Diluted weighted average number of shares outstanding	51,570	51,188	50,934
Basic and diluted loss per share	$ (0.19)	$ (0.54)	$ (0.53)

Note 9 - Common Stock

Each share of common stock has the right to one vote. The holders of common stock are entitled to receive dividends whenever funds are legally available and when declared by our Board of Directors, subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. Our restated articles of incorporation authorize us to issue up to 100,000,000 shares of $.0001 par value common stock.

Note 10 - Warrants

Information about warrants outstanding during the twelve months ended December 31, 2014 follows:

Original Number of Warrants Issued	Exercise Price per Common Share	Exercisable at December 31, 2013	Became Exercisable	Exercised	Terminated / Cancelled / Expired	Exercisable at December 31, 2013	Expiration Date
2,619,036 (1)	$ 3.59	159,967	—	2,500	—	157,467	March 2015
Total		159,967	—	2,500	—	157,467	

(1) Referred to as our Series I Warrants.

Note 11 - Employee Benefit Plan

We sponsor a defined contribution, 401k plan, covering substantially all our employees. Our matching contribution to the plan was approximately $45 in 2014, $47 in 2013 and $41 in 2012.

Note 12 - Income Taxes

The benefit (provision) for income taxes is comprised of the following:

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Current:			
Federal	$ (13)	$ (354)	$ 12,154
State	(2)	(397)	428
Foreign	-	-	-
	(15)	(751)	12,582
Deferred:			
Federal	-	-	(40)
State	-	-	(7)
	-	-	(47)
Total (provision) benefit for income taxes	$ (15)	$ (751)	$ 12,535

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

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
United States federal statutory rate	35.00%	35.00%	35.00%
State taxes, net of federal benefit	(0.02)%	(1.48)%	1.07%
Valuation allowance	(41.67)%	(37.11)%	(4.41)%
Stock options	0.39%	(0.17)%	0.14%
Prior year true-up	(0.13)%	(1.32)%	1.03%
Warrants	7.92%	2.10%	(0.82)%
Other	(1.64)%	0.18%	(0.32)%
Effective income tax rate	(0.15)%	(2.80)%	31.69%

In 2014 and 2013, we had taxable losses of $10,000 and $27,000 respectively, which are available for carried forward to offset future taxable income. We made determinations to provide full valuation allowances for our net deferred tax assets at the end of 2014 and 2013, including NOL carryforwards generated during the years, based on our evaluation of positive and negative evidence, including our history of operating losses and the uncertainty of generating future taxable income that would enable us to realize our deferred tax assets. The small provision in 2014 was related to the payment of miscellaneous penalties and minimum taxes. The 2013 tax provision of $750 was due primarily to a change in our estimate of taxable income for the 2012 period and a tax reserve for the California research & development credit utilized in the 2010 tax return.

The income tax benefit for the year ended December 31, 2012 resulted from recognition of net operating losses ("NOLs") generated during the year that could be carried back to generate refunds of taxes paid in prior years. Generally, NOLs can be carried back to the two years preceding the loss year and then forward for twenty years following the loss year. In 2010, we had a taxable income of $75,000, which allowed us to carry back our 2012 NOL in the amount $42,000 for tax refunds. Due to the tax refunds derived from carrying back the 2012 NOLs, we recognized the tax benefit of $12,000 in 2012. In addition, we made a determination to provide a full valuation allowance for its net deferred tax assets at the end of 2012 based on our evaluation of positive and negative evidence, including our history of operating losses and the uncertainty of generating future taxable income that would enable it to realize its deferred tax assets.

Deferred tax assets (liabilities) consist of the following:

	Year Ended December 31, 2014	Year Ended December 31, 2013
Deferred tax assets:		
Reserves and accruals	$ -	$ 58
State tax	1	1
Research and development credits and other credits	924	907
Net operating loss carry forward	11,190	8,249
Stock based compensation	8,452	6,600
Other	127	154
Total deferred tax assets	20,694	15,969
Valuation allowance	(20,679)	(15,955)
Deferred tax assets after valuation allowance	15	14
Deferred tax liability:		
Depreciation and amortization	(15)	(14)
Total deferred tax liability	(15)	(14)
Net deferred tax assets	$ -	$ -

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

Based on the available objective evidence, management believes it is more likely than not that the net deferred tax assets at December 31, 2014 will not be fully realizable. Accordingly, management has maintained a full valuation allowance against its net deferred tax assets at December 31, 2014. The net change in the total valuation allowance for the 12 months ended December 31, 2014 was an increase of $4,724. At December 31, 2014, we had federal and state net operating loss carry-forwards of approximately $31,617 and $37,993, respectively, expiring beginning in 2028 and 2017, respectively. At December 31, 2014, we had federal research and development credit carry-forwards of approximately $924 expiring beginning in 2031.

Internal Revenue Code Section 382 places a limitation (the "Section 382 Limitation") on the amount of taxable income that can be offset by net operating loss carry forwards after a change in control (generally greater than 50% change in ownership) of a loss corporation. California has similar rules. Our capitalization described herein may have resulted in such a change. Generally, after a control change, a loss corporation cannot deduct net operating loss carry forwards generated in years prior to the deemed change of control under IRC Section 382 in excess of the Section 382 Limitation.

We are required to recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. As a result, we have provided contingent reserve under ASC 740-10 of $316 and $316 at December 31, 2014, and December 31, 2013, respectively. Our tax returns are subject to review by various tax authorities. The returns are subject to review those from 2008 forward.

Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. We have accrued interest or penalties during the 12 month period ended December 31, 2014 in the amount of $79.

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

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Balance at the beginning of the year	$ 316	$ 128	$ 128
Additions based on tax positions related to the current year	-	-	-
Additions for tax positions of prior years	-	188	-
Settlements	-	-	-
Lapse of applicable statute of limitations	-	-	-
Balance at the end of the year	$ 316	$ 316	$ 128

Note 13 - Fair Value Measurement

We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.
Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The carrying amounts for cash and cash equivalents, investments in certificates of deposit, accounts payable and accrued expenses approximate their fair values due to the short period of time until maturity.

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

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

Series I Warrants: Fair value measured by using a Binomial valuation model. As of December 31, 2014, the assumptions used to measure fair value of the liability embedded in our outstanding Series I Warrants included a warrant exercise price of $3.59 per share, a common share price of $5.49, a discount rate of 1.65%, and a volatility of 89.69%. As of December 31, 2013, the assumptions used to measure fair value of the liability embedded in our outstanding Series I Warrants included a warrant exercise price of $3.59 per share, a common share price of $19.41, a discount rate of 1.75%, and a volatility of 91.55%.

The following table shows our cash and available-for-sale securities adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents of investments available for sale as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014					
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Investments Available for Sale
Cash	$ 1,183	$ -	$ -	$ 1,183	$ 1,183	$ -
Level 1:						
Mutual funds	10,139	-	-	10,139	10,139	-
Corporate securities	9,405	1	(3)	9,403	1,645	7,758
U.S agency securities	20,504	2	(2)	20,504	5,691	14,813
	40,048	3	(5)	40,046	17,475	22,571
Total	$ 41,231	$ 3	$ (5)	$ 41,229	$ 18,658	$ 22,571

	December 31, 2013					
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Investments Available for Sale
Cash	$ 11,699	$ -	$ -	$ 11,699	$ 11,699	$ -
Level 1:						
Mutual funds	73	-	-	73	73	-
Corporate securities	10,782	-	-	10,782	2,325	8,457
Municipal securities	2,172	-	-	2,172	665	1,507
U.S agency securities	14,287	-	(25)	14,262	4,411	9,851
	27,314	-	(25)	27,289	7,474	19,815
Total	$ 39,013	$ -	$ (25)	$ 38,988	$ 19,173	$ 19,815

The maturities of our marketable securities generally range from within one to two years. Actual maturities could differ from contractual maturities due to call or prepayment provisions.

The following table sets forth, by level within the fair value hierarchy, our financial instrument liabilities as of December 31, 2014 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Series l Warrants	$ —	$ —	$ 320	$ 320
Total	$ —	$ —	$ 320	$ 320

The following table sets forth, by level within the fair value hierarchy, our financial instrument liabilities as of December 31, 2013 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Series l Warrants	$ —	$ —	$ 2,564	$ 2,564
Total	$ —	$ —	$ 2,564	$ 2,564

The following table sets forth a summary of changes in the fair value of our Level 3 financial instrument liability for the year ended December 31, 2014, 2013 and 2012 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Beginning Balance	$ 2,564	$ 4,172	$ 4,699
(Gain) losses included in net losses	(2,237)	(1,608)	927
Settlements	(7)	—	(1,454)
Ending Balance	$ 320	$ 2,564	$ 4,172

Note 14 - Litigation

We have three intellectual property infringement lawsuits pending against Apple, Inc. in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that these parties infringe on certain of our patents. We seek damages and injunctive relief in all the complaints.

VirnetX Inc. et al., v. Microsoft Corporation (Case 6:13-CV-00351-LED)
On April 22, 2013, we initiated a lawsuit by filing a complaint against Microsoft Corporation in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we allege that Microsoft has infringed U.S. Patent Nos. 6,502,135, 7,188,180, 7,418,504, 7,490,151, 7,921,211, and 7,987,274. We seek an unspecified amount of damages and injunctive relief. A hearing on claims construction and multiple motions by both parties was held on September 4, 2014. On September 10, 2014, the court issued an order granting in part and denying-in-part our sealed motion to compel interrogatory responses, denying Microsoft's sealed motion to enter order focusing patent claims and prior art, denying Microsoft's sealed motion to compel, denying Microsoft's sealed motion to stay the case and granting our request for leave to file a Motion for Partial Summary Judgment. On December 17, 2014, we entered into an Amended Settlement and License Agreement with Microsoft Corporation. The agreement amends and restates certain terms of the original Settlement and License Agreement, dated May 14, 2010, between VirnetX, Inc. and Microsoft Corporation. As a result of the agreement, both parties have settled their pending patent disputes including the patent infringement case brought by us against Microsoft before the U.S. District Court for the Eastern District of Texas and jointly move to terminate the pending Inter Partes Review (IPR) proceedings between Microsoft and VirnetX as to Microsoft.

Under the terms of the amended agreement, Microsoft paid us $23 million to settle the patent dispute and expand Microsoft's license. Under the amended agreement, Microsoft received a worldwide, irrevocable, nonexclusive, non-sublicensable, royalty-free, fully paid-up license to all our patents.

VirnetX Inc. v. Cisco Systems, Inc. et al (13-1489-LP VirnetX, Case 6:10-CV-00417-LED)
On August 11, 2010, we initiated a lawsuit by filing a complaint against Aastra, Apple, Cisco, and NEC in the United States District Court for the Eastern District of Texas, Tyler Division, pursuant to which we alleged that these parties infringe on certain of our patents. We sought damages and injunctive relief. Subsequently, on February 4, 2011, we amended our original complaint, filed on August 11, 2010, against Aastra, Apple, Cisco and NEC, to assert U.S. Patent No. 7,418,504 against Apple and Aastra. On April 5, 2011, we further amended our complaint to include Apple's iPad 2 in the list of Apple products that are accused of infringing our patents and to assert our newly-issued patent, U.S. Patent No. 7,921,211 against all of the defendants in that lawsuit. A claim construction hearing was held on January 5, 2012 and the court issued a Markman ruling on April 25, 2012. Aastra and NEC agreed to sign license agreements with us and we agreed to drop all the accusations of infringement against them. At the pre-trial hearing, the judge decided to conduct separate jury trial for each defendant, and just try the case against Apple on the scheduled trial date. The jury trial against Cisco was held on March 4, 2013. The jury against Cisco came back with a verdict of non-infringement also determined that all our patents-in-suit patents are not invalid. Our motions for a new trial and Cisco's infringement of certain VirnetX patents was denied and the case against Cisco was closed.

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

On July 3, 2013, Apple filed an appeal of the judgment dated February 27, 2013 and order dated June 4, 2013 denying Apple's motion to alter or amend the judgment to the United States Court of Appeals for the Federal Circuit (USCAFC). On October 16, 2013 Apple filed its opening appeal brief to the USCAFC. Our response to the opening brief was filed on December 2, 2013, and on December 19, 2013, Apple filed its final response to complete the briefing of the court. A hearing was held on March 3, 2014 at the USCAFC. On September 16, 2014, USCAFC issued their opinion, affirming the jury's finding that all 4 of our patents are valid, confirming the jury's finding of infringement of VPN on Demand under many of the asserted claims of our '135 and '151 patents, and confirming the district's court's decision to allow evidence concerning our licenses and royalty rates in connection with the determination of damages. In its opinion, the USCAFC also vacated the jury's damages award and the district court's claim construction with respect to parts of our '504 and '211 patents and remanded the damages award and determination of infringement with respect to FaceTime –for further proceedings consistent with its opinion. On October 16, 2014, we filed a petition with the USCAFC, requesting a rehearing and rehearing en banc of the Federal Circuit's September 14, 2014, decision concerning VirnetX's litigation against Apple Inc. In our petition, we have asked the court to rehear its decision with respect to damages and affirm the district court's damages award against Apple in full because the Federal Circuit's decision is contrary to the patent statute and Supreme Court precedent. We are also asking the Federal Circuit to reinstate the jury's award that Apple infringed the '504 and '211 patents on the basis that the district court correctly construed the claim term "secure communication link". On December 16, 2014, USCAFC denied our petition requesting a rehearing and rehearing en banc of the Federal Circuit's September 14, 2014, decision and remanded the case back to the Eastern District of Texas, Tyler Division, for further proceedings consistent with its opinion. We are currently awaiting a scheduling order from the court.

