



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

**FORM 8-K**

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

**Date of Report (Date of earliest event reported): December 31, 2007**

**VIRNETX HOLDING CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation)

**001-33852**  
(Commission File Number)

**77-0390628**  
(IRS Employer Identification No.)

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a -12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d -2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e -4(c))
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Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

e) Pursuant to a Compensation Committee meeting held on December 31, 2007, VirnetX Holding Corporation (the “Company”) modified the compensation arrangements with its executive officers and directors, as described below. For all option grants described below, the per share exercise price was set at \$5.88, the closing price of the Company’s common stock on the American Stock Exchange on December 31, 2007, the date of grant.

Kendall Larsen, the Company’s President and Chief Executive Officer, received a bonus of \$214,211 and his base salary for 2008 was increased to \$275,000 from \$245,000 in 2007. Mr. Larsen was also granted options to purchase 213,319 shares of the Company’s common stock, which will vest over 4 years, with 25% of such shares vesting on December 31, 2008 and the remainder vesting monthly thereafter.

William E. Sliney, the Company’s Chief Financial Officer, received a bonus of \$15,313 and was granted options to purchase 383,095 shares of the Company’s common stock, which will vest over 4 years, with 25% of such shares vesting on December 31, 2008 and the remainder vesting monthly thereafter.

The Company also granted options to purchase 30,000 shares of the Company’s common stock and approved a policy of annual grants of options to purchase 10,000 shares of the Company’s common stock, to each of the Company’s three non-employee directors, Michael F. Angelo, Thomas M. O’Brien and Scott C. Taylor. The options granted to the non-employee directors all commenced vesting as of July 5, 2007 and vest in equal monthly installments for three years thereafter.

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### Item 7.01 Regulation F-D Disclosure.

The Board currently has the following standing committees: an Audit Committee, a Compensation Committee, and a Nominating and Governance Committee; and has adopted a Code of Ethics.

**Audit Committee.** Under the provisions of the Audit Committee charter, the Audit Committee is responsible for the qualifications, independence, appointment, retention, compensation and evaluation of our registered public accounting firm and for assisting the Board of Directors in monitoring our financial reporting process, accounting functions and internal controls. It also is responsible for administering our Standards of Conduct and the oversight of “whistle-blowing” procedures, and certain other compliance matters.

A copy of the charter of the Audit Committee is attached as Exhibit 99.1 hereto. Under its charter, the Audit Committee must consist of not less than three directors, each of whom definition of independence for members of the Audit Committee under Section 10A(m) of the Securities Exchange Act of 1934 (the “Exchange Act”) and the applicable rules and regulation of the Securities Exchange Commission (the “SEC”) and shall meet the independence and financial literacy requirements of the American Stock Exchange. The Audit Committee currently is composed of Messrs. O’Brien (Chair), Taylor and Angelo. The Board of Directors (the “Board”) has reviewed the qualifications of each member of the committee and has determined that each of them meets the definition of an independent director and the other requirements for membership and that Mr. O’Brien qualifies as an “audit committee financial expert,” as defined by SEC rules.

**Compensation Committee.** The Compensation Committee has overall responsibility for our executive compensation philosophy, evaluates and approves executive compensation, assists the Board in the discharge of its responsibilities with respect to executive compensation and develops the leadership capabilities of our executives. It also has been delegated the authority to determine the compensation of the Chief Executive Officer, supervise the administration of our stock plan, and it is required to review and approve the incorporation of our compensation discussion and analysis report in proxy statements and annual 10-K filings, as well as prepare a compensation committee report for inclusion in the Company’s proxy statement, in accordance with SEC rules. The Compensation Committee also approves all grants to employees under our stock plan.

Under its charter and the requirements of the American Stock Exchange, the Compensation Committee must consist of at least three directors, each of whom satisfies certain requirements of the securities and other laws and satisfies the independence requirements of the American Stock Exchange. The Compensation Committee Charter is attached as Exhibit 99.2 hereto. The Compensation Committee is currently comprised of Messrs. Taylor (Chair), Angelo and O’Brien, each of whom meets the definition of an independent director and the other requirements for membership.

