

Edgar Filing: V ONE CORP/ DE - Form 10-K

V ONE CORP/ DE
Form 10-K
April 02, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR FISCAL YEAR ENDED: DECEMBER 31, 2000

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.)

20250 CENTURY BLVD., SUITE 300, GERMANTOWN, MARYLAND 20874

(Address of principal executive offices) (Zip Code)

(301) 515-5200

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, \$0.001 PAR VALUE PER SHARE

(Title of class)

TRADED ON THE NASDAQ SMALLCAP MARKET

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 No

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

Edgar Filing: V ONE CORP/ DE - Form 10-K

amendment to this Form 10-K. []

The aggregate market value of the voting and non-voting equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity,

1

as of March 1, 2001 was approximately \$51,500,000. This calculation does not reflect a determination that persons are affiliates for any other purposes.

Registrant had 22,215,109, shares of Common Stock outstanding as of March 1, 2001.

2

DOCUMENTS INCORPORATED BY REFERENCE

Part III -- Portions of the registrant's definitive proxy statement to be issued in conjunction with registrant's 2001 annual stockholder's meeting to be held on May 10, 2001.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report contains forward-looking statements that involve risks and uncertainties. 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. Readers are cautioned not to place undue reliance on these forward-looking statements. V-ONE Corporation undertakes no obligation to publicly revise these forward-looking statements or to reflect events or circumstances that arise after the date hereof.

Edgar Filing: V ONE CORP/ DE - Form 10-K

PART I

ITEM 1. BUSINESS

V-ONE Corporation ("V-ONE" or the "Company") develops, markets and licenses a comprehensive suite of network security products that enables organizations to conduct secured electronic transactions and information exchange using public switched networks, such as the Internet. The Company's suite of products addresses network user authentication, perimeter security, access control and data integrity through the use of smart cards, tokens, digital certificates, firewalls and encryption technology. The Company's products interoperate seamlessly and can be combined to form a complete, integrated network security solution or can be used as independent components in customized security solutions. The Company's products have been designed with an open and flexible architecture to enhance application functionality and to support emerging network security standards. The products are most commonly used to establish very secure Virtual Private Networks (VPNs). In addition, the Company's products enable organizations to deploy and scale their solutions from small single-site networks to large multi-site environments, and can accommodate both wireline and wireless media.

The Company was incorporated in Maryland in February 1993 and reincorporated in Delaware in February 1996. Effective July 2, 1996, the Company changed its name from "Virtual Open Network Environment Corporation" to "V-ONE Corporation." The Company's principal executive offices are located at 20250 Century Boulevard, Suite 300, Germantown, Maryland 20874. The Company's telephone number is (301) 515-5200.

BACKGROUND

OVERVIEW. Over the last decade, decentralized computing has emerged as a result of the widespread adoption of personal computers, local area networks and wide area networks. This emergence has enabled users to communicate with each other and share data throughout an entire organization. With the recent popularization of the Internet and increased performance capabilities offered by high-speed modems, xDSL and Cable modems, ISDN services and frame relay technology, the volume of data transferred over networks has increased dramatically. Fueling this expansion further, carriers and Internet service providers have dramatically reduced their tariffs for high-speed aggregation services running over T-1 and T-3 lines, which have data transfer rates that approximate local area network performance. In addition, leading hardware and software vendors have adopted and support TCP/IP, the Internet's non-proprietary communications protocol, for computer communications and information exchange.

Organizations are increasing their dependence on the Internet and private enterprise networks using Internet protocols ("intranets") as a cost-effective means to expand enterprise networks, engage in electronic commerce and increase

information exchange. This pervasive use of the Internet, intranets and extranets (architecture linking companies with specific customers, suppliers and trading partners) has increased the need for solutions to provide secure communications because TCP/IP networks are not secure.

The need for internal security continues to grow as businesses deploy extranets, intranets, internal networks using TCP/IP protocols, and browser-based applications to facilitate geographically dispersed communications and the transmission of information throughout an enterprise in a cost-effective manner. Information becomes more vulnerable as organizations rely heavily on computer

Edgar Filing: V ONE CORP/ DE - Form 10-K

networks for the electronic transmission of data. With the increased use of the Internet and intranets, many organizations are discovering that network security is a key element in successfully implementing distributed applications and services, including electronic mail, electronic data interchange, electronic commerce and information exchange services. In the absence of comprehensive network security, individuals and organizations are able to exploit system weaknesses to gain unauthorized access to networks and individual network computers. These individuals and organizations use such access to alter or steal data or, in some cases, to launch destructive attacks on data and computers within a network. Through the adoption of VPN technology products, users can create a so-called Virtual Private Network which enables users to exploit the inherently low cost of public networks in a highly secure manner.

Each of the following elements is critical in creating a complete network security solution to protect an organization's data, network and computer systems:

- o DATA PRIVACY THROUGH ENCRYPTION. Preventing unauthorized users from viewing private data through the process of "scrambling" data before it is transmitted or placed into electronic storage.
- o USER IDENTIFICATION AND AUTHENTICATION. Verifying the user's identity to prevent unauthorized access to computer and network resources.
- o AUTHORIZATION. Controlling which systems, data and applications a user can access.
- o DATA INTEGRITY. Ensuring that data, whether in storage or transmission, has not been changed or compromised by any unauthorized manipulation.
- o NON-REPUDIATION. Verifying that data transmissions have been executed between specific parties so that neither party may legitimately claim that the transaction did not occur.

Over the years, a number of network security products have been developed, including passwords, token-based access devices, firewalls, encryption products, biometrics devices, smart cards and digital certificates. Each of these products was designed with a specific function or objective; however, none were designed to meet all of the needs of enterprise-wide network security. Single function or "point" products that have been developed to address one, or a limited number of network security requirements, include the following:

- o PASSWORDS AND TOKENS. Until recently, passwords were the most common method of authentication. Static (non-changing) passwords were developed as the first attempt to address the need for authentication. Static passwords, however, are inadequate as they are susceptible to unauthorized viewing and to attacks using software designed to randomly generate and enter thousands of passwords. As a result, dynamic passwords, including single-use passwords, were created to provide a greater level of authentication. Dynamic password implementations include the use of time-varying and challenge-response passwords. Generally, dynamic passwords require the use of a hand-held, electronic device called a hardware token. Dynamic passwords were subsequently strengthened by incorporating two-factor identification, which provided a higher level of authentication in that two independent components

were combined to identify a user (for example, a bank ATM card and a PIN code). However, dynamic passwords and two-factor identification provide only a limited level of security because the sessions they authenticate are still

Edgar Filing: V ONE CORP/ DE - Form 10-K

vulnerable to interception.

- o FIREWALLS. Firewalls are network access control devices that regulate the passage of information based on a set of administrator-defined rules. Generally, firewalls are based upon one of two technical architectures: packet filters (customarily used in routers) or proxy-based application-level gateways. Packet filters screen network traffic and allow or prevent network access based upon source and destination Internet Protocol addresses. Proxy-based application-level gateways provide access to applications on the network only after the user has identified the desired application and submitted a valid password.
- o ENCRYPTION. Encryption products provide privacy for transmitted data. Encryption algorithms scramble data so only those users with the appropriate decoding key are able to view transmitted or stored data. Public-key encryption has recently gained additional credibility for managing the keys (codes) used to encrypt and subsequently decrypt user designated data.
- o SMART CARDS. Smart cards are similar in size to credit cards, but contain a small, tamper-proof microprocessor chip and are capable of storing data and processing complex encryption algorithms. Smart cards are advanced authentication tokens that are also capable of storing information, such as credit card or bank account numbers, medical records, photographic images or digital certificates.
- o DIGITAL CERTIFICATES. A digital certificate serves as an individual's electronic identification card. The certificates are digitally certified by a third party, called a certificate authority, who vouches for the identity of the certificate holder. Digital certificates are being standardized as a means of authenticating on-line users and are perceived to be a key technology for the expansion of secure transactions and electronic commerce.

As organizations increase their dependence on the Internet and deploy intranets, the Company believes that there will be an increasing need for a comprehensive enterprise-wide network security solution. Many network security vendors, however, have focused on developing products that address only one or a limited number of specific security requirements. In addition, products developed by different vendors are often difficult to integrate with each other and pose interoperability problems. Consequently, the Company believes that organizations will increasingly demand comprehensive network security solutions that are easy to implement and transparent to the user. These solutions must have the ability to integrate with existing applications, networks and/or mainframe applications, while being flexible and powerful enough to address the needs created by newly developed technologies.

The current demand for VPN products is being driven by (i) the increasing need for employees to remotely access data, (ii) corporate intranets linking multiple geographic locations, (iii) corporate extranets linking a company's partners, suppliers and customers and (iv) the increasing demand for security in electronic commerce. The increasing reliance by corporate and individual users on the Internet is causing such users to focus on security concerns. From 1996 to 2000, corporate network traffic increased over 1000%. High percentage increases are expected to continue as Internet technologies, such as electronic commerce, become more accepted by the general public. In addition, the costs of operating a network utilizing the public lines or Internet are substantially less than T1/T3 interchanges and continue to decline. With the advent of VPNs, corporations have a practical, low-cost solution to their networking needs.

Edgar Filing: V ONE CORP/ DE - Form 10-K

THE V-ONE SOLUTION

The Company offers a comprehensive suite of network security products that address the need for identification and authentication, integrity, non-repudiation, authorization and encryption. This combination of network security products enables organizations to identify and authenticate network users while controlling access to specific network services. The Company's technology is designed to prevent unauthorized access to an organization's mission critical applications and internal data without impeding permitted uses of the organization's resources and information. The Company's products are compatible with many leading hardware platforms and operating systems, as well as many third-party security products. The Company's customers are able to integrate V-ONE's security products into their networks with minimal impact on existing systems and applications.

The Company's current suite of products can be combined and configured to provide network perimeter security, secure remote access and intra/inter-enterprise security to facilitate secured electronic commerce and information exchange. The Company's principal products are SmartGate, a client/server product that offers identification and authentication, integrity, non-repudiation, authorization and encryption; and SmartWall, an application-level firewall that incorporates SmartGate's functionality. The Company provides customers with two-factor identification, mutual authentication, fine-grained access control and encryption by combining smart card emulation technology with the SmartGate server. In addition, SmartGate users can access enterprise networks from remote locations using SmartPass technology incorporated in SmartGate.

