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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

Commission file number: 001-33852

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

Delaware	**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:

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

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

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

Large accelerated filer 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 number of shares outstanding of the Registrant's Common Stock as of May 6, 2015, was 52,116,862.

VIRNETX HOLDING CORPORATION

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PART I — FINANCIAL INFORMATION

ITEM 1.- FINANCIAL STATEMENTS.

VIRNETX HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	As of March 31, 2015	As of December 31, 2014
ASSETS	**(unaudited)**	
Current assets:		
Cash and cash equivalents	$ 13,290	$ 18,658
Investments available for sale	21,410	22,571
Prepaid expenses - current	957	653
Total current assets	35,657	41,882
Prepaid expenses – non-current	3,048	3,144
Property and equipment, net	62	64
Total assets	$ 38,767	$ 45,090
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,306	$ 3,554
Royalty payable	6,100	6,100
Related-party payable	—	81
Income tax liability	395	408
Deferred revenue, current portion	1,500	1,500
Derivative liability	—	320
Total current liabilities	9,301	11,963
Deferred revenue, non-current portion	125	500
Total liabilities	9,426	12,463
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, par value $0.0001 per share		
Authorized: 10,000,000 shares at March 31, 2015 and December 31, 2014, Issued and outstanding: 0 shares at March 31, 2015 and December 31, 2014	—	—
Common stock, par value $0.0001 per share		
Authorized: 100,000,000 shares at March 31, 2015 and December 31, 2014, Issued and outstanding: 52,116,862 shares and 51,996,701 shares, at March 31, 2015 and December 31, 2014, respectively	5	5
Additional paid-in capital	135,632	133,072
Accumulated deficit	(106,289)	(100,435)
Accumulated other comprehensive loss	(7)	(15)
Total stockholders' equity	29,341	32,627
Total liabilities and stockholders' equity	$ 38,767	$ 45,090

See accompanying notes to condensed consolidated financial statements.

VIRNETX HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(in thousands, except per share amounts)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Revenue	$ 375	$ 250
Operating expense:		
Research and development	392	347
Selling, general and administrative	5,742	6,856
Total operating expense	6,134	7,203
Loss from operations	(5,759)	(6,953)
Gain (loss) on change in value of derivative liability	(117)	838
Interest income, net	23	30
Loss before taxes	(5,853)	(6,085)
Provision for income taxes	(2)	(2)
Net loss	**$ (5,855)**	**$ (6,087)**
Basic and diluted loss per share	$ (0.11)	$ (0.12)
Weighted average shares outstanding basic and diluted	52,027	51,253

VIRNETX HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)
(in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net loss	$ (5,855)	$ (6,087)
Other comprehensive gain (loss), net of tax:		
Change in unrealized gain (loss) on investments, net of tax	8	(11)
Total other comprehensive gain (loss), net of tax	8	(11)
Comprehensive loss	$ (5,847)	$ (6,098)

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash flows from operating activities:		
Net loss	$ (5,855)	$ (6,087)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	7	5
Stock-based compensation	1,692	1,828
Change in value of derivative liability	117	(838)
Changes in assets and liabilities:		
Prepaid expenses	(208)	(4,024)
Accounts payable and accrued liabilities	(2,248)	1,263
Income tax liability	(13)	—
Related party payable	(81)	—
Deferred revenue	(375)	(250)
Net cash used in operating activities	(6,964)	(8,103)
Cash flows from investing activities:		
Purchase of property and equipment	(4)	—
Purchase of investments	(2,932)	(3,383)
Proceeds from sale or maturity of investments	4,101	5,701
Net cash provided by investing activities	1,165	2,318
Cash flows from financing activities:		
Proceeds from exercise of options	—	68
Proceeds from exercise of warrants	431	—
Net cash provided by financing activities	431	68
Net decrease in cash and cash equivalents	(5,368)	(5,717)
Cash and cash equivalents, beginning of period	18,658	19,173
Cash and cash equivalents, end of period	$ 13,290	$ 13,456

See accompanying notes to condensed consolidated financial statements.

VIRNETX HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(Unaudited)

Note 1 — Business Description and Basis of Presentation

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 internal testing with employees, contractors, shareholders and private beta testers and are now in public beta at over 80 small and medium businesses. General public release of these 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/or an ongoing royalty for all future sales through the expiration of the licensed patents with respect to certain current and future IP-encrypted products.

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.

Note 2 — Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying Condensed Consolidated Balance Sheet as of March 31, 2015, the Condensed Consolidated Statements of Income for the three months ended March 31, 2015 and 2014, the Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2015 and 2014, and the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014 are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”). In our opinion, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of our financial position as of March 31, 2015, our results of operations for the three months ended March 31, 2015 and 2014, and our cash flows for the three months ended March 31, 2015 and 2014. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015.

These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 2, 2015.

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.

Use of Estimates

We prepare our consolidated financial statements in accordance with 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.

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 totaling $10,000 ("August 2013 Contract Settlement"). From the inception of that license to March 31, 2015, we received cash totaling $5,000, all of which is non-refundable, and in accordance with our revenue recognition policy, we will not recognize any of the $5,000 balance due until collected. We recognized $375 and $250 of revenue related to the August 2013 Contract Settlement during the three months ended March 31, 2015 and 2014 respectively.

Activity under the August 2013 Contract Settlement was as follows:

Deferred Revenue, December 31, 2014	$	2,000
Less: Amount amortized as revenue		375
Deferred Revenue, March 31, 2015	$	1,625

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 are 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.

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 three months ended March 31, 2015 we had 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 were required to be accounted for as derivative liabilities and carried at fair value on our Condensed Consolidated Balance Sheets as a result of an anti-dilution provision which precluded them from being considered indexed to our stock. The warrant liabilities were marked-to-market each period and the change in the fair value was recorded as gain or loss on derivative liability in the accompanying Condensed Consolidated Statements of Operations. All remaining unexercised Series 1 Warrants expired during the three months ended March 31, 2015.

Prepaid Expenses

Prepaid expenses at March 31, 2015 include 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.

Impairment of Long-Lived Assets

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

Fair Value of Financial Instruments

Fair value is the price that would result from an orderly transaction between market participants at the measurement date. A fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Level 2 measurements utilize either directly or indirectly observable inputs in markets other than quoted prices in active markets.

Our financial instruments are stated at amounts that equal, or approximate, fair value. When we estimate 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 valuation techniques, primarily the income and market approach, which maximizes the use of observable inputs and minimize the use of unobservable inputs for recurring fair value measurements.

Mutual Funds: Valued at the quoted net asset value 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. The assumptions used to measure fair value of our outstanding Series I Warrants carried as derivative liabilities on our Condensed Consolidated Balance Sheet for December 31, 2014 included a warrant exercise price of $3.59 per share, a common share price of $5.49 discount rate of 1.65%, and a volatility of 89.6%.

The following tables show the adjusted cost, gross unrealized gains, gross unrealized losses and fair value of our securities by significant investment category as of March 31, 2015 and December 31, 2014.

	March 31, 2015					
	Adjusted Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Cash and Cash Equivalents**	**Investments Available for Sale**
Cash	$ 4,524	$ -	$ -	$ 4,524	$ 4,524	$ -
Level 1:						
Mutual funds	974	-	-	974	974	-
Corporate securities	11,142	1	-	11,143	4,929	6,214
Municipal securities	256	-	-	256	-	256
U.S agency securities	17,798	6	(1)	17,803	2,863	14,940
	30,170	7	(1)	30,176	8,766	21,410
Total	$ 34,694	$ 7	$ (1)	$ 34,700	$ 13,290	$ 21,410

	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

The following table sets forth by level within the fair value hierarchy, our liabilities stated at fair value as of December 31, 2014.

	December 31, 2014			
	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 a summary of changes in the fair value of our Level 3 liability stated at fair value for the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance December 31, 2014	$ 320	Balance December 31, 2013	$ 2,564
Loss on derivative liability included in net loss	117	Gain on derivative liability included in net loss	(838)
Settlements	(333)	Settlements	—
Expiration of warrants	(104)	Expiration of warrants	—
Balance March 31, 2015	$ —	Balance March 31, 2014	$ 1,726

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 ASU are effective for the annual period ending after December 15, 2016, and for annual 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 — Income Taxes

Our income tax expense was $2 for the three months ended March 31, 2015 and 2014. As a result of net operating losses during the periods the provisions reflect only minimum tax payments. We have valuation allowances covering our deferred tax assets including net operating loss carry-forwards.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax 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 March 31, 2015 will not be fully realizable. Accordingly, management has maintained a valuation allowance against its net deferred tax assets at March 31, 2015. The valuation allowance carried against our net deferred tax assets was approximately $23,000 and $21,000 at March 31, 2015 and December 31, 2014, respectively.

At March 31, 2015, we have federal and state net operating loss carry-forwards of approximately $36,000 and $38,000, respectively, expiring beginning in 2027 and 2016, respectively.

Effective January 1, 2009, we adopted accounting guidance for income taxes, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return. We are now required to recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

Our tax years for 2005 and forward are subject to examination by the U.S. tax authority and various state tax authorities. These years are open due to net operating losses and tax credits remaining unutilized from such years.

Our policy is to recognize interest and penalties accrued on uncertain tax positions as a component of income tax expense. As of March 31, 2015, we had accrued immaterial amounts of interest and penalties related to the uncertain tax positions.

Note 4 — Commitments and Related Party Transactions

We lease our offices under an operating lease with a third party expiring in October 2015 for $5 per month. We recognize rent expense on a straight-line basis over the term of the lease.

On January 31, 2015 we entered into a 12 month non-exclusive lease for the use of an aircraft from K2 Investment Fund LLC ("LLC") for business travel for employees of the Company. We incurred approximately $82 in rental fees (including fees and other reimbursements) to the LLC during the three months ended March 31, 2015. Our Chief Executive Officer and Chief Administrative Officer are the managing partners of the LLC and control the equity interests of the LLC. The lease for use of the plane calls for a rental- 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 a 30 day notice.