VirnetX, Inc. v. Apple, Inc. (Case 6:13-CV-00211-LED)
The Court ordered the parties to mediate over an ongoing license in the following 45 days for Apple’s future infringing use not covered by the Court’s Order, and ordered us to file an appropriate motion with the court if the parties fail to agree to a license. On March 28, 2013, Apple filed a motion to alter or amend the judgment entered by the Court. The mediation was held on April 9, 2013 and the parties did not come to an agreement on an ongoing royalty rate for infringing Apple products. We filed our opposition to this motion on April 10, 2013. As ordered by the Court, we filed a sealed motion with the Court on April 16, 2013, requesting the Court’s assistance in deciding an appropriate royalty rate for all infringing products shipped by Apple that are “not more than colorably different” with regards to the accused functionality. On August 1, 2013, a hearing was held in the United States District Court for the Eastern District of Texas, Tyler Division on our motion for an ongoing royalty. On March 6, 2014, the court issued a public version of the order previously issued under seal on March 3, 2014, awarding us an on-going royalty of 0.98% on adjudicated products and products “not colorably” different from those adjudicated at trial that incorporate any of the FaceTime or VPN on Demand features found to infringe at trial. On March 27, 2014, Apple filed its notice of appeal to the United States Court of Appeals for the Federal Circuit. On March 28, 2014 Apple also filed a motion for Entry of Final Judgment by Apple Inc. with the United States District Court for the Eastern District of Texas, Tyler Division. The Court had stayed the proceedings in this matter while the Court’s ruling in the Case 6:10-CV-00417-LED was pending. With the denial of the rehearing request by USCAFC on December 16, 2014, this case has also been remanded back to the Eastern District of Texas, Tyler Division, for further processing with the Case 6:10-CV-00417-LED. We are currently awaiting a scheduling order from the court.

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

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.

Note 15 - Quarterly Financial Information (unaudited)

	First	Second	Third	Fourth
		(in thousands except per share)		
2014				
Revenue	$ 250	$ 268	$ 292	$ 439
Gain on settlement	—	—	—	23,000
Income (loss) from operations	(6,953)	(6,171)	(6,250)	6,870
Net Income/ (loss)	(6,087)	(6,670)	(4,468)	7,325
Basic earnings (loss) per common share	$ (0.12)	$ (0.13)	$ (0.09)	$ 0.14
Diluted earnings (loss) per common share	$ (0.12)	$ (0.13)	$ (0.09)	$ 0.14

	First	Second	Third	Fourth
		(in thousands except per share)		
2013				
Revenue	$ 293	$ 6	$ 1,612	$ 286
Loss from operations	(9,529)	(6,578)	(5,133)	(7,347)
Net loss	(7,891)	(7,029)	(5,134)	(7,554)
Basic and diluted loss per common share	$ (0.15)	$ (0.14)	$ (0.10)	$ (0.15)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of VirnetX Holding Corporation

We have audited the internal control over financial reporting of VirnetX Holding Corporation (the "Company") as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014, of the Company and our report dated March 2, 2015, expressed an unqualified opinion on those financial statements.

/s/ Farber Hass Hurley LLP

Chatsworth, California
March 2, 2015

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, December 31, 2014.

The purpose of this evaluation was to determine whether as of December 31, 2014 our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose in our filings with the SEC, (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2014, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting (as such term is defined in rules 13a-15 (f) under the Securities Exchange Act of 1934, as amended) during the fiscal year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of Company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of Company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014. There were no changes in our internal control over financial reporting during the period ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Farber Hass Hurley LLP has audited our internal control over financial reporting as of December 31, 2014; their report is included elsewhere herein.

Item 9B. Other Information.

None.

PART III

Certain information required by Part III is omitted from this report and is incorporated by reference to our definitive proxy statement pursuant to Regulation 14A for our 2014 Annual Meeting of Stockholders (the "Definitive Proxy Statement") which will be filed within 120 days of our fiscal year end.

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference to the information set forth in the Definitive Proxy Statement under the sections "Board of Directors," "Nominee and Continuing Directors," "Executive Officers," "Composition of the Board of Directors," "Board Meetings and Committees and Annual Meeting Attendance," "Audit Committee Matters" and "Section 16(a) Beneficial Ownership Reporting Compliance." Information regarding delinquent filers pursuant to Item 405 of Regulation S-K will be included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for the 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the information set forth in the Definitive Proxy Statement under the sections "Compensation Committee Matters," "Director Compensation," "Executive Compensation," "Compensation Committee Report," "Summary Compensation Table," "Outstanding Equity Awards at 2014 Fiscal Year-End," and "Option Exercises in Fiscal Year 2014."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the information set forth in the Definitive Proxy Statement under the section "Voting Securities and Principal Holders."

Securities Authorized for Issuance Under the Equity Compensation Plans

We have a stock incentive plan for employees and others called the "VirnetX Holding Corporation 2013 Stock Plan", or the Plan, which has been approved by our stockholders. The Plan provides for the granting of up to 14,124,469 shares of our common stock, including stock options and stock purchase rights, and will expire in 2023. As of December 31, 2014, there were 1,886,217 shares available to be granted under the Plan. We had 4,489,028 and 4,976,849 options outstanding at December 31, 2014, and December 31, 2013, respectively, with an average exercise price of $9.33 and $7.86, respectively. We had 317,894 and 248,915 restricted stock units outstanding at December 31, 2014 and December 31, 2013 respectively with a weighted average grant price of $19.74 and $24.10 respectively.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	4,964,389	$ 9.81	1,886,217
Equity compensation plans not approved by security holders	—		—
Total	4,964,389	$ 9.81	1,886,217

On May 22, 2014 the Compensation Committee granted 55,000 options and 16,666 RSUs to the Board of Directors of VirnetX Inc. On July 8, 2014 the Compensation Committee granted 206,500 options and 137,666 RSUs to the employees of VirnetX, Inc.

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

The information required by this item is incorporated by reference to the information set forth in the Definitive Proxy Statement under the sections "Transactions with Related Persons" and "Composition of Board of Directors."

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference to the information set forth in the Definitive Proxy Statement for the 2014 Annual Meeting of Stockholders under "Principal Accountant Fees & Services."

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

(1) *Financial Statements*: See the Index to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

(2) *Financial Statement Schedule*: Financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto. All other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or the notes thereto.

(3) *Exhibits*: See Exhibit Index immediately following the signature page of this Form 10-K.

SIGNATURES

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

VirnetX Holding Corporation

By: /s/ Kendall Larsen

Name: Kendall Larsen
Title: Chief Executive Officer and President

Dated: March 2, 2015

POWER OF ATTORNEY

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

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

Name	Capacity	Date
/s/ Kendall Larsen Kendall Larsen	Director, Chief Executive Officer and President (*Principal Executive Officer*)	March 2, 2015
/s/ Richard H. Nance Richard H. Nance	Chief Financial Officer (*Principal Financial Officer and Principal Accounting Officer*)	March 2, 2015
/s/ Robert D. Short III Robert D. Short III	Director	March 2, 2015
/s/ Gary Feiner Gary Feiner	Director	March 2, 2015
/s/ Michael F. Angelo Michael F. Angelo	Director	March 2, 2015
/s/ Thomas M. O'Brien Thomas M. O'Brien	Director	March 2, 2015

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by reference herein			
		Form	Exhibit No.	Filing Date	File No.
3.1	Certificate of Incorporation of the Company.	8-K	3.1	11/01/2007	000-26895
3.2	By-Laws of the Company.	8-K	3.2	11/01/2007	000-26895
4.1	Form of Warrant Agency Agreement by and between the Company and Corporate Stock Transfer, Inc. as Warrant Agent.	S-1/A	4.1	01/16/2009	333-153645
4.2	Form of Series I Warrant.	8-K	4.1	09/03/2009	001-33852
10.1	Form of Indemnification Agreement by and between the Company and each of Kendall Larsen, Robert D. Short III, Gary Feiner, Michael F. Angelo, Thomas M. O'Brien and Richard Nance.	8-K	10.3	07/12/2007	000-26895
10.2*	2007 Stock Plan, as amended on April 13, 2012.	10-Q	10.2	05/10/2012	001-33852
10.3*	Amended Form of Stock Option Agreement – 2007 Stock Plan.	10-Q	4.5	05/10/2011	001-33852
10.4*	Form of Restricted Stock Unit Award Agreement – 2007 Stock Plan.	10-Q	10.3	05/10/2012	001-33852
10.5*	2013 Equity Incentive Plan.	DEF 14A	Appendix A	04/12/2013	001-33852
10.6*	Form of Stock Option Agreement – 2013 Equity Incentive Plan.				
10.7*	Form of Restricted Stock Unit Agreement – 2013 Equity Incentive Plan.				
10.8	Voting Agreement among the Company and certain of its stockholders, dated as of December 12, 2007.	10-K	10.11	03/31/2008	001-33852
10.9	Securities Purchase Agreement, dated as of September 2, 2009, by and between the Company and the Purchasers (as defined therein).	8-K	10.1	09/03/2009	001-33852
10.10	Form of Registration Rights Agreement by and between the Company and the Purchasers (as defined therein).	8-K	10.2	09/03/2009	001-33852
10.11	Form of Underwriting Agreement between VirnetX Holding Corporation and Gilford Securities Incorporated.	S-1/A	1.1	01/16/2009	333-153645
10.12	Patent License and Assignment Agreement by and between the Company and Leidos, Inc. (formerly Science Applications International Corporation) dated as of August 12, 2005.	8-K	10.4	07/12/2007	000-26895
10.13	Amendment No. 1 to Patent License and Assignment Agreement by and between the Company and Leidos, Inc. dated as of November 2, 2006.	8-K	10.6	07/12/2007	000-26895
10.14	Amendment No. 2 to Patent License and Assignment Agreement by and between VirnetX, Inc. and Leidos, Inc. dated as of March 12, 2008.	8-K	10.1	03/18/2008	001-33852
10.15	Security Agreement by and between the Company and Leidos, Inc. dated as of August 12, 2005.	8-K	10.5	07/12/2007	000-26895
10.16	Assignment Agreement between the Company and Leidos, Inc. dated as of December 21, 2006.	8-K	10.7	07/12/2007	000-26895
10.17	Professional Services Agreement by and between the Company and Leidos, Inc. dated as of August 12, 2005.	8-K	10.8	07/12/2007	000-26895
10.18	IP Brokerage Agreement by and between ipCapital Group, Inc. and VirnetX, Inc., effective as of March 13, 2008.	8-K	10.2	03/18/2008	001-33852
10.19	Engagement Letter by and between VirnetX Holding Corporation and ipCapital Group, Inc. dated March 12, 2008.	8-K	10.3	03/18/2008	001-33852

Exhibit Number	Description	Incorporated by reference herein			
		Form	Exhibit No.	Filing Date	File No.
10.20**	Engagement Letter dated June 8, 2009, by and between McKool Smith, a professional corporation, and VirnetX, Inc.	10-Q	10.1	08/10/2009	001-33852
10.21**	Engagement Letter dated April 15, 2010, by and between McKool Smith, a professional corporation, and VirnetX, Inc.	10-Q	10.1	05/07/2010	001-33852
10.22**	Settlement and License Agreement, by and between Microsoft Corporation and VirnetX, Inc., dated May 14, 2010.	10-Q/A	10.1	01/31/2011	000-33852
10.23***	Amended Settlement and License Agreement, by and between Microsoft Corporation and VirnetX, Inc., dated December 17, 2014.				
10.24*	Employment Offer Letter from VirnetX, Inc. to Richard H. Nance.	10-Q	10.4	05/10/2012	001-33852
21.1	Subsidiaries of VirnetX Holding Corporation.				
23.1	Consent of Farber Hass Hurley LLP, Independent Registered Public Accounting Firm.				
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act.				
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act.				
32.1†	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2†	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS††	XBRL Instance Document				
101.SCH††	XBRL Taxonomy Extension Schema Document				
101.CAL††	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF††	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB††	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE††	XBRL Taxonomy Extension Presentation Linkbase Document				

* Indicates management contract or compensatory plan.
**Confidential treatment has been granted by the U.S. Securities and Exchange Commission as to certain portions of this Exhibit.

***Portions of this Exhibit have been omitted pending a determination by the Securities and Exchange Commission as to whether these portions should be granted confidential treatment.

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

†† XBRL (eXtensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

EXHIBIT 10.6

VIRNETX HOLDING CORPORATION

2013 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the VirnetX Holding Corporation 2013 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Stock Option Agreement, including the Notice of Stock Option Grant (the "Notice of Grant") and the Terms and Conditions of Stock Option Grant, attached hereto as Exhibit A (all together, the "Agreement").

NOTICE OF STOCK OPTION GRANT

Participant:	«Name»
Address:	________________
	________________

Participant has been granted an Option to purchase Common Stock of VirnetX Holding Corporation (the "Company"), subject to the terms and conditions of the Plan and this Agreement, as follows:

Grant Number	________________
Date of Grant	«Grant_Date»
Vesting Commencement Date	«VCD»
Number of Shares Granted	«Number_of_Shares»
Exercise Price per Share	$«Price_Per_Share»
Total Exercise Price	$«Exercise_Price»
Type of Option	_____ Incentive Stock Option
	X Nonstatutory Stock Option
Term/Expiration Date	«Expiration_Date»

Vesting Schedule:

Subject to accelerated vesting as set forth below or in the Plan, this Option will be exercisable, in whole or in part, in accordance with the following schedule:

Initials: _________

Date:___________

«VestingSchedule»

Notwithstanding the foregoing, the vesting of the Shares subject to the Option shall be subject to any vesting acceleration provisions contained in the Plan and/or any employment or service agreement, offer letter, change in control severance agreement, or any other agreement that has been or is, after the date of this Agreement, entered into between Participant and the Company or any Parent, Subsidiary, or Affiliate (such agreement a "Separate Agreement").