The Company's technology provides customers with the ability to create network security solutions designed to meet their specific network security requirements. V-ONE's customers can securely deploy a broad range of services and applications to engage in secured electronic transactions, information exchange and remote access to mission critical applications and corporate resources. The Company's technology is designed to be (i) modular, allowing organizations to utilize the security product or products best suited to address their immediate needs, with a seamless migration path to additional products as required, (ii) scalable, ranging from a single system supporting several users to multiple systems potentially supporting hundreds of thousands of users, and (iii) portable, securing access independent of any particular user's machine or network entry point through the use of smart card technology.

STRATEGY

The Company's goal is to become the leading provider of comprehensive, open and interoperable network security products that are easy to install, convenient to use, and highly expandable. The Company's strategy to realize its goal contains the following elements:

- o PROVIDE AN INTEROPERABLE, SCALABLE AND OPEN SOLUTION. The Company intends to continue to provide network security products that operate on leading platforms and that are interoperable and compatible with other network security products. The flexible and open architecture of the Company's products enable the Company to deliver component technologies for a seamless and interoperable system. In addition, the Company's technology is expandable, application-independent and designed both to integrate with existing technologies as well as to support emerging standards and applications.
- o AUGMENT AND INTEGRATE WITH EXISTING SECURITY PRODUCTS. The Company intends to continue to offer products that interoperate with a wide variety of third-party security products, including multiple firewalls and tokens,

Edgar Filing: V ONE CORP/ DE - Form 10-K

allowing a customer to augment existing network security systems. The Company believes that its technology protects a customer's existing network security investments because the Company's products are designed to integrate easily with point products currently employed by its customers. The Company believes that this strategy will enable it to gain access to

6

potential customers who have previously made network security investments but whose network security needs are continuing to evolve.

- o LEVERAGE KEY REFERENCE ACCOUNTS IN SELECTED VERTICAL MARKETS. The Company has identified strategic vertical markets that require sophisticated network security solutions and has targeted its marketing and direct sales efforts on key participants within these selected vertical markets. By successfully installing its products at key accounts, the Company intends to leverage positive references from its installed customer base to expand its market penetration within those information critical industries. The Company intends to increase its marketing and sales efforts through the use of value-added resellers ("VAR's"), original equipment manufacturers ("OEM's"), and Application Service Providers ("ASP's") to expand its customer base in additional vertical markets. Specific vertical markets focused on include Banking and Finance, Healthcare, and Government. These efforts have proven successful, resulting in significant new business. V-ONE recently announced a \$500,000 sale of VPN software products to the FBI's Law Enforcement Online (LEO) Program. In addition, V-ONE recently supplied its SmartGate and SmartGuard solution to the Court Services and Offender Supervision Agency for the District of Columbia (CSOSA), so that CSOSA and U.S. Parole Commission officials, as well as District of Columbia police, can access CSOSA's sex offender database in real time. In spring 2000, Regional Information Sharing Systems (RISS), which operates a secure intranet communications system for regional and local law enforcement agencies, standardized on V-ONE's SmartGate(TM) VPN to be the security foundation for their network. RISS has over 7,000 SmartGate clients licensed to enable authenticated, encrypted, and managed access to sensitive law enforcement information in real time.
- o DEVELOP AND LEVERAGE STRATEGIC ALLIANCES AND PARTNERING RELATIONSHIPS. The Company has established strategic marketing and distribution alliances to increase the distribution and market acceptance of its network security products including alliances with a variety of major companies, including Motorola, Sun Microsystems, Microsoft and Sharp. The Company intends to continue to strengthen its existing strategic alliances while forging new relationships with key industry participants.

In addition, the Company is exploring opportunities to develop new products and expand the functionality of its existing products through alliances with key vendors of complementary technologies.

PRODUCTS

V-ONE's family of products addresses the entire range of customer needs across the VPN continuum. The Company believes its product offerings to be the most comprehensive VPN product family of any vendor in the industry. With the recent release of SmartGuard, the Company has entered the market for firewall appliances targeted at small and medium sized enterprises.

The Company's security products cover the three key segments of the VPN marketplace:

Edgar Filing: V ONE CORP/ DE - Form 10-K

- o REMOTE ACCESS. Driven by replacing costly dial-up access, 800 numbers, and Remote Access Servers ("RAS"). Instead, remote salespeople, service staff, or home workers connect to company IT resources through any standard ISP connection secured by VPN technology.
- o EXTRANET. Enabling companies to share information and business processes over the Internet with their customers and suppliers. Extranets decrease costs and reduce cycle times throughout the supply chain.
- o SITE-TO-SITE. Allowing companies to interconnect remote offices via the Internet and replace costly private data networks.

7

The cornerstone of the Company's network security solution is its patented SmartGate client/server security technology. SmartGate enables two-factor authentication, mutual authentication and fine-grained access control for most TCP/IP-based client/server applications. Using SmartGate technology, organizations can employ two-factor authentication and mutual authentication to identify and authenticate a network user while fine-grained access control restricts each user's access to only those services to which the user is entitled.

The key benefits of V-ONE's SmartGate VPN solution are:

- o SECURE COMMUNICATIONS: Strong 3DES encryption ensures that private information is not intercepted or altered during transmission.
- o STRONG AUTHENTICATION: Absolutely ensuring the authorized identity of the user through multiple authentication methods, including digital certificates, smart cards, RSA SecurID, and Radius, among others. These authentication methods provide a much higher degree of trust than the less secure usernames and passwords.
- o ACCESS CONTROL: V-ONE SmartGate ensures highly configurable management of access control privileges, ensuring that users have access to approved applications, and are completely insulated from restricted applications. System administrators have fine-grained control of access to specified services on specific servers.
- o SECURITY LOGGING: A comprehensive corporate security policy can be administered with the help of extensive logging capabilities that ensure "hacking" attempts are monitored.

These capabilities are supported across the three market segments by a unified security administration application. An Infonetics VPN market study concludes that 80% of VPN deployments will cover two or more of these market segments. An end-user faces the choice of deploying multiple solutions from two or more vendors with duplicate administrative work, or deploying one V-ONE solution for all three segments with unified administration.

The Company's network security products are designed to protect an organization's information and networks from unauthorized access while allowing users of the network to conduct business securely over the Internet and intranets. These products have been designed to interoperate seamlessly and enhance application functionality. The Company designs its products so that they can be combined in different configurations to provide customized solutions for its customers.

Edgar Filing: V ONE CORP/ DE - Form 10-K

A discussion of the Company's products follows.

SMARTGATE(TM) is designed to interoperate easily with most TCP/IP-based applications and to allow the end user to use securely existing and future software applications over the Internet and Intranets. SmartGate employs two-factor authentication (two independent components are combined to authenticate a user) and mutual authentication (both the server and client determine that the other party to the transaction is authorized to participate in the transaction) through the use of virtual or physical smart cards or other authentication devices. SmartGate establishes a secured, encrypted link over an unsecured network once both parties to a communication have been identified and authenticated. The authorized user is then granted access only to those services and data for which the user has been approved. SmartGate supports secure remote administration, which can be accessed using a Web browser or telnet.

SMARTGATE(TM) WITH IPsec extends the client deployment and management advantages of V-ONE's patented online registration process to intranet environments. This enables V-ONE to compete for remote access VPN business (which offers secure

8

connectivity for remote employees and satellite offices) with a solution that is standards-based yet offers unique ease of deployment features.

SMARTGUARD(TM) is a security appliance that provides a fully functional, completely integrated VPN solution consisting of a powerful user authentication system, a user access control database, state-of-the-art encryption capabilities, user-friendly client software and a full-featured optional firewall.

SMARTWALL(TM), a firewall product, provides a high level of protection against unauthorized access to a secured network from an unsecured network. SmartWall also allows transparent access from the secured network to services and applications on the unsecured network. SmartWall includes a secured graphical user interface for firewall administration, strong mutual authentication to identify users and complete transparency for authorized traffic. In addition, SmartWall allows multiple sites to be administered from any location using a Web browser or Telnet. SmartWall supports multiple types of existing encryption products, authentication tokens, proxy services and secure transmission channels. SmartGate is bundled into every SmartWall.

AIR SMARTGATE, working in a manner similar to SmartGate, allows for secure, encrypted, authenticated communication between two-way pagers and e-mail through a SmartGate server. Air SmartGate delivers communication privacy to pager-to-pager, email-to-pager and pager-to-email traffic and text messaging by providing two-factor authentication and strong data encryption capabilities. Air SmartGate is a 'drop-in' security solution that interoperates seamlessly with advanced two-way messaging networks using Motorola's ReFlex communications technology and is scheduled for deployment by a number of leading providers. Skytel has recently begun to offer this service initially to government customers.

With the release of SmartGate 4.0 in early 2000, V-ONE now supports IPsec protocol, which is especially effective for the Remote Access and Site-to-Site markets. It also has an extranet mode that offers key advantages to the extranet market, in particular the ability to effectively navigate across external corporate firewalls from varying vendors.

With the introduction of the SmartGuard appliance in May 2000, V-ONE entered the market for VPN appliances targeted at small and medium sized enterprises. The

Edgar Filing: V ONE CORP/ DE - Form 10-K

SmartGuard appliance provides a fully integrated VPN solution and can be configured with a fully integrated third party firewall, at a price targeted at the small to medium sized enterprise.

SmartGate for Windows 2000 and ME is scheduled for release in June 2001.

CUSTOMER SERVICE AND SUPPORT

The Company provides one hour of installation and configuration support for each VPN purchase. The Company also offers, for a fee, on-site installation support and basic administrator training with each software product and bundled hardware product sale. Customers are encouraged to purchase software maintenance, which includes product updates/upgrades and telephone support. A one-year hardware warranty comes with each bundled hardware purchase.

The Company offers additional user or administrator training, on-site support, systems integration and system security architecture support as an optional service through its Customer Care staff. Additionally, the Company provides support services for those customers who have entered into an evaluation agreement with the Company.