**Nominating and Governance Committee.** The purpose of the Nominating and Governance Committee is to (i) identify, review and evaluate candidates to serve as directors; (ii) serve as a focal point for communication between such candidates, the Board of Directors and our management; (iii) make recommendations to the full Board of candidates for all directorships to be filled by the stockholders or the Board; (iv) evaluate and make recommendations to the Board of a set of corporate governance and ethics principles; (v) periodically review and evaluate our governance and ethics policies and guidelines; (vi) evaluate and make recommendations to the Board concerning the structure, responsibilities and operation of the committees of the Board; (vii) make recommendations to the Board concerning Board meeting policies; and (viii) make recommendations to the Board concerning the compensation of members of the Board and any committees of the Board.

Under its charter, as supplemented by the rules of the American Stock Exchange, the Nominating and Governance Committee must consist of not less than three members, each of whom satisfies the

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independence requirements of the American Stock Exchange. A copy of the charter of the Nominating and Governance Committee is attached as [Exhibit 99.3](#) hereto. The Nominating and Governance Committee is currently comprised of Messrs. Angelo (Chair), Taylor and O'Brien, each of whom meets the definition of an independent director.

The Nominating and Governance Committee is responsible for identifying candidates to serve as directors, whether such directorships are filled by the Board or by stockholders. The Committee may consider nominees recommended by stockholders and other sources, such as directors, third party search firms or other appropriate sources. In evaluating candidates it will consider the criteria and qualifications set forth in the committee's charter, which include personal integrity, sound business judgment, business and professional skills and experience, independence (as defined under SEC and American Stock Exchange rules), diversity, potential conflicts of interest, the extent to which a candidate would fill a present need, and concern for the long term interests of stockholders. In any particular situation, the committee may focus on persons possessing a particular background, experience or qualifications which the committee believes would be important to enhance the effectiveness of the Board.

**Code of Ethics.** Pursuant to the requirements of the Sarbanes-Oxley Act of 2002 and the Section 807 of the American Stock Exchange rules, we have adopted a Code of Ethics that applies to all officers, directors and employees, covering a wide range of matters and related to the protection of the integrity of our financial records and reports. A copy of the Code of Ethics is attached as [Exhibit 99.4](#) hereto.

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Item 9.01. Financial Statements and Exhibits.

(d) *Exhibits.*

<u>Exhibit No.</u>	<u>Description</u>
Exhibit 99.1	Charter of the Audit Committee
Exhibit 99.2	Charter of the Compensation Committee
Exhibit 99.3	Charter of the Nominating and Corporate Governance Committee
Exhibit 99.4	Code of Conduct

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**SIGNATURES**

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

Date: January 7, 2008

VIRNETX HOLDING CORPORATION

By: /s/ Kendall Larsen

Name: Kendall Larsen

Title: President, Chief Executive Officer



**VIRNETX HOLDING CORPORATION**  
**AUDIT COMMITTEE CHARTER**

***Purpose***

The purpose of the Audit Committee (the “**Committee**”) of the board of directors (the “**Board**”) of VirnetX Holding Corporation (the “**Company**”) is to oversee the accounting and financial reporting processes of the Company and audits of its financial statements and the effectiveness of the Company’s internal control over financial reporting. The Committee is not responsible, however, for planning or conducting audits, or determining whether the Company’s financial statements are complete and accurate or in accordance with generally accepted accounting principles.

***Composition***

The Committee shall be composed of three or more directors, as determined by the Board, each of whom shall be “independent,” as that term is defined in Section 10A(m) of the Securities Exchange Act of 1934 (the “**Exchange Act**”), and the applicable rules and regulations (the “**Regulations**”) of the SEC, and shall meet the independence and financial literacy requirements of the American Stock Exchange. At least one member of the Committee shall be an “audit committee financial expert”, as that term is defined in the Regulations, and shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

***Responsibilities***

The Committee is charged by the Board with the responsibility to:

1. Appoint and provide for the compensation of a “registered public accounting firm” (as that term is defined in Section 2(a) of the Sarbanes-Oxley Act of 2002) to serve as the Company’s independent auditor, oversee the work of the independent auditor (including resolution of any disagreements between management and the independent auditor regarding financial reporting), evaluate the performance of the independent auditor and, if so determined by the Committee, replace the independent auditor; it being acknowledged that the independent auditor is ultimately accountable to the Board and the Committee, as representatives of the stockholders.