Termination Period:

Except as otherwise provided in a Separate Agreement:

If on the date of grant, Participant was (a) a member of the Company's board of directors (the "Board") or (b) an employee of the Company that was designated by the Board as an "officer" for the purposes of Section 16 of the Securities Exchange Act of 1934 (a "Section 16 Officer"), this Option will be exercisable for twelve (12) months after Participant ceases to be a Service Provider, unless such termination is due to Participant's death, Disability, or Cause.

If on the date of grant, Participant was a Service Provider to the Company but was not a Section 16 Officer or a member of the Board, this Option will be exercisable for thirty (30) days after Participant ceases to be a Service Provider, unless such termination is due to Participant's death, Disability, or Cause.

If Participant ceases to be a Service Provider as a result of the Participant's Disability, this Option will be exercisable for six (6) months after Participant ceases to be a Service Provider.

If Participant ceases to be a Service Provider as a result of Participant's death, or in the event of Participant's death within one (1) month following the date Participant ceases to be a Service Provider, this Option will be exercisable for twelve (12) months from the earlier of the date of Participant's death or the date Participant ceases to be a Service Provider.

If Participant ceases to be a Service Provider as a result of Participant's termination for Cause, this Option will immediately terminate and cease to be exercisable. In the event Participant's status as a Service Provider is suspended pending investigation of whether such status shall be terminated for Cause, all of Participant's rights under this Option, including the right to exercise this Option, shall be suspended during the investigation period.

Notwithstanding the foregoing, in no event may this Option be exercised after the Term/Expiration Date as provided above and may be subject to earlier termination as provided in Section 15(c) of the Plan.

Initials: _________

Date:___________

By Participant's signature and the signature of the Company's representative below, Participant and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Agreement, all of which are made a part of this document. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT	VIRNETX HOLDING CORPORATION
Signature	By
«Name» Print Name	Title
Address:	

Initials: _________

Date:___________

EXHIBIT A

TERMS AND CONDITIONS OF STOCK OPTION GRANT

1. Grant of Option. The Company hereby grants to the Participant named in the Notice of Grant (the “Participant”) an option (the “Option”) to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the “Exercise Price”), subject to all of the terms and conditions in this Agreement and the Plan, which is incorporated herein by reference. Subject to Section 20(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan will prevail.

(a) For U.S. taxpayers, the Option will be designated as either an Incentive Stock Option (“ISO”) or a Nonstatutory Stock Option (“NSO”). If designated in the Notice of Grant as an ISO, this Option is intended to qualify as an ISO under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”). However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the $100,000 rule of Code Section 422(d) it will be treated as an NSO. Further, if for any reason this Option (or portion thereof) will not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a NSO granted under the Plan. In no event will the Administrator, the Company or any Parent, Subsidiary, or Affiliate, or any of their respective employees or directors have any liability to Participant (or any other person) due to the failure of the Option to qualify for any reason as an ISO.

(b) For non-U.S. taxpayers, the Option will be designated as an NSO.

2. Vesting Schedule. Except as provided in Section 3, the Option awarded by this Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

3. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Option at any time, subject to the terms of the Plan. If so accelerated, such Option will be considered as having vested as of the date specified by the Administrator.

4. Exercise of Option.

(a) Right to Exercise. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Agreement. In the event Participant’s status as a Service Provider is suspended pending investigation of whether such status shall be terminated for Cause, all of Participant’s rights under this Option, including the right to exercise this Option, shall be suspended during the investigation period.

Initials: _________

Date:___________

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit B (the "Exercise Notice") or in a manner and pursuant to such procedures as the Administrator may determine, which will state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice will be completed by Participant and delivered to the Company. The Exercise Notice will be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares together and of any Tax-Related Items (as defined in Section 6(a)). This Option will be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

5. Method of Payment. Payment of the aggregate Exercise Price will be by any of the following, or a combination thereof, at the election of Participant:

(a) cash or check;

(b) cancellation of indebtedness;

(c) at the discretion of the Administrator on a case by case basis, if Participant is a U.S. employee, surrender of other Shares which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares, provided that accepting such Shares, in the sole discretion of the Administrator, will not result in any adverse accounting consequences to the Company; or

(d) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan;

6. Tax Obligations.

(a) Withholding of Taxes. Notwithstanding any contrary provision of this Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment, social insurance, payroll tax, fringe benefit tax, payment on account or other tax-related items related to Participant's participation in the Plan and legally applicable to Participant ("Tax-Related Items") which the Company determines must be withheld with respect to such Shares. If Participant is a non-U.S. employee, payment of Tax-Related Items may not be effectuated by surrender of other Shares with a Fair Market Value equal to the amount of any Tax-Related Items. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any Tax-Related Items by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required Tax-Related Items hereunder at the time of the Option exercise, Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver the Shares if such amounts are not delivered at the time of exercise. Further, if Participant is subject to tax in more than one jurisdiction between the Date of Grant and the date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges and agrees that the Company and/or Participant's employer (the "Employer"), or former employer, as applicable, may be required to withhold or account for tax in more than one jurisdiction.

Initials: _________

Date:___________

(b) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Participant herein is an ISO, and if Participant sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (i) the date two (2) years after the Date of Grant, or (ii) the date one (1) year after the date of exercise, Participant will immediately notify the Company in writing of such disposition. Participant agrees that Participant may be subject to income tax withholding by the Company on the compensation income recognized by Participant.

(c) Code Section 409A. Under Code Section 409A, an option that vests after December 31, 2004 (or that vested on or prior to such date but which was materially modified after October 3, 2004) that was granted with a per share exercise price that is determined by the Internal Revenue Service (the "IRS") to be less than the fair market value of a share on the date of grant (a "Discount Option") may be considered "deferred compensation." A Discount Option may result in (i) income recognition by Participant prior to the exercise of the option, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The Discount Option may also result in additional state income, penalty and interest charges to Participant. Participant acknowledges that the Company cannot and has not guaranteed that the IRS will agree that the per Share Exercise Price of this Option equals or exceeds the Fair Market Value of a Share on the Date of Grant in a later examination. Participant agrees that if the IRS determines that the Option was granted with a per Share Exercise Price that was less than the Fair Market Value of a Share on the Date of Grant, Participant will be solely responsible for Participant's costs related to such a determination.

7. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

8. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT, SUBSIDIARY, OR AFFILIATE EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT, SUBSIDIARY, OR AFFILIATE EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Initials: _________

Date:___________

9. Nature of Grant. In accepting the Option, Participant acknowledges, understands and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature, and may be amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

(b) the grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted in the past;

(c) all decisions with respect to future option or other grants, if any, will be at the sole discretion of the Company;

(d) Participant is voluntarily participating in the Plan;

(e) the Option and any Shares acquired under the Plan are not intended to replace any pension rights or compensation;

(f) the Option and Shares acquired under the Plan and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(g) the future value of the Shares underlying the Option is unknown, indeterminable, and cannot be predicted with certainty;

(h) if the underlying Shares do not increase in value, the Option will have no value;

(i) if Participant exercises the Option and acquires Shares, the value of such Shares may increase or decrease in value, even below the Exercise Price;

(j) for purposes of the Option, Participant's engagement as a Service Provider will be considered terminated as of the date Participant is no longer actively providing services to the Company or any Parent, Subsidiary, or Affiliate (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's engagement agreement, if any), and unless otherwise expressly provided in this Agreement or determined by the Administrator, (i) Participant's right to vest in the Option under the Plan, if any, will terminate as of such date and will not be extended by any notice period (*e.g.*, Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is a Service Provider or Participant's engagement agreement, if any, unless Participant is providing bona fide services during such time); and (ii) the period (if any) during which Participant may exercise the Option after such termination of Participant's engagement as a Service Provider will commence on the date Participant ceases to actively provide services and will not be extended by any notice period mandated under employment laws in the jurisdiction where Participant is employed or terms of Participant's engagement agreement, if any; the Administrator shall have the exclusive discretion to determine when Participant is no longer actively providing services for purposes of his or her Option grant (including whether Participant may still be considered to be providing services while on a leave of absence);

Initials: _________

Date:___________

(k) unless otherwise provided in the Plan or by the Company in its discretion, the Option and the benefits evidenced by this Agreement do not create any entitlement to have the Option or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and

(l) the following provisions apply only if Participant is providing services outside the United States:

(i) the Option and the Shares subject to the Option are not part of normal or expected compensation or salary for any purpose;

(ii) Participant acknowledges and agrees that none of the Company, the Employer, or any Parent, Subsidiary, or Affiliate shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of the Option or of any amounts due to Participant pursuant to the exercise of the Option or the subsequent sale of any Shares acquired upon exercise; and

(iii) no claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from the termination of Participant's engagement as a Service Provider (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's engagement agreement, if any), and in consideration of the grant of the Option to which Participant is otherwise not entitled, Participant irrevocably agrees never to institute any claim against the Company, any Parent, any Subsidiary, any Affiliate or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company, any Parent, any Subsidiary, any Affiliate, and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, Participant shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim.

Initials: _________

Date:___________

10. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or Participant's acquisition or sale of the underlying Shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

11. Data Privacy. Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data as described in this Agreement and any other Option grant materials by and among, as applicable, the Employer, the Company and any Parent, Subsidiary, or Affiliate for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.

Participant understands that the Company and/or the Employer may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Options or any other entitlement to stock awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.

Participant understands that Data will be transferred to a stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. Participant authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing Participant's participation in the Plan. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her engagement as a Service Provider and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing Participant's consent is that the Company would not be able to grant Participant Options or other equity awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

Initials: _________

Date:___________

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to (a) the Company at VirnetX Holding Corporation, 308 Dorla Court, Suite 206, Zephyr Cove, NV 89448 and (b) the Company's Stock Transfer Agent, Carylyn K. Bell, at Corporate Stock Transfer, 3200 Cherry Creek Drive South, Suite 430, Denver, CO 80209 or at such other address as the Company may hereafter designate in writing.

13. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by Participant.

14. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

15. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the purchase by, or issuance of Shares to, Participant (or his or her estate) hereunder, such purchase or issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange. Assuming such compliance, for income tax purposes the Exercised Shares will be considered transferred to Participant on the date the Option is exercised with respect to such Exercised Shares.

16. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

17. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares subject to the Option have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

Initials: _________

Date:___________

18. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to Options awarded under the Plan or future options that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or a third party designated by the Company.

19. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

20. Language. If Participant has received this Agreement, or any other document related to the Option and/or the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

21. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

22. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Option under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

23. Governing Law and Venue. This Agreement will be governed by the laws of Nevada, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Option or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Nevada, and agree that such litigation will be conducted in the courts of Douglas County, Nevada, or the federal courts for the United States for the District of Nevada, and no other courts, where this Option is made and/or to be performed.

24. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Code Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection with the Option.

25. Waiver. Participant acknowledges that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant.

Initials: _________

Date:___________

EXHIBIT B

VIRNETX HOLDING CORPORATION

2013 EQUITY INCENTIVE PLAN

EXERCISE NOTICE

VirnetX Holding Corporation
308 Dorla Court, Suite 206
Zephyr Cove, NV 89448

Carylyn K. Bell
President
Corporate Stock Transfer
3200 Cherry Creek Drive South, Suite 430,
Denver, CO 80209
Attention: Stock Administration

1. Exercise of Option. Effective as of today, ________________, _____, the undersigned ("Purchaser") hereby elects to purchase ______________ shares (the "Shares") of the Common Stock of VirnetX Holding Corporation (the "Company") under and pursuant to the 2013 Equity Incentive Plan (the "Plan") and the Stock Option Agreement, dated ________ and including the Notice of Grant and the Terms and Conditions of Stock Option Grant (all together, the "Agreement"). The purchase price for the Shares will be $_____________, as required by the Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares and any Tax-Related Items (as defined in Section 6(a) of the Agreement) to be paid in connection with the exercise of the Option.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Stockholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to the Option, notwithstanding the exercise of the Option. The Shares so acquired will be issued to Purchaser as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 13 of the Plan.

Initials: _________

Date:___________

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

6. Entire Agreement; Governing Law. The Plan and Agreement are incorporated herein by reference. This Exercise Notice, the Plan and the Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of Nevada.

Submitted by:	Accepted by:
PURCHASER	VIRNETX HOLDING CORPORATION
Signature	By
«Name» Print Name	Its
Address:	
	Date Received

Initials: _________

Date:___________

EXHIBIT 10.7

VIRNETX HOLDING CORPORATION

2013 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

Unless otherwise defined herein, the terms defined in the VirnetX Holding Corporation 2013 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Restricted Stock Unit Agreement, including the Notice of Restricted Stock Unit Grant (the "Notice of Grant") and the Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A (all together, the "Award Agreement").

NOTICE OF RESTRICTED STOCK UNIT GRANT

Participant Name: **«Name»**
Address:

Participant has been granted the right to receive an Award of Restricted Stock Units, subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number	
Date of Grant	«Date of Grant»
Vesting Commencement Date	«Vesting Commencement Date»
Number of Restricted Stock Units	«Number of Shares»

Vesting Schedule:

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock Units will vest in accordance with the following schedule:

«VestingSchedule»

Notwithstanding the foregoing, the vesting of the Restricted Stock Units shall be subject to any vesting acceleration provisions contained in the Plan and/or any employment or service agreement, offer letter, change in control severance agreement, or any other agreement that has been or is, after the date of this Award Agreement, entered into between Participant and the Company or any Parent, Subsidiary, or Affiliate (such agreement a "Separate Agreement").