9

PRODUCT DEVELOPMENT

The market for the Company's products is dynamic and rapidly changing. The Company believes that its future success will depend upon its ability to: (i) enhance its existing products, (ii) identify new opportunities to leverage existing technologies, and (iii) develop new technologies resulting in new products, markets and services. Accordingly, the Company expects to continue to make a significant investment in research and development, product market analysis and systems integration. The Company believes that its customer-driven development strategy will enable it to continue to broaden its product offerings.

MARKETING AND BUSINESS DEVELOPMENT

The Company believes that the future success of the V-ONE product offerings will depend on the Company's ability to execute a much more sharply focused sales and marketing strategy. To date, the Company has had success in the government sector and plans to implement a sales and marketing strategy designed to replicate that success with large non-governmental enterprises. As such, the Company's direct sales efforts will continue to be focused on the Federal, state and local governments and certain targeted large enterprise opportunities in the commercial sector. Other sectors will be marketed through the Company's channel partners.

In order to assist the Company in focusing its sales efforts on these large enterprises, in particular a selected group of large network integrators and Internet service providers, the Company retained MindSquared, LLC. Clint Heiden, a Senior Consultant at MindSquared, LLC, is primarily responsible for assisting the Company in its marketing efforts. Mr. Heiden spent most of his career at UUNET, which he joined in 1994 as director of sales. From 1996 to 2000 he served as UUNET's vice president for U.S. sales, during a period of significant growth for UUNET. Most recently Mr. Heiden served as President of Online Office Supplies Company, a privately held concern providing e-commerce office solutions to businesses worldwide. Mr. Heiden is the son of Heidi Heiden, a Director of V-ONE and a partner in MindSquared, LLC. James McManus, a director of V-ONE, is also a partner in MindSquared, LLC.

Edgar Filing: V ONE CORP/ DE - Form 10-K

The Company's consulting agreement with MindSquared, LLC commenced on November 27, 2000, terminates on March 31, 2001, and may be extended by agreement of the parties. It provides for a maximum payment of \$200,000 over the term of the agreement. The agreement also provides for the issuance of 100,000 warrants to MindSquared, LLC to purchase the Company's Common Stock upon the execution of the agreement and for the issuance of additional warrants to purchase the Company's Common Stock upon the achievement of various marketing goals. The exercise price for all such warrants is the fair market value of the Company's Common Stock on the date the warrants are issued.

COMPETITION

V-ONE competes in the market for network security products and services. This market is very competitive and the Company expects competition to intensify in the future. Currently, V-ONE offers products that compete in several segments of the network security market, including hardware assisted encryption devices, token authentication, smart card-based security applications and electronic commerce applications. The Company's SmartGate products compete in the VPN segment of the network security market, and also can be used in conjunction with many other security solutions in the broader network security market, including intrusion detection products, virus scanning products, token authentication products, biometric authentication products, digital certificate products and firewalls.

The Company's competitors for Internet and intranet security and access control include Aventail Corporation, AXENT Technologies, Check Point Software Technology, Cisco Systems, Intel/Shiva, International Business Machines

10

Corporation, Microsoft, Network Associates, Northern Telecom (NortelNetworks), Radguard, RedCreek, Secure Computing Corporation, Sun Microsystems, TimeStep, and VPNet. With the introduction of the Company's appliance SmartGuard(TM), the Company now competes with security appliance providers such as Watchguard and SonicWall. The Company competes to a lesser degree with token vendors because the Company's SmartGate product supports many vendor tokens. Token vendors include AXENT Technologies, Leemah DataCom Security Corporation, National Semiconductor, Racal-Guardata and Security Dynamics Technologies. For smart card-based security applications, the Company principally competes with those token vendors listed above who offer smart card technology.

In the VPN market place, which is the Company's primary market, there are three classes of products:

1. Products that provide secure remote access to a company's intranet and internal LAN-based information by a company's own employees, telecommuters, or mobile workers. In this market, V-ONE competes with companies such as Check Point and Aventail.
2. Products that provide secure communication among business partners and customers that are not on the same intranet or LAN-based system, commonly referred to as extranet products. In the extranet market, V-ONE competes with companies such as Aventail and TimeStep.
3. Products that provide secure communication for office-to-office and LAN-to-LAN applications. These are referred to as intranet or site-to-site VPN products. In the site-to-site market, V-ONE competes with companies such as VPNet, TimeStep and Radguard.

Edgar Filing: V ONE CORP/ DE - Form 10-K

The Company faces intense competition in all of its market segments.

BACKLOG AND CUSTOMERS

The Company's customers order on an as-needed basis. The Company has typically been able to ship products within 30 days after the customer submits a firm purchase order. The Company does not generally maintain long-term contracts with its customers that require customers to purchase its products. Accordingly, the Company has not maintained and does not anticipate maintaining a backlog with the exception of long-term service contracts.

SUPPLY SOURCES

Components used in the Company's network security products consist primarily of computer diskettes and computer magnetic tapes and CD's purchased from commercial vendors. Components used in the Company's turnkey SmartWall and SmartGate server products consist primarily of off-the-shelf computers, memory, displays, power supplies and third-party peripherals (such as hard drives and network interface cards).

The Company has agreements with at least two vendors for each of its parts and components. However, the Company orders most of its parts and components from a single vendor to maintain quality control and enhance working relationships. The Company uses smart card readers manufactured by two contract manufacturers based on the Company's design specifications. The Company has outsourced to hardware fulfillment companies its hardware and hardware integration requirements.

While the Company believes that alternative sources of supply could be obtained, the Company's inability to develop alternative sources if and as required in the future could result in delays or reductions in product shipments that could have a material adverse effect on the Company's business, financial condition and results of operations.

11

REGULATION AND GOVERNMENT CONTRACTS

The Company's information security products are subject to the export restrictions administered by the U.S. Department of Commerce, which permit the export of encryption products only with the required level of export license or through a license exception KMI (Key Management Infrastructure). U.S. export laws prohibit the export of encryption products to a number of hostile countries. Although to date the Company has been able to secure all required U.S. export licenses, including the license exception KMI, there can be no assurance that the Company will continue to be able to secure such licenses in a timely manner in the future, or at all.

In certain foreign countries, the Company's distributors are required to secure licenses or formal permission before encryption products can be imported. To date, except for certain limited cases, the Company's distributors have not been denied permission to import the Company's products.

LICENSE AGREEMENTS

The Company's SmartGate and Wallet Technology software incorporate data encryption and authentication technology owned by RSA Security, Inc. ("RSA"). The Company has a perpetual license agreement with RSA, which became effective as of December 30, 1994. On May 23, 1996, RSA exercised an option granted under the agreement to convert its right to receive future royalties into 2% of the

Edgar Filing: V ONE CORP/ DE - Form 10-K

Company's outstanding voting securities, after giving effect to the issuance to RSA, until the date of the Company's initial public offering ("IPO"). Pursuant to a separate agreement between RSA and Massachusetts Institute of Technology ("MIT"), MIT is entitled to receive a portion of any royalties that RSA receives. As a result, the Company issued directly to MIT a portion of the shares of Common Stock to which RSA was entitled under the RSA Agreement. The Company issued 188,705 shares of Common Stock to RSA and MIT immediately prior to consummation of the IPO. RSA was acquired by Security Dynamics in 1996. On July 14, 1999 Security Dynamics changed its name to RSA Security, Inc.

There can be no assurance that the Company will be able to maintain its license rights for the RSA data encryption and authentication technology, and the loss of such rights could have a material adverse effect on the Company's business, financial condition and results of operations. If either RSA terminates the license agreement or takes any other action that results in the loss of, or inability to maintain, such licensed technology, the Company may incur lost sales, delays in delivery of the Company's current products and services or delays in the introduction of new products and services, which could have a material adverse effect on the Company's business, financial condition and results of operations.

PATENTS, PROPRIETARY TECHNOLOGY, TRADEMARKS AND LICENSES

The Company has received seven patents, which expire over a period between 2014 and 2017, and has two pending patent applications with the United States Patent and Trademark Office. The patents cover certain aspects of its technology including ease of use advantages gained by quick client deployment, expandability and management features. The Company's stylized "V-ONE," the phrase "Security for a Connected World," and the Company's "SmartGate," "SmartWall," and "SmartGuard" products and certain other products are the subject of U.S. and foreign tradename and trademark filings. Prosecution of these patent applications and any other patent applications that the Company may subsequently determine to file may require the expenditure of substantial resources. The issuance of a patent from a patent application may require 24 months or longer. There can be no assurance that the Company's technology will not become obsolete while the Company's applications for patents are pending. There also can be no assurance that any pending or future patent application will be granted, that any future patents will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to the Company. The Company has pursued patent protection outside of the United States for the technology covered by the most recently filed patent

12

applications although there can be no assurance that any such protection will be granted or, if granted, that it will adequately protect the technology covered thereby.

The Company's success is also dependent in part upon its proprietary software technology. There can be no assurance that the Company's trade secrets or non-disclosure agreements will provide meaningful protection for its proprietary technology and other proprietary information. In addition, the Company relies on "shrink wrap" license agreements that are not signed by the end user to license the Company's products and, therefore, may be unenforceable under the laws of certain jurisdictions. Further, there can be no assurance that others will not independently develop similar technologies or duplicate any technology developed by the Company or that its technology will not infringe upon patents, copyrights or other intellectual property rights owned by others.

Further, the Company may be subject to additional risk as it enters into

Edgar Filing: V ONE CORP/ DE - Form 10-K

transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of the Company's rights may be ineffective in foreign markets, and technology manufactured or sold abroad may not be protectable in jurisdictions in circumstances where protection is ordinarily available in the United States.

The Company believes that, due to the rapid pace of technological innovation for network security products, the Company's ability to establish and, if established, maintain a position of technology leadership in the industry is dependent more upon the skills of its development personnel than upon legal protections afforded its existing or future technology.

As the number of security products in the industry increases and the functionality of these products further overlaps, software developers may become subject to infringement claims. There can be no assurance that third parties will not assert infringement claims against the Company in the future with respect to current or future products. The Company also may desire or be required to obtain licenses from others to effectively develop, produce and market commercially viable products. Failure to obtain those licenses could have a material adverse effect on the Company's ability to market its software security products. There can be no assurance that such licenses will be obtainable on commercially reasonable terms, if at all, that the patents underlying such licenses will be valid and enforceable or that the proprietary nature of the unpatented technology underlying such licenses will remain proprietary.