2. Ensure the receipt of, and evaluate the written disclosures and the letter that the independent auditor submits to the Committee regarding the auditor’s independence in accordance with Independence Standards Board Standard No. 1, discuss such reports with the auditor, oversee the independence of the independent auditor and, if so determined by the Committee in response to such reports, take appropriate action to address issues raised by such evaluation.

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3. Discuss with the independent auditor the matters required to be discussed by SAS 61, as it may be modified or supplemented.
4. Instruct the independent auditor and the internal auditor, if any, to advise the Committee if there are any subjects that require special attention.
5. Instruct the independent auditor to report to the Committee on all critical accounting policies of the Company, all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor, and other material written communication between the independent auditor and management, and discuss these matters with the independent auditor and management.
6. Meet with management and the independent auditor to discuss the annual financial statements and the report of the independent auditor thereon, and to discuss significant issues encountered in the course of the audit work, including: restrictions on the scope of activities; access to required information; the adequacy of internal controls, including any special steps adopted in light of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting identified during the course of the annual audit, and the adequacy of disclosures about changes in internal control over financial reporting; the adequacy of the disclosure of off-balance sheet transactions, arrangements, obligations and relationships in reports filed with the SEC; and the appropriateness of the presentation of any non-GAAP financial measures (as defined in the Regulations) included in any report filed with the SEC or in any public disclosure or release.
7. Review and discuss with management and the independent auditor management's report on internal control over financial reporting, and the independent auditor's audit of the effectiveness of the Company's internal control over financial reporting and its attestation report, prior to the filing of the Form 10-K.
8. Review the management letter delivered by the independent auditor in connection with the audit.
9. Following such review and discussions, if so determined by the Committee, recommend to the Board that the annual financial statements be included in the Company's annual report on Form 10-K.
10. Meet quarterly with management and the independent auditor to discuss the quarterly financial statements prior to the filing of the Form 10-Q; provided that this responsibility may be delegated to the chairman of the Committee or a member of the Committee who is a financial expert.
11. Meet at least once each year in separate executive sessions with management, the internal auditor, if any, and the independent auditor to discuss matters that any of them or the Committee believes could significantly affect the financial statements and should be discussed privately.

12. Have such direct and independent interaction with members of management, including the Company's chief financial officer and chief accounting officer, as the Committee believes appropriate.
13. Review significant changes to the Company's accounting principles and practices proposed by the independent auditor, the internal auditor, if any, or management.
14. Review the scope and results of internal audits, if any.
15. Evaluate the performance of the internal auditor, if any, and, if so determined by the Committee, recommend replacement of the internal auditor.
16. Conduct or authorize such inquiries into matters within the Committee's scope of responsibility as the Committee deems appropriate.
17. Provide minutes of Committee meetings to the Board, and report to the Board on any significant matters arising from the Committee's work.
18. At least annually, review and reassess this Charter and, if appropriate, recommend changes to the Board.
19. Prepare the Committee report required by the Regulations to be included in the Company's annual proxy statement.
20. Establish a procedure for receipt, retention and treatment of any complaints received by the Company about its accounting, internal accounting controls or auditing matters and for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
21. Approve, in accordance with Sections 10A(h) and (i) of the Exchange Act, the Regulations and the Auditing Standards of the Public Company Accounting Oversight Board, all professional services, to be provided to the Company by its independent auditor, provided that the Committee shall not approve any non-audit services proscribed by Section 10A(g) of the Exchange Act in the absence of an applicable exemption. The Committee may adopt policies and procedures for the approval of such services which may include delegation of authority to a designated member or members of the Committee to approve such services so long as any such approvals are disclosed to the full Committee at its next scheduled meeting.
22. The Committee shall review and oversee procedures designed to identify "related party" transactions that are material to the Company's consolidated financial statements or otherwise require disclosure under applicable laws and rules adopted by the SEC. The Audit Committee shall have the authority to approve any such "related party" transactions.