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Units, the Restricted Stock Units and Participant's right to acquire any Shares hereunder will immediately terminate.

Initials: _________

Date:___________

By Participant's signature and the signature of the representative of VirnetX Holding Corporation (the "Company") below, Participant and the Company agree that this Award of Restricted Stock Units is granted under and governed by the terms and conditions of the Plan and this Award Agreement, which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT:	VIRNETX HOLDING CORPORATION
Signature	By
«Name»	
Print Name	Title

Residence Address:

Initials: _________

Date:___________

EXHIBIT A

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT GRANT

1. Grant. The Company hereby grants to the individual named in the Notice of Grant (the "Participant") under the Plan an Award of Restricted Stock Units, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 20(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. Company's Obligation to Pay. Each Restricted Stock Unit represents the right to receive a Share on the date it vests. Unless and until the Restricted Stock Units will have vested in the manner set forth in Sections 3 or 4, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any Restricted Stock Units that vest in accordance with Sections 3 or 4 will be paid to Participant (or in the event of Participant's death, to his or her estate) in whole Shares, subject to Participant satisfying any obligations for Tax-Related Items (as defined in Section 7). Subject to the provisions of Section 4, such vested Restricted Stock Units shall be paid in whole Shares as soon as practicable after vesting, but in each such case within the period sixty (60) days following the vesting date. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of the payment of any Restricted Stock Units payable under this Award Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Restricted Stock Units awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Restricted Stock Units scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator. The payment of Shares vesting pursuant to this Section 4 shall in all cases be paid at a time or in a manner that is exempt from, or complies with, Section 409A.

Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death, and if (x) Participant is a "specified employee" within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's termination as a Service Provider, then the payment of such accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless Participant dies following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to Participant's estate as soon as practicable following his or her death. It is the intent of this Award Agreement that it and all payments and benefits hereunder be exempt from, or comply with, the requirements of Section 409A so that none of the Restricted Stock Units provided under this Award Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable under this Award Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). For purposes of this Award Agreement, "Section 409A" means Section 409A of the Code, and any final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

Initials: _________

Date:___________

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, the balance of the Restricted Stock Units that have not vested as of the time of Participant's termination as a Service Provider for any or no reason and Participant's right to acquire any Shares hereunder will immediately terminate. The date of Participant's termination as a Service Provider is detailed in Section 10(h).

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment, social insurance, payroll tax, fringe benefit tax, payment on account or other tax-related items related to Participant's participation in the Plan and legally applicable to Participant ("Tax-Related Items") which the Company determines must be withheld with respect to such Shares. Prior to vesting and/or settlement of the Restricted Stock Units, Participant will pay or make adequate arrangements satisfactory to the Company and/or Participant's employer (the "Employer") to satisfy all withholding and payment obligations of Tax-Related Items of the Company and/or the Employer. In this regard, Participant authorizes the Company and/or the Employer to withhold any Tax-Related Items legally payable by Participant from his or her wages or other cash compensation paid to Participant by the Company and/or the Employer or from proceeds of the sale of Shares. Alternatively, or in addition, if permissible under applicable local law, the Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld, or (d) if Participant is a U.S. employee, delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any obligations for Tax-Related Items by reducing the number of Shares otherwise deliverable to Participant. Further, if Participant is subject to tax in more than one jurisdiction between the Date of Grant and a date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges and agrees that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for tax in more than one jurisdiction. If Participant fails to make satisfactory arrangements for the payment of any Tax-Related Items hereunder at the time any applicable Restricted Stock Units otherwise are scheduled to vest pursuant to Sections 3 or 4 or Tax-Related Items related to Restricted Stock Units otherwise are due, Participant will permanently forfeit such Restricted Stock Units and any right to receive Shares thereunder and the Restricted Stock Units will be returned to the Company at no cost to the Company.

Initials: _________

Date:___________

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT, SUBSIDIARY, OR AFFILIATE EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT, SUBSIDIARY, OR AFFILIATE EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Nature of Grant. In accepting the grant, Participant acknowledges, understands and agrees that:

Initials: _________

Date:___________

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

(b) the grant of the Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;

(c) all decisions with respect to future Restricted Stock Units or other grants, if any, will be at the sole discretion of the Company;

(d) Participant is voluntarily participating in the Plan;

(e) the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation;

(f) the Restricted Stock Units and the Shares subject to the Restricted Stock Units, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(g) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(h) for purposes of the Restricted Stock Units, Participant's status as a Service Provider will be considered terminated as of the date Participant is no longer actively providing services to the Company or any Parent, Subsidiary, or Affiliate (regardless of the reason for such termination and whether or not later to be found invalid or in breach of employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's service agreement, if any), and unless otherwise expressly provided in this Award Agreement or determined by the Administrator, Participant's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of such date and will not be extended by any notice period (*e.g.*, Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's service agreement, if any, unless Participant is providing bona fide services during such time); the Administrator shall have the exclusive discretion to determine when Participant is no longer actively providing services for purposes of the Restricted Stock Units grant (including whether Participant may still be considered to be providing services while on a leave of absence);

Initials: _________

Date:___________

(i) unless otherwise provided in the Plan or by the Company in its discretion, the Restricted Stock Units and the benefits evidenced by this Award Agreement do not create any entitlement to have the Restricted Stock Units or any such benefits transferred to, or assumed by, another company nor be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and

(j) the following provisions apply only if Participant is providing services outside the United States:

i. the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not part of normal or expected compensation or salary for any purpose;

ii. Participant acknowledges and agrees that none of the Company, the Employer, or any Parent, Subsidiary, or Affiliate shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of the Restricted Stock Units or of any amounts due to Participant pursuant to the settlement of the Restricted Stock Units or the subsequent sale of any Shares acquired upon settlement; and

iii. no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from the termination of Participant's status as a Service Provider (for any reason whatsoever whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's service agreement, if any), and in consideration of the grant of the Restricted Stock Units to which Participant is otherwise not entitled, Participant irrevocably agrees never to institute any claim against the Company, any Parent, any Subsidiary, any Affiliate, or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company, any Parent, any Subsidiary, any Affiliate, and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, Participant shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim.

11. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or Participant's acquisition or sale of the underlying Shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

12. Data Privacy. Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data as described in this Award Agreement and any other Restricted Stock Unit grant materials by and among, as applicable, the Employer, the Company and any Parent, Subsidiary, or Affiliate for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.

Initials: _________

Date:___________

Participant understands that the Company and the Employer may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.

Participant understands that Data will be transferred to a stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. Participant authorizes the Company, any stock plan service provider selected by the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing his or her participation in the Plan. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her status as a Service Provider and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing Participant's consent is that the Company would not be able to grant Participant Restricted Stock Units or other equity awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

13. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to (a) the Company at VirnetX Holding Corporation, 308 Dorla Court, Suite 206, Zephyr Cove, NV 89448 and (b) the Company's Stock Transfer Agent, Carylyn K. Bell, at Corporate Stock Transfer, 3200 Cherry Creek Drive South, Suite 430, Denver, CO 80209, or at such other address as the Company may hereafter designate in writing.

14. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

Initials: _________

Date:___________

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate) hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange.

17. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

18. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

19. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or a third party designated by the Company.

Initials: _________

Date:___________

20. Language. If Participant has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

21. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

22. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

23. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock Units under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

24. Governing Law and Venue. This Award Agreement will be governed by the laws of Nevada without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Nevada, and agree that such litigation will be conducted in the courts of Douglas County, Nevada, or the federal courts for the United States for the District of Nevada, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

26. Modifications to the Award Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise the Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of Restricted Stock.

27. Waiver. Participant acknowledges that a waiver by the Company of breach of any provision of this Award Agreement shall not operate or be construed as a waiver of any other provision of this Award Agreement, or of any subsequent breach by Participant or any other Participant.

Initials: _________

Date:___________

EXHIBIT 10.23

AMENDED SETTLEMENT AND LICENSE AGREEMENT

This AMENDED SETTLEMENT AND LICENSE AGREEMENT (together with all Exhibits attached hereto, the "Agreement"), is made and entered into as of the date last executed by a Party ("Amendment Effective Date") and amends and restates that certain Settlement and License Agreement dated May 14, 2010, by and among Microsoft Corporation, a Washington corporation (Microsoft Corporation together with its Affiliates, "Microsoft" as defined below), on the one hand, and VirnetX, Inc., a Delaware corporation (VirnetX, Inc. together with its Affiliates, "VirnetX" (as defined below), on the other hand. As used herein, "Party" refers to any of VirnetX or Microsoft individually, and "Parties" refers to VirnetX and Microsoft, collectively.

RECITALS

A. SAIC and VirnetX, Inc. have accused Microsoft of infringing U.S. Patent Nos. 6,502,135 B1; 7,188,180 B2; 7,490,151 B2; 7,987,274 B2; 7,418,504 B2; and 7,921,211 B2 (the "Patents-In-Suit") in actions filed in the U.S. District Court for the Eastern District of Texas ("the Court"), designated Civ. Action No. 6:07CV80 (LED), Civ. Action No. 6:10CV94 (LED) and Civ. Action No. 6:13CV351 (the "Actions").

B. Microsoft Corporation has denied any such infringement of the Patents-in-Suit and challenged the validity thereof. Microsoft has also challenged the enforceability of the Patents-in-Suit and raised other defenses.

C. Microsoft admits no liability with respect to any of the claims asserted in the Actions.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

AGREEMENT

1. **Compromise Only.** This Agreement is entered into for purposes of settlement and compromise only. Nothing contained in this Agreement, or done or omitted in connection with this Agreement, is intended as or shall be construed as an admission of or by any Party, or on behalf of any Microsoft Released Party (as defined below), of any fault, liability or wrongdoing whatsoever, or an admission of or by any Microsoft Released Party that any Licensed Patents (as defined below) are infringed, valid, or enforceable.

2. **Definitions**.

"**Licensed Patents**" shall mean (a) all patents and patent applications worldwide, now or in the future, that are owned (in whole or in part) or controlled by, or assigned to, VirnetX, Inc. or any entity that, as of the Amendment Effective Date, Controls, is Controlled by, or is under common Control with VirnetX, Inc. (including, without limitation, the Patents-In-Suit and the patents and applications set forth on Exhibit A); and (b) all patents and applications related to such patents and applications (including, without limitation, originals, divisionals, provisionals, re-exams, re-exam certificates, extensions, reissues, counterparts, parents, continuations, and continuations-in-part) in all countries of the world.

"Microsoft" shall mean Microsoft Corporation and its Affiliates.

"VirnetX" shall mean VirnetX, Inc. and its Affiliates.

"Effective Date" shall mean May 14, 2010.

"**Affiliate**" means any entity that Controls, is Controlled by, or is under common Control with a Party. For the avoidance of doubt, this definition applies to entities that became or become Affiliates at any time, whether in the past, currently, or in the future. For the avoidance of doubt, all Skype entities Controlled by Microsoft at any time are deemed to be Affiliates of Microsoft for purposes of this definition.

"**Control**" of an entity means the possession, directly or indirectly, through the ownership of voting securities, other voting interests, or otherwise, of the right to direct or cause the direction of management and policies of that entity. Control also includes the following: (a) direct or indirect ownership of 50% or more of the voting power, securities, or capital of that entity; or (b) direct or indirect ownership of interests representing 50% or more of the voting power to elect the board of directors or other governing body for that entity; or (c) in relation to a partnership, limited liability company, or other unincorporated association, the direct or indirect right to a share of 50% or more of its net assets or net income.

"**Licensees**" means Microsoft's direct and indirect distributors, licensees and customers, but only to the extent such third parties utilize Microsoft Products.

"Microsoft Products" means any past, present, or future Microsoft products or services, including without limitation, Microsoft software, Microsoft hardware, or Microsoft protocols. For the avoidance of doubt, Microsoft Products include, without limitation, any past, present, or future products or services (including without limitation, Microsoft software, Microsoft hardware, or Microsoft protocols) designed, branded, made, sold (or leased), offered for sale (or offered for lease), purchased, obtained, made available, exported, imported, supplied, licensed, distributed, hosted, used, streamed, exploited, encoded, decoded, or otherwise provided to, by or for Microsoft. For the avoidance of doubt, Microsoft products or services (including without limitation, Microsoft software, Microsoft hardware, or Microsoft protocols) remain "Microsoft Products" even if combined with any past, present, or future products or services, but only as to those portions of the combination consisting of Microsoft Products. For clarity, a patent, by itself, is an intellectual property right and not a product.

"Pending IPR's" means the *inter partes* review proceedings brought by Microsoft Corporation challenging the patents asserted in the Actions, and consists of: IPR2014-00614 (which has been consolidated with IPR2014-00613); IPR2014-00610; IPR2014-00615 (which has been consolidated with IPR2014-00618); IPR2014-00403; IPR2014-00404; IPR2014-01418; and IPR2014-01421.

"SAIC" means Science Applications International Corporation (SAIC Inc.) and Leidos, Inc., and their respective Affiliates.

"**Third Party**" means any entity that is neither a Party nor an Affiliate of a Party.

"**Third Party Products**" means products, and services, including protocols, of a Third Party designed or developed by such Third Party, but specifically excluding Microsoft Products.