Note 5 — Stock Based Compensation

We have a stock incentive plan for employees and others called the "VirnetX Holding Corporation 2013 Equity Incentive 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 ("RSUs"), and will expire in 2024. As of March 31, 2015, 1,861,217 shares remained available for grant under the Plan. During the three months ending March 31, 2015 there were 25,000 options granted to employees and no RSUs granted.

Stock-based compensation expense included in general and administrative expense was $1,692 and $1,828 for the three months ended March 31, 2015 and 2014, respectively.

As of March 31, 2015, the unrecognized stock-based and RSUs compensation expense related to non-vested stock options and RSUs was $8,101 and $3,720, respectively, which will be amortized over an estimated weighted average period of approximately 2.37 and 2.34 years, respectively.

Note 6 — Warrants

During the three months ended March 31, 2015 our remaining outstanding Series 1 Warrants were exercised or expired. Information about warrants outstanding during the three months ended March 31, 2015 follows:

Original Number of Warrants Issued	Exercise Price per Common Share	Exercisable at December 31, 2014	Became Exercisable	Exercised	Terminated / Cancelled / Expired	Exercisable at March 31, 2015	Expiration Date
2,619,036 (1)	$ 3.59	157,467	—	120,161	37,306	—	March 2015
Total		157,467	—	120,161	37,306	—	

(1) Referred to as our Series I Warrants.

Note 7 — Litigation

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

VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED) – Consolidated Lead Case
On March 30, 2015, the United States Court for the Eastern District of Texas, Tyler Division, issued an order finding substantial overlap between the remanded portions of the Civil Action Case 6:10-CV-00417-LED (VirnetX vs. Cisco et. al.), and the ongoing Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case. The court reset the jury trial date to January 25, 2016 with jury selection scheduled to start on January 18, 2016. All future updates will be provided under this case.

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. 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 try only the case against Apple on the scheduled trial date. The jury trial of our case against Cisco was held on March 4, 2013. The jury in our case 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 were denied and the case against Cisco was closed.

The jury trial of our case against Apple was held on October 31, 2012. 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 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. 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. On February 25, 2015, USCAFC granted Apple's motions to lift stay of proceedings and vacate Case 6:13-CV-00211-LED. All the issues at hand in Case 6:13-CV-00211-LED will now be addressed as a part of VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED) - Consolidated Lead Case. On March 30, 2015, the court issued an order finding substantial overlap between the remanded portions of this case and the ongoing Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case. All future updates will now be provided under ***VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED) – Consolidated Lead Case***.

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. On March 30, 2015, the court issued an order finding substantial overlap between this case and the remanded portions of Case 6:10-CV-00417-LED (VirnetX vs. Cisco et. al.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case. All future updates will now be provided under ***VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED) – Consolidated Lead Case***.

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 8 — Subsequent Events

On May 8, 2015 we entered into a Patent Licensing Representative Agreement with IPValue Management, Inc. ("IPValue"). Under the terms of the Agreement, IPValue will assist us in commercializing our portfolio of certain patents on securing real-time communications over the Internet. IPValue will originate and assist us with negotiating potential patent licensing transactions in return for a commission to be paid out of any revenues received by us from such potential licensing transactions. The Agreement contains other terms and conditions normal in such transactions.

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

Note About Forward-Looking Statements

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including without limitation, the following sections: "Management's Discussion and Analysis," and "Risk Factors." These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Risk Factors" (Part II, Item 1A of this Form 10-Q). We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

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 testing with employees, contractors, shareholders and private beta testers and are now in public beta at over 80 small and medium businesses. general public release of these 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/or an ongoing royalty for all future sales through the expiration of the licensed patents with respect to certain current and future IP-encrypted products.

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.

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 ASU are effective for the annual period ending after December 15, 2016, and for annual 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.

Results of Operation

Three Months Ended March 31, 2015
Compared with Three Months Ended March 31, 2014
(in thousands, except per share amounts)

Revenue

For the three months ended March 31, 2015 and 2014 we recognized revenue of $375 and $250, respectively from non-refundable up-front fees earned during the period. In August 2013 we began receiving annual payments on a contract with a total value over 4 years of $10,000. From its inception through March 31, 2015 we received total payments of $5,000 under this license. Revenues from these fees are deferred and recognized as revenue as earned in accordance with our revenue recognition policy, but not in advance of collection.

Research and Development Expenses

Our research and development expenses increased by $45 to $392 for the three months ended March 31, 2015, from $347 for the three months ended March 31, 2014. This increase was primarily due to increase in wages and medical costs for our employees.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses decreased by $1,114 to $5,742 for the three months ended March 31, 2015, from $6,856 for the three months ended March 31, 2014. The decrease is primarily due to a decrease in legal fees of $949 associated with the current patent infringement actions.

Other Income and Expenses

For the three months ended March 31, 2015, the non-cash loss related to the periodic revaluation of our Series I Warrants liability was $117, which compares to a non-cash gain of $838 for the three months ended March 31, 2014. The balance of the liability for the Series I Warrants decreased to zero at March 31, 2015, from $320 at December 31, 2014. The gain (loss) from the revaluations of the warrant liability in the three months ended March 31, 2015 and 2014 were primarily the result of a decrease in our common share price during the periods, as well as the expiration of the balance of outstanding warrants at March 31, 2015.

Interest income decreased by $7 to $23 for the three months ended March 31, 2015, from $30 for the comparable 2014 period.

Liquidity and Capital Resources

As of March 31, 2015, our cash and cash equivalents totaled approximately $13,290 and our short-term investments totaled approximately $21,410, compared to cash equivalents of approximately $18,658 and short-term investments of approximately $22,571 at December 31, 2014. Working capital was $26,356 at March 31, 2015 and $29,919 at December 31, 2014. The decrease in cash and investments during the three months ended March 31, 2015 was primarily attributed to costs incurred for legal expenses in defense of our patent infringement actions and losses incurred during the periods reported.

We expect that our cash and cash equivalents and short-term investments as of March 31, 2015 will be sufficient to fund our current level of selling, general and administration costs, including legal expenses and provide related working capital for the foreseeable future. Over the longer term, we 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.

Income Taxes

Our income tax expense was $2 for the three months ended March 31, 2015 and 2014. As a result of net operating losses during the periods the provisions reflect only minimum tax payments. We have valuation allowances covering our deferred tax assets including net operating loss carry-forwards.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax 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 March 31, 2015 will not be fully realizable. Accordingly, management has maintained a valuation allowance against its net deferred tax assets at March 31, 2015. The valuation allowance carried against our net deferred tax assets was approximately $23,000 and $21,000 at March 31, 2015 and December 31, 2014, respectively.

At March 31, 2015, we have federal and state net operating loss carry-forwards of approximately $36,000 and $38,000, respectively, expiring beginning in 2027 and 2016, respectively.

Effective January 1, 2009, we adopted accounting guidance for income taxes, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return. We are now required to recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

Our tax years for 2005 and forward are subject to examination by the U.S. tax authority and various state tax authorities. These years are open due to net operating losses and tax credits remaining unutilized from such years.

Our policy is to recognize interest and penalties accrued on uncertain tax positions as a component of income tax expense. As of March 31, 2015, we had accrued immaterial amounts of interest and penalties related to the uncertain tax positions.

Contractual Obligations

There have been no material changes to the contractual obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Off-Balance Sheet Arrangements

None.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

We invest our excess cash primarily in highly liquid instruments including time deposits, money market, and corporate debt securities. We seek to limit the amount of our credit exposure to any one issuer.

Investments in fixed rate instruments 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, which generally mature within six months of March 31, 2015.

Other Market Risks

We have no obligation to settle our Series I Warrant obligations in cash. However, these derivative instruments are accounted for as liabilities on our consolidated balance sheets and are marked-to-market each period based on their estimated fair value. The non-cash gains or losses from the decreases and increases in the estimated fair value of the warrant liability are recognized in earnings each period. The estimated fair value is determined in large part by reference to our assumptions and estimates of various factors.

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 increase or decrease substantially in the near term and could have a material impact to our consolidated balance sheets and statement of operations.

ITEM 4 — CONTROLS AND PROCEDURES.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of March 31, 2015.

The purpose of this evaluation was to determine whether as of March 31, 2015 our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose in our filings with the SEC, (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of March 31, 2015, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

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

VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED) – Consolidated Lead Case
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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 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. 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. On February 25, 2015, USCAFC granted Apple's motions to lift stay of proceedings and vacate Case 6:13-CV-00211-LED. All the issues at hand in case 6:13-CV-00211-LED will now be addressed as a part of VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED) - Consolidated Lead Case. On March 30, 2015, the court issued an order finding substantial overlap between the remanded portions of this case and the ongoing Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case. All future updates will now be provided under ***VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED) – Consolidated Lead Case***.

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. On March 30, 2015, the court issued an order finding substantial overlap between this case and the remanded portions of Case 6:10-CV-00417-LED (VirnetX vs. Cisco et. al.). The court consolidated the two civil actions under Civil Action Case 6:12-CV-00855-LED (VirnetX Inc. v. Apple, Inc.) and designated it as the lead case. All future updates will now be provided under ***VirnetX Inc. v. Apple, Inc. (Case 6:12-CV-00855-LED) – Consolidated Lead Case***.

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

ITEM 1A — RISK FACTORS

You should carefully consider the following material risks in addition to the other information set forth in this Quarterly Report on Form 10-Q, as well as our Annual Form 10-K filed March 2, 2015 before making any investment in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of these risk factors occurs, you could lose substantial value or your entire investment in our shares.

Risks Related to Our Business and Our Financial Reporting

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 minimal 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, or if we are successful in entering into such relationships, the acquisition of them may be expensive, and they, as well as our 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 face, and we expect to continue to face, intense competition from 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 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, limit or cease our revenues related to such patents, 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 where laws regarding patent protection are less developed, 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.