**Authority**

By adopting this Charter, the Board delegates to the Committee full authority in its discretion to:

1. Perform each of the responsibilities of the Committee described above.
2. Appoint a chair of the Committee, unless a chair is designated by the Board.
3. Engage independent counsel and other advisers as the Committee determines necessary to carry out its responsibilities.
4. Cause the officers of the corporation to provide such funding as the Committee shall determine to be appropriate for payment of compensation to the Company's independent auditor and any legal counsel or other advisers engaged by the Committee, and payment of ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

**VIRNETX HOLDING CORPORATION**  
**COMPENSATION COMMITTEE CHARTER**

***Purpose***

The purpose of the Compensation Committee (the “Committee”) of the board of directors (the “Board”) of VirnetX Holding Corporation (the “Company”) is to discharge certain responsibilities of the Board with respect to compensation, to make such reports in respect of compensation, compensation practices and related matters as may be required under the rules and regulations promulgated under Securities Exchange Act of 1934 of a compensation committee and to take such other actions and matters as the Board may from time to time authorize the Committee to undertake or assume responsibility for.

***Membership and Power to Act***

The Compensation Committee shall be comprised of at least two members of the Board of Directors. Such members will be appointed by the Board annually and serve at the discretion of the Board. Each Committee member will serve on the Committee during his or her respective term as a Board member, subject to earlier removal by a majority vote of the Board. Unless a chair is elected by the Board, the members of the Committee may designate a chair by vote of the Committee.

During the period of time in which the Company’s Common Stock is publicly traded, each member of the Committee will be (1) “independent” as defined under applicable Nasdaq (or applicable stock exchange) rules (except as otherwise permitted under such rules), (2) a “non-employee director” under Rule 16b-3(b)(3)(i) promulgated under the Securities Exchange Act of 1934, and (3) as an “outside director” under the rules promulgated under Section 162(m) of the Internal Revenue Code of 1986. These terms are more fully described on Exhibit A attached hereto.

In the event that the Committee has more than two members and one or more members of the Committee are absent from a meeting of the Committee or being present at a meeting recuse themselves from an action taken, the remaining members of the Committee (provided there are at least two such members), acting unanimously, shall have the power to take any necessary action. No action of the Committee shall be valid unless taken pursuant to a resolution adopted and approved by at least two members of the Committee. No member of the Committee shall participate in any discussions or deliberations relating to such person’s own compensation or other matters in which such person has a material interest.

Except with respect to matters relating to compensation of the Company’s Chief Executive Officer, with respect to which the Board delegates to the Committee exclusive authority during such period of time that the Committee is empanelled with at least two qualifying members as required above, the Board simultaneously reserves to itself all authority delegated hereunder to the Committee. This reservation of authority does not in any way limit the Committee’s authority to act definitively on matters delegated to it hereunder.

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Notwithstanding the above, the Board reserves the right at any time to revoke or change the authority delegated hereunder.

### ***Meetings***

The Committee will meet at such times as it deems appropriate to discharge its duties hereunder. The Committee may act by unanimous written consent.

### ***Responsibilities of the Committee***

The authority delegated to the Committee is set forth below. This description of authority is intended as a guide and the Committee may act and establish policies and procedures that are consistent with these guidelines or are necessary or advisable, in its discretion, to carry out the intent of the Board in delegating such authority and to fulfill the responsibilities of the Committee hereunder.

1. The Committee has exclusive authority to determine the amount and form of compensation paid to the Company's Chief Executive Officer, and to take such action, and to direct the Company to take such action, as is necessary and advisable to compensate the CEO in a manner consistent with its determinations. The Committee will review at least annually the Chief Executive Officer's performance, including in light of goals and objectives established for such performance, including the relationship of such compensation to corporate performance, and in light of such review determine his or her compensation.
2. The Committee has authority to determine the amount and form of compensation paid to the Company's executive officers, officers, employees, consultants and advisors and to review the performance of such persons in order to determine appropriate compensation, as well as to establish the Company's general compensation policies and practices and to administer plans and arrangements established pursuant to such policies and practices. The Committee has authority to take such action, and to direct the Company to take such action, as is necessary and advisable to compensate such persons and to implement such policies and practices in a manner consistent with its determinations. It is expected that the Committee may delegate its authority on these matters with regard to non-officer employees and consultants of the Company to officers and other appropriate Company supervisory personnel.
3. The Committee has authority to administer the Company's equity compensation plans, including without limitation to approve the adoption of such plans, to reserve shares of Common Stock for issuance thereunder, to amend and interpret such plans and the awards and agreements issued pursuant thereto, and to make awards to eligible persons under the plans and determine the terms of such awards.
4. The Committee has authority to select, engage, compensate and terminate compensation consultants, legal counsel and such other advisors as it deems necessary and advisable to assist the Committee in carrying out its responsibilities and functions as set forth herein. Compensation paid to such parties and related expenses will be borne by the Company and the Company will make appropriate funding available to the Committee for such purposes.