3. **Releases**

3.1 Effective upon receipt of the payment set forth in Section 5.2, VirnetX, on behalf of itself and its predecessors, successors, assigns, attorneys, directors, shareholders, employees, and officers (collectively, the "VirnetX Releasing Parties"), hereby voluntarily, irrevocably and unconditionally fully and forever releases, discharges, acquits, covenants not to sue, and holds harmless Microsoft and predecessors to Microsoft's businesses (including without limitation the previous owners of Microsoft's businesses acquired from such persons or entities) and their predecessors, successors, assigns, attorneys, insurers, agents, servants, subcontractors, officers, directors, shareholders, representatives, employees, and Licensees (collectively, the "Microsoft Released Parties") from and for any and all rights, claims, debts, liabilities, demands, suits, obligations, promises, damages, causes of action and claims for relief of any kind, manner, nature and description, known or unknown (collectively, "Claims"), which any of the VirnetX Releasing Parties have, may have had, might have asserted, may now have or assert, or may hereafter have or assert against the Microsoft Released Parties, or any of them, arising, accruing or occurring, in whole or in part, at any time prior to the Amendment Effective Date, including, without in any way limiting the generality of the foregoing, any claims or causes of action arising out of or related to any of the facts, transactions, matters or occurrences giving rise to or alleged, or that could have been alleged in or discovered in, the Actions or under any of the Licensed Patents. (For the avoidance of doubt, this release and covenant applies to Microsoft Affiliates both before and after the time they become an Affiliate of Microsoft). Notwithstanding the foregoing or anything to the contrary, this release does not apply to any Third Party (other than a Licensee) with respect to Third Party Products, except to the extent such Third Party is utilizing Microsoft Products.

3.2 Microsoft, on behalf of itself and its predecessors, successors and assigns (collectively, the “Microsoft Releasing Parties”), hereby voluntarily, irrevocably and unconditionally fully and forever releases, discharges, covenants not to sue, and holds harmless VirnetX and its predecessors, successors, assigns, attorneys, insurers, agents, servants, subcontractors, officers, directors, representatives, and employees (collectively, the “VirnetX Released Parties”) from and for any and all Claims which any of the Microsoft Releasing Parties have, may have had, might have asserted, or may now have or assert against the VirnetX Released Parties, or any of them, arising, accruing or occurring, in whole or in part, at any time prior to the Amendment Effective Date arising out of or related to any of the facts, transactions, matters or occurrences giving rise to or alleged, or that could have been alleged in or discovered in, the Actions as to VirnetX’s assertion of the Patents-in-Suit, except that the Microsoft Releasing Parties do not release or discharge (or grant a covenant or hold harmless as to) their Claims that the Licensed Patents are invalid, unenforceable, and/or not infringed by any Microsoft Releasing Parties. For the avoidance of doubt, the Microsoft Releasing Parties may raise any defense of invalidity, unenforceability or non-infringement in any later proceeding in any court or administrative agency (including without limitation any review in the U.S. Patent & Trademark Office) regardless of whether such defense was previously alleged or adjudicated in any forum.

3.3 With respect to all claims released herein, the VirnetX Releasing Parties and Microsoft Releasing Parties expressly waive any and all statutes, legal doctrines and other similar limitations upon the effect of general releases. By way of example, and without limitation, the foregoing parties waive the benefit of California Civil Code Section 1542, which states as follows:

> “A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.”

Each Party hereto acknowledges that the inclusion of such unknown claims in the releases above was separately bargained for and was a key element of this Agreement. Each Party hereto acknowledges that they may hereafter discover facts which are different from or in addition to those that they may now know or believe to be true with respect to any and all claims herein released and agree that all such unknown claims are nonetheless released and that the releases above shall be and remain effective in all respects even if such different or additional facts are subsequently discovered.

4. **Grant of Licenses and Covenants**

4.1 VirnetX hereby grants to Microsoft a worldwide, irrevocable, nonexclusive, non-sublicensable, royalty-free, fully paid-up (subject to payment under Section 5.2) license and covenant not to sue under the Licensed Patents. The license and covenant granted hereunder shall apply, without limitation, to all Microsoft Products and past, present and future activities of Microsoft. The license granted hereunder fully exhausts all of the Licensed Patents as to Microsoft Products.

4.2 VirnetX hereby grants to Licensees a worldwide, irrevocable, nonexclusive, non-sublicensable, royalty-free, fully paid-up (subject to payment under Section 5.2) license and covenant not to sue under the Licensed Patents solely as to Microsoft Products, including past, present and future activities of Licensees with respect to Microsoft Products.

4.3 Without limiting the scope of the forgoing Sections 4.1 and 4.2, VirnetX, Inc., and any entity that, as of the Amendment Effective Date, Controls, is Controlled by, or is under common Control with VirnetX, Inc., hereby covenants that it, directly or indirectly, will not assert a claim of infringement of any patent (including without limitation the Licensed Patents) or other intellectual property or proprietary rights claim, based in any way, in whole or any part, on any Microsoft Products. For the avoidance of doubt, VirnetX hereby covenants and agrees that no Microsoft Products shall be used or relied on (in whole or in part, and whether in litigation, mediation, arbitration, demand, cease and desist communication, licensing negotiation, PTO proceeding or otherwise) by VirnetX to satisfy (in whole or in part) any claim or any element, step, means, or limitation of any claim (including without limitation any in the preamble) of any of the Licensed Patents against any entity.

4.4 The license and covenants by VirnetX in this Section 4 shall extend to each Affiliate or business of Microsoft. If Microsoft divests an Affiliate or business, the licenses and covenants granted in this Amended Settlement Agreement will continue as to the Affiliate or business for those products and services existing at the time of divestiture, and direct derivatives thereof.

4.5 The releases, licenses and covenants not to sue are expressly set forth in Sections 3 and 4 above and no other releases, licenses or covenants not to sue are granted or conveyed under this Agreement, whether expressly or by implication, estoppel, reliance or otherwise, all of which are expressly disclaimed.

5. **Consideration.**

5.1. Dismissals.To the extent not already dismissed pursuant to that certain Settlement and License Agreement, dated on or about May 14, 2010, by and between Microsoft Corporation and VirnetX, Inc, VirnetX shall dismiss with prejudice (and cause SAIC to join in such dismissal) all claims against Microsoft in the Actions, and Microsoft Corporation shall dismiss with prejudice all counterclaims in the Actions (except that Microsoft Corporation's affirmative defenses and counterclaims of (i) non-infringement and invalidity shall be dismissed without prejudice and (ii) unenforceability shall be dismissed without prejudice by filing (and VirnetX causing SAIC to file) on or before December 19, 2014, Stipulations of Dismissal and Proposed Order substantially in the form attached as Exhibit E that provide that each of VirnetX, Inc., Microsoft Corporation and SAIC will bear its own costs, expenses and attorney's fees in connection with the Actions. No Party shall take any action to oppose the Court's entry of such dismissal, nor subsequently take any action to vacate, modify, or appeal such dismissal of the Actions. In addition, VirnetX, Inc. and Microsoft Corporation agree to execute such additional papers and motions as may be necessary to cause the Court to effect a disposal of all issues before it with respect to the Parties and a dismissal of the Actions for these Parties. For the avoidance of doubt only, the dismissal of the Actions (*i.e.*, the prior lawsuits and the current lawsuit) are based solely on the consent of the parties, not the merits of any past ruling or present motions. Notwithstanding the foregoing or anything to the contrary in this Section 5.1, VirnetX shall not be obligated to dismiss any separate pending proceedings against any Third Party, but henceforth shall not include Microsoft Products as a basis in whole or in part for its allegations against any Third Party.

5.2. Payment. In full and complete settlement of all claims asserted against Microsoft in the Actions, and in full and complete consideration of the licenses, releases, waivers, and other covenants and rights in this Agreement, to the extent not already paid, Microsoft Corporation shall pay a total lump sum amount of two-hundred, twenty-three million U.S. Dollars (USD $223,000,000) ("Payment"), as set forth in this Section 5.2. Of that Payment, two-hundred million U.S. Dollars (USD $200,000,000.00) was already paid on or about June 7, 2010 by Microsoft Corporation to VirnetX, Inc. The balance of the Payment (twenty-three million U.S. Dollars (USD $23,000,000)) shall be paid by Microsoft Corporation to VirnetX, Inc. by wire transfer into the following account within twenty(20) business days after the later of (i) the Amendment Effective Date, or (ii) the provision to Microsoft by VirnetX, Inc. and its counsel of an IRS Form W-9 and a letter on its letterhead with payment instructions consistent with this paragraph:

Account Name:
Texas IOLTA Trust Account – Caldwell Cassady & Curry
Account No.: 8094381388
ABA Number: 111014325
Bank Name and Address: Bank of Texas
6215 Hillcrest Avenue Dallas, TX 75205
Beneficiary Name: VirnetX, Inc.

VirnetX, Inc. shall be solely responsible for any taxes incurred as a consequence of the Payment or this Agreement. Microsoft shall not be responsible for any payment to SAIC.

6. **Term.** This Agreement shall remain in full force and effect until after the period ends in which any rights associated with the Licensed Patents might be exercised (for example, currently, as to U.S. patents: after six years after the expiration of the last patent to expire that is part of the Licensed Patents). Sections 3.1 (provided that the payment in Section 5.2 has been made), 3.2, 3.3, 4 (provided that the payment in Section 5.2 has been made) and 7.1 shall survive termination of the Agreement.

7. **Miscellaneous.**

7.1. Confidentiality. The mere existence of this Agreement (including, without limitation, the identification of the Parties and any Licensed Patents) is not confidential. Within five (5) days after the Amendment Effective Date, Microsoft agrees that VirnetX may issue the press release in the form attached as Exhibit B. Microsoft may also issue the press release in the form attached as Exhibit B. Subject to the foregoing, no Party may issue a press release or otherwise affirmatively attempt to publicize the terms or existence of this Agreement, except as set forth below. The Parties further agree that the terms and conditions of this Agreement are confidential and shall not be disclosed by any Party to any other person except (a) as may be required by law (including, without limitation, SEC reporting requirements, or any other United States or foreign regulatory requirements) or stock exchange rule (after prior written notice to the other Party with opportunity to comment on the disclosure), (b) during the course of litigation so long as the disclosure of such terms and conditions are restricted in the same manner as is the confidential information of the litigating Party, which includes designating the Agreement under the highest available level of protection under a protective order; (c) in confidence to the professional legal, advisory, and financial counsel representing or auditing such Party; (d) in confidence, in connection with the enforcement of this Agreement or rights under this Agreement; (e) in confidence, in connection with a merger, or acquisition, divestiture, or proposed merger, acquisition, or divestiture of a Party, or the like; (f) in confidence by Microsoft to Licensees and any third parties covered by the terms of this Agreement; (g) in confidence to potential acquirers of all or substantially all of VirnetX; (h) in confidence to the insurers and third party claim administrators of Microsoft; (i) in confidence to any person covered by the releases, licenses, waivers or other covenants and rights granted herein; or (j) as otherwise agreed in writing by the Parties executing this Agreement. Prior to any disclosure by VirnetX pursuant to the foregoing subsection (a), VirnetX will provide Microsoft with a draft copy of the proposed disclosure or filing (including, without limitation, any filing with the SEC) at least three business days before such disclosure or filing is made, and the Parties will consult in good faith with respect to the content of the proposed disclosure and the potential for VirnetX to request confidential treatment with respect to portions of the Agreement that VirnetX reasonably believes must be disclosed or filed.

7.2. Representations and Warranties. VirnetX represents, warrants, and covenants to Microsoft that:

(a) VirnetX, Inc. represents and warrants that it is the sole, exclusive, and lawful owner of all right, title, and interest in and to the Licensed Patents (including, without limitation, the Patents-in-Suit). VirnetX, Inc. represents and warrants that it has all rights necessary to enforce and license the Licensed Patents and, together with any corporate or other authority required to bind VirnetX, thus the right to enter into this Agreement and grant all of the releases, licenses, waivers, and other covenants and rights under this Agreement. VirnetX, Inc. represents and warrants that from time to time in the Actions and in the Settlement and License Agreement between Microsoft Corporation and VirnetX, Inc. made and entered into on May 14, 2010, VirnetX, Inc. was referenced as "VirnetX Inc." but that was a typographical error and at all times "VirnetX Inc." should be considered to refer to VirnetX, Inc. VirnetX represents and warrants that the list of properties set forth on Exhibit A is a complete listing of all patents and applications owned or controlled by (in whole or in part), or assigned to VirnetX.

(b) VirnetX further represents and warrants that, as of June 30, 2010, SAIC no longer has any right of reversion to the Licensed Patents. VirnetX further represents and warrants that SAIC has no right, title or interest in or to the Licensed Patents, and further represents and warrants that SAIC no longer holds the power to assert any claim or claims of the Licensed Patents against Microsoft Released Parties or Licensees. VirnetX further represents and warrants that SAIC holds no right to review this Agreement prior to its execution and that SAIC holds no right or ability to control the actions or decisions of VirnetX.

(c) VirnetX represents and warrants that all releases, licenses, covenants, and other executory obligations made in this Agreement bind both SAIC and VirnetX, and fully encompass any and all rights and interests in the Licensed Patents. VirnetX further represents and warrants that the review, consent and approval of SAIC is not needed for this Agreement to be binding and enforceable.

(d) In the event of any act (including without limitation, the assertion or threatened assertion of any of the Licensed Patents) by SAIC inconsistent with, or contrary to, any of the representations and warranties made by VirnetX in this Agreement, VirnetX agrees to defend, indemnify and hold harmless affected Microsoft Released Parties against SAIC's actions, including any liability and attorneys' fees incurred by Microsoft Released Parties.

(e) No Claim released herein, and no portion of any such Claim, has been assigned or otherwise transferred by VirnetX to any other person or entity, either directly, indirectly, or by subrogation or operation of law. VirnetX has not filed, commenced, served, or otherwise instituted (in each case, either on its own, or in conjunction with any third party) any complaints, claims, causes of action, or demands against Microsoft or Licensees other than those asserted in connection with the Actions.