We are involved and will continue to be involved in numerous litigation matters defending our patent portfolio, which can be time-consuming and 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. 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.

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 (IRP) 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. 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 subject 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 which adversely affect the marketability of our products and planned products related to VoIP. For further example, 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.

Our business depends on 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 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.

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.

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

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

- New legislation, regulations or rules related to obtaining patents or enforcing patents could significantly increase our operating costs and decrease our revenue. For instance, the United States 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 United States recently enacted sweeping changes to the United States patent system under the Leahy-Smith America Invents Act (“AIA”), 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.

- As patent enforcement becomes more prevalent, it may become more difficult for us to voluntarily license our patents.

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

We 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.

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. 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;
- 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.

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

We expect that in the future, a significant portion of our revenues will be generated from a limited number of customers. There can be no guarantee that we will be able to obtain 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, may contain errors or defects. Despite testing, some errors in our products may only be discovered after a product has been installed and used by customers. Any errors or defects discovered in our products after commercial release could result in failure to achieve market acceptance, loss of revenue or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. In addition, we could face claims for product liability, tort or breach of warranty, including claims relating to changes to our products made by our channel partners. The performance of our products could have unforeseen or unknown adverse effects on the networks over which they are delivered as well as on third-party applications and services that utilize our services, which could result in legal claims against us, harming our business. Furthermore, we expect to provide implementation, consulting and other technical services in connection with the implementation and ongoing maintenance of our products, which typically involves working with sophisticated software, computing and communications systems. We expect that our contracts with customers will contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and adversely affect the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be adversely impacted.

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

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

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

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

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

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

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

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

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

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

Use of the Internet has over-burdened existing telecommunications infrastructures, and many high traffic areas have begun to experience interruptions in service. As a result, certain local telephone carriers have petitioned governmental agencies to enforce regulatory tariffs on IP telephony traffic that crosses over 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. In addition, we do not maintain key person life insurance for any of our officers or key employees. The loss of Mr. Larsen, or our failure to retain other key personnel, would jeopardize our ability to execute our strategic plan and materially harm our business.

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

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

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.

We may identify future material weakness which may result in late filings, increased costs or declines in our share price.

Although we believe that we currently maintain effective control over our disclosures and procedures and internal control over financial reporting, 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 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, and any of which could cause our share price to decline.

Risks Related to Our Stock

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.

Our dividend policy is within the discretion of our Board of Directors and will depend upon various factors, including our business, financial condition, results of operations, capital requirements, and investment opportunities. We therefore can’t make assurances that 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 to realize a gain on their investment. This appreciation may not occur.

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 March 31, 2015, we had outstanding options to purchase an aggregate of 4,514,028 shares of common stock representing 8.7% of our total shares outstanding as of March 31, 2015, of which 4,054,812 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.

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. Over the past years the market price of our common stock has experienced significant fluctuations. Between April 1, 2014, and March 31, 2015, the reported last sale price on NYSE MKT for our common stock ranged between $4.09 and $17.98 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 derivative 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
- general economic and financial conditions

In addition, we believe there has been and may continue to be substantial trading in derivatives of our stock, including short selling activity or related similar activities, which are beyond our control and which may be beyond the full control of the SEC and Financial Institutions Regulatory Authority ("FINRA"). While SEC and FINRA rules prohibit some forms of short selling and other activities that may result in stock price manipulation, such activity may nonetheless occur without detection or enforcement. We have held conversations with regulators concerning trading activity in our stock; however, there can be no assurance that should there be any illegal manipulation in the trading of our stock it will be detected, prosecuted or successfully eradicated. Significant short selling or other types of market manipulation could cause our stock trading price to decline, to become more volatile, or both.

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 and a net loss $5.9 million for the quarter ended March 31, 2015 with an accumulated deficit of $106.3 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 March 31, 2015, our executive officers and directors beneficially owned approximately 18% of our 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 5 — OTHER INFORMATION.

On May 8, 2015, VirnetX, Inc., a wholly owned subsidiary of VirnetX Holding Corporation, entered into a Patent Licensing Representative Agreement with IPValue Management, Inc. ("IPValue"). Under the terms of the agreement, IPValue will assist VirnetX in commercializing its portfolio of certain patents on securing real-time communications over the Internet. Pursuant to the agreement, IPValue will originate and assist VirnetX with negotiating patent licensing transactions with mutually-agreed third parties, in return for a commission to be paid out of the revenues received by VirnetX from such licensing transactions. The commission amounts to be paid by VirnetX shall be based on certain formulae described in the agreement. The agreement further provides VirnetX the right to ask IPValue at any time to stop its activities with respect to any of the previously-agreed third parties by issuing a stop-notice, provided that VirnetX pays IPValue a certain stop-notice fee with respect to such third party. The stop-notice fees are also calculated in accordance with certain formulae described in the agreement. Any termination of the agreement by VirnetX without cause may be treated as a stop-notice with respect to all such previously-agreed third parties, entitling IPValue to stop-notice fees with respect to all such third parties. The agreement has a base term of three years, with the option to be renewed annually. The foregoing description is a summary and is qualified in its entirety by reference to the Patent Licensing Representative Agreement, a copy of which is attached as Exhibit 10.1, and incorporated herein by reference.

ITEM 6 — EXHIBITS.

Exhibit Number	Description
10.1	Patent Licensing Representative Agreement, dated May 8, 2015, by and between VirnetX, Inc. and IPValue Management, Inc.
31.1	Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	Interactive Data Files

* This exhibit is furnished herewith, but not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section. Such certifications will not be deemed to be incorporated by reference in any filing under the Securities Act or the Exchange Act, except to the extent that we explicitly incorporate them by reference.

SIGNATURES

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

VIRNETX HOLDING CORPORATION

By: /s/ Kendall Larsen
Name Kendall Larsen

Chief Executive Officer (Principal Executive Officer)

By: /s/ Richard H. Nance
Name Richard H. Nance

Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Date: May 11, 2015

EXHIBIT INDEX

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Exhibit 10.1

CONFIDENTIAL

PATENT LICENSING REPRESENTATIVE AGREEMENT

THIS AGREEMENT (“Agreement”) is made the 8th day of May, 2015 (“Effective Date”)

BETWEEN

(1) **VIRNETX INC.,** a corporation existing and organized under the laws of Delaware, United States of America, having its principal place of business at 308 Dorla Court, Zephyr Cove, Nevada (“VIRNETX”), and

(2) **IPVALUE MANAGEMENT, INC.**, a corporation existing and organized under the laws of the State of Delaware, United States of America, having offices at 3945 Freedom Circle, Suite 900, Santa Clara, CA 95054 (“IPVALUE”).

WHEREAS

VIRNETX wishes to realize economic benefit from licensing certain VIRNETX patents to third parties on agreeable terms and conditions and in accordance with its undertakings to relevant standards setting organizations;

VIRNETX is willing to work with IPVALUE to realize value from licensing of those patents; and

IPVALUE has extensive expertise in licensing patents and is interested in commercializing certain VIRNETX patents, and is willing to undertake diligent efforts to realize value for VIRNETX from those patents and to earn certain commissions for IPVALUE as set forth herein.

NOW IT IS AGREED as follows:

1. INTERPRETATION

1.1 The Agreement (including the recitals and the Schedules) shall, unless the context otherwise requires, be interpreted in accordance with the definitions set out in this Article 1, and the words and expressions set out herein shall have the meaning assigned to them.

1.2 “VIRNETX Patents” means the patents and patent applications owned by VIRNETX as of the Effective Date. VIRNETX may exclude patents and patent applications from the definition of “VIRNETX Patents” after the Effective Date if at any time they are no longer owned by VIRNETX or an Affiliate of VIRNETX or any consent of or payment to a third party would be required in order to license them as contemplated under this Agreement (“Conditional VIRNETX Patents”); provided, however, that VIRNETX shall not exercise this exclusion right in bad faith for the primary purpose of avoiding payment of Commissions to IPVALUE under this Agreement.

1.3 “VIRNETX LTE Patents” means those VIRNETX Patents that are or become, and remain, Essential (as defined in Section 15 (Definitions) of the ETSI Rules of Procedure dated 20 March 2013) with respect to the standards in the 3GPP LTE, SAE project for which VIRNETX has submitted an IPR Licensing Declaration form to ETSI (the “Standards”); provided that such VIRNETX Patents shall only be considered VIRNETX LTE Patents during such time as such VIRNETX Patents remain Essential with respect to the Standards.

1.4 “Affiliate” means, in relation to a company, any other company over which that company has control, where “control” means the ability of a person to ensure that the activities and business of that other company are conducted in accordance with the wishes of that person, and a person shall be deemed to have control of a company only if that person has beneficial ownership of the majority of the issued share capital and has voting rights in that company. A company will only be considered an Affiliate so long as such control exists.

1.5 “Approved Counterparty(ies)” means any prospective or actual licensee under or of the VIRNETX Patents that is approved in writing by VIRNETX for IPVALUE to pursue as a prospective licensee.

1.6 “Business Day” means a day (other than Saturday or Sunday) on which banks are open for business in New York.

1.7 “Commercialization Activities” means any activities approved by VIRNETX that are necessary or desirable to generate revenue from the VIRNETX Patents anywhere in the world by means of VIRNETX granting a License to an Approved Counterparty.

1.8 “Commission” means any amounts payable by VIRNETX to IPVALUE under Schedule 1 attached to this Agreement.

1.9 “Excluded Field of Use” means any field of use other than the creation of encrypted channels between two or more of the licensee’s own products. Without limiting the generality of the following, “Excluded Field of Use” shall include any field of use relating to the creation of (i) a centralized security clearinghouse of secure domain names; (ii) a system or a service that validates the request for access using a secure domain name and facilitates creation of encrypted communication channels between two devices when, either, one (heterogeneous environment) or none of the devices involved and/or its operating system is manufactured by the licensee; or (iii) a system or a service that acts as a broker for automatic creation of encrypted communication channels, upon secure domain name lookup, between two devices not manufactured by the licensee.