There has been, and the Company believes that there may be in the future, significant litigation in the industry regarding patent and other intellectual property rights. Although the Company is not currently the subject of any material intellectual property litigation, litigation involving other software developers, including companies from which the Company licenses certain technology, could have a material adverse affect on the Company's business, financial condition and results of operations.

EMPLOYEES

As of March 1, 2001, the Company had 59 full-time employees and 12 consultants. Of these individuals, 25 were in sales and marketing, 22 were in research and product development, and 14 in administration. None of the Company's employees are represented by a labor union or are subject to a collective bargaining agreement. The Company has never experienced a work stoppage and believes that its employee relations are good.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS AND MARKET PRICE OF COMMON STOCK

V-ONE operates in a rapidly changing environment that involves numerous risks, some of which are beyond V-ONE's control. The following discussion highlights some of the risks V-ONE faces. This Annual Report on Form 10-K contains

"forward-looking statements." Such statements involve known and unknown risks and uncertainties that could cause V-ONE's actual performance or achievements to differ from any future performance or achievements expressed or implied by such statements. Readers should carefully consider the following risk factors before purchasing Common Stock of V-ONE. Readers are also referred to other documents to be filed by V-ONE with the SEC, which may identify important risk factors for V-ONE.

V-ONE'S ACCUMULATED DEFICIT. As of December 31, 2000, V-ONE had an accumulated

Edgar Filing: V ONE CORP/ DE - Form 10-K

deficit of approximately \$48.9 million. V-ONE currently expects to incur additional net losses over the next several quarters. Moreover, V-ONE may not achieve or sustain profitability or significant revenues in the foreseeable future, if ever. To address these risks, V-ONE must, among other things, continue its emphasis on research and development, successfully execute and implement its marketing strategy, respond to competitive developments and seek to attract and retain talented personnel. V-ONE may be unable successfully to address these risks and the failure to do so could have a material adverse effect on V-ONE's business, financial condition, results of operations and cash flows.

RISKS RELATING TO AVAILABILITY OF CAPITAL. It is anticipated that V-ONE will continue to expend significant amounts to fund its operations and research and development. V-ONE's cash and cash equivalents may not be sufficient to meet its requirements until it reaches profitability. In order to maintain V-ONE's operations and research and development at necessary levels, V-ONE may need to secure additional financing through the sale of equity or other securities. V-ONE may be unable to place equity securities on favorable terms or in an amount required to meet its future cash requirements. If such additional financing is not available, V-ONE may be required to reduce its cash requirements through significant reductions in operating levels. If V-ONE is not successful in reducing operating levels and even if operating levels are reduced, V-ONE may not be able to maintain operations for any extended period of time.

RISKS ASSOCIATED WITH EMERGING NETWORK SECURITY MARKET. The market for V-ONE's products, particularly its client/server VPN products, remains in the development stage and market acceptance of these products has been slower than expected. Because the market for network security products is still in the development stage and many potential customers are only now being introduced to VPN technology, it is difficult to assess the extent of market acceptance of V-ONE's products, the product features desired by the market, the best price structure for V-ONE's products, the best distribution strategy and the competitive environment that will develop in this market. The demand for V-ONE's products could decline as a result of competition, technological change, the public's perception of the need for security products, developments in the hardware and software environments in which these products operate, general economic conditions or other factors beyond V-ONE's control.

V-ONE'S DEPENDENCE ON THIRD PARTY MARKETING ARRANGEMENT. V-ONE's current marketing strategy of focusing direct sales efforts exclusively on the federal government and large enterprises is heavily dependent on its consulting agreement with MindSquared, LLC. This agreement currently expires on March 31, 2001, and although there are no expectations to the contrary, there is no assurance that the parties will extend the agreement.

RISKS OF COMPETITION. V-ONE faces intense competition in all of its market segments. The market for network security products is very competitive and V-ONE expects competition to intensify in the future. There can be no assurance that V-ONE's products will command a significant share of the network security market. Many of V-ONE's competitors have significantly greater resources, generate higher revenue and have greater name recognition than V-ONE. There can be no assurance that V-ONE's competitors will not develop products that are superior to those developed by V-ONE or adapt more quickly than V-ONE to new technologies or evolving industry trends. Increased competition may result in price reductions, reduced gross margins or loss of market share, any of which could have a material adverse affect on V-ONE's business. There is no assurance

Edgar Filing: V ONE CORP/ DE - Form 10-K

that V-ONE will be able to compete effectively against current or future competitors.

RISK OF INADEQUATE PROTECTION FOR V-ONE'S TECHNOLOGIES. V-ONE relies on trademarks, copyrights, patents and trade secrets, employee and third-party non-disclosure agreements and other methods to protect the rights of V-ONE and the companies from which V-ONE licenses technology. Enforcement of V-ONE's rights may be expensive, time-consuming and ultimately unsuccessful and may not provide adequate protection for V-ONE's technology or the technology it licenses from others. Moreover, others may independently develop similar technologies or duplicate any technology developed by V-ONE. As the number of security products in the industry increases and the functionality of these products overlap, software developers, such as V-ONE, may become subject to infringement claims. V-ONE also may desire or be required to obtain licenses from others in order to achieve desirable functionality. Failure to obtain such licenses could adversely affect V-ONE's ability to market its software security products.

RISK OF ERRORS, FAILURES AND PRODUCT LIABILITY. The complex nature of V-ONE's software products can make the detection of errors or failures difficult when products are introduced. If errors or failures are subsequently discovered, this may result in delays, lost revenues, lost customers during the correction process, damage to V-ONE's reputation, and claims against it. A malfunction or the inadequate design of V-ONE's products could result in tort or warranty claims. V-ONE generally attempts to reduce the risk of such losses to itself and to the companies from which it licenses technology through warranty disclaimers and liability limitation clauses in its license agreements. V-ONE may not have obtained adequate contractual protection in all instances or where otherwise required under agreements V-ONE has entered into with others. In addition, these measures may not be effective in limiting V-ONE's liability to end users and to the companies from which V-ONE licenses technology. V-ONE currently has liability insurance. However, V-ONE's insurance coverage may not be adequate and any product liability claim against V-ONE for damages resulting from security breaches could be substantial. In addition, a well-publicized actual or perceived security breach could adversely affect the market's perception of security products in general or V-ONE's products in particular.

RISKS OF CHANGES IN TECHNOLOGY AND INDUSTRY. The network security industry is characterized by rapid changes, including evolving industry standards, frequent new product introductions, continuing advances in technology and changes in customer requirements and preferences. Advances in techniques by individuals and entities seeking to gain unauthorized access to networks could expose V-ONE's existing products to new and unexpected attacks and require accelerated development of new products or enhancements to existing products. V-ONE may be unable to counter challenges to its current products. V-ONE's competitors may develop superior products and V-ONE's future products may not keep pace with technological changes implemented by competitors or persons seeking to breach network security. Its products may not satisfy evolving consumer preferences and V-ONE may not be successful in developing and marketing products for any future technology. Failure to develop and introduce new products and improve current products in a timely fashion could adversely affect V-ONE.

RISK OF DEVELOPMENT DELAYS. V-ONE may experience delays in software development triggered by factors such as insufficient staffing or the unavailability of development-related software, hardware or technologies. Further, when developing new software products, V-ONE's schedules may be altered as a result of changes to the product specifications in response to customer requirements, market developments, performance problems or V-ONE-initiated changes. When developing complex software products, the technology market may shift during the development cycle, requiring V-ONE either to enhance or change a product's specifications. All of these factors may cause a product to enter the market behind schedule, which may adversely affect market acceptance of the product or place it at a disadvantage to a competitor's product that has already gained

market share or market acceptance during the delay.

15

RISKS ASSOCIATED WITH LONG SALES CYCLE. The sales cycle associated with V-ONE's products is likely to be lengthy due to a number of significant risks over which V-ONE has little or no control. As a result, V-ONE finds it difficult to predict quarterly results and order backlog, if any, at the beginning of any period may represent only a small portion of that period's expected revenues. As a result, product revenues in any period will be substantially dependent on orders booked and registered in that period.

RISK OF SALES TO GOVERNMENT AGENCIES. No government agency or department has an obligation to purchase products from V-ONE in the future. Government contacts may often be terminated by the government without cause. Moreover, sales to and contracts with government agencies are subject to reductions or delays in funding, risks of disallowance of costs upon audit, changes in government procurement policies, the necessity to participate in competitive bidding and, with respect to contracts involving prime contractors or government-designated subcontractors, the inability of such parties to perform under their contracts. Any of the foregoing events could adversely affect V-ONE. V-ONE estimates for the fiscal year ended December 31, 2000, sales to the U.S. government constituted approximately 45% of its revenue.

RISK OF EFFECT OF GOVERNMENT REGULATION ON TECHNOLOGY EXPORTS. V-ONE currently sells its products abroad and intends to continue to expand its relationships with international distributors. V-ONE's international sales and operations could be subject to risks such as the imposition of governmental controls, export license requirements, restrictions on the export of critical technology, trade restrictions and changes in tariffs. In particular, V-ONE's information security products are subject to the export restrictions administered by the U.S. Department of Commerce. These restrictions, in the case of some products, permit the export of encryption products only with a specific export license. These export laws also prohibit the export of encryption products to a number of countries, individuals and entities and may restrict exports of some products to a narrow range of end-users. In certain foreign countries, V-ONE's distributors are required to secure licenses or formal permission before encryption products can be imported. V-ONE has obtained a license exception to export strong encryption from the U. S. Department of Commerce on a worldwide basis (except to the seven terrorist countries) as long as the end user agrees to use the KRAKit(TM) session key recreation capability. Foreign competitors that face less stringent controls on their products may be able to compete more effectively than V-ONE in the global network security market.

EFFECTS OF CERTAIN PROVISIONS OF THE CERTIFICATE OF INCORPORATION, BYLAWS AND DELAWARE LAW. Certain provisions of V-ONE's Amended Certificate of Incorporation and of Delaware law could delay or make difficult a merger, tender offer or proxy contest involving V-ONE. Among other things, these provisions include a classified board, prohibitions on removing directors except for cause, and other requirements.

