V ONE CORP/ DE
Form 10-Q/A
December 22, 2004

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

FORM 10-Q/A
AMENDMENT NO. 2 TO FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended: September 30, 2004

OR

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

For the transition period from ______________ to ______________

Commission File Number 0-21511

V-ONE CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	52-1953278
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20300 CENTURY BLVD., SUITE 200, GERMANTOWN, MARYLAND 20874
(Address of principal executive offices) (Zip Code)

(301) 515-5200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X].

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT OCTOBER 26, 2004
Common Stock, $0.001 par value per share	15,642,555

EXPLANATORY NOTE

This Form 10-Q/A (Amendment No. 2) amends Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations of the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004, originally filed by V-ONE Corporation on November 15, 2004, and amended on December 20, 2004 (the "Amended Form 10-Q"). The effect of the amendment is to correct a typographical error in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Amended Form 10-Q. The correction is located on page 4 herein, in the fourth paragraph on the page, wherein consulting and services revenues for the nine months ended September 30, 2003 were incorrectly stated as $1,137,000,000 rather than the correct figure of $1,137,000. The entire corrected sentence now reads:

> Consulting and services revenues increased from approximately $1,137,000 for the nine months ended September 30, 2003 to approximately $1,153,000 for the nine months ended September 30, 2004.

This Amendment No. 2 sets forth the complete text of Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, as corrected, and updates the signature page and Exhibits 31 and 32. The remainder of the Amended Form 10-Q, including the financial statements and the notes thereto, remains unchanged and is not reproduced herein.

2

V-ONE Corporation
Quarterly Report on Form 10-Q

INDEX

3

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These statements may differ in a material way from actual future events. For instance, factors that could cause results to differ from future events include rapid rates of technological change and intense competition, among others. The Company's total revenues and operating results have varied substantially from quarter to quarter and should not be relied upon as an indication of future results. Several factors may affect the ability to forecast the Company's quarterly operating results, including the size and timing of individual software and hardware sales; the length of the Company's sales cycle; the level of sales and marketing, research and development and administrative expenses; and general economic conditions.

Operating results for a given period could be disproportionately affected by any shortfall in expected revenues. In addition, fluctuation in revenues from quarter to quarter will likely have an increasingly significant impact on the Company's results of operations. The Company's performance in recent periods may not be an accurate indication of future results of operations in light of the evolving nature of the network security market and the uncertainty of the demand for Internet and intranet products in general and the Company's products in particular. Because the Company's operating expenses are based on anticipated revenue levels, a small variation in the timing of recognition of revenues can cause significant variations in operating results from quarter to quarter.

Readers are also referred to the documents filed by the Company with the SEC, specifically the Company's latest Annual Report on Form 10-K that identifies important risk factors for the Company.

RESULTS OF OPERATIONS

REVENUES

Total revenues decreased from approximately $879,000 and $3,039,000 for the three and nine months ended September 30, 2003, respectively, to approximately $591,000 and $1,759,000 for the three and nine months ended September 30, 2004, respectively. This decrease of approximately $287,000 or 33% and $1,280,000 or 42% is due primarily to a decrease in product revenue of $284,000 and $1,296,000 for the three and nine months ended September 30, 2004, respectively, offset in part by an increase in consulting and services revenues for the nine months ended September 30, 2004. Product revenues are derived principally from software licenses and the sale of hardware products. Product revenues decreased from approximately $490,000 and $1,902,000 for the three and nine months ended September 30, 2003, respectively, to approximately $206,000 and $606,000 for the three and nine months ended September 30, 2004, respectively. Consulting and services revenues are derived principally from fees for services complementary to the Company's products, including consulting, maintenance, installation and training. Consulting and services revenues decreased from approximately $389,000 for the three months ended September 30, 2003 to approximately $385,000 for the three months ended September 30, 2004. Consulting and services revenues increased from approximately $1,137,000 for the nine months ended September 30, 2003 to approximately $1,153,000 for the nine months ended September 30, 2004. This was due principally to an increase in the number of renewing maintenance contracts provided to customers in the first quarter of fiscal 2004.