1.10 “IPVALUE Competitor” means a person or entity (excluding law firms) who provides patent licensing advice and negotiating services to owners of patent portfolios on a commission basis.

1.11 “IPVALUE Excluded Party(ies)” and “VIRNETX Excluded Party(ies)” shall have the meaning ascribed to such terms in Section 2.11 and 6.2, respectively.

1.12 “License” means a non-exclusive license or grant of equivalent rights (e.g., a covenant not to sue) under the VIRNETX Patents to an Approved Counterparty or to any wholly owned subsidiary of an Approved Counterparty.

1.13 “Litigation Expenses” has the meaning set forth in Schedule 1.

1.14 “Minimum Success Event” shall mean that VIRNETX enters into a Transaction on or before March 31, 2016.

1.15 “Performance Criteria” has the meaning set forth in Schedule 3.

1.16 “Revenue” has the meaning set forth in Schedule 1.

1.17 “Stop Notice” means a notice provided by VIRNETX for IPVALUE to stop activities, in accordance with the provisions set forth in Article 6 of this Agreement.

1.18 “Stop Notice Fee” means a fee to be paid to IPVALUE if VIRNETX issues a Stop Notice, calculated in accordance with Schedule 2 of this Agreement.

1.19 “Third Party Expenses” has the meaning set forth in Schedule 1.

1.20 “Transaction” has the meaning set forth in Schedule 1.

2. APPOINTMENT AND ACTIVITIES

2.1 Subject to the terms and conditions of this Agreement, including without limitation Section 2.2, VIRNETX hereby appoints IPVALUE to be VIRNETX’s representative to negotiate or assist VIRNETX in negotiating Licenses (which may include non-exclusive licenses, covenants not to sue, covenants not assert, and the like) with Approved Counterparties. VIRNETX hereby authorizes IPVALUE, during the term of this Agreement, in its reasonable discretion, to conduct Commercialization Activities in support of the foregoing appointment, provided that such activities are approved by VIRNETX in advance. Such authorization may include, without limitation, the authority of IPVALUE to sign and send notice letters to an Approved Counterparty regarding the VIRNETX Patents, provided that such notice letters are approved in advance by VIRNETX.

2.2 Subject to the terms and conditions of this Agreement, unless instructed otherwise by VIRNETX, IPVALUE shall conduct Commercialization Activities only with an Approved Counterparty. For so long as a third party remains an Approved Counterparty, VIRNETX shall cooperate with IPVALUE to negotiate Licenses with the Approved Counterparties hereunder on VIRNETX’s behalf. This Section 2.2 will not be construed as restricting VIRNETX from engaging attorneys or advisors to assist VIRNETX in conducting any licensing or enforcement activities with respect to the VIRNETX Patents; however, except in the event that IPVALUE fails to achieve the Minimum Success Event, before VIRNETX appoints an IPVALUE Competitor as its representative to negotiate licenses for the VIRNETX Patents with a third party other than an Approved Counterparty, VIRNETX will discuss the opportunity with IPVALUE in good faith. The Parties contemplate that there may be instances where a Court or standards setting organization may require that VIRNETX negotiate directly with an Approved Counterparty (either with or without IPVALUE) (hereinafter “VIRNETX Mandated Negotiations”), and agree that such activity shall not be deemed to be an interference with IPVALUE’s Commercialization Activities. If VIRNETX provides notice to IPVALUE of a VIRNETX Mandated Negotiation and requests that IPVALUE cease any or all Commercialization Activities with respect to such Approved Counterparty, (i) IPVALUE shall immediately comply with such request, and (ii) VIRNETX agrees to provide IPVALUE with status updates regarding such negotiations, but only to the extent VIRNETX can do so without violating its commitments (e.g., confidentiality obligations) to a Court, standards setting organization or any third party in connection with the VIRNETX Mandated Negotiations.

2.3 IPVALUE hereby accepts the appointments under Section 2.1. In carrying out such activities, IPVALUE shall at all times ensure that such activities are performed by appropriately experienced, qualified and skilled personnel. IPVALUE shall use commercially reasonable efforts in pursuit of Transactions, provided that IPVALUE shall be entitled to exercise its professional judgment, skill and sole discretion in matters of selecting strategy for engaging and conducting negotiations with Approved Counterparties.

2.4 IPVALUE shall make reasonable efforts to refrain from and will not knowingly engage in (i) any conduct that would violate VIRNETX's undertakings to ETSI or any other applicable standards setting organization, or (ii) activities or making statements that would give rise to antitrust liability (including anti-monopoly, price fixing, abuse of dominant position and refusal to deal) or successful claims of unfair competition, legal or equitable estoppel, implied license, patent misuse, or waiver; provided that no act by IPVALUE that has been approved by VIRNETX may constitute a breach of this Section.

2.5 IPVALUE shall not approach a third party to license the VIRNETX Patents until such third party becomes an Approved Counterparty. Subject to the foregoing, IPVALUE may approach third parties as appropriate to generate interest in licensing the VIRNETX Patents, and may share with such third parties materials IPVALUE generates to demonstrate the value of the VIRNETX Patents. Such materials must be pre-approved by VIRNETX in writing prior to being provided to any third parties. Notice letters to an Approved Counterparty to formally notify the Approved Counterparty of the VIRNETX Patents will not be sent to the Approved Counterparty unless approved by VIRNETX in advance.

2.6 Except for VIRNETX Mandated Negotiations, IPVALUE will conduct or assist in all negotiations with any Approved Counterparty regarding a potential Transaction as approved by VIRNETX. VIRNETX may at any time attend the negotiations. Upon VIRNETX's request, IPVALUE shall submit materials to be used to support negotiations to VIRNETX for VIRNETX's approval and/or comments thereto.

2.7 IPVALUE will keep VIRNETX fully apprised of its Commercialization Activities and communications with the Approved Counterparties in support of this Agreement, and shall promptly provide VIRNETX with information in connection therewith as may be requested by VIRNETX from time to time. IPVALUE shall provide a report to VIRNETX within thirty (30) days after every calendar quarter including the identity of Approved Counterparties contacted and the status of discussions initiated by IPVALUE through the end of each calendar quarter.

2.8 VIRNETX acknowledges and understands that IPVALUE and its employees are not acting as legal counsel for, or providing legal services to, VIRNETX under the Agreement. However, the parties acknowledge that they have common interest in certain legal issues relating to enforcement of VIRNETX patents and, from time to time during the term of this Agreement, may exchange legally privileged information with one another relating to such common legal interests. The parties acknowledge and agree that the parties shall not have any obligation to disclose any attorney-client privileged information or attorney work product information, or information that may be subject to a similar legal privilege. The parties further acknowledge and agree that, to the extent legally permissible, any such disclosures of privileged information by either party are made with the expectation that such disclosures do not waive any applicable attorney client or attorney work product privilege. Any such privileged information that the parties elect to disclose will be subject to the Common Interest Agreement, dated December 18, 2006, by and between the parties in addition to the confidentiality obligations set forth in this Agreement.

2.9 VIRNETX shall determine in its sole, good faith discretion the terms and conditions for potential Transactions being pursued by IPVALUE and whether to enter into any such Transaction. VIRNETX shall retain its own counsel, at VIRNETX's sole expense, to obtain any legal advice regarding the proposed Transaction. IPVALUE understands that VIRNETX may require a License to include an Excluded Field of Use, and, if required by VIRNETX, shall make such exclusion known to potential licensees during license negotiations. If IPVALUE brings to VIRNETX an offer that meets or exceeds all business and financial terms previously communicated to IPVALUE in writing as acceptable to VIRNETX and does not include any other terms objectionable to VIRNETX, and VIRNETX rejects the offer and instructs IPVALUE to cease negotiations, IPVALUE may request (and VIRNETX will not unreasonably withhold its consent) to treat such rejection as a Stage 5 Stop Notice, in which case the applicable Stop Notice Fee shall be payable to IPVALUE.

2.10 VIRNETX shall review any negotiated Transaction document (e.g., a draft agreement for signature) and may discuss with IPVALUE any changes or amendment required to be made to the Transaction document before VIRNETX will execute the document; provided, however, that in no event shall VIRNETX be obligated to disclose to IPVALUE any confidential or legally privileged information in connection therewith.

2.11 IPVALUE may remove a specific third party from the then-current list of Approved Counterparties by thirty (30) days' advance written notice to VIRNETX, and each such third party shall be an IPVALUE Excluded Party ("IPVALUE Excluded Party") until such time as that third party is again added as an Approved Counterparty in accordance with Section 5 of this Agreement. VIRNETX or its Affiliates may license or assert the VIRNETX patents to or against any IPVALUE Excluded Parties, and the consideration received by VIRNETX in connection therewith (including payment for release of past infringement by such companies) shall not be Revenue under this Agreement.

2.12 If IPVALUE fails to meet the Performance Criteria set forth in Schedule 3 for any Approved Counterparty, the parties will discuss in good faith whether to remove the Approved Counterparty from the list of Approved Couterparties, and, if so, the timing of the removal of the Approved Counterparty.

3. REVENUE, COMMISSION AND COSTS

3.1 VIRNETX shall pay IPVALUE any and all Commissions as set forth in Schedule 1. The parties acknowledge that the Commissions are at a discount to IPVALUE's standard rates in recognition of the efforts that VIRNETX has already undertaken to monetize and realize value from the VIRNETX Patents.

3.2 Except as expressly set forth otherwise in this Agreement (including Schedule 1), each party shall bear its own costs with respect to its duties and obligations pursuant to this Agreement, including without limitation any Third Party Expenses incurred by such party.

3.3 VIRNETX shall pay any Stop Notice Fee due hereunder and shall do so within thirty (30) days of receiving a proper invoice from IPVALUE for such Stop Notice Fee, by wire transfer to an account designated by IPVALUE.