MARKET VOLATILITY. The market price of the Company's Common Stock is subject to significant fluctuations in response to variations in quarterly operating results and other factors, such as announcements of new products by the Company or its competitors and changes in financial estimates by securities analysts or other events. Moreover, the stock market has experienced extreme volatility that has particularly affected the market prices of equity securities of many technology companies and that has often been unrelated and disproportionate to the operating performance of such companies. Broad market fluctuations as well

Edgar Filing: V ONE CORP/ DE - Form 10-K

as economic conditions generally and in the software industry specifically, may adversely affect the market price of the Company's Common Stock.

ITEM 2. PROPERTIES

The Company leases approximately 28,312 square feet of office space in Germantown, Maryland under a lease agreement that will expire on July 1, 2003. The Company expects that this space will be sufficient for its needs through March 31, 2002. The Company also leases approximately 8,085 square feet, which is sublet in Rockville, Maryland under leases that will expire on April 17, 2001.

16

ITEM 3. LEGAL PROCEEDINGS

On January 27, 2000, Plaintiff George McMeen filed a Class Action Complaint in the U.S. District Court for the District of Maryland, Civil Action No. MJG-CV-263, against David D. Dawson, Steve Mogul and Margaret Grayson (collectively, "Individual Defendants") and the Company (collectively, "Defendants"), alleging claims for violation of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 thereunder by the Defendants, and violation of Section 20(a) of the Exchange Act by the Individual Defendants. On February 16, 2000, plaintiff Raj Patel filed a nearly identical Class Action Complaint in the U.S. District Court for the District Court of Maryland, Civil Action No. PJM-CV-469. Neither complaint specifies the amount of alleged damages.

On February 18, 2000, the Court entered an Order extending the time for Defendants to file a responsive pleading in the McMeen matter until 45 days after the later of appointment of Lead Plaintiff(s) and Lead Counsel pursuant to 15 U.S.C. 78u-4(a)(3) or the filing of a consolidated amended complaint in the matter. The Court entered an identical Order in the Patel matter on March 3, 2000.

On February 20, 2001, the suit was dismissed in its entirety, with prejudice. In granting the Company's motion to dismiss, United States District Court Judge Marvin J. Garbis ruled that plaintiffs had failed to state a cause of action for violations of the securities laws and awarded costs to the defendants.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the quarter ended December 31, 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock was traded in the Nasdaq National Market from the Company's IPO on October 24, 1996 through September 3, 1999 when it was transferred to the Nasdaq SmallCap Market. According to records of the Company's transfer agent, the Company had approximately 166 record holders on March 1, 2001. Because brokers and other institutions hold many of such shares on behalf of stockholders, the Company is unable to estimate the total number of stockholders represented by these record holders. The following table sets forth the low and high sale prices of the Company's Common Stock for each quarter during the two year period ended December 31, 2000.

	2000	
	High Sale Price	Low Sale Price
	-----	-----
First Quarter	\$9.500	\$4.875
Second Quarter	\$5.844	\$2.063
Third Quarter	\$5.184	\$2.188
Fourth Quarter	\$2.684	\$0.531

	1999	
	High Sale Price	Low Sale Price
	-----	-----
First Quarter	\$4.688	\$2.750
Second Quarter	\$3.313	\$1.688
Third Quarter	\$5.625	\$2.000
Fourth Quarter	\$15.500	\$1.875

The Company has never declared or paid cash dividends on its Common Stock. The Company anticipates that all of its net earnings, if any, will be retained for use in its operations and does not anticipate paying cash dividends on its Common Stock in the foreseeable future. Payments of future cash dividends, if any, will be at the discretion of the Company's Board of Directors after taking into account various factors, including the Company's financial condition, operating results and current and anticipated cash needs.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below with respect to the Company's Statements of Operations for the years ended December 31, 1998, 1999 and 2000 and balance sheets as of December 31, 1999 and 2000 are derived from the audited financial statements of the Company included elsewhere in this Annual Report.

Edgar Filing: V ONE CORP/ DE - Form 10-K

The following financial data as of December 31, 1996, 1997 and 1998 and for each of the years ended December 31, 1996 and 1997 are derived from audited financial statements of the Company not included in this Annual Report. The financial data set forth below should be read in conjunction with the Company's financial statements and the notes thereto included elsewhere in this Annual Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

18

	Year ended December 31,			
Statement of Operations Data:	1996	1997	1998	1999
Revenues:				
Products	\$ 5,008,523	\$ 5,470,230	\$ 5,798,542	\$ 3,427,422
Consulting and services	310,557	502,771	461,263	1,538,258
Total revenues	5,319,080	5,973,001	6,259,805	4,965,680
Cost of revenues:				
Products	1,969,117	1,848,871	1,623,396	973,866
Consulting and services	56,502	96,949	68,060	137,281
Total cost of revenues	2,025,619	1,945,820	1,691,456	1,111,147
Gross profit	3,293,461	4,027,181	4,568,349	3,854,533
Operating expenses:				
Sales and marketing	3,914,630	7,717,640	7,306,279	6,683,039
General and administrative	4,879,940	3,699,278	3,896,210	3,118,829
Research and development	1,960,727	3,153,941	2,618,914	2,848,955
Total operating expenses	10,755,297	14,570,859	13,821,403	12,650,823
Operating loss	(7,461,836)	(10,543,678)	(9,253,054)	(8,796,290)
Interest (expense) income:				
Interest expense	(518,965)	(13,130)	(65,372)	(676,443)
Interest income	168,176	341,469	125,030	164,841
Loss before extraordinary item	\$ (7,812,625)	\$ (10,215,339)	\$ (9,193,396)	\$ (9,307,892)
Total interest (expense) income	(350,789)	328,339	59,658	(511,602)
Extraordinary item -				

Edgar Filing: V ONE CORP/ DE - Form 10-K

early extinguishment of debt	--	--	--	(372,052)
Net loss	(7,812,625)	(10,215,339)	(9,193,396)	(9,679,944)
Dividend on preferred stock	--	12,600	110,879	272,245
Deemed dividend on preferred stock	--	600,000	102,755	--
Loss attributable to holders of common stock	\$ (7,812,625)	\$ (10,827,939)	\$ (9,407,030)	\$ (9,952,189)
Basic and diluted loss per share:				
Loss before extraordinary item	\$ (0.85)	\$ (0.84)	\$ (0.68)	\$ (0.57)
Net loss attributable to holders of common stock	\$ (0.85)	\$ (0.84)	\$ (0.68)	\$ (0.59)
Weighted average number of common shares outstanding	9,245,305	12,868,859	13,898,450	16,938,205

19

	December 31,			
	1996	1997	1998	1999
Balance Sheet Data:				
Working capital (deficit)	\$ 11,526,091	\$ 5,912,046	\$ (1,277,368)	\$ 6,629,846
Total assets	14,580,346	10,313,276	3,922,192	9,775,436
Long-term debt, less current portion	134,704	300,861	197,982	119,746
Series A Convertible Preferred Stock	--	3,766,297	--	--
Series B Convertible Preferred Stock	--	--	--	1,288
Series C Redeemable Preferred Stock	--	--	--	335
Total shareholder's equity	12,876,676	4,211,210	635,725	7,841,603

20

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

FORWARD-LOOKING INFORMATION

Edgar Filing: V ONE CORP/ DE - Form 10-K

All forward-looking information contained in this Management's Discussion and Analysis of Financial Conditions and Results of Operations is based on management's current knowledge of factors affecting the Company's business. The Company's actual results may differ materially if these assumptions prove invalid. Significant factors, while not all inclusive, are:

- o The possibility of increasing competition in the Company's market place.
- o The potential for changes in technology and industry.
- o The risks associated with long sales cycles and inability to predict quarterly results.

OVERVIEW

The Company generates revenues primarily from software licenses and sale of hardware products and, to a lesser extent, consulting and related services. The Company anticipates that revenues from products will continue to be the principal source of the Company's total revenues.

21

RESULTS OF OPERATIONS

The following table sets forth certain statement of operations data as a percentage of revenues for the periods indicated:

	Year ended December 31,		
	1998	1999	2000
Revenues:			
Products	92.6%	69.0%	73.7%
Consulting and services	7.4	31.0	26.3
Total revenues	100.0	100.0	100.0

Edgar Filing: V ONE CORP/ DE - Form 10-K

	-----	-----	-----
Cost of revenues:			
Products	25.9	19.6	9.7
Consulting and services	1.1	2.8	2.7
	-----	-----	-----
Total cost of revenues	27.0	22.4	12.4
	-----	-----	-----
Gross profit	73.0	77.6	87.6
Operating expenses:			
Sales and marketing	116.7	134.5	136.1
General and administrative	62.2	62.8	77.2
Research and development	41.9	57.4	75.6
	-----	-----	-----
Total operating expenses	220.8	257.4	288.9
	-----	-----	-----
Operating loss	(147.8)	(177.1)	(201.3)
Other (expense) income:			
Interest expense	(1.1)	(13.6)	(0.5)
Interest income	2.0	3.3	7.2
	-----	-----	-----
Total other expenses	0.9	(10.3)	6.7
	-----	-----	-----
Loss before extraordinary item	(146.9)	(187.4)	(194.6)
Extraordinary loss - early extinguishment of debt	--	(7.5)	--
	-----	-----	-----
Net loss	(146.9)	(194.9)	(194.6)
Dividend on preferred stock	1.8	5.5	8.1
Deemed dividend on preferred stock	1.6	--	--
	-----	-----	-----
Loss attributable to holder of Common Stock	(150.3)%	(200.4)%	(202.7)%
	=====	=====	=====

COMPARISON OF YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000

REVENUES

Total revenues decreased from approximately \$6,260,000 in 1998 to approximately \$4,966,000 in 1999 and to approximately \$4,554,000 in 2000. Product revenues are derived principally from software licenses and the sale of hardware products. Product revenues decreased from approximately \$5,799,000 in 1998 to approximately \$3,427,000 in 1999, and to approximately \$3,356,000 in 2000. The

Edgar Filing: V ONE CORP/ DE - Form 10-K

principal reason for the decrease from 1998 to 1999 and to 2000 was declining sales of the Company's SmartWall products and hardware turnkey systems. The decrease in product revenues from 1999 to 2000 was partially offset by increased sales of the Company's SmartGate product.