5. Except with respect to the responsibilities set forth in paragraph 1 above, the Committee may delegate its authority granted under this charter to a subcommittee of the Committee (consisting either of a subset of members of the Committee or, after giving due consideration to whether the eligibility criteria described above with respect to Committee members and whether such other Board members satisfy such criteria, any members of the Board). In addition, to the extent permitted by applicable law, the Committee may delegate to one or more officers of the Company (or other appropriate supervisory personnel) the authority to grant stock options and other stock awards to employees (who are not executive officers or members of the Board) of the Company or of any subsidiary of the Company.
6. The Committee shall review and discuss with management the Company's proposed disclosure under the "Compensation Discussion and Analysis" required by Regulation S-K under the Securities Exchange Act and recommend to the Board whether such Compensation Discussion and Analysis should be included in the Company's proxy statement and Annual Report on Form 10-K.
7. The Committee will prepare a Compensation Committee Report in accordance with the rules and regulations of the Securities and Exchange Commission for inclusion in the Company's proxy statement.
8. The Committee will make regular reports to the Board with respect to significant actions and determinations made by the Committee.
9. The Committee will periodically review this charter and make recommendations to the Board with regard to appropriate changes to the charter.
10. The Committee will periodically review its own performance and report on its conclusions in this regard to the Board.
11. The Committee has the authority to perform such other activities and functions as are required by law, applicable Nasdaq (or stock exchange) rules or provisions in the Company's charter documents, or as are otherwise necessary and advisable, in its or the Board's discretion, to the efficient discharge of its duties hereunder.

### **Reports**

The Committee will record its actions and determinations in written form. These records will be incorporated as a part of the minutes and actions of the Board.

## Exhibit A

### 1. Independent Director.

The Compensation Committee must be composed solely of “independent” directors, as defined in NASD Rule 4200(a)(15). If the Compensation Committee is composed of at least 3 members, one non-independent director who is not a current officer or employee or family member of such person may serve on the Compensation Committee for up to 2 years.

The following would not be independent under NASD Rule 4200(a)(15):

(a) An officer or employee of the company

(b) A director who has been employed by the company or any parent or subsidiary of the company within the past 3 years

(c) A director who received, or who had a family member who received, payments from the company of more than \$100,000 during the current fiscal year or any of the past 3 years, other than compensation to the director for Board service or compensation to a family member who is an employee but not an executive officer of the company, its parent, or any subsidiary

(d) A director who is the immediate family member of any person who was an executive officer of the company or any parent or subsidiary of the company within the past 3 years

(e) A director who is a partner, executive officer, or controlling shareholder of any organization to which the company made, or from which the company received, payments that exceed 5% of the recipient’s gross revenues for that year, or \$200,000, whichever is more, during the current or any of the past 3 years, other than payments arising solely from investment

(f) A director who is an executive officer of another company where any of the company’s executive officers has served on the compensation committee of the other company within the past 3 years

(g) A director who was a partner or employee of the company’s outside auditor and worked on the company’s audit during the past 3 years

(h) Any person who has a relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment

### 2. Non-Employee Director.

Rule 16b-3(b)(3)(i) of the Securities Exchange Act of 1934 defines a Non-Employee Director as a director who:



(a) Is not currently an officer (as defined in Rule 16a-1(f)) of the issuer or a parent or subsidiary of the issuer, or otherwise currently employed by the issuer or a parent or subsidiary of the issuer;

(b) Does not receive compensation, either directly or indirectly, from the issuer or a parent or subsidiary of the issuer, for services rendered as a consultant or in any capacity other than a director, except for an amount that does not exceed the dollar amount for which disclosure would be required pursuant to Rule 404(a) of this chapter;

(c) Does not possess an interest in any other transaction for which disclosure would be required pursuant to Rule 404(a) of this chapter; and

(d) Is not engaged in a business relationship for which disclosure would be required pursuant to Rule 404(b) of this chapter.