3.4 No amounts owed by a paying party may be offset or otherwise reduced by the paying party as a result of other amounts owed by the receiving party to the paying party without the consent of the receiving party, which shall not be withheld for any undisputed amounts.

3.5 Each party acknowledges and agrees that the other party may assign its respective right to receive and/or collect Revenue (or a portion of such Revenue) with respect to any specific Transaction to a third party. In the event IPVALUE makes any such assignment, it shall provide prompt written notice to VIRNETX and shall identify the party to whom such rights are assigned and to whom any amounts payable hereunder should be paid. In the event VIRNETX makes any such assignment, it shall provide prompt written notice to IPVALUE and shall identify the party to whom such rights are assigned and from whom any amounts payable hereunder will be received.

4. OTHER VIRNETX OBLIGATIONS

4.1 VIRNETX shall reasonably respond to informational requests regarding technical, business and legal issues and will keep IPVALUE reasonably informed of its patent declarations and licensing commitments that VIRNETX has to ETSI or any other applicable standards setting organization, provided that in no event shall VIRNETX be obligated to disclose to IPVALUE any information in connection therewith that is legally privileged or subject to a confidentiality obligation to a third party. Subject to the foregoing, upon reasonable request of IPVALUE and to the extent VIRNETX has the right to do so: i) VIRNETX shall provide information to IPVALUE regarding pre-existing licenses or encumbrances expressly granted by VIRNETX under the VIRNETX Patents that may affect IPVALUE's activities hereunder; and ii) VIRNETX shall reasonably inform IPVALUE of any contacts or communications between VIRNETX and Approved Counterparties that involves the VIRNETX Patents or in which Licenses to the VIRNETX Patents are discussed.

4.2 If VIRNETX, in good faith and not to avoid payment of Commissions to IPVALUE, enters into a license of the VIRNETX Patents with a customer and/or supplier of an Approved Counterparty after the Effective Date that (i) is of a scope that covers all or substantially all of the products and services relevant to the Approved Counterparty such that no license is needed by the Approved Counterparty, and (ii) is entered into before a Transaction is entered into between VIRNETX and the Approved Counterparty, then IPVALUE may request (and VIRNETX will not unreasonably withhold its consent) to treat such license as a Stop Notice with respect to the Approved Counterparty in which case (i) such Approved Counterparty shall be deemed excluded from the then-current list of Approved Counterparties, and (ii) IPVALUE shall be entitled to the applicable Stop Notice Fee (but not any Commissions) with respect to the Approved Counterparty. For avoidance of doubt, in such event, no Commissions or other amounts will be required to be paid to IPVALUE with respect to that Approved Counterparty under Section 9.5 or Schedule 2. For the further avoidance of doubt, IPVALUE will not be entitled to any Commission on a license with a third party that is not an Approved Counterparty.

4.3 If VIRNETX, in good faith and not to avoid payment of Commissions to IPVALUE, enters into an agreement to sell or assign more than 50% of the VIRNETX Patents to a non-Affiliate third party during the term of this Agreement, then IPVALUE may request (and VIRNETX will not unreasonably withhold its consent) to treat such sale or assignment as a Stop Notice with respect to the Approved Counterparties who have not yet entered into a Transaction, in which case (i) such Approved Counterparties shall be deemed excluded from the then-current list of Approved Counterparties, (ii) IPVALUE shall be entitled to the applicable Stop Notice Fees (but not any Commissions) with respect to such Approved Counterparties, and (iii) this Agreement will terminate. For avoidance of doubt, IPVALUE will not be entitled to any Commission on the sale or assignment of VIRNETX Patents.

4.4 Unless otherwise expressly set forth herein, and subject to VIRNETX's obligation to make payments to IPVALUE in accordance with the terms of this Agreement, nothing in this Agreement shall restrict VIRNETX from licensing, enforcing, selling, transferring, or conducting any other activities with respect to the VIRNETX Patents in its sole discretion. The fairness and reasonableness of the terms, as well as the benefits and risks, of any such Transaction for VIRNETX shall be solely determined by, and be the sole responsibility of, VIRNETX. Any litigation or other enforcement of the VIRNETX Patents shall be in the sole discretion of VIRNETX.

4.5 VIRNETX shall in any case remain solely responsible for the costs of defending and paying for any claims made against VIRNETX or its Affiliates by a third party alleging that VIRNETX or its Affiliates infringes a patent of the third party.

4.6 VIRNETX shall have sole discretion and control over the prosecution and maintenance of the VIRNETX Patents. VIRNETX shall keep IPVALUE reasonably apprised, from time to time during the term of this Agreement, of any newly issued VIRNETX Patents or the expiration or abandonment of existing VIRNETX Patents, as well as any changes in the validity or enforceability of the VIRNETX Patents, provided that in no event shall VIRNETX be obligated to disclose to IPVALUE any information in connection therewith that is legally privileged or the subject of a confidentiality obligation to a third party.

4.7 VIRNETX shall have the right to modify or terminate any Transaction in a manner which reduces or defers the expected Revenue under such Transaction; provided, however, that (i) VIRNETX agrees not to do so in bad faith for the primary purpose of avoiding payment of Commissions to IPVALUE under this Agreement and (ii) if VIRNETX modifies or terminates the Transaction for its own convenience, IPVALUE may request (and VIRNETX will not unreasonably withhold its consent) the same Commission as IPVALUE would have received if VIRNETX had not made such modifications or terminated the Transaction. For avoidance of doubt, any modification or termination shall not be deemed to be at VIRNETX's convenience if it is done in connection with resolving a dispute with a third party or obtaining payments that otherwise might be withheld or subject to dispute or to facilitate another Transaction for which IPVALUE is entitled to a Commission.

4.8 VIRNETX shall procure that any obligations of VIRNETX regarding payment of Commissions shall also apply to and be binding upon any Affiliates of VIRNETX who are entitled to receive Revenue to the extent necessary to effect the intent of this Agreement.

5. PROPOSAL PROCESS

5.1 The parties shall work together to identify, within fifteen (15) business days of the Effective Date, up to ten (10) potential licensees to be approved by VIRNETX in writing as Approved Counterparties. Upon approval in writing by VIRNETX, each such potential licensee will be an Approved Counterparty. The parties further agree to update the list of Approved Counterparties from time to time to reflect the then current list of Approved Counterparties that have been approved in writing by VIRNETX.

5.2 Each party may at any time during the term of this Agreement submit a written proposal to the other party to add an Approved Counterparty to the list of Approved Counterparties.

5.3 Each party shall promptly review all such proposals submitted by the other party and shall advise the other party whether it approves or rejects each such proposal or amendment within thirty (30) Business Days after receipt of the proposal. If the other party has not received a response within such time, the proposal shall be deemed to have been rejected on such date. If the other party approves of the proposal, it shall provide written notice of such approval to the proposing party, in which case the proposed Approved Counterparty shall become an Approved Counterparty.

6. STOP NOTICES

6.1 VIRNETX shall have the right, at any time and subject to the payment to IPVALUE of the Stop Notice Fee, to direct IPVALUE to cease any work or effort with respect to any Approved Counterparty, by written notice to IPVALUE ("Stop Notice"). Such Stop Notice shall become effective five (5) Business Days after receipt of such Stop Notice by IPVALUE. Either party may request a meeting with the other party to discuss the Stop Notice.

6.2 Representatives of IPVALUE and VIRNETX shall meet (in person or telephonically) within five (5) Business Days of a request by either party for a meeting to discuss a Stop Notice. In the event either party proposes an amendment to the strategy to license the Approved Counterparty, the other party shall give due consideration to the same and may accept or reject such amendment. Within two (2) days after such meeting, VIRNETX shall either withdraw or confirm the Stop Notice by providing written notice of the Stop Notice to IPVALUE, and if VIRNETX confirms the Stop Notice, IPVALUE shall cease efforts to license the Approved Counterparty; such third party shall be a VIRNETX Excluded Party (“VIRNETX Excluded Party”) and deemed excluded from the then-current list of Approved Counterparties until such time as that third party is again added as an Approved Counterparty in accordance with Section 5 of this Agreement; and, if not yet paid, VIRNETX shall pay the applicable Stop Notice Fee. Nothing herein prevents VIRNETX or its Affiliates from licensing or asserting the VIRNETX patents to or against any VIRNETX Excluded Parties.

7. AUDIT AND VERIFICATION

7.1 Each party shall keep records adequate to verify each report and payment to be made pursuant to this Agreement for three (3) full years following the submission of each such report and payment. The records shall be prepared and maintained on the basis of generally accepted accounting principles, consistently applied.

7.2 Each party shall also permit its books and records related to the amounts payable to the other party under this Agreement to be examined once during each calendar year upon reasonable notice during regular business hours at the location at which such books and records are usually kept by an independent auditor selected and paid for by the other party. The audited party shall render reasonable cooperation in the conduct of such audit. Such independent auditor shall not disclose to the other party any information other than that relating solely to the correctness of, or the necessity for, the reports and payments to be made pursuant to this Agreement.

7.3 In the event such audit discloses an underpayment due the party requesting the audit of more than ten percent (10%) for such audited period, the audited party shall pay to the other party in addition to the additional fees or sums due and any interest accrued thereon, the actual costs of the audit which shall not exceed the standard billing rates for the personnel performing such audit, as documented by the independent auditor's invoices to the party who requested the audit.