Consulting and services revenues are derived principally from fees for services complementary to the Company's products, including consulting, maintenance and training. Consulting and services revenues increased from approximately \$461,000 in 1998 to approximately \$1,538,000 in 1999, but declined to approximately \$1,198,000 in 2000. In 1999, the Company implemented a major drive to focus on renewing maintenance contracts to allow customers to upgrade to current versions of software. This resulted in incremental revenue from the point of the lapse in service to the current period. In addition, resolution was reached on an agreement with a partner, which included recognition of maintenance revenue of approximately \$386,000 for services performed by the Company.

COST OF REVENUES

Total cost of revenues as a percentage of total revenues were 27.0%, 22.4% and 12.4% in 1998, 1999 and 2000, respectively.

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 and shipping costs. Cost of product revenues decreased from approximately \$1,623,000 in 1998 to approximately \$974,000 in 1999 and to approximately \$442,000 in 2000. Cost of product revenues as a percentage of product revenues was 28.0%, 28.4% and 13.2% for 1998, 1999 and 2000, respectively. The dollar and percentage decreases in 2000 were attributable to a higher mix of SmartGate software licenses to SmartWall products and turnkey hardware sales.

Cost of consulting and services revenues consists principally of personnel and related costs incurred in providing consulting, support and training services to customers. Cost of consulting and services revenues increased from approximately \$68,000 in 1998 to \$137,000 in 1999, but declined to approximately \$122,000 in 2000. Cost of consulting and services revenues as a percentage of consulting and services revenues was 14.8%, 8.9% and 10.2% for 1998, 1999 and 2000, respectively. The percentage decrease from 1998 to 1999 was principally due to a higher revenue from maintenance contracts and a reduced emphasis on consulting and a greater concentration on training and support. The percentage increase from 1999 to 2000 relates to a larger portion of third party products with proportionately higher support costs.

OPERATING EXPENSES

Sales and Marketing -- Sales and marketing expenses consist principally of the costs of sales and marketing personnel, advertising, promotions and trade shows. Sales and marketing expenses decreased from approximately \$7,306,000 in 1998 to approximately \$6,683,000 in 1999 and decreased further to approximately \$6,198,000 in 2000. Sales and marketing expenses as a percentage of total revenues were 116.7%, 134.5% and 136.1% in 1998, 1999 and 2000, respectively. The dollar decreases in 1999 and 2000 were principally due to personnel turnover and lower levels of advertising and promotion expenses. The percentage increase in 1999 was due to lower revenue as compared to 1998. Sales and marketing

expenses are expected to increase in the near term as a result of the Company's efforts to increase awareness of new point product introductions and strategic alliances.

Edgar Filing: V ONE CORP/ DE - Form 10-K

General and Administrative -- General and administrative expenses consist principally of the costs of finance, management and administrative personnel and facilities expenses. General and administrative expenses decreased from approximately \$3,896,000 in 1998 to approximately \$3,119,000 in 1999, and increased to approximately \$3,517,000 in 2000. General and administrative expenses as a percentage of total revenues were 62.2%, 62.8% and 77.2% in 1998, 1999 and 2000, respectively. The decrease in expense in 1999 is due in part to the 1998 non-cash compensation charge on the warrants, lower fees for recruiting and relocation and a decrease in the allowance for bad debts expense. The increase in expense in 2000 resulted from higher professional fees and certain non-recurring severance costs. The Company anticipates that general and administrative expenses, as a percent of revenue, will decrease in future periods.

Research and Development -- Research and development expenses consist 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 increased from approximately \$2,619,000 in 1998 to approximately \$2,849,000 in 1999 and to approximately \$3,440,000 in 2000. Research and development expenses as a percentage of total revenues were 41.9%, 57.4% and 75.6% in 1998, 1999 and 2000, respectively. The dollar and percentage increases in 1999 and 2000 were primarily due to increases in the number of personnel and consulting services associated with the Company's product development efforts. The Company believes that a continuing commitment to research and development is required to remain competitive. Accordingly, the Company intends to continue to allocate substantial resources to research and development, but research and development expenses may vary as a percentage of total revenues.

Interest Income and Expense -- Interest income represents interest earned on cash, cash equivalents and marketable securities. Interest income was approximately \$125,000 in 1998, \$165,000 in 1999 and approximately \$330,000 in 2000. Interest income was derived primarily from interest earned on the proceeds from the Company's private placements and stock option exercises. Interest expense represents interest payable or accreted on promissory notes and capitalized lease obligations. Interest expense was approximately \$65,000, \$676,000 and \$26,000 in 1998, 1999 and 2000, respectively. The large increase in interest expense in 1999 relates to financing costs attributable to the Company's secured loan (see Note 3 to the Financial Statements) to Transamerica Business Credit Corporation ("TBCC"). The total costs including interest on the loan proceeds, transactions costs, costs to prepay the loan prior to the maturity date and the cost of warrants issued in conjunction with the Transamerica note amounted to approximately \$1,000,000 in 1999.

Income Taxes -- The Company did not incur income tax expenses in December 31, 1998, 1999 and 2000 as a result of the net loss incurred during these periods. As of December 31, 2000, the Company had net operating loss carry forwards of approximately \$42,160,000 as a result of net losses incurred since inception.

Dividend on Series C Stock -- The Company provided approximately \$272,000 for a dividend on the Series C Stock during 1999, and approximately \$370,000 for 2000. This compares to approximately \$111,000 provided for in 1998 for the Series A Stock. All of the Series A Stock was retired in November 1998. The Series B Stock bears no dividend.

Deemed Dividend on Series A Stock -- In 1998, the Company recorded a deemed dividend of \$103,000 on the Series A Stock, in accordance with the Securities and Exchange Commission's position on accounting for preferred stock that is convertible at a discount to the market price for Common Stock. The Series A Stock was redeemed in 1998.

LIQUIDITY AND SOURCES OF CAPITAL

The Company's operating activities used cash of approximately \$6,642,000, \$9,263,000 and \$6,677,000 in 1998, 1999 and 2000, respectively. Cash used in operating activities was principally a result of net losses and changes in assets and liabilities, non-cash expenses related to depreciation, amortization and issuance of warrants and options and deferred financing costs. The decrease in net cash used in operating activities from 1999 to 2000 was due in part to large increases in deferred revenue and decreases in prepaid expenses and other assets. The large increase in 1999 was due in part to a significant drop in accounts payable and deferred revenue.

During the year ended December 31, 2000, the Company issued, pursuant to Rule 506 of Regulation D, 500,000 shares of Common Stock at a purchase price of \$4.75 per share to Cranshire Capital, L.P. in exchange for \$2,375,000 and issued 274,967 shares Common Stock at a purchase price of \$3.64 per share to Citrix Systems, Inc. in exchange for \$1,000,000.

In October 2000, the Company implemented a cost reduction program and has taken immediate steps to reduce spending by approximately \$2.5 million dollars a year by reducing sales and marketing staff and more narrowly focusing sales and marketing efforts. Additionally, in February 2001 the Company completed a private placement of equity in the amount of approximately \$7.0 million and completed the sale of its 6.8% holding in the stock of NFR Security, Inc. (formerly Network Flight Recorder) in March 2001 for approximately \$1.6 million in net proceeds. The Company believes it has the necessary capital funds to sustain operations through March 31, 2002 and to maintain capital needed to satisfy listing requirements on the NASDAQ Small Cap Market.

The Company had net tangible asset balance of \$7,842,000 and \$2,722,000 at December 31, 1999 and 2000, respectively.

Net capital expenditures for property and equipment were approximately \$322,000, \$176,000 and \$774,000 in 1998, 1999 and 2000 respectively. These expenditures have generally been for computer workstations and personal computers, office furniture and equipment, and leasehold additions and improvements. The capital expenditures decreased in 1999 but increased in 2000 as the Company purchased computers and equipment off an expiring three-year lease, and acquired an integrated sales opportunity management software system for increased efficiency and visibility within the organization.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is not exposed to a variety of market risks such as fluctuations in currency exchange rates or Interest rates. All of the Company's products are invoiced in U.S. dollars. The Company does not hold any derivatives or marketable securities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

V-ONE CORPORATION

INDEX TO FINANCIAL STATEMENTS

Report of Independent Auditors	27
Report of PricewaterhouseCoopers LLP, Independent Auditors	28
Balance Sheets	29
Statements of Operations	30
Statements of Stockholders' Equity	31
Statements of Cash Flows	32
Notes to Financial Statements	33
Schedule of Valuation and Qualifying Accounts for the years ended December 31, 1998, 1999 and 2000	51

Report of Independent Auditors

Board of Directors and Stockholders
V-ONE Corporation

We have audited the accompanying balance sheets of V-ONE Corporation as of December 31, 2000 and 1999, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. Our audits also included the financial statement schedule for the years ended December 31, 2000 and 1999 listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and

Edgar Filing: V ONE CORP/ DE - Form 10-K

perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of V-ONE Corporation at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule for the years ended December 31, 2000 and 1999, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

McLean, Virginia
February 9, 2001

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of V-ONE Corporation

In our opinion, the financial statements listed in the accompanying index present fairly, in all material respects, the financial position of V-ONE Corporation (the Company) at December 31, 1998, and the results of its operations, changes in stockholders' equity, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above. We have not audited the financial statements of V-ONE Corporation for any period subsequent

Edgar Filing: V ONE CORP/ DE - Form 10-K

to December 31, 1998.

The financial statements referred to above have been prepared assuming the Company will continue as a going concern. As shown in these financial statements during 1998 the Company incurred significant losses of \$9,193,396, and had a net working capital deficit position of \$1,277,368 at December 31, 1998. These facts raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PricewaterhouseCoopers LLP

McLean, VA
 March 11, 1999 except as in the third
 and fourth sentences of the first paragraph
 of Note 3, to which the date is March 31, 1999.