### 3. Outside Director.

Regulation 1.162-27(e)(3) promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended, defines an Outside Director as a director who:

(a) Is not a current employee of the publicly held corporation;

(b) Is not a former employee of the publicly held corporation who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year;

(c) Has not been an officer of the publicly held corporation; and

(d) Does not receive remuneration from the publicly held corporation, either directly or indirectly, in any capacity other than as a director. For this purpose, remuneration includes any payment in exchange for goods or services.

**VIRNETX HOLDING CORPORATION**  
**NOMINATING AND GOVERNANCE**  
**COMMITTEE CHARTER**

***Purpose***

The purpose of the Nominating and Governance Committee (the “Committee”) of the board of directors (the “Board”) of VirnetX Holding Corporation (the “Company”) is to identify individuals qualified to serve as members of the Board of the Company, recommend nominees for election as directors of the Company, develop and recommend to the Board corporate governance guidelines and provide oversight with respect to corporate governance and ethical conduct.

***Composition***

The Committee shall be composed of three or more directors, as determined by the board of directors, each of whom shall satisfy the requirements of the American Stock Exchange.

***Responsibilities***

The Committee is charged by the Board with the responsibility to:

1. Identify and evaluate individuals, including individuals proposed by stockholders, qualified to serve as members of the Board, and recommend for determination by the independent directors of the Company nominees for election as directors of the Company at the next annual or special meeting of stockholders at which directors are to be elected, and identify, evaluate and recommend to the Board individuals to fill any vacancies or newly created directorships that may occur between such meetings.
  2. Cause to be prepared and recommend to the Board the adoption of corporate governance guidelines, and from time to time review and assess the guidelines and recommend changes for approval by the Board.
  3. Cause to be prepared and recommend to the Board the adoption of a code of ethics, and from time to time review and assess the code of ethics, and recommend changes for approval by the Board.
  4. Provide minutes of Committee meetings to the Board, and report to the Board on any significant matters arising from the Committee’s work.
  5. From time to time, review and reassess this Charter and, if appropriate, recommend changes to the Board.
  6. Perform such other duties and responsibilities as may be assigned to the Committee by the Board.
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**Authority**

By adopting this Charter, the Board delegates to the Committee full authority in its discretion to:

1. Perform each of the responsibilities of the Committee described above.
2. Delegate such of its authority and responsibilities as the Committee deems proper to members of the Committee or a subcommittee.
3. Appoint a chair of the Committee, unless a chair is designated by the Board.
4. Engage and terminate search firms, independent counsel and other advisers as the Committee determines necessary to carry out its responsibilities, and approve the fees and other terms of retention of any such search firms, independent counsel and other advisers.
5. Cause the officers of the Company to provide such funding as the Committee shall determine to be appropriate for payment of compensation to any search firm or other advisers engaged by the Committee.

**VIRNETX HOLDING CORPORATION****CODE OF ETHICS****1. Introduction**

We are committed to maintaining the highest standards of ethical conduct. This Code of Ethics reflects the business practices and principles of behavior that support this commitment. Our Board of Directors is responsible for setting the standards of conduct contained in this Code and for updating these standards as appropriate to reflect legal and regulatory developments. We expect every employee, officer and director to read and understand this Code and its application to the performance of his or her business responsibilities. We will hold each of our employees, officers and directors accountable for adherence to this Code. Those who violate this Code will be subject to disciplinary action, up to and including termination.

This Code does not attempt to describe every practice or principle related to honest and ethical conduct. This Code of Ethics is an integral part of our broader employee policies set forth in our Employee Handbook. The following additional policies of the Company supplement or amplify this Code in certain areas and should be read in conjunction with this Code: our Insider Trading Policy, our Disclosure Policy, our Foreign Corrupt Practices Act Policy and our Non-Retaliation Policy. More information about these policies can be found in the Employee Handbook.

**2. Compliance Officer**

The Company has designated Kendall Larsen as our Compliance Officer to administer this Code. Employees, officers or directors, at their discretion, may make any report or complaint provided for in this Code to the Compliance Officer. The Compliance Officer will refer complaints submitted, as appropriate, to the Board of Directors or an appropriate Committee of the Board.