(f) During the term of this Agreement any consideration required to be paid to any other person, corporation, or entity, if any, on account of any or all of the releases, licenses, waivers, or other covenants or rights granted under this Agreement to any Microsoft Released Parties shall be paid by VirnetX, and no additional consideration shall be required of any of the Microsoft Released Parties. VirnetX has not granted and will not grant any licenses, covenants, and/or other rights under the Licensed Patents and/or otherwise, that would conflict with, impair, and/or prevent any or all of the releases, licenses, waivers, or other covenants or rights granted under this Agreement. VirnetX, Inc. will cause its Affiliates to comply with the terms and conditions of this Agreement where applicable.

(g) VirnetX has been represented by competent and independent counsel of their own choice throughout all negotiations preceding the execution of the Agreement, and have executed this Agreement upon the advice of said competent and independent counsel regarding the meaning and legal effect of this Agreement, and regarding the advisability of making the agreements provided for herein, and fully understand the same.

7.3. Representations and Warranties. Microsoft represents, warrants, and covenants to VirnetX that:

(a) No Claim released herein, and no portion of any such Claim, has been assigned or otherwise transferred by Microsoft to any other person or entity, either directly, indirectly, or by subrogation or operation of law. On or prior to the date of the execution of this Agreement, Microsoft has not filed, commenced, served, or otherwise instituted (in each case, either on its own, or in conjunction with any third party) any complaints, claims, causes of action, or demands against VirnetX other than those asserted in connection with the Actions and prior Patent Office proceedings, including the Pending IPRs, of the Licensed Patents.

(b) Microsoft has been represented by competent and independent counsel of its own choice throughout all negotiations preceding the execution of the Agreement, and has executed this Agreement upon the advice of said competent and independent counsel regarding the meaning and legal effect of this Agreement, and regarding the advisability of making the agreements provided for herein, and fully understands the same.

7.4 Mutual Representations and Warranties. Each Party and each person signing this Agreement on behalf of a Party represents and warrants to the other that:

(a) Such Party has not entered this Agreement in reliance upon any promise, inducement, agreement, statement, or representation other than those contained in this Agreement.

(b) Such Party is duly organized, validly existing and in good standing under the laws of the state, province or country of its organization or incorporation, and has the full right and power to enter into this Agreement, and the person executing this Agreement has the full right and authority to enter into this Agreement on behalf of such Party and the full right and authority to bind such Party to the terms and obligations of this Agreement.

7.5 Notices. All notices and requests which are required or permitted to be given in connection with this Agreement shall be in writing and shall be deemed given as of the day they are received either by messenger, delivery service, or in the United States of America mails, postage prepaid, certified or registered, return receipt requested, and addressed as follows, or to such other address as the Party to receive the notice or request so designates by written notice to the other:

If to VirnetX, Inc.:

By Regular Mail to:
Attn: Kendall Larsen, Chief Executive Officer VirnetX, Inc.
P.O. Box # 439
Zephyr Cove, NV 89448
Facsimile: (831) 438-3078

By Any Other Service (Fedex, UPS, etc.) to:
Attn: Kendall Larsen, Chief Executive Officer VirnetX, Inc.
308 Dorla Ct.
Zephyr Cove, NV 89448
Facsimile: (831) 438-3078

with a copy to:

Caldwell Cassady & Curry
2101 Cedar Springs Road, Suite 1000, Dallas, TX 75201
Telephone: 214.888.4848
Facsimile: 214.888.4849

If to Microsoft:

Attn: Director of Licensing, LCA Patent Group Microsoft Corporation
One Microsoft Way Redmond, WA 98052
Fax: (425) 936-7329

with a copy to:
Attn: Law & Corporate Affairs Microsoft Corporation
One Microsoft Way Redmond, Washington 98052
Facsimile: (425) 936-7329

7.6. Governing Law; Venue. This Agreement shall be construed and controlled by the internal laws of the State of Texas (excluding conflict of laws principles) and applicable federal laws. The sole and exclusive venue for any lawsuit arising out of or relating to this Agreement shall be the United States District Court for the Eastern District of Texas.

7.7. Costs. Each Party shall bear its own costs, expenses and attorneys' fees incurred in connection with the Actions, the making of this Agreement, and its performance under this Agreement. Each Party expressly waives any claim of costs and attorneys' fees from or against the other Party.

7.8. Successors and Assigns. The terms, covenants, conditions, provisions and benefits of this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. For the avoidance of doubt only, the releases, licenses and covenants in Section 3.1 and Section 4 run with each of the Licensed Patents covered by this Agreement and are binding on any entity claiming a right, title or interest therein at any time, and VirnetX will inform any such transferee in writing of this restriction prior to transfer.

7.9. No Construction Against Drafter. This Agreement results from negotiations between the Parties and their respective legal counsel, and each Party acknowledges that it has had the opportunity to negotiate modifications to the language of this Agreement. Accordingly, each Party agrees that in any dispute regarding the interpretation or construction of this Agreement, no statutory, common law or other presumption shall operate in favor of or against any Party by virtue of his, her or its role in drafting or not drafting the terms and conditions set forth herein.

7.10. Captions. Captions or headings used in this Agreement are for the convenience of the Parties only, and shall not be considered part of this Agreement or used to construe the terms of this Agreement.

7.11. Construction. If any provision of this Agreement shall be held by a court of competent jurisdiction to be illegal, invalid or unenforceable or otherwise in conflict with law, the remaining provisions shall remain in full force and effect. If any provisions of this Agreement are deemed not enforceable, they shall be deemed modified to the extent necessary to make them enforceable. The Parties undertake to replace the invalid provision or parts thereof by a new provision which will approximate as closely as possible the intent of the Parties. Provisions shall apply, as applicable, to past, current and successive events, parties, and transactions.

7.12. Counterparts. This Agreement may be executed in any number of counterparts and by the different Parties on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement. Execution of this Agreement may be accomplished by signing this Agreement and transmitting the signature page to opposing counsel by facsimile or email. The Parties so executing and delivering shall promptly thereafter deliver signed originals of at least the signature page(s), but failure to do so shall not affect the validity or enforceability of this Agreement.

7.13. Waiver. No waiver of any provision of this Agreement shall be deemed or shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver unless expressly stated in writing by the Party making the waiver. No waiver of any provision shall be binding in any event unless executed in writing by the Party making the waiver.

7.14. Entire Agreement. This Agreement (including, without limitation, all Exhibits attached hereto) constitutes the entire agreement between the Parties with respect to the subject matter hereof, and supersedes all prior and contemporaneous written or oral agreements (including, without limitation, the Settlement and License Agreement between Microsoft Corporation and VirnetX, Inc. made and entered into on May 14, 2010), memorandums of understanding (including, without limitation, the Memorandum of Understanding between Microsoft Corporation and VirnetX, Inc. dated May 12, 2010), or communications as to such subject matter, all of which are superseded, merged and fully integrated into this Agreement. It shall not be modified except by a written agreement dated subsequent to the date of this Agreement and signed on behalf of the Parties by their respective duly authorized representatives.

7.15. Inter Partes Review. Microsoft and VirnetX shall cooperate (and if necessary, VirnetX will cause SAIC to cooperate) to file in each of the Pending IPRs, a joint motion to terminate with respect to Microsoft Corporation pursuant to 35 U.S.C. §317(a) in the form set forth in Exhibit C, and a joint request to keep this agreement confidential pursuant to 35 U.S.C. 317(b) and 37 C.F.R. § 42.74(c) in the form set forth in Exhibit D. Microsoft and VirnetX will contact (and if necessary, VirnetX will cause SAIC to contact) the Patent Trial and Appeal Board ("PTAB") to request permission to file in each of the Pending IPRs the motion and the request within five (5) business days of the filing of the dismissals under Section 5.1, and upon receiving permission, file in each of the Pending IPRs the motion and the request within two (2) business days of the PTAB granting such permission. The parties will work together to modify the motion and request to address any issues raised by the PTAB. If the PTAB denies the motions to terminate, the Parties will take such other permitted steps to have Microsoft withdraw from the Pending IPRs. For example, Microsoft will not actively seek to participate in the Pending IPRs, and will not be bound by the results of the Pending IPRs. This covenant shall not be construed as preventing Microsoft from complying with any court or Patent Office order or applicable law.

7.16. [***]

[***] Certain information on this page has been omitted and filed separately with the Securities Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

IN WITNESS WHEREOF, VirnetX, Inc. and Microsoft Corporation, being fully authorized and empowered to bind themselves to this Agreement, have caused this Agreement to be made and executed by duly authorized officers as of the Amendment Effective Date.

VIRNETX, INC.		**MICROSOFT CORPORATION**	
/s/ Sameer Mathur			/s/ David Howard
Name:	Sameer Mathur	Name:	David Howard
Title:	VP of Corporate Development & Product Marketing	Title:	Corporate VP
Date:	12/17/14	Date:	12/17/14

EXHIBIT A

Country	App. No.	Filing date	Patent No.	Issue Date
WO	PCT/US99/25325	10/29/1999		
AU	00/14553	10/29/1999	761,388	09/18/2003
CA	2,349,519	10/29/1999		08/09/2011
CA	2,723,504	10/29/1999		04/29/2014
EP	99971606.1	10/29/1999	1125419	08/26/2009
EP-GB	99971606.1	10/29/1999	1125419	08/26/2009
EP-DE	99971606.1	10/29/1999	1125419	08/26/2009
EP-FR	99971606.1	10/29/1999	1125419	08/26/2009
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WO	PCT/US01/04340	02/12/2001		
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EP	99958693.6	10/29/1999		
EP-DE	99958693.6	10/29/1999	1125414	12/22/2010
EP-FR	99958693.6	10/29/1999	1125414	12/22/2010
EP-GB	99958693.6	10/29/1999	1125414	12/22/2010
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WO	PCT/US01/13261	04/25/2001		
EP	01932629.7	04/25/2001	1302047	08/01/2012
EP	06014499.5	04/25/2001		
EP	06014500.0	04/25/2001		
EP-CH	01932629.7	04/25/2001	1302047	08/01/2012
EP-DE	01932629.7	04/25/2001	1302047	08/01/2012
EP-NL	01932629.7	04/25/2001	1302047	08/01/2012
EP-GB	01932629.7	04/25/2001	1302047	08/01/2012
EP	10012357	09/30/2010		
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EP-CH	05102086.5	04/25/2001	1542429	06/12/2013
EP-DE	05102086.5	04/25/2001	1542429	06/12/2013

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EP-NL	05102086.5	04/25/2001	1542429	06/12/2013
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JP	2002-501144	04/25/2001		
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JP	2012-256228	11/22/2012	5478698	02/21/2014
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EP-FR	02 0718836.6	01/17/2002	1360803	11/30/2011

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EP-NL	02 0718836.6	01/17/2002	1360803	11/30/2011
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EP-DE	10012248.0	12/22/2010	2264952	10/09/2013
EP-FR	10012248.0	12/22/2010	2264952	10/09/2013
EP-GB	10012248.0	12/22/2010	2264952	10/09/2013
EP-IT	10012248.0	12/22/2010	2264952	10/09/2013
EP-NL	10012248.0	12/22/2010	2264952	10/09/2013
EP	10012245.6	12/22/2010	2264951	07/31/2013
EP-CH	10012245.6	12/22/2010	2264951	07/31/2013
EP-DE	10012245.6	12/22/2010	2264951	07/31/2013
EP-GB	10012245.6	12/22/2010	2264951	07/31/2013
EP-IT	10012245.6	12/22/2010	2264951	07/31/2013
EP-NL	10012245.6	12/22/2010	2264951	07/31/2013
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US	11/532,002	09/14/2006	7,986,688	07/26/2011
US	11/840,579	08/17/2007	7,944,915	05/17/2011
US	13/110,509	05/18/2011	8,571,025	10/29/2013
US	13/110,353	05/18/2011	8,761,168	06/24/2014
US	13/620,368	09/14/2012	8,780,906	07/15/2014
US	13/620,358	09/14/2012	8,780,905	07/15/2014
US	14/294,476	06/03/2014		
US	13/554,582	07/09/2012		
WO	PCT/US12/45921	07/09/2012		
CA	2841166	01/07/2014		
CN	201280034033.7	01/08/2014		
EP	12743274.8	02/05/2014		
HK	14110584.5	10/23/2014		
JP	2014-519097	01/07/2014		
AU	2012282841	07/09/2012		
US	14/037,301	09/25/2013		
WO	WO2008US74886A	08/29/2008		
DE	DE69943057A	10/29/1999		
DE	DE69941338A	10/29/1999		
US	11/924,460	10/25/2007		
US	09/558,209	4/26/2000		
US	09/588,210	4/26/2000		
US	60/262,063	1/18/2001		

Country	App. No.	Filing date	Patent No.	Issue Date
US	60/969,226	08/31/2007		
AU	AU200138123D	02/12/2001		
AU	AU200159140D	04/25/2001		
AU	AU200159141A	04/25/2001		
JP	JP201451A	01/06/2014		
AT	AT2002718836T	01/17/2002		
AT	AT1999958693T	10/29/1999		
AT	AT1999971606T	10/29/1999		
JP	2000-580354	10/29/1999		
EP	EP2008799013A	8/29/2008		
EP	EP20103518A	02/12/2001		
CA	CA2696665A	08/29/2008		
AU	AU2008292833A	08/29/2008		
AU	AU2001238123A	02/12/2001		
AU	AU2001259140A	04/25/2001		
AU	AU2001259141A	04/25/2001		
AU	AU2002249950A	01/17/2002		
JP	JP201452A	01/06/2014		
JP	JP201181417A	04/01/2011		
JP	JP2010523173A	08/29/2008		
JP	JP2000580354A	10/29/1999		
WO	PCT/US08/74886	8/29/2008		
AU	2008292833	8/29/2008		
CA	2696665	8/29/2008		
EP	08799013.1	8/29/2008		
JP	PCT/US08/74886	8/29/2008		

EXHIBIT B

VirnetX and Microsoft Settle Pending Patent Disputes and Agree to Jointly Petition to Terminate IPR Proceedings as to Microsoft

ZEPHYR COVE, Nevada and REDMOND, WA – December XX, 2014 – VirnetX Holding Corporation (NYSE MKT: VHC) and Microsoft Corporation announced today that on December XX, 2014, VirnetX, Inc. and Microsoft Corporation have signed an Amended Settlement and License Agreement. This agreement amends and restates certain terms of the original Settlement and License Agreement, dated May 14, 2010, between VirnetX, Inc. and Microsoft Corporation. As a result of the agreement, the parties have settled their pending patent disputes.