8. LIABILITY AND WARRANTIES

8.1 NO PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF WHATEVER NATURE AS A RESULT OF THIS AGREEMENT OR BREACH HEREOF, WHETHER ANY SUCH DAMAGES ARE BASED ON CONTRACT, TORT OR ANY OTHER LEGAL THEORY, AND WHETHER OR NOT SUCH OTHER PARTY HAS BEEN INFORMED OF THE POSSIBILITY OF SUCH DAMAGES. EXCEPT FOR EITHER PARTY’S INDEMNITY OBLIGATIONS HEREUNDER, AND EXCEPT FOR AMOUNTS PAYABLE BY EITHER PARTY UNDER ARTICLE 3 (INCLUDING BUT NOT LIMITED TO PAYMENT OF STOP NOTICE FEES), THE TOTAL LIABILITY OF EITHER PARTY TO THE OTHER FOR DAMAGES AS A RESULT OF BREACH OF THIS AGREEMENT SHALL NOT EXCEED TWO MILLION UNITED STATES DOLLARS ($2,000,000). NOTWITHSTANDING ANYTHING TO THE CONTRARY, THE FOREGOING LIMITATIONS ON A PARTY’S LIABILITY SHALL NOT APPLY IN THE EVENT OF SUCH PARTY’S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

8.2 EXCEPT AS EXPRESSLY SET OUT IN THIS AGREEMENT, NEITHER PARTY GIVES ANY WARRANTY OR REPRESENTATION OR AGREES TO UNDERTAKE ANY OBLIGATION, EXPRESS OR IMPLIED (BY STATUTE, COURSE OF DEALING, INSOLVENCY PRACTICE OR OTHERWISE). ALL SUCH WARRANTIES AND OBLIGATIONS ARE HEREBY EXCLUDED TO THE MAXIMUM PERMITTED BY LAW.

8.3 Each party represents and warrants to the other party that it is duly incorporated or organized and validly existing as an entity under the laws of its jurisdiction or incorporation and has the requisite power and authority to enter into and perform this Agreement.

8.4 IPVALUE represents and warrants to VIRNETX that IPVALUE will perform all Commercialization Activities in accordance with applicable laws and the standards and practices of care, skill and diligence customarily observed by similar firms under similar circumstances.

8.5 IPVALUE represents and warrants that IPVALUE (i) will not make any representations, warranties, or guarantees regarding the VIRNETX Patents that have not been pre-approved by VIRNETX in writing, and (ii) will not enter into any agreements that purport to grant any rights under any VIRNETX Patents. IPVALUE agrees to defend, hold harmless, and indemnify VIRNETX for any claims made by any third party against VIRNETX to the extent such claims arise from a breach by IPVALUE of this Section 8.5 or a willful, knowing or grossly negligent breach of Section 2.4.

8.6 VIRNETX agrees to defend, hold harmless, and indemnify IPVALUE for any claims made by an Approved Counterparty against IPVALUE where the claim arises from a breach or misrepresentation by VIRNETX or its Affiliates in any Transaction.

9. TERM AND TERMINATION

9.1 This Agreement shall commence on the Effective Date and continue in full force for three (3) years thereafter, unless extended or earlier terminated by mutual agreement of the parties. This Agreement will automatically renew for additional successive 1-year periods unless at least thirty (30) days before the end of the then-current term either party provides written notice to the other party that it does not want to renew.

9.2 The following early termination provisions shall apply:

(A) If either party materially breaches this Agreement, the other party may terminate this Agreement by giving thirty (30) days’ prior written notice, provided that the matters set forth in such notice are not cured to the other party’s reasonable satisfaction within such thirty (30) day period.

(B) VIRNETX may terminate this Agreement upon thirty (30) days’ notice upon a change of control of VIRNETX, including without limitation by way of a merger, acquisition, or sale of all or substantially all of VIRNETX’s assets to which this Agreement relates, provided that VIRNETX shall terminate under this subsection (B) if VIRNETX in good faith determines, as a result of such change of control, to discontinue pursuing licensing of the VIRNETX Patents under this Agreement;

(C) VIRNETX may terminate this Agreement immediately upon notice if IPVALUE has failed to achieve the Minimum Success Event; however, this termination right shall end once there is a Transaction.

(D) Either party may terminate this Agreement without cause upon sixty (60) days' notice and without further liability, except as set forth in this section 9.3 below.

9.3 With regard to termination of this Agreement pursuant to Section 9.2 above, the parties hereto agree as follows:

(A) Upon any termination of this agreement, IPVALUE shall immediately cease all Commercialization Activities.

(B) If VIRNETX terminates this Agreement pursuant to Section 9.2(B), IPVALUE may elect to treat such termination as a Stop Notice with respect to all then-current Approved Counterparties who have not yet entered into a Transaction, in which case the associated Stop Notice Fee as calculated under this Agreement as of the date of such termination shall be payable to IPVALUE. The foregoing represents VIRNETX's sole liability and IPVALUE's sole and exclusive compensation in the event VIRNETX terminates this Agreement pursuant to Sections 9.2(B), other than surviving Commissions payable to IPVALUE for Transactions closed prior to such termination. For avoidance of doubt, in such event, no Commissions or other amounts will be required to be paid to IPVALUE under Section 9.5 or Schedule 2 in the event VIRNETX or any of its Affiliates enters into any Transaction with an Approved Counterparty after the termination of this Agreement.

(C) If VIRNETX terminates this Agreement pursuant to Sections 9.2(C) or 9.2(D), IPVALUE may elect to treat such termination as a Stop Notice with respect to all then-current Approved Counterparties who have not yet entered into a Transaction, in which case the associated Stop Notice Fee as calculated under this Agreement shall be payable to IPVALUE. The foregoing represents VIRNETX's sole liability and IPVALUE's sole and exclusive compensation in the event VIRNETX terminates this Agreement pursuant to Sections 9.2(C) or 9.2(D). For avoidance of doubt, in such event, no Commissions or other amounts will be required to be paid to IPVALUE under Section 9.5.

9.4 Except as expressly set forth herein, including without limitation Section 9.3 above, expiration or termination of this Agreement shall not affect the rights of the parties which have accrued prior to the date of expiration or termination (including but not limited to payment obligations accrued prior to expiration or termination for Transactions closed prior to expiration or termination). The following provisions shall survive expiration or termination of this Agreement for any reason: Articles 3, 7, 8, 10 (provided that the provisions of Article 10 shall expire five years after such expiration or termination of the Agreement), 11, 12 and 13, Section 4.5, 4.7, 9.3, 9.4 and 9.5, and Schedules 1 and 2. For the avoidance of doubt, IPVALUE's right to continue receiving Commissions payable to IPVALUE for Transactions closed prior to termination will survive.

9.5 Within one (1) year of the expiration of this Agreement, if VIRNETX or any of its Affiliates enters into any Transaction (including post-term Transactions) with an Approved Counterparty without any prior litigation with the Approved Counterparty and IPVALUE was actively involved in negotiations with that Approved Counterparty prior to such expiration, then such post-term Transaction shall be deemed a Transaction, and IPVALUE shall be entitled to its Commissions to which IPVALUE would have been entitled if the Agreement were still in force less any Stop Notice Fee paid to IPVALUE with respect to that Approved Counterparty.

10. CONFIDENTIALITY

10.1 Each party (the “discloser”) may from time to time communicate certain confidential information to the other party (the “recipient”). The recipient shall not use or disclose any such confidential information, save as may be necessary to perform its rights and obligations pursuant to this Agreement.

10.2 The recipient shall not disclose any confidential information of the discloser to any third party without the discloser’s express approval, except to recipient’s employees, agents, and sub-contractors who have a need to know for purposes of this Agreement (and provided that any agents or sub-contractors of IPVALUE under this Agreement are approved in advance by VIRNETX). Recipient shall ensure that recipient’s employees, agents, and sub-contractors to whom any confidential information is disclosed are bound by confidentiality agreements to observe and perform the obligations set out in this Article 10. Each party shall be solely responsible for its employees’, agents’, and sub-contractors’ compliance with such obligations.

10.3 The obligations imposed by this Article 10 shall not apply to confidential information:

(A) which is in or comes into the public domain through no fault of the recipient or its agents;

(B) which is already known to the recipient at the time of disclosure by the disclosing party;

(C) which the recipient lawfully learns or receives from some source other than directly or indirectly from the other party; or

(D) which the recipient can demonstrate has been independently developed by that party without reference to any confidential information of the other party.

10.4 Notwithstanding the other provisions of this Article 10, a party may disclose confidential information:

(A) if and to the extent required by law or ordered by any judicial, quasi-judicial or regulatory authority (including without limitation relevant stock exchange or exchanges) and in such case that party shall consult with the other party in advance of such disclosure and on the manner of such disclosure; and

(B) to its professional advisers, investors, auditors and bankers provided that in the case of all such parties save for retained lawyers, such disclosure is subject to obligations of confidentiality no less onerous than those set out in this Article 10.

10.5 Notwithstanding the other provisions of this Article 10, each party shall be permitted to:

(A) disclose the existence of this Agreement to any Approved Counterparty;

(B) disclose the existence of this Agreement to any current or prospective client of IPVALUE;

(C) refer to the existence of this Agreement in any marketing or other promotional information relating to such party's business; and

(D) represent, solely to an Approved Counterparty, that IPVALUE has the right to conduct the activities contemplated by this Agreement, subject to the terms of this Agreement.

11. NOTICES

11.1 Any notice required or authorized to be given under this Agreement shall be served personally or be sent by FedEx Next Day or equivalent service to the relevant address as set out below for the attention of the individual as set out below; provided, however, that except for notices provided or required pursuant to Section 9.2, notice provided by E-mail to the relevant address as set out below shall be sufficient to constitute notice if and when the recipient acknowledges receipt of such notice by E-mail:

Name	**Address**	**E-mail**
For IPVALUE: **Keith Wilson**, Sr. Vice President, Legal, IPVALUE Management, Inc.	3945 Freedom Circle, Suite 900, Santa Clara, CA 95054	keith.wilson@IPVALUE.com
For VIRNETX: Sameer Mathur Vice President, Corporate Development and Marketing	308 Dorla Court, Zephyr Cove, Nevada	Sameer_Mathur@virnetx.com

provided that a party may change its notice details by giving notice to the other party in accordance with this Section.