28

V-ONE CORPORATION
 BALANCE SHEETS

	December 31,	
ASSETS	2000	1999
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 2,949,398	\$ 7,111,111
Accounts receivable, less allowances of \$105,664 and \$134,244, respectively	776,845	1,111,111
Inventory, less allowances of \$78,656 and \$87,694, respectively	172,177	1,111,111
Prepaid expenses and other current assets	254,631	1,111,111
	-----	-----
Total current assets	4,153,051	8,555,555
Property and equipment, net	929,398	1,111,111
Other assets	368,169	1,111,111
	-----	-----
Total assets	\$ 5,450,618	\$ 10,777,777
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Edgar Filing: V ONE CORP/ DE - Form 10-K

Accounts payable and accrued expenses	\$	1,375,939	\$	1,
Deferred revenue		1,113,202		
Capital lease obligations - current		71,943		
		-----		-----
Total current liabilities		2,561,084		1,
Deferred rent		120,150		
Capital lease obligations - noncurrent		47,803		
		-----		-----
Total liabilities		2,729,037		1,
Commitments and contingencies				
Stockholders' equity:				
Preferred stock, \$0.001 par value; 13,333,333 shares authorized				
Series B convertible preferred stock, 1,287,554 designated, issued and outstanding (liquidation preference of \$3,000,000)		1,288		
Series C redeemable preferred stock, 500,000 designated, 54,714 and 335,000 shares issued and outstanding, respectively (liquidation preference of \$1,436,243 and \$8,793,750)		55		
Common Stock, \$0.001 par value; 50,000,000 shares authorized; 22,109,185 and 18,233,780 shares issued and outstanding, respectively		22,109		
Accrued dividends payable		180,911		
Additional paid-in capital		51,393,818		47,
Subscriptions receivable		-		
Accumulated deficit		(48,876,600)		(39,
		-----		-----
Total stockholders' equity		2,721,581		7,
		-----		-----
Total liabilities and stockholders' equity	\$	5,450,618	\$	9,
		=====		=====

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

29

V-ONE CORPORATION
STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2000	1999	1998
	-----	-----	-----
Revenues:			
Products	\$ 3,356,086	\$ 3,427,422	\$ 5,798
Consulting and services	1,197,544	1,538,258	461
	-----	-----	-----
Total revenues	4,553,630	4,965,680	6,259
Cost of revenues:			
Products	441,752	973,866	1,623
Consulting and services	122,107	137,281	68
	-----	-----	-----
Total cost of revenues	563,859	1,111,147	1,691

Edgar Filing: V ONE CORP/ DE - Form 10-K

Gross profit	3,989,771	3,854,533	4,568
Operating expenses:			
Sales and marketing	6,198,146	6,683,039	7,306
General and administrative	3,517,068	3,118,829	3,896
Research and development	3,440,397	2,848,955	2,618
Total operating expenses	13,155,611	12,650,823	13,821
Operating loss	(9,165,840)	(8,796,290)	(9,253)
Interest (expense) income:			
Interest expense	(25,945)	(676,443)	(65)
Interest income	329,770	164,841	125
Total interest (expense) income	303,825	(511,602)	59
Loss before extraordinary item	(8,862,015)	(9,307,892)	(9,193)
Extraordinary item - early extinguishment of debt	-	(372,052)	-
Net loss	(8,862,015)	(9,679,944)	(9,193)
Dividend on preferred stock	369,979	272,245	110
Deemed dividend on preferred stock	-	-	102
Net loss attributable to holders of common stock	\$ (9,231,994)	\$ (9,952,189)	\$ (9,407)
Basic and diluted loss per share			
Loss before extraordinary item	\$ (0.44)	\$ (0.57)	\$ (0.44)
Net loss attributable to holders of common stock	\$ (0.44)	\$ (0.59)	\$ (0.44)
Weighted average number of common shares outstanding	20,871,076	16,938,205	13,898

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

Edgar Filing: V ONE CORP/ DE - Form 10-K

	Common Stock		Series B & C Preferred Stock		Accrued Dividend Payable	Additional Paid-in Capital	Subscription Receivable
	Shares	Amount	Shares	Amount			
Balance, December 31, 1997	13,070,235	\$13,070	-	-	-	\$24,649,538	\$(166,000)
Issuance of common stock, net of issuance costs	2,535,000	2,535	-	-	-	4,532,554	
Exercise of common stock options	189,333	189	-	-	-	273,228	
Conversion of mandatorily redeemable preferred stock to common stock	720,670	721	-	-	-	1,537,279	
Redemption of mandatorily redeemable preferred stock	-	-	-	-	-	(1,011,716)	
Retirement of common stock	(37,192)	(37)	-	-	-	(115,953)	115,953
Deemed dividend on preferred stock	-	-	-	-	-	102,755	
Dividend on preferred stock	-	-	-	-	-	-	
Issuance of common stock warrants	-	-	-	-	-	394,000	
Net loss	-	-	-	-	-	-	
Balance, December 31, 1998	16,478,046	16,478	-	-	-	30,361,685	(50,000)
Exercise of common stock options, net of issuance costs	848,629	848	-	-	-	2,669,882	
Exercise of warrants	907,105	907	-	-	-	2,863,001	
Issuance of Series B preferred stock, net of issuance costs	-	-	1,287,554	\$1,288	-	2,981,212	
Issuance of Series C preferred stock, net of issuance costs	-	-	335,000	335	-	7,918,349	
Collection and forgiveness of subscriptions receivable	-	-	-	-	-	-	46,000
Issuance of common stock warrants	-	-	-	-	-	310,000	
Dividend on preferred stock	-	-	-	-	\$272,245	-	
Issuance of common stock options to consultants	-	-	-	-	-	93,764	
Net loss	-	-	-	-	-	-	
Balance, December 31, 1999	18,233,780	18,233	1,622,554	1,623	272,245	47,197,893	(3,000)
Issuance of common stock, net of issuance costs	915,596	915	-	-	-	3,472,190	
Exercise of common stock options, net of issuance costs	59,500	60	-	-	-	169,637	
Conversion of Series C preferred stock to common stock	2,900,309	2,901	(280,286)	(280)	(461,313)	458,676	
Collection of notes receivable for stock	-	-	-	-	-	-	3,000
Dividends on preferred stock	-	-	-	-	369,979	-	
Issuance of common stock options to consultants	-	-	-	-	-	95,422	
Net loss	-	-	-	-	-	-	
Balance, December 31, 2000	22,109,185	\$22,109	1,342,268	\$1,343	\$180,911	\$51,393,818	

=====

The accompanying notes are an integral part of these financial statements

31

V-ONE CORPORATION
STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2000	1999	1998
	----	----	----
Cash flows from operating activities:			
Net loss	\$ (8,862,015)	\$ (9,679,944)	\$ (9,193,354)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	429,939	464,879	354,879
Amortization	-	255,378	283,378
Loss on disposal of assets	-	-	95,000
Amortization of deferred financing costs	-	730,000	-
Forgiven subscription receivable	-	46,114	-
Noncash charge related to issuance of warrants and options	377,422	93,764	394,186
Changes in operating assets and liabilities:			
Accounts receivable, net	78,008	(341,632)	281,624
Inventory, net	(126,090)	339,394	198,304
Prepaid expenses and other assets	529,045	105,755	(6,000)
Accounts payable and accrued expenses	218,279	(966,496)	97,000
Deferred revenue	692,280	(467,373)	7,000
Deferred rent	(36,561)	156,711	(3,000)
Net cash used in operating activities	(6,699,693)	(9,263,450)	(6,641,000)
Cash flows from investing activities:			
Net purchases of property and equipment	(773,629)	(176,033)	(32,000)
Collection of subscription receivable	3,785	122	-
Net cash used in investing activities	(769,844)	(175,911)	(32,000)
Cash flows from financing activities:			
Issuance of common stock	-	-	5,070
Issuance of preferred stock, net of subscriptions receivable	3,375,000	11,793,750	-
Payment of debt financing costs	-	(420,000)	-
Payment of preferred stock dividends	(16)	-	(110)
Payment of stock issuance costs	(183,895)	(941,875)	(574)
Redemption of preferred stock	-	-	(3,200)
Exercise of stock options and warrants	169,697	5,583,946	273
Principal payments on capital lease obligations	(78,794)	(70,217)	(43)
Repayment of notes payable	-	(5,259)	(16)
Net cash provided by financing	3,281,992	15,940,345	1,396

Edgar Filing: V ONE CORP/ DE - Form 10-K

activities			
Net (decrease) increase in cash and cash equivalents	(4,187,545)	6,500,984	(5,567)
Cash and cash equivalents, beginning of year	7,136,943	635,959	6,203
Cash and cash equivalents, end of year	\$ 2,949,398	\$ 7,136,943	\$ 635

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

V-ONE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

V-ONE Corporation (the "Company") develops, markets and licenses a comprehensive suite of network security products that enable organizations to conduct secured electronic transactions and information exchange using private enterprise networks and public networks, such as the Internet. The Company's principal market is the United States, with headquarters in Maryland, with secondary markets located in Europe and Asia.

2. SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company develops, markets, licenses and supports computer software products and provides related services. The Company conveys the right to use the software products to customers under perpetual license agreements, and conveys the rights to product support and enhancements in annual maintenance agreements. The Company recognizes revenue upon deployment of the software directly to an end-user or a value-added reseller. The Company defers and recognizes maintenance and support services revenue over the term of the contract period, which is generally one year. The Company recognizes training and consulting services revenue as the services are provided. The Company generally expenses sales commissions as the related revenue is recognized and pays sales commissions upon receipt of payment from the customer.

In addition to its direct sales effort, the Company licenses its products through a network of distributors. The Company does not record revenue until the distributor has delivered the licenses to end-user customers and the end-user customers have registered the software with the Company. The Company also records revenue when the software is deployed directly to the end-user customer on behalf of the distributor.

In certain instances, as appropriate, the Company recognizes revenues from the sale of systems using the percentage of completion method as the work is performed, measured primarily by the ratio of labor hours incurred to total estimated labor hours for each specific contract. When the total estimated cost of a contract is expected to exceed the contract price, the total estimated loss is charged to expense in the period when the information becomes known.

In 2000, the Company entered into a contract which contains multiple elements, including specified upgrades. Because the Company has not

Edgar Filing: V ONE CORP/ DE - Form 10-K

established vendor specific objective evidence for the specified upgrades, all revenues under the contract will be deferred until the upgrades are delivered. At December 31, 2000, the Company had \$500,000 in deferred revenue related to this contract.