**3. Compliance With Applicable Laws**

All employees, officers and directors of the Company must comply with all of the laws, rules and regulations of the United States and other countries, as well as the states, counties, cities and other jurisdictions, applicable to the Company or its business.

This Code does not attempt to summarize all laws, rules and regulations applicable to the Company or its business. You should consult the various guidelines the Company has prepared on specific laws, rules and regulations, which you can find summarized in the Employee Handbook, including employment laws concerning equal employment and sexual and other types of harassment; immigration laws concerning hiring of documented workers; antitrust laws; environmental laws; occupational health and safety laws; food and drug laws; securities laws concerning disclosure requirements and insider trading; and anti-bribery laws including foreign corrupt practices. Please consult with a supervisor, the Compliance Officer or a member of the Company's legal department if you have questions about laws that you think may be applicable to the Company or its business.

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#### **4. Conflicts Of Interest**

A “conflict of interest” may exist whenever the private interests of an employee, officer or director conflict in any way (or even appear to conflict) with the interests of the Company. While our employees, officers and directors should be free to make personal investments and enjoy social relations and normal business courtesies, they must not have any personal interests that adversely influence the performance of their job responsibilities. A conflict situation can arise when an employee, officer or director takes actions or has interests that may make it difficult to perform his or her Company work objectively. Conflicts of interest may also arise when an employee, officer or director, or a member of his or her family, receives improper personal benefits as a result of his or her position in the Company, whether received from the Company or a third party. Gifts to, loans to, or guarantees of obligations of, employees, officers and directors and their respective family members may create conflicts of interest. Federal law prohibits personal loans from the Company to directors and executive officers. In addition, in general, it is a conflict of interest for a Company employee or officer to work simultaneously for a competitor, customer or supplier absent an express written consent or waiver from the Company.

#### **5. Corporate Opportunity**

Except as may be approved or ratified by the Board of Directors or a committee of independent directors, employees, officers and directors are prohibited from (a) taking for themselves personally any opportunities that belong to the Company or are discovered through the use of corporate property, information or position; (b) using corporate property, information or position for personal gain; and (c) competing with the Company.

#### **6. Confidentiality**

All employees and officers, under the Confidentiality Agreement signed when they joined the Company, and all directors, must maintain the confidentiality of confidential information entrusted to them by the Company or its suppliers or customers, except when disclosure is authorized by the Company or required by laws, regulations or legal proceedings. As more fully described in the Confidentiality Agreement, “confidential information” includes, but is not limited to, non-public information that might be of use to competitors of the Company, or harmful to the Company or its customers if disclosed. Whenever feasible, employees, officers and directors should consult a supervisor, the Compliance Officer or a member of the Company’s legal department if they believe they have a legal obligation to disclose confidential information.

#### **7. Fair Dealing**

Each employee, officer and director should endeavor to deal fairly with the Company’s customers, suppliers, competitors, officers and employees. None of the Company’s employees, officers or directors should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice. Stealing proprietary information, misusing trade secret information that was obtained

without the owner's consent, or inducing such disclosures by past or present employees of other companies is prohibited.

#### **8. Protection And Proper Use Of Company Assets**

All employees, officers and directors should protect the Company's assets and ensure their efficient use. Theft, carelessness, and waste have a direct impact on the Company's profitability. All Company assets should be used for legitimate business purposes. Of course, incidental personal use may be appropriate for certain Company assets, but you should check with a supervisor to determine what may be appropriate.

#### **9. Public Company Reporting**

As a public company, it is of critical importance that the Company's filings with the Securities and Exchange Commission be full, fair, accurate, timely and understandable. Depending on their respective positions with the Company, employees, officers or directors may be called upon to provide information necessary to assure that the Company's public reports meet these requirements. The Company expects employees, officers and directors to take this responsibility very seriously and to provide prompt and accurate answers to inquiries related to the Company's public disclosure requirements. The Company has formed a Disclosure Committee to oversee the preparation and review of public disclosure documents. The members of the Disclosure Committee will change from time to time, but will generally consist of certain key managers and may include our legal counsel. You must be especially responsive to inquiries and requests from members of our Disclosure Committee.