The Company cannot be certain that revenue will, in fact, become more predictable or certain of the relative levels of software, hardware, consulting and services revenues to be generated in future periods.

COST OF REVENUES

Total cost of revenues as a percentage of total revenues increased from approximately 4% and 7% for the three and nine months ended September 30, 2003, respectively, to approximately 12% and 8% for the three and nine months ended

September 30, 2004, respectively. The percentage increase was primarily due to the purchase of SmartGuard hardware for immediate fulfillment of an order for the U.S. Army in the third quarter of 2004 and lower sales of software licenses in the current year. Total cost of revenues is comprised of cost of product revenues and cost of consulting and services revenues.

4

Cost of product revenues consists principally of the costs of computer hardware, licensed technology, manuals and labor associated with the distribution and support of the Company's products. Cost of product revenues increased from approximately $9,000 for the three months ended September 30, 2003 to approximately $56,000 for the three months ended September 30, 2004 and decreased from approximately $153,000 for the nine months ended September 30, 2003 to approximately to $70,000 for the nine months ended September 30, 2004. The increase in cost of product revenues for the three months ended September 30, 2004 was primarily attributable to greater purchases of SmartGuard appliance hardware in the current quarter. The decrease in cost of product revenues for the nine months ended September 30, 2004 was attributable to lower sales of turnkey hardware solutions in the current year. Cost of product revenues as a percentage of product revenues was approximately 2% and 8% for the three and nine months ended September 30, 2003, respectively, and approximately 27% and 11% for the three and nine month periods ended September 30, 2004, respectively.

Cost of consulting and services revenue consists principally of personnel and related costs incurred in providing consulting, support and training services to customers and costs of third-party product support. Cost of consulting and services revenues decreased from approximately $27,000 and $68,000 for the three and nine months ended September 30, 2003, respectively, to approximately $17,000 and $66,000 for the three and nine months ended September 30, 2004, respectively. Cost of consulting and services revenues as a percentage of consulting and services revenue was approximately 7% and 6% for the three and nine months ended September 30, 2003, respectively, and 4% and 6% for the three and nine months ended September 30, 2004, respectively.

OPERATING EXPENSES

Research and Development -- Research and development expense consists principally of the costs of research and development personnel and other expenses associated with the development of new products and enhancement of existing products. Research and development expenses decreased from approximately $263,000 and $858,000 for the three and nine months ended September 30, 2003, respectively, to approximately $245,000 and $710,000 for the three and nine months ended September 30, 2004, respectively. The dollar decrease of approximately $18,000 and $147,000 was primarily due to lower consulting expense of $22,000 and $431,000, lower depreciation expense of $27,000 and $107,000 and lower rent expense of $8,000 and $34,000, partially offset by higher salary expense of $45,000 and $50,000, respectively. Research and development expense as a percentage of total revenue was approximately 30% and 28% for the three and nine months ended September 30, 2003, respectively, and approximately 41% and 40% for the three and nine months ended September 30, 2004, respectively. The percentage increase was primarily due to lower revenues for the three and nine months ended September 30, 2004.

Sales and Marketing -- Sales and marketing expense consists principally of the costs of sales and marketing personnel, advertising, promotions and trade shows. Sales and marketing expense increased from approximately $322,000 and $1,070,000 for the three and nine months ended September 30, 2003, respectively, to approximately $418,000 and $1,226,000 for the three and nine months ended September 30, 2004, respectively. The dollar increase of $96,000 for the three months ended September 30, 2004 relates primarily to higher salary expense of

