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Technology

COMPANY UPDATE

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VirnetX Holding Corporation (NYSE/VHC)

BUY Trial approaches; Raising Price Target

VirnetX holds patents and technology for secure real-time communications

Conclusion/Valuation

1) **VirnetX shares have reached and exceeded our original price target**, thus requiring action on our part despite little fundamental change in the Company's prospects since our most recent update at the end of last year, except that provided by Father Time as the Company's major patent litigation trial against Microsoft is now less than one week away. Also looming is the March 23rd deadline for further clarification and details of last December's secure domain names partnership letter of intent with VeriSign. While fundamentally quiet, VirnetX shares have been very exciting, more than doubling in price this year while volume has increased significantly, to 780,000 on average (10-day) from 100,000 shares per day last December when we initiated our recommendation on this stock. Other comparable stocks in this area have also performed well over the past quarter, especially the smaller companies such as Acme Packet (Nasdaq/APKT/Not Rated) and AudioCodes (Nasdaq/AUDC/NR) up 69% and 40%, respectively. Thus, we are maintaining our BUY rating on VHC shares and increasing our price target to \$8 per share, still just slightly above highs of 2007-8, reflecting strong recent price and volume activity and the nearness of the Microsoft trial.

Current Price \$6.12

Price Target \$8.00

Estimates	F2008A	F2009E	F2010E
Revenues(\$000s)	\$134	\$1,014	\$4,000
EPS	(\$0.35)	(\$0.31)	(\$0.27)

Stock Data	
52-Week Range	\$1.05-\$5.00
Shares Outstanding (mil.)	40.6
Market Capitalization (mil.)	\$248.3
Enterprise Value (mil.)	\$244.4
Debt to Capital (9/09)	N/A
Book Value/Share (9/09)	N/A
Price/Book	N/A x
Average Trading Volume (10-Day)	783,000
Insider Ownership	38.2%
Institutional Ownership	6.0%
Short interest	900,000
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 yrs:
Initiated - December 2, 2009 - Buy -Price Target \$6.00
Updated - March 1, 2010 -Price target raised to \$8.00

Catalysts/Investor Timeline

- 1) GABRIEL Connection Technology ongoing Beta testing – H1/2010
- 2) Microsoft litigation – Start of trial – March 2010
- 3) VeriSign partnership agreement – Further details – late Q1/2010
- 4) Licensing Agreements – Ongoing, Upfront fee plus royalties – 2010-11
- 5) GABRIEL Software Development kits – Initial sales – 2010-11
- 6) Secure Domain Name Registry – Initial license fees/sales royalties – 2010-11
- 7) Secure Domain Name – Master Registry and Conversion Service - 2011

Risk Factors

We believe an investment in VirnetX involves the following risks:

- **Lack of profitability** – VirnetX has not generated earnings or positive operating cash flow, or substantial revenues, since its inception in 2005 and since the Company went public in 2007. Furthermore, our projections show that the Company is not expected to be profitable over the next several years as well even while initial revenues begin to accrue. While VirnetX has been successful in raising capital in the past and may be able to raise capital in the future, or alternatively sign licensing agreements including upfront payments, there can be no assurance that the Company will be able to raise additional funding before operating cash flow turns positive.
- **Reliance on partnership agreements** — VirnetX's current strategy is to leverage its strong intellectual property portfolio and seek and sign partnerships with leading participants in the internet and communications industries. To date, VirnetX has not established manufacturing capacity, service departments, or significant sales infrastructure with which to sell products and services directly to telecommunications companies. Should few or no partnerships be executed by the Company in the future, VirnetX would be required to spend considerable capital and energy to establish its own infrastructure to sell directly.
- **Need to defend patents and other intellectual property** – VirnetX is currently involved in patent litigation with Microsoft, and although Company management is optimistic that a recent Markman order bears favorably for VirnetX in this litigation, there can be no assurance that the Company will prevail in this litigation against a much larger company with greater resources. Likewise, VirnetX is relying on the strength of its patents to assist in signing partnerships with other companies, and there can be no assurance that other large players in the industry will not challenge or simply ignore the Company's patents in the future in developing secure networks, particularly if current and future patent litigation is unsuccessful.

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated – December 2, 2009 – Target \$6.00

Upgraded – March 1, 2010 – Target \$8.00

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	11	79%	5	45%
Neutral	3	21%	2	67%
Sell	0	0%	0	0%
Total	14	100%	7	50%

Information about valuation methods and risks can be found in the “CONCLUSION/STOCK VALUATION” and “RISKS” sections of this report.

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