#### **10. Accounting Complaints**

The Audit Committee of the Board of Directors is responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters. Employees, officers or directors who have concerns or complaints regarding such matters are encouraged to promptly submit those concerns or complaints to the Audit Committee which, subject to its duties arising under applicable law, regulations and legal proceedings, will treat such submissions confidentially. Such concerns or complaints may be made anonymously.

Such submissions may be made by logging on to our complaint web site, or calling our complaint hot line if you do not have web access. Detailed instructions for logging on to the web site or calling the hot line are contained in the information package you received when you joined the Company, or you may contact our human resources department to obtain a copy of these instructions. Such submissions will be automatically directed to the attention of the Compliance Officer who will be responsible for bringing such submissions to the attention of the Audit Committee, as appropriate.

#### **11. Reporting Any Illegal Or Unethical Behavior**

Employees are encouraged to promptly contact a supervisor, manager, our human resources department, or the Compliance Officer if the Employee believes that the Employee has observed a violation of this Code of Ethics or any other illegal or unethical behavior by any officer,

director or employee or by anyone purporting to be acting on the Company's behalf and, the Employee has any doubt, about the best course of action in a particular situation. Such reports may be made anonymously. Confidentiality will be protected, subject to applicable law, regulation or legal proceeding.

Such reports may also be made by logging on to our complaint web site, or calling our complaint hot line if you do not have web access. Detailed instructions for logging on to the web site or calling the hot line are contained in the information package you received when you joined the Company, or you may contact our human resources department to obtain a copy of these instructions.

## **12. Reporting By Supervisors**

When a supervisor, manager or other person receives reports of violations or questionable behavior pursuant to this Code of Ethics, that person shall be responsible for bringing such reports to the attention of his or her supervisor, the Compliance Officer or to the Audit Committee, as appropriate, in accordance with the reporting procedures contained in this Code of Ethics. Persons receiving such reports must endeavor to honor any confidentiality or anonymity requests made by the reporting person, subject to applicable law, regulation or legal proceedings.

## **13. Enforcement**

Any violators of this Code will be subject to disciplinary action. The disciplinary actions will be determined by the Board of Directors or its designee. The Company intends such disciplinary action to reflect our belief that all employees, officers and directors should be held accountable to the standards of conduct set forth herein. Accordingly, such disciplinary action may include, without limitation, censure by the Board, demotion, re-assignment, suspension or termination, depending on the nature and the severity of the violation.

## **14. No Retaliation**

The Company will not permit retaliation of any kind against anyone who makes a report or complaint in good faith with a reasonable basis for believing that a violation of this Code or other illegal or unethical conduct has occurred.

## **15. Amendment, Modification And Waiver**

This Code may be amended or modified from time to time by the Board of Directors or a committee thereof, subject to the disclosure and other provisions of the Securities Exchange Act of 1934, and the rules thereunder and the applicable rules of the Nasdaq Capital Market. Any amendment, modification or waiver of the provisions of this Code for executive officers or directors of the Company may only be made by the Board of Directors or a committee thereof, and must be promptly disclosed to shareholders, along with the reasons for any such waiver, as required by the Securities Exchange Act of 1934, and the rules thereunder and the applicable rules of the Nasdaq Capital Market.

**FORM OF ANNUAL CERTIFICATION**

Each employee, officer and director must certify on the following form at least annually or at such other times as requested to do so by the Company's management.

To: \_\_\_\_\_ (Manager)

Subject: Code of Ethics

I, \_\_\_\_\_,

First Name Middle Name Last Name

(PLEASE PRINT)

As an employee, officer or director of «CompanyName» or one of its subsidiaries or divisions, I do hereby acknowledge that I have received a copy of the Code of Ethics and that I have read and reviewed the Code of Ethics and understand its contents and understand that I am subject to all of its provisions. I further certify that I am not aware of any violations of the Code of Ethics that have not been duly reported pursuant to the provisions of the Code of Ethics as of the date of this certification.

\_\_\_\_\_  
Signature

Date: \_\_\_\_\_

\_\_\_\_\_  
Title

\_\_\_\_\_  
Department Name

\_\_\_\_\_  
Department Number