$42,000, higher marketing expense of $7,000, higher consulting expense of $15,000, higher travel expense of $2,000, higher public relations expense of $20,000, higher commission expense of $8,000 and higher relocation expense of $3,000, partially offset by lower telephone expense of $8,000 and lower depreciation expense of $3,000. The dollar increase of $156,000 for the nine months ended September 30, 2004 is primarily attributable to higher salary expense of $116,000, higher marketing expense of $54,000, higher consulting expense of $37,000, higher travel expense of $18,000 and higher public relations expense of $41,000, partially offset by lower commission expense of $58,000 and lower depreciation expense of $60,000. Sales and marketing expense as a percentage of total revenues were approximately 32% and 35% for the three and nine months ended September 30, 2003, respectively, and approximately 84% and 69% for the three and nine months ended September 30, 2004, respectively. The percentage increase is due primarily to lower revenue for fiscal 2004 when compared to the same period for fiscal 2003.

General and Administrative -- General and administrative expense consists principally of the costs of accounting and finance, legal and human resources management, administrative personnel and facilities expenses. General and administrative expense decreased from approximately $315,000 and $1,163,000 for the three and nine months ended September 30, 2003, respectively, to approximately $314,000 and $1,142,000 for the three and nine months ended September 30, 2004. The decrease in expense of approximately $21,000 for the nine months ended September 30, 2004 was due principally to higher salary expense of $42,000, higher consulting expense of $61,000, higher annual report expense of $13,000, higher travel expense of $2,000, higher membership expense of $4,000 and higher legal expense of $30,000, partially offset by lower accounting and audit fees of $86,000, lower D&O insurance expense of $7,000, lower depreciation expense of $28,000, lower miscellaneous expense of $16,000 and lower commission expense of $26,000. General and administrative expenses as a percentage of total revenues were approximately 36% and 38% for the three and

5

nine months ended September 30, 2003, respectively, and 53% and 65% for the three and nine months ended September 30, 2004, respectively.

Business Combination Costs – Business combination costs associated with the contemplated merger with SteelCloud, Inc. were approximately $244,000 attributable primarily to legal fees. On September 28, 2004, the Company and SteelCloud mutually agreed to terminate the definitive agreement and recorded the related expenses as business combination costs.

Interest Income and Expense -- Interest income represents interest earned on cash and cash equivalents. Interest income decreased from approximately zero and $5,000 for the three and nine months ended September 30, 2003, respectively, to approximately zero and $2,000 for the three and nine months ended September 30, 2004, respectively. The decrease was attributable to lower levels of cash and cash equivalents in the current period. Interest expense represents interest paid or payable on loans and capitalized lease obligations. Interest expense increased from approximately $22,000 and $183,000 for the three and nine months ended September 30, 2003, respectively, to approximately $1,170,000 and $1,826,00 for the three and nine months ended September 30, 2004, respectively, substantially all of which was for interest payable on the 7% Subordinated Convertible Notes and recognition of a beneficial conversion feature on the 7% Subordinated Convertible Notes.

Income Taxes -- The Company did not incur income tax expenses as a result of the net loss incurred during the three and nine months ended September 30, 2003 and 2004.

Dividend on Preferred Stock -- The Company provided for dividends on preferred stock of approximately $239,000 and $695,000 during the three and nine months ended September 30, 2004, respectively, and approximately $174,000 and $516,000 for the three and nine months ended September 30, 2003, respectively. Under the terms of the purchase agreements for the Series C and Series D Preferred Stock, the Company may elect to pay these dividends in cash or stock.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities used cash of approximately $104,000 for the nine months ended September 30, 2003 and approximately $684,000 for the nine months ended September 30, 2004. Cash used in operating activities resulted principally from net operating losses in the periods offset in part by an increase in accounts payable in 2003 and interest expense, accounts receivable, accounts payable and deferred rent in 2004. The increase in cash used in operating activities of approximately $580,000 in the first nine months of 2004 was attributable primarily to an increase in net operating loss of $3,063,000.

The Company's investing activities provided cash of approximately $15,000 in the nine months ended September 30, 2003 and used approximately $21,000 in the nine months ended September 30, 2004. Net capital expenditures for property and equipment were approximately $7,000 and ($48,000) during the nine months ended September 30, 2003 and 2004, respectively. These expenditures have generally been for computer workstations and personal computers, office furniture and equipment, and leasehold additions and improvements.