The Company's revenue recognition policies for the years ended December 31, 1998, 1999 and 2000 are in conformity with the Statement of Position 97-2, "Software Revenue Recognition" (SOP 97-2), promulgated by the American Institute of Certified Public Accountants.

SHIPPING AND HANDLING FEES AND COSTS

In September 2000, the Emerging Issues Task Force (EITF) reached a final consensus on EITF Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." This consensus requires that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenue and should be classified as revenue. The Company historically has

33

V-ONE CORPORATION NOTES TO FINANCIAL STATEMENTS

classified shipping charges to customers as revenue. With respect to the classification of costs related to shipping and handling incurred by the seller, the EITF determined that the classification of such costs is an accounting policy decision that should be disclosed. The Company has classified both inbound and outbound shipping charges as cost of sales.

RESEARCH AND DEVELOPMENT AND SOFTWARE DEVELOPMENT COSTS

Software development costs are included in research and development and are expensed as incurred. Statement of Financial Accounting Standards No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased or Otherwise Marketed" requires the capitalization of certain software development costs once technological feasibility is established, which the Company generally defines as completion of a working model. Capitalization ceases when the products are available for general release to customers, at which time amortization of the capitalized costs begins on a straight-line basis over the estimated product life, or on the ratio of current revenues to total projected product revenues, whichever is greater. To date, the period between achieving technological feasibility and the general availability of such software has been short, and software development costs qualifying for capitalization have been insignificant.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents include time deposits with commercial banks used for temporary cash management purposes.

INVENTORIES

Edgar Filing: V ONE CORP/ DE - Form 10-K

Inventories are valued at the lower of cost or market and consist primarily of computer equipment for sale on orders received from customers and other vendor's software licenses held for resale. Cost is determined based on specific identification.

PROPERTY AND EQUIPMENT

Property and equipment are stated at historical cost and are depreciated using the straight-line method over the shorter of the assets' estimated useful life or the lease term, ranging from three to seven years. Capital leases are recorded at their net present value on the inception of the lease. Depreciation expense was \$429,939, \$464,879 and \$354,187 for the years ended December 31, 2000, 1999 and 1998, respectively.

ADVERTISING COSTS

The Company expenses all advertising costs as incurred. The Company incurred approximately \$177,000 \$98,400 and \$196,000, in advertising costs for the years ended December 31, 2000, 1999 and 1998 respectively.

34

V-ONE CORPORATION NOTES TO FINANCIAL STATEMENTS

STOCK-BASED COMPENSATION

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS"), allows companies to account for stock-based compensation either under the provisions of SFAS 123 or under the provisions of Accounting Principles Bulletin No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), as amended by FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 25)," but requires pro forma disclosure in the footnotes to the financial statements as if the measurement provisions of SFAS 123 had been adopted. The Company has elected to account for its stock-based compensation in accordance with the provisions of APB 25 (see Note 6).

Stock options and warrants granted to non-employees are accounted for in accordance with SFAS 123 and the Emerging Issues Task Force Consensus No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," which requires the value of the options to be periodically re-measured as they vest over a performance period. The fair value of the options is determined using the Black-Scholes model.

EXTRAORDINARY ITEM

On September 30, 1999, the Company paid in full the Transamerica term loan prior to its maturity (see Note 3). In connection with the payment, the Company recognized a \$372,052 loss related to the early extinguishment of debt.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement

Edgar Filing: V ONE CORP/ DE - Form 10-K

carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured by applying presently enacted statutory tax rates, which are applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized, to the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in net income in the period that the tax rate is enacted.

The Company provides a valuation allowance against net deferred tax assets if, based upon available evidence, it is more likely that some or all of the deferred tax assets may not be realized.

NET LOSS PER COMMON SHARE

The Company follows Financial Accounting Standards Board Statement No. 128, "Earnings Per Share," ("SFAS 128") for computing and presenting net income per share information. Basic net loss per share was determined by dividing net loss by the weighted average number of common shares outstanding during each year. Diluted net loss per share excludes common equivalent shares, unexercised stock options and warrants as the computation would be anti-dilutive. A reconciliation of the net loss available for common stockholders and the number of shares used in computing basic and diluted net loss per share is in Note 10.

35

V-ONE CORPORATION NOTES TO FINANCIAL STATEMENTS

BUSINESS SEGMENTS

In 1998, the Company adopted FASB Statement No. 131, "Disclosure About Segments of an Enterprise and Related Information," which establishes standards for disclosures about products, geographics and major customers. The Company's implementation of this standard does not have any effect on its financial statements, as the Company only operates in one segment.

RISKS, UNCERTAINTIES AND CONCENTRATIONS

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash equivalents and accounts receivable. The Company's cash balances exceed federally insured amounts. The Company invests its cash primarily in money market funds with an international commercial bank. The Company sells its products to a wide variety of customers in a variety of industries. The Company performs ongoing credit evaluations of its customers, but does not require collateral or other security to support customer accounts receivable. In management's opinion, the Company has sufficiently provided for estimated credit losses.

During 1998 approximately \$524,000 of goods and services were purchased from two major suppliers, representing 32% of total 1998 product cost of revenues. No suppliers exceeded 10% of purchases in 1999 or 2000.

During the years ended December 31, 2000, 1999, and 1998, 21%, 26% and 19% percent, respectively, related to sales to international customers. During the years ended December 31, 2000, 1999, and 1998, 40%, 35%, and 62%, respectively, related to sales to government agencies.

Edgar Filing: V ONE CORP/ DE - Form 10-K

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2000 presentation.

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 is effective for fiscal years beginning after June 15, 2000 and cannot be applied retroactively. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company will adopt SFAS 133 effective January 1, 2001. The adoption is not expected to materially impact the Company's financial statements.

3. NOTES PAYABLE

On February 24, 1999, the Company entered into a Loan and Security Agreement ("Loan Agreement") with Transamerica Business Credit Corporation ("Transamerica"). Under the terms of the Loan Agreement, the Company received a \$3.0 million term loan that bears interest at 12.53% per annum. Interest is payable monthly in arrears. On March 31, 1999, the Company and Transamerica amended the Loan Agreement, whereby Transamerica waived the event of default created when the Company received a "going-concern" opinion from its independent auditors. The Company agreed to (i) grant TBCC Funding Trust II, an affiliate of Transamerica, a warrant to purchase 100,000 shares of Common Stock at an exercise price of \$3.25 per share and (ii) accept the additional financial covenant that the Company's net worth would be \$5.0 million at June 30, 1999 and September 30, 1999. The warrant

36

V-ONE CORPORATION NOTES TO FINANCIAL STATEMENTS

was valued at \$224,000 using the Black-Scholes option-pricing model and the following assumptions: dividend yield of 0%; expected volatility of 68%; risk-free interest rate of 5.35% and expected term of seven years.

On June 30, 1999, the Company and Transamerica entered into a second amendment, whereby Transamerica (i) waived the requirement that the Company's net worth be \$5.0 million on June 30, 1999, (ii) extended the maturity date of the \$3.0 million term note to February 28, 2000 and removed the requirement that Transamerica convert the term loan to a revolving loan on February 28, 2000, and (iii) deleted the \$360,000 acquisition fee. In consideration for the second amendment, the Company (i) issued a seven-year warrant to purchase 50,000 shares of the Company's Common Stock at an exercise price of \$3.75 per share, (ii) paid a \$150,000 fee to Transamerica, (iii) agreed to use 30% of any future equity raised by the Company after completion of its current round of financing to prepay the term loan, (iv) agreed to pay \$100,000 per month in principal on the term loan beginning on September 1, 1999, and (v) agreed to pay the balance of the principal and accrued and unpaid interest due on the term loan on February 28, 2000. The warrant to purchase 50,000 shares was valued at \$86,000 using the Black-Scholes option-pricing model and the

Edgar Filing: V ONE CORP/ DE - Form 10-K

following assumptions: dividend yield of 0%; expected volatility of 68%; risk-free interest rate of 5.35% and expected term of seven years.

As a result of an anti-dilution clause triggered upon the issuance of Series B Convertible Preferred Stock, the warrants to purchase 100,000 shares of Common Stock with an exercise price of \$3.25 per share were increased to 139,485 shares at an exercise price of \$2.33 per share. Additionally, upon issuance of the Series C Preferred Stock on September 9, 1999, the warrants to purchase 50,000 shares of Common Stock with an exercise price of \$3.75 per share were increased to 71,429 shares with an exercise price of \$2.65 per share. The Transamerica term loan was repaid on September 30, 1999 and all indebtedness and obligations owed by the Company were terminated. The warrants are still outstanding as of December 31, 2000.

On September 30, 1999, the Company entered into a Revolving Credit Promissory Note (the "Note") with Citibank, F.S.B., ("Citibank"). Under the terms of the Note, the Company may be advanced up to \$3.0 million under a revolving loan agreement with a maturity date of October 1, 2000 with the ability to renew for additional terms. The Note bears interest at a rate equal to the sum of the interest rate paid on the automatically renewable one-year certificate of deposit plus a margin of two percentage points. Interest is payable monthly in arrears. The initial rate of interest is 6.78%. Advances of \$2,900,000 were made at September 30, 1999, which were used to pay off the remaining principal on the Transamerica note payable. On December 14, 1999, the Note was repaid with the proceeds from a certificate of deposit, which had been the collateral for the Note.

37

V-ONE CORPORATION
NOTES TO FINANCIAL STATEMENTS

4. SELECTED BALANCE SHEET INFORMATION

Property and equipment consisted of the following at December 31:

	2000	1999
	-----	-----
Office and computer equipment	\$ 1,426,217	\$ 988,041
Office and computer equipment under capital leases	341,302	359,859
Leasehold improvements	89,504	62,332
Furniture and fixtures	310,268	120,811
	-----	-----
	2,167,291	1,531,043
Less: accumulated depreciation	(1,237,893)	(945,335)
	-----	-----
	\$ 929,398	\$ 585,708
	=====	=====

The Company had two licensing agreements whereby the Company obtained the right to modify and sell certain technology used in its product line. All amounts are fully amortized as of December 31, 1999. The Company incurred

Edgar Filing: V ONE CORP/ DE - Form 10-K

amortization expense of \$0, \$255,378 and \$283,056, relating to these agreements in 2000, 1999 and 1998, respectively.