Under the terms of the amended agreement, Microsoft has agreed to pay $23 million to VirnetX to settle the patent dispute and expand Microsoft's license. The parties have also agreed to dismiss the patent infringement case brought by VirnetX, Inc. before the U.S. District Court for the Eastern District of Texas and jointly move to terminate the pending *inter partes* review proceedings between Microsoft and VirnetX, Inc. as to Microsoft. All other aspects of the agreement were not disclosed.

"We are pleased to have come to an agreement with Microsoft Corporation and put all our legal disputes behind us," said Kendall Larsen, Chief Executive Officer and Chairman of VirnetX, Inc. "This agreement allows us to focus our resources towards the release of our Gabriel Secure Communication Platform™ and Gabriel Collaboration Suite™ products in the first-half of 2015 and our ongoing licensing and strategic partnership efforts."

"Microsoft Corporation is pleased to have come to an agreement with VirnetX and that the settlement includes an expanded license to VirnetX's entire patent portfolio," said a Microsoft spokesperson.

About Microsoft

Founded in 1975, Microsoft (Nasdaq "MSFT") is the worldwide leader in software, services, devices and solutions that help people and businesses realize their full potential.

About VirnetX

VirnetX Holding Corporation is an Internet security software and technology company with patented technology for secure communications including 4G LTE security. The Company's software and technology solutions, including its secure domain name registry and GABRIEL Connection Technology™, are designed to facilitate secure communications and to create a secure environment for real-time communication applications such as instant messaging, VoIP, smartphones, eReaders and video conferencing. The Company's patent portfolio includes over 107 U.S. and international patents with over 100 pending applications. For more information, please visit www.virnetx.com.

Forward Looking Statements

Statements in this press release that are not statements of historical or current fact, including statements regarding the strength of Virnetx's intellectual property, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on expectations, estimates and projections about the markets in which the Company operates, management's beliefs, and certain assumptions made by management and involve known and unknown risks, uncertainties and other unknown factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements, including but not limited to (1) the outcome of any legal proceedings that have been or may be initiated by the Company or that may be initiated against the Company;, including pending and future inter partes review proceedings in the Patent and Trademark Office (2) the ability to capitalize on the Company's patent portfolio and generate licensing fees and revenues; (3) the ability of the Company to be successful in entering into licensing relationships with its targeted customers on commercially acceptable terms; (4) potential challenges to the validity of the Company's patents underlying its licensing opportunities; (5) the ability of the Company to achieve widespread customer adoption of the Company's GABRIEL Communication Technology™ and its secure domain name registry; (6) the level of adoption of the 3GPP Series 33 security specifications; (7) whether or not the Company's patents or patent applications may be determined to be or become essential to any standards or specifications in the 3GPP LTE, SAE project or otherwise; (8) the extent to which specifications relating to any of the Company's patents or patent applications may be adopted as a final standard, if at all; and (9) the possibility that Company may be adversely affected by other economic, business, and/or competitive factors. In addition to statements which explicitly describe such risks and uncertainties, readers are urged to consider statements labeled with the terms "believes," "belief," "expects," "intends," "anticipates," or "plans" to be uncertain and forward-looking. The forward-looking statements contained herein are also subject generally to other risks and uncertainties that are described from time to time in the Company's reports and registration statements filed with the Securities and Exchange Commission, including those under the heading "Risk Factors" in Company's Quarterly Report on Form 10-Q filed with the SEC on November 10, 2014. Many of the factors that will determine the outcome of the subject matter of this press release are beyond the Company's ability to control or predict. Except as required by law, the Company is under no duty to update any of the forward-looking statements after the date of this press release to conform to actual results.

Contact:

Greg Wood
VirnetX Holding Corporation
775.548.1785
greg_wood@virnetx.com

David Cuddy
Microsoft Corporation
425.421.2502
dcuddy@microsoft.com

EXHIBIT C1

JOINT MOTION TO TERMINATE
IPR2014-01418, AND IPR2014-01421

[Parties will edit the following caption and the motion as appropriate depending on the IPR and Board's guidance.]

Filed on behalf of Microsoft Corporation and VirnetX, Inc.

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

MICROSOFT CORPORATION
Petitioner

v.

VIRNETX, INC.
Patent Owner

Case IPR2014-000XX
U.S. Patent No. X,XXX,XXX

JOINT MOTION TO TERMINATE PROCEEDING

I. Precise Relief Requested

Pursuant to 35 U.S.C. § 317(a), Petitioner Microsoft Corporation ("Microsoft" or "Petitioner") and Patent Owner VirnetX, Inc. ("Patent Owner" or "VirnetX") jointly request that this *inter partes* review proceeding ("this Review") involving U.S. Patent No. X,XXX,XXX ("the 'XXX patent") be terminated based on a settlement between Petitioner and Patent Owner ("the Parties").

II. Reasons for Granting the Motion

Generally, the Board expects that a proceeding will terminate after the filing of a settlement agreement. *See, e.g.*, Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,768 (Aug. 14, 2012). The Board authorized the filing of the instant motion in [the order/email] dated [MONTH DAY, YEAR]. IPR2013-00428, Paper No. 56 provides guidance as to the content of a motion to terminate. There, the Board indicates that a joint motion, such as this one, should (1) include a brief explanation as to why termination is appropriate; (2) identify all parties in any related litigation involving the patents at issue; (3) identify any related proceedings currently before the Office, and (4) discuss specifically the current status of each such related litigation or proceeding with respect to each party to the litigation or proceeding. *Id*. at 2. This motion satisfies each of the above requirements and is accompanied by a copy of the Parties' settlement agreement, as required by 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(b).

(1) Brief Explanation of Why Termination is Appropriate

Termination is appropriate because a final written decision has not been reached in this Review. Indeed, Petitioner filed its petition for *inter partes* review on [MONTH DAY, YEAR]. Patent Owner filed its preliminary response on MONTH DAY, YEAR]. The Board has not yet instituted this proceeding.

Termination of this proceeding is appropriate because, if this Motion is granted, Microsoft will not be participating as a party in this proceeding going forward, and the Board has not decided the merits of the proceeding. The Parties have settled their dispute and executed a settlement agreement to terminate this proceeding, as well as the Parties' related district court litigation regarding the 'XXX patent: *VirnetX, Inc. and Science Applications International Corporation v. Microsoft Corporation*, Case No. 6:13-cv-00351 (E.D. Tex.). The Parties expect that this district court litigation will be dismissed per the parties' settlement agreement. For all these reasons, the Parties respectfully request termination of this proceeding.

(2) All parties in any pending related litigation involving the patents at issue

Patent Owner, but not Petitioner, is also involved in several other pending related litigations involving the 'XXX patent. These related litigations, and their current status with respect to the litigating parties, are as follows:

Related Case(s)	Defendants	Status

(3) Related proceedings currently before the Office

Aside from this *inter partes* review proceeding, the 'XXX patent is also the subject of the following proceeding(s) currently before the Office:

Related Proceeding(s)	Requester/Petitioner	Status
Control No. XX/XXXXXX		
IPR2014-000XX		

(4) Current status of each such related litigation or proceeding with respect to each party to the litigation or proceeding

Above, a status field indicates the status of each such related litigation or proceeding with respect to each party to the litigation or proceeding.

III. Settlement Agreement

Pursuant to 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(b), the Parties' settlement agreement is in writing, and a true and correct copy is being filed concurrently herewith as Exhibit [XXXX].[1] The Parties are also filing concurrently herewith a joint request under 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(c) to treat the settlement agreement as business confidential information and keep it separate from the files of the involved patent.

Respectfully submitted,

[Name]
[Address]

Counsel for Petitioner
Microsoft Corporation

[Name]
[Address]

Counsel for Patent Owner
VirnetX, Inc.

Dated: [MONTH DAY, YEAR]

[1] The settlement agreement is being filed electronically via the Patent Review Processing System (PRPS) with access to the "Parties and Board Only."

EXHIBIT C2

JOINT MOTION TO TERMINATE
IPR2014-00610, IPR2014-00614 (CONSOLIDATED WITH IPR2014-00613),
IPR2014-00615 (CONSOLIDATED WITH IPR2014-00618)

[Parties will edit the following caption and the motion as appropriate depending on the IPR and Board's guidance.]

Filed on behalf of Microsoft Corporation and VirnetX, Inc.

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

MICROSOFT CORPORATION
Petitioner

v.

VIRNETX, INC.
Patent Owner

Case IPR2014-000XX
U.S. Patent No. X,XXX,XXX

JOINT MOTION TO TERMINATE PROCEEDING

I. Precise Relief Requested

Pursuant to 35 U.S.C. § 317(a), Petitioner Microsoft Corporation ("Microsoft" or "Petitioner") and Patent Owner VirnetX, Inc. ("Patent Owner" or "VirnetX") jointly request that this *inter partes* review proceeding ("this Review") involving U.S. Patent No. X,XXX,XXX ("the 'XXX patent") be terminated based on a settlement between Petitioner and Patent Owner ("the Parties").

II. Reasons for Granting the Motion

Generally, the Board expects that a proceeding will terminate after the filing of a settlement agreement. *See, e.g.*, Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,768 (Aug. 14, 2012). The Board authorized the filing of the instant motion in [the order/email] dated [MONTH DAY, YEAR]. IPR2013-00428, Paper No. 56 provides guidance as to the content of a motion to terminate. There, the Board indicates that a joint motion, such as this one, should (1) include a brief explanation as to why termination is appropriate; (2) identify all parties in any related litigation involving the patents at issue; (3) identify any related proceedings currently before the Office, and (4) discuss specifically the current status of each such related litigation or proceeding with respect to each party to the litigation or proceeding. *Id.* at 2. This motion satisfies each of the above requirements and is accompanied by a copy of the Parties' settlement agreement, as required by 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(b).

(1) Brief Explanation of Why Termination is Appropriate

Termination is appropriate because a final written decision has not been reached in this Review. Indeed, Petitioner filed its petition for *inter partes* review on [MONTH DAY, YEAR]. The Board instituted this proceeding on [MONTH DAY, YEAR]. Patent Owner has not filed a Patent Owner's Response, and one is not due until [MONTH DAY, YEAR].

Termination of this proceeding is appropriate because, if this Motion is granted, Microsoft will not be participating as a party in this proceeding going forward, and the Board has not decided the merits of the proceeding. The Parties have settled their dispute and executed a settlement agreement to terminate this proceeding, as well as the Parties' related district court litigation regarding the 'XXX patent: *VirnetX, Inc. and Science Applications International Corporation v. Microsoft Corporation*, Case No. 6:13-cv-00351 (E.D. Tex.). The Parties expect that this district court litigation will be dismissed per the parties' settlement agreement. For all these reasons, the Parties respectfully request termination of this proceeding.

(2) All parties in any pending related litigation involving the patents at issue

Patent Owner, but not Petitioner, is also involved in several other pending related litigations involving the ’XXX patent. These related litigations, and their current status with respect to the litigating parties, are as follows:

Related Case(s)	Defendants	Status

(3) Related proceedings currently before the Office

Aside from this *inter partes* review proceeding, the ’XXX patent is also the subject of the following proceeding(s) currently before the Office:

Related Proceeding(s)	Requester/Petitioner	Status
Control No. XX/XXXXXX		
IPR2014-000XX		

(4) Current status of each such related litigation or proceeding with respect to each party to the litigation or proceeding

Above, a status field indicates the status of each such related litigation or proceeding with respect to each party to the litigation or proceeding.

III. Settlement Agreement

Pursuant to 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(b), the Parties' settlement agreement is in writing, and a true and correct copy is being filed concurrently herewith as Exhibit [XXXX].[2] The Parties are also filing concurrently herewith a joint request under 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(c) to treat the settlement agreement as business confidential information and keep it separate from the files of the involved patent.

Respectfully submitted,

[Name]	[Name]
[Address]	[Address]
Counsel for Petitioner	*Counsel for Patent Owner*
Microsoft Corporation	*VirnetX, Inc.*

Dated: [MONTH DAY, YEAR]

2 The settlement agreement is being filed electronically via the Patent Review Processing System (PRPS) with access to the "Parties and Board Only."

EXHIBIT C3

JOINT MOTION TO TERMINATE
IPR2014-00403 AND IPR2014-00404

[Parties will edit the following caption and the motion as appropriate depending on the IPR and Board's guidance.]

Filed on behalf of Microsoft Corporation and VirnetX, Inc.

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

MICROSOFT CORPORATION
Petitioner

v.