The Company's financing activities provided cash of approximately $8,000 during the nine months ended September 30, 2003 and provided cash of approximately $950,000 during the nine months ended September 30, 2004. In fiscal 2004, the cash was provided primarily by the 7% Notes.

The Company had a working capital deficiency of ($1,931,000) and ($3,461,313) at December 31, 2003 and September 30, 2004, respectively. As of September 30, 2004, the Company had an accumulated deficit of approximately $69,673,000.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company reported a net loss of $449,650, $5,635,191 and $6,237,278 for the years ended December 31, 2003, 2002 and 2001, respectively, and a further net losses of $1,871,768 and $3,522,344 for the three and nine months ended September 30, 2004, respectively. Notwithstanding acceptance of the Company's security concepts and critical acclaim for its products, there can be no assurance that the consummation of sales of the Company's products to existing customers or proposed agreements with potential customers will generate timely or sufficient revenue for the Company to cover its costs of operations and meet its cash flow requirements. Accordingly, the Company may not have the funds needed to sustain operations during 2004.

For the immediate future, V-ONE will focus on existing and potential customers in the government sector, targeted marketing operations to commercial accounts and continued minimization of general and administrative expenditures. V-ONE may not be successful in further reducing operating levels without jeopardizing the ability to serve existing customers or grow its business base. In February 2004, the Company completed a private placement of 7% Subordinated Convertible Notes with detachable warrants for an aggregate of $1,200,000, which resulted in net proceeds to the Company of $1,065,690. The Company believes that to maintain operations for any extended period of time it must generate revenue from existing and new customers, raise additional capital or undergo a significant strategic transformative event. The Company's ability to reach sustainable profitability is dependent on its ability to generate sufficient cash flow to meet its obligations and needs on a timely basis or to obtain additional funding.

On May 19, 2004, the Company signed a letter of intent with SteelCloud Inc. ("SteelCloud"), for SteelCloud to acquire V-ONE in an all stock transaction. On August 11, 2004, the parties signed a definitive agreement for the transaction. On September 28, 2004, the Company and SteelCloud mutually agreed to terminate the definitive agreement. For further information, refer to Part II, Item 5 of this Quarterly Report on Form 10-Q, V-ONE's Current Report on Form 8-K filed with the SEC on August 11, 2004 and V-ONE's Current Report on Form 8-K filed with the SEC on September 29, 2004.

CONTRACTUAL OBLIGATIONS

The following table discloses aggregate information about the Company's contractual obligations as of September 30, 2004 and the periods in which payments are due:

	Payments Due By Period				
	Remainder of 2004	2005 and 2006	2007 and 2008	Thereafter	Total
Long-term debt obligations	$34,676	$46,234	$0	$0	$80,910
Convertible debt	0	0	0	1,200,000	1,200,000
Operating leases	116,064	465,069	296,275	0	877,408
	$185,415	$511,303	$296,275	$1,200,000	$2,158,318

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no material off-balance sheet arrangements during the first three and nine months of fiscal 2004 or 2003.

Item 6. Exhibits

The following exhibits are filed as part of this quarterly report on Form 10-Q for the period ended September 30, 2004:

EXHIBIT	DESCRIPTION
2.1	Agreement and Plan of Merger dated August 11, 2004 (the information required by this exhibit is incorporated herein by reference to V-ONE's Form 8-K dated August 11, 2004).
10.1	Termination Agreement dated September 28, 2004 (the information required by this exhibit is incorporated herein by reference to V-ONE's Form 8-K dated September 29, 2004).
31	Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Title 18, United States Code, Section 1350, as

Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

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.

V-ONE CORPORATION
Registrant

Date: December 22, 2004 By: /s/ Margaret E. Grayson

Name: Margaret E. Grayson
Title: President, Chief Executive Officer and Principal Financial Officer