12. DISPUTE RESOLUTION

12.1 The parties shall, in good faith, attempt to resolve any dispute or difference which may arise between them under this Agreement ("Dispute") by meeting to discuss and identify a resolution of the Dispute. The above meeting shall be held in a timely matter after one party has given written notice to the other party that a Dispute has arisen. If the Dispute has not been resolved within forty (40) Business Days of the meeting, either party may initiate binding arbitration as provided in this Section. For purposes of clarity, a dispute concerning the validity, scope, infringement or essentiality of a VIRNETX Patent or a patent claim thereof shall not be deemed a dispute arising under this Agreement and shall not be required to be resolved in accordance with this Section 12. For further clarity, any such dispute will not be required to be resolved by binding arbitration, and matters concerning the validity, scope, infringement or essentiality of any VIRNETX Patent or a patent claim will not be the subject of any discovery, testimony, or hearing in any arbitration.

12.2 Unless otherwise agreed, any arbitration of any Dispute shall be conducted on a confidential basis under the then current commercial Arbitration Rules of the American Arbitration Association. The arbitration shall be conducted before a panel of three arbitrators in San Jose, California, pursuant to the substantive law of the State of New York (excluding the conflicts of laws principles of that State). Each party shall appoint an arbitrator; the two appointed arbitrators together shall select the third arbitrator who shall be the panel chairperson. The determinations of the arbitrators in such arbitration shall be binding on the parties. All arbitration fees and costs shall be shared equally by the parties. The judgment upon the award rendered by the arbitrators may be entered and enforced in any court of competent jurisdiction and the parties agree to make themselves subject to that jurisdiction for the limited purpose of enforcing the judgment.

12.3 Notwithstanding anything in this Agreement, no party shall be precluded from seeking provisional remedies in the courts of any jurisdiction including, but not limited to, temporary restraining orders and preliminary injunctions, to protect its rights and interests, but such proceedings shall not be used as a means of delaying or avoiding the dispute resolution process set out in this Agreement.

13. MISCELLANEOUS

13.1 To the extent permissible under applicable law, VIRNETX agrees, during the term of this Agreement and for one (1) year thereafter, that VIRNETX shall not directly or indirectly solicit or entice away from the employment of IPVALUE any of the employees of IPVALUE directly involved in the provision of the services to VIRNETX under this Agreement, except for those that answer a public advertisement which is not specifically aimed at the employees of IPVALUE. Without limiting the foregoing, to the extent permissible under applicable law, if VIRNETX hires an employee of IPVALUE during the term of this Agreement who is directly involved in the provision of the services to VIRNETX under this Agreement, then IPVALUE may request VIRNETX to pay fair compensation to IPVALUE and the parties agree to discuss such compensation in good faith.

13.2 Any amount properly due from one party to the other pursuant to this Agreement and remaining unpaid after the date when payment was due shall bear interest. The interest shall accrue monthly and shall be calculated (whether before or after judgment) at the rate per annum equal to LIBOR plus 4% (four percent) from the date when payment was due until the amount due is actually received by the payee.

13.3 Each party shall co-operate with the other and make commercially reasonable efforts to execute and deliver to the other such instruments and documents and take such other actions as may be reasonably requested from time to time in order to evidence and confirm the rights of the requesting party and to enable the requesting party to carry out such party’s obligations under this Agreement.

13.4 No exercise or failure to exercise a right under this Agreement or otherwise or to invoke a remedy will constitute a waiver of that right and remedy by the relevant party.

13.5 No party shall assign or transfer any or all of its rights or obligations under this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld. Any attempt to assign this Agreement without such consent will be null and void. Notwithstanding the foregoing, VIRNETX may assign this Agreement and the rights and obligations hereunder without the prior written consent of IPVALUE in connection with a merger, acquisition, or sale of all or substantially all of VIRNETX’s assets to which this Agreement relates or the VIRNETX Patents.

13.6 If any one or more of the provisions contained in this Agreement shall be declared or become unenforceable, invalid or illegal for any reason whatsoever, the other terms and provisions of this Agreement shall remain in full force and effect as if this Agreement had been executed without such part and the parties shall negotiate in good faith to agree on an enforceable, valid and legal replacement part that most nearly effects the parties’ original intent with respect to the provision declared or that became unenforceable, invalid or illegal.

13.7 The parties acknowledge and agree that as to each other they are independent contractors. Nothing set forth in this Agreement shall be construed or claimed as constituting the parties as partners, joint-venturers or create any fiduciary relationship or other form of legal association except as expressly set forth in this Agreement. Unless otherwise expressly provided in this Agreement, IPVALUE shall be entitled to perform its obligations and exercise its powers pursuant to this Agreement in such a manner as it may decide.

13.8 The headings in this Agreement are for convenience only and shall not affect its interpretation. The Schedules form part of this Agreement and shall have the same force and effect as if expressly set out in the body of this Agreement, and any reference to this Agreement shall include the Schedules. Any list or examples following the word "including" shall be interpreted without limitation to the generality of the preceding words.

13.9 This Agreement (including the Schedules) constitutes the entire understanding between the parties in respect of the subject matter of this Agreement and supersedes and extinguishes all prior undertakings, representations, warranties and arrangements of any nature whatsoever, whether or not in writing relating thereto. No party shall have any liability in respect of any representations or undertakings relating thereto (unless fraudulently made) which are not expressly set out or referred to in this Agreement.

13.10 No amendment or modifications of this Agreement or waiver of the terms or conditions thereof shall be binding upon any party unless agreed upon in writing and signed by authorized representatives of all parties.

13.11 This Agreement may be executed in any number of counterparts, and by the parties on separate counterparts, but shall not be effective until each party has executed at least one counterpart. Each counterpart shall constitute an original of this Agreement, but all the counterparts shall together constitute but one and the same instrument. Such counterparts may be exchanged by fax, or scanned and exchanged by electronic mail, but shall be effective upon receipt of fax/electronic mail as applicable. The Parties agree that facsimile or electronic copies of signatures shall be deemed originals for all purposes hereof and that either Party may produce such copies, without the need to produce original signatures, to prove the existence of this Agreement in any proceeding brought hereunder.

13.12 The validity, construction, and performance of this Agreement and any dispute between the parties relating thereto shall be governed by and interpreted and determined in accordance with the laws of the State of New York (excluding the conflicts of laws principles thereof).

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed in duplicate originals by its duly authorized representative and to be made as of the Effective Date, intending to be fully bound thereby.

VIRNETX INC.	IPVALUE MANAGEMENT, INC.
By /s/ Sameer Mathur	By /s/ Paul A. Seaman
Name: Sameer Mathur	Name: Paul A. Seaman
Title: VP of Corporate Development & Product Marketing	Title: Sr. Vice President
Date: May 8, 2015	Date: May 8, 2015

SCHEDULE 1
Treatment of Costs and Revenues

"Deemed Revenue" means the value of any valuable non-cash consideration provided by a third party pursuant to a Transaction, but solely if such non-cash consideration and the value thereof has been mutually agreed to in writing between VIRNETX and IPVALUE prior to entering into such Transaction.

"Litigation Expenses" means legal fees, expenses and costs incurred by VIRNETX or their Affiliates to pursue or support any lawsuit, arbitration, or legal proceedings (including without limitation any patent office proceedings or ITC actions) to enforce one or more of the VIRNETX Patents or any Licenses with an Approved Counterparty. Litigation Expenses include, by way of example, attorney fees and costs, expert witness fees, and transportation expenses.

"Revenue" means any cash or cash equivalents received by, or credited to, VIRNETX (including any Affiliate of VIRNETX) pursuant to any Transaction granting a License under VIRNETX Patents to an Approved Counterparty, that are specifically attributable to the royalties or other fees or payments for such License and excluding amounts (i) attributable to any products, services, or rights other than the License included in the Transaction; or (ii) that are withheld by the counterparty to the Transaction on account of taxes (e.g. withholding taxes). "Revenue" also includes Deemed Revenue to the extent that the parties mutually agree in writing to include such Deemed Revenue as Revenue under this Agreement prior to entering into the Transaction. The phrase "received by" as used in this Section includes, without limitation, where VIRNETX requires or permits the counterparty to the Transaction to make or provide the payments or credits to a person or entity other than VIRNETX. In determining Revenue, the following will be taken into account as set forth below:

(a) VIRNETX is not required to include Conditional VIRNETX Patents (as defined in Section 1.2) as part of the VIRNETX Patents Licensed in a Transaction under this Agreement. If VIRNETX nonetheless includes Conditional VirnetX Patents in such Transaction, the payments for the license to the Conditional VirnetX Patents will be included for purposes of determining Revenue for that Transaction other than amounts paid to a third party in order to include any Conditional VirnetX Patents that may be added to this Agreement by VIRNETX after the Effective Date (if any).

(b) Transactions do not include, and Commissions shall not apply to, the sales of VIRNETX Patents by VIRNETX. However, if a Transaction that is primarily a License includes the incidental sale or grant of exclusive rights for a VIRNETX Patent to the Approved Counterparty, then such sale or grant of exclusive rights will not be used as a basis for reducing the Revenue attributable to the License for such Transaction unless such reduction has been mutually agreed to in writing between VIRNETX and IPVALUE prior to entering into such Transaction.

(c) If a Transaction also includes a license or equivalent rights under the VIRNETX Patents to Affiliates of an Approved Counterparty or includes a release for past infringement of the VIRNETX Patents to an Approved Counterparty or its Affiliates, those rights will be considered part of the License for purposes of determining Revenue attributable to the License for that Transaction.

“Third Party Expenses” means third party expenses, other than Litigation Expenses, incurred by IPVALUE or its Affiliates in support of its activities under this Agreement, including without limitation reverse engineering expenses, outside expert fees and expenses, and travel expenses.

“Transaction” means any definitive written agreement or related set of definitive written agreements, between VIRNETX (or its designee) and an Approved Counterparty (or its wholly owned subsidiary), that has been duly executed and delivered by both VIRNETX (or its designee) and the Approved Counterparty (or its wholly owned subsidiary), that expressly grants a License to the Approved Counterparty and generates Revenue or Deemed Revenue as a result of granting the License, provided that such transaction or agreement or related set of agreements is entered into during the term of this Agreement or is entered into within one year after the term of this Agreement if Section 9.5 or Schedule 2 of this Agreement provides for such post-term transaction or agreement or set of agreements to be deemed a Transaction.