VIRNETX, INC.
Patent Owner

Case IPR2014-000XX
U.S. Patent No. X,XXX,XXX

JOINT MOTION TO TERMINATE PROCEEDING WITH RESPECT TO MICROSOFT CORPORATION

I. Precise Relief Requested

Pursuant to 35 U.S.C. § 317(a), Petitioner Microsoft Corporation ("Microsoft" or "Petitioner") and Patent Owner VirnetX, Inc. ("Patent Owner" or "VirnetX") jointly request that this *inter partes* review proceeding ("this Review") involving U.S. Patent No. X,XXX,XXX ("the 'XXX patent") be terminated with respect to Microsoft based on a settlement between Petitioner and Patent Owner ("the Parties").

II. Reasons for Granting the Motion

Generally, the Board expects that a proceeding will terminate after the filing of a settlement agreement. *See, e.g.*, Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,768 (Aug. 14, 2012). The Board authorized the filing of the instant motion in [the order/email] dated [MONTH DAY, YEAR]. IPR2013-00428, Paper No. 56 provides guidance as to the content of a motion to terminate. There, the Board indicates that a joint motion, such as this one, should (1) include a brief explanation as to why termination is appropriate; (2) identify all parties in any related litigation involving the patents at issue; (3) identify any related proceedings currently before the Office, and (4) discuss specifically the current status of each such related litigation or proceeding with respect to each party to the litigation or proceeding. *Id*. at 2. This motion satisfies each of the above requirements and is accompanied by a copy of the Parties' settlement agreement, as required by 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(b).

(1) Brief Explanation of Why Termination is Appropriate

With respect to Microsoft, termination is appropriate because a final written decision has not been reached in this Review. Indeed, Petitioner filed its petition for *inter partes* review on [MONTH DAY, YEAR]. The Board instituted this proceeding on [MONTH DAY, YEAR]. Patent Owner filed a Patent Owner's Response on [MONTH DAY, YEAR], but Petitioner has not filed its Reply, which is not due until [MONTH DAY, YEAR].

Termination of this proceeding with respect to Microsoft is appropriate because, if this Motion is granted, Microsoft will not be participating as a party in this proceeding going forward, and the Board has not decided the merits of the proceeding. The Parties have settled their dispute and executed a settlement agreement to terminate this proceeding as to Microsoft, as well as the Parties' related district court litigation regarding the 'XXX patent: *VirnetX, Inc. and Science Applications International Corporation v. Microsoft Corporation*, Case No. 6:13-cv-00351 (E.D. Tex.). The Parties expect that this district court litigation will be dismissed per the parties' settlement agreement. For all these reasons, the Parties respectfully request termination of this proceeding with respect to Microsoft.

(2) All parties in any pending related litigation involving the patents at issue

Patent Owner, but not Petitioner, is also involved in several other pending related litigations involving the 'XXX patent. These related litigations, and their current status with respect to the litigating parties, are as follows:

Related Case(s)	Defendants	Status

(3) Related proceedings currently before the Office

Aside from this *inter partes* review proceeding, the 'XXX patent is also the subject of the following proceeding(s) currently before the Office:

Related Proceeding(s)	Requester/Petitioner	Status
Control No. XX/XXXXXX		
IPR2014-000XX		

(4) Current status of each such related litigation or proceeding with respect to each party to the litigation or proceeding

Above, a status field indicates the status of each such related litigation or proceeding with respect to each party to the litigation or proceeding.

III. Settlement Agreement

Pursuant to 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(b), the Parties' settlement agreement is in writing, and a true and correct copy is being filed concurrently herewith as Exhibit [XXXX].[3] The Parties are also filing concurrently herewith a joint request under 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(c) to treat the settlement agreement as business confidential information and keep it separate from the files of the involved patent.

Respectfully submitted,

[Name]
[Address]

Counsel for Petitioner
Microsoft Corporation

[Name]
[Address]

Counsel for Patent Owner
VirnetX, Inc.

Dated: [MONTH DAY, YEAR]

[3] The settlement agreement is being filed electronically via the Patent Review Processing System (PRPS) with access to the "Parties and Board Only."

EXHIBIT D

JOINT REQUEST TO TREAT SETTLEMENT AGREEMENT AS CONFIDENTIAL

[Parties will edit the following caption and the request as appropriate depending on the IPR and Board's guidance.]

Filed on behalf of Microsoft Corporation and VirnetX, Inc.

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

MICROSOFT CORPORATION
Petitioner

v.

VIRNETX, INC.
Patent Owner

Case IPR2014-000XX
U.S. Patent No. X,XXX,XXX

JOINT REQUEST TO TREAT SETTLEMENT AGREEMENT AS BUSINESS CONFIDENTIAL UNDER 35 U.S.C. § 317(b) AND 37 C.F.R. § 42.74(c)

Pursuant to 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(c), and the Board's [order/email] of [MONTH DAY, YEAR], authorizing the filing of this joint request, Petitioner Microsoft Corporation ("Petitioner") and Patent Owner VirnetX, Inc. ("Patent Owner"), hereby jointly request that a true copy of the settlement agreement filed concurrently herewith as Exhibit [XXXX] be treated as business confidential information and be kept separate from the file of U.S. Patent No. X,XXX,XXX ("the 'XXX Patent"). Exhibit [XXXX] is being submitted in the PRPS system as "Parties and Board Only." The Parties further request the Board to not make Exhibit [XXXX] available to any third party, except as provided for in 35 U.S.C. § 317(b) and 37 C.F.R. § 42.74(c).

Respectfully submitted,

[Name] [Address]	[Name] [Address]
Counsel for Petitioner *Microsoft Corporation*	*Counsel for Patent Owner* *VirnetX, Inc.*

Dated: [MONTH DAY, YEAR]

EXHIBIT E

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
TYLER DIVISION

VIRNETX, INC., and	§	
LEIDOS, INC.,	§	
	§	
Plaintiffs/Counterclaim Defendants,	§	
	§	**Civil Action No. 6:13-cv-00351-LED**
v.	§	
	§	
MICROSOFT CORPORATION,	§	
	§	
Defendant/Counterclaimant.	§	
	§	

JOINT MOTION TO DISMISS BY ALL PARTIES

In accordance with a certain agreement between VirnetX, Inc. and Microsoft Corporation, VirnetX, Inc., Leidos, Inc. (formerly Science Applications International Corp.) (VirnetX, Inc. and Leidos, Inc. collectively "Plaintiffs") and Microsoft Corporation ("Microsoft") file this joint motion to dismiss the litigation captioned above.

Plaintiffs dismiss all claims in this action against Microsoft with prejudice. Microsoft dismisses without prejudice its affirmative defenses and counterclaims of (i) non-infringement and invalidity and (ii) unenforceability in this action. Microsoft dismisses with prejudice its other counterclaims in this action.

Each party shall bear its own costs, expenses, and attorney's fees.

(signatures follow)

Dated: February 28, 2015

Respectfully submitted,

FISH & RICHARDSON, P.C.

/s/

Melissa R. Smith (Texas Bar No. 24001351)
303 South Washington Avenue
Marshall, Texas 75670
Telephone: 903.934.8450
Facsimile: 903.934.9257

Ruffin B. Cordell (Texas Bar No. 04820550)
Indranil Mukerji (Massachusetts Bar No. 644059)
FISH & RICHARDSON P.C.
1425 K Street NW, Suite 1100
Washington, DC 20005
Telephone: 202.783.5070
Facsimile: 202.783.5331

David J. Healey (Texas Bar No. 09327980)
Benjamin C. Elacqua (Texas Bar No. 24055443)
Tony Nguyen (Texas Bar No. 24083565)
FISH & RICHARDSON P.C.
1221 McKinney Street, Suite 2800
Houston, Texas 77010
Telephone: 713.654.5300
Facsimile: 713.652.0109

Katrina G. Eash (Texas Bar No. 24074636)
FISH & RICHARDSON P.C.
1717 Main Street, Suite 5000
Dallas, Texas 75201
Telephone: 214.747.5070
Facsimile: 214.747.2091

Benjamin K. Thompson (Georgia Bar No. 633211)
FISH & RICHARDSON P.C.
1180 Peachtree Street, NE, 21st Floor
Atlanta, Georgia 30309
Telephone: 404.892.5005
Facsimile: 404.892.5002

ATTORNEYS FOR DEFENDANT
MICROSOFT CORPORATION

CALDWELL CASSADY & CURRY

/s/

Bradley W. Caldwell
Texas State Bar No. 24040630
E-mail: bcaldwell@caldwellcc.com
Jason D. Cassady
Texas State Bar No. 24045625
E-mail: jcassady@caldwellcc.com
John Austin Curry
Texas State Bar No. 24059636
E-mail: acurry@caldwellcc.com
Daniel R. Pearson
Texas State Bar No. 24070398
E-mail: dpearson@caldwellcc.com
Hamad M. Hamad
Texas State Bar No. 24061268
E-mail: hhamad@caldwellcc.com
Justin T. Nemunaitis
Texas State Bar No. 24065815
E-mail: jnemunaitis@caldwellcc.com
Christopher S. Stewart
Texas State Bar No. 24079399
E-mail: cstewart@caldwellcc.com
John F. Summers
Texas State Bar No. 24079417
E-mail: jsummers@caldwellcc.com
Jason S. McManis
Texas State Bar No. 24088032
E-mail: jmcmanis@caldwellcc.com

Warren J. McCarty, III
Illinois State Bar No. 6313452
E-mail: wmccarty@caldwellcc.com
CALDWELL CASSADY CURRY P.C.
2101 Cedar Springs Road, Suite 1000
Dallas, Texas 75201
Telephone: 214.888.4848
Facsimile: 214.888.4849

Robert M. Parker
Texas State Bar No. 15498000
Email: rmparker@pbatyler.com
R. Christopher Bunt
Texas State Bar No. 00787165
Email: rcbunt@pbatyler.com
Charles Ainsworth
Texas State Bar No. 00783521
Email: charley@pbatyler.com
PARKER, BUNT & AINSWORTH, P.C.
100 East Ferguson, Suite 1114
Tyler, Texas 75702
Telephone: 903.531.3535
Telecopier: 903.533.9687

ATTORNEYS FOR PLAINTIFF LEIDOS, INC.

/s/

ANDY TINDEL (Lead Counsel)
State Bar No. 20054500
MT2 LAW GROUP
Mann | Tindel | Thompson
112 East Line Street, Suite 304
Tyler, Texas 75702
Telephone: 903.596.0900
Facsimile: 903.596.0909
Email: atindel@andytindel.com

Of Counsel:

DONALD URRABAZO
California State Bar No. 189509
ARTURO PADILLA
California State Bar No. 188902
URRABAZO LAW, P.C.
2029 Century Park East, 14th Floor
Los Angeles, CA 90067
Direct: 310.388.9099
Facsimile: 310.388.9088
Email: durrabazo@ulawpc.com
Email: apadilla@ulawpc.com

ATTORNEYS FOR PLAINTIFF LEIDOS, INC., FORMERLY KNOWN AS SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

CERTIFICATE OF SERVICE

The undersigned certifies that the foregoing document was filed electronically in compliance with Local Rule CV-5(a). As such, this document was served on all counsel who have consented to electronic service on this 17th day of December, 2014. Local Rule CV-5(a)(3)(A).

/s/ Jason D. Cassady
Jason D. Cassady

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF TEXAS TYLER DIVISION

VIRNETX, INC. and LEIDOS, INC.,	§	
Plaintiffs,	§	**Civil Action No. 6:13-cv-00351**
v.	§	
MICROSOFT CORPORATION,	§	**JURY TRIAL DEMANDED**
Defendant.	§	

[PROPOSED] ORDER OF DISMISSAL

On this day came on to be heard the parties' Joint Motion to Dismiss, and the Court having considered same, is of the opinion the dismissal should be GRANTED.

IT IS THEREFORE ORDERED that all claims asserted against Microsoft Corporation ("Microsoft") in this action are dismissed with prejudice.

Microsoft's affirmative defenses and counterclaims of (i) non-infringement and invalidity and (ii) unenforceability in this action are dismissed without prejudice. Microsoft's other counterclaims in this action are dismissed with prejudice.

Each party shall bear its own costs, expenses, and attorney's fees.

This is a final judgment.

EXHIBIT 21.1

Subsidiaries of Registrant

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

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-149884, 333-153645 and 333-162145) and Form S-8 (No. 333-149883) of our reports dated March 2, 2015, relating to the consolidated financial statements of VirnetX Holding Corporation (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2014.

/s/ Farber Hass Hurley LLP

Chatsworth, CA

March 2, 2015

EXHIBIT 31.1

CERTIFICATIONS

I, Kendall Larsen, certify that:

1. I have reviewed this Annual Report on Form 10-K of VirnetX Holding Corporation for the fiscal year ended December 31, 2014;

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

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

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

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

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

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

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

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

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

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

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

Date: March 2, 2015

EXHIBIT 31.2

CERTIFICATIONS

I, Richard H. Nance, certify that:

1. I have reviewed this Annual Report on Form 10-K of VirnetX Holding Corporation for the fiscal year ended December 31, 2014;

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

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

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

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

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

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

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

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

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

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

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

Date: March 2, 2015

EXHIBIT 32.1

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

In connection with the Annual Report of VirnetX Holding Corporation (the "Company") on Form 10-K for the fiscal year ended December 31, 2014 as filed with the Securities and Exchange Commission on March 2, 2015 (the "Report"), I, Kendall Larsen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

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

Date: March 2, 2015

EXHIBIT 32.2

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

In connection with the Annual Report of VirnetX Holding Corporation (the "Company") on Form 10-K for the fiscal year ended December 31, 2014 as filed with the Securities and Exchange Commission on March 2, 2015 (the "Report"), I, Richard Nance, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

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

Date: March 2, 2015