Section S1.1 Within thirty (30) Business Days after VIRNETX receives any Revenue, and unless VIRNETX has paid the Stop Notice Fee with respect to the applicable Approved Counterparty, VIRNETX shall distribute such funds as follows:

(i) If the Revenue is generated as part of settlement of patent enforcement litigation against an Approved Counterparty or its Affiliate, then VIRNETX shall deduct any amounts, including without limitation any reimbursable costs, that are payable to Science Applications International Corporation.(“SAIC”) or its designees based on such Revenue pursuant to the existing agreement between SAIC and VIRNETX, a copy which agreement shall be provided to IPVALUE within thirty (30) days after the Effective Date; as used in this Schedule 1, “litigation” includes without limitation any action, suit or proceeding (including without limitation any ITC action or district court action, but excluding patent office proceedings);

(ii) If the Transaction is entered into after the commencement of any litigation between VIRNETX or its Affiliate and the Approved Counterparty or its Affiliate, then VIRNETX shall also deduct any Litigation Expenses incurred by VIRNETX and its Affiliates with respect to such litigation through the date of receipt of the Revenue, and then reimburse IPVALUE for any reasonable expenses incurred by IPVALUE in responding to third-party subpoenas with respect to such litigation;

(iii) Out of any remaining Revenue,:

(1) if the Transaction is entered into without any prior litigation with the Approved Counterparty, and

(A) the Transaction is entered into on or before the one-year anniversary of this Agreement, then VIRNETX shall pay to IPVALUE a Commission equal to twenty-five percent (25%) of such remaining Revenue;

(B) the Transaction is entered into after the one-year anniversary but on or before the two-year anniversary of the date the Approved Counterparty is added to the list of Approved Counterparties that has been approved in writing by VIRNETX, then VIRNETX shall pay to IPVALUE a Commission equal to twenty percent (20%) of such remaining Revenue; and

(C) the Transaction is entered into after the two-year anniversary of the date the Approved Counterparty is added to the list of Approved Counterparties that has been approved in writing by VIRNETX, then VIRNETX shall pay to IPVALUE a Commission equal to fifteen percent (15%) of such remaining Revenue;

(2) if the Transaction is entered into after the commencement of any litigation between VIRNETX or its Affiliate and the Approved Counterparty or its Affiliate, then VIRNETX shall pay to IPVALUE a Commission equal to ten percent (10%) of the portion of such remaining Revenue that is cash or cash equivalents received by VIRNETX (or its Affiliates).

(3) For each fifty million US dollars ($50,000,000 USD) of such remaining Revenue aggregated across all Transactions, VIRNETX shall also pay IPVALUE a performance bonus of two million five hundred thousand US dollars ($2,500,000 USD).

Section S1.2 IPVALUE shall provide a report to VIRNETX within thirty (30) days after every calendar quarter including expenses incurred in responding to third-party subpoenas through the end of the calendar quarter, and shall account for any reimbursement of such amounts that have been made.

Section S1.3 Commissions shall be payable to IPVALUE when monies are received by VIRNETX (e.g., if the Approved Counterparty makes installment payments to VIRNETX, IPVALUE will be paid its Commission within thirty (30) days after VIRNETX receives each installment payment). No Commissions shall be due for a Transaction entered into more than one year after the termination of the Agreement. Any performance bonus payable under Section S1.1(3) shall be payable within thirty (30) days from the date VIRNETX's revenue collections across all Transactions exceed the relevant $50 million threshold.

Section S1.4 Except as expressly set forth above, IPVALUE shall bear its own expenses (including any and all Third Party Expenses incurred by IPVALUE) and the payment of the Commission or the Stop Notice Fee, as applicable, shall be IPVALUE's sole compensation under the Agreement.

SCHEDULE 2
Stop Notice Fee

The Stop Notice Fee shall consist of the sum of the First Termination Fee Component and the Second Termination Fee Component (each as defined below).

The first component (the “First Termination Fee Component”) shall consist of any Third Party Expenses actually incurred by IPVALUE and directly attributable to the pursuit of a Transaction with the relevant Approved Counterparty, multiplied by 125% (adjusted to deduct Shared Expenses already reimbursed).

The second component (the “Second Termination Fee Component”) shall be a multiple of the Base Termination Fee. The “Base Termination Fee” means the actual internal cost of IPVALUE incurred in furtherance of and directly attributable to the efforts to license such Approved Counterparty (including without limitation time expended to assess the opportunity, mine the VIRNETX portfolio, develop claim charts, conduct negotiations, etc.) that have been reasonably incurred for activities approved by VIRNETX, but excluding any amounts attributable to licensing efforts with respect to any other third party. The Second Termination Fee Component shall be as determined based upon the status of the work and negotiations relating to the Approved Counterparty at the time IPVALUE is first directed in writing by VIRNETX to cease pursuing such Approved Counterparty.

IPVALUE shall keep records adequate to verify the amounts of the Third Party Expenses and internal costs incurred for three (3) full years following the date such costs or expenses were incurred. IPVALUE shall report to VIRNETX, upon reasonable request, complete records of the Third Party Expenses and the costs comprising the basis of the Second Termination Fee Component for each Approved Counterparty, as well as the ‘multiplier’ that would be applicable, based on the stage. The applicable stage generally shall be as reported by IPVALUE to VIRNETX pursuant to IPVALUE’s reporting obligations under the Agreement.

For purposes of determining the Base Termination Fee, IPVALUE shall use the following rates for its personnel: a) three hundred dollars ($300) per hour for each negotiator or attorney; and b) two hundred dollars ($200) per hour for any other professional personnel (e.g. technical staff and financial researchers and analysts).

For purposes of clarity, the Stop Notice Fees with respect to any given Approved Counterparty are not cumulative, i.e., IPVALUE shall only be entitled to the Stop Notice Fee corresponding to the highest applicable stage and not any other stage. By way of example, if IPVALUE is entitled to Stage 5 Stop Notice Fee for an Approved Counterparty, then IPVALUE shall not also be entitled to Stop Notice Fees corresponding to Stages 1 through 4 with respect to that Approved Counterparty.

Stage	Activity	Compensation
1.	After proposal approved by VIRNETX	First Termination Fee Component plus Base Termination Fee
2.	First Draft Technical Presentation evidencing Use of Patent (“claim chart”) Delivered to and approved by VIRNETX	First Termination Fee Component plus 2 times the Base Termination Fee
3.	First letter sent to Approved Counterparty	First Termination Fee Component plus 2 times the Base Termination Fee
4.	Received first financial proposal from Approved Counterparty	First Termination Fee Component plus 3 times the Base Termination Fee)
5.	Received first financial offer from Approved Counterparty in excess of the minimum pricing guidelines previously provided to IPVALUE by VIRNETX	First Termination Fee Component plus 4 times the Base Termination Fee)
6.	Agreement reached on all material terms and VIRNETX actually enters into a Transaction on those terms prior to or within one (1) year after the issuance of the Stop Notice	Commission that would have been paid to IPVALUE if no Stop Notice had been issued with respect to that Approved Counterparty as set forth in the last paragraph of this Schedule 2, less any Stop Notice Fee paid to IPVALUE with respect to that Approved Counterparty

Notwithstanding the foregoing, except with respect to a Stage 6 Stop Notice, the maximum Stop Notice Fee for a Stop Notice for any single Approved Party shall be five hundred thousand United States Dollars (US$500,000) (“Maximum Stop Notice Fee”), unless VIRNETX has previously agreed in writing to a higher maximum for the Stop Notice Fee.

Notwithstanding the issuance of a Stop Notice, if IPVALUE was actively involved in negotiations with that Approved Counterparty prior to the Stop Notice and such negotiations had at least reached to Stage 4 as set forth in this Schedule 2, IPVALUE shall be entitled to its Commission on any Transaction (including post-term Transactions) entered into within one (1) year after the issuance of the Stop Notice with the Approved Counterparty that is the subject of the Stop Notice (less any Stop Notice Fee paid in connection with the Stop Notice).

Schedule 3
Performance Criteria

For each Approved Counterparty of this Agreement:

1. By the four-month anniversary of the party being added to the list of Approved Counterparties, a notice letter has been sent to the Approved Counterparty

2. By the six-month anniversary of the party being added to the list of Approved Counterparties, IPVALUE has contacted the Approved Counterparty to initiate license discussions

3. By the one-year anniversary of the party being added to the list of Approved Counterparties, IPVALUE has shared a first financial proposal with the Approved Counterparty and begun technical and business discussions

4. By the two-year anniversary of the party being added to the list of Approved Counterparties, IPVALUE has received a financial proposal from the Approved Counterparty

EXHIBIT 31.1

CERTIFICATIONS

I, Kendall Larsen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of VirnetX Holding Corporation for the quarter ended March 31, 2015;

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

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

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

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

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

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

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

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

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

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

/s/ Kendall Larsen

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

Date: May 11, 2015

EXHIBIT 31.2

CERTIFICATIONS

I, Richard H. Nance, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of VirnetX Holding Corporation for the quarter ended March 31, 2015;

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 Financial Officer and Principal Accounting Officer)

Date: May 11, 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 Quarterly Report of VirnetX Holding Corporation (the “Company”) on Form 10-Q for the quarter ended March 31, 2015 as filed with the Securities and Exchange Commission on May 11, 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, as amended; and

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

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

Date: May 11, 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 Quarterly Report of VirnetX Holding Corporation (the “Company”) on Form 10-Q for the quarter ended March 31, 2015 as filed with the Securities and Exchange Commission on May 11, 2015 (the “Report”), I, Richard H. 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, as amended; and

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

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

Date: May 11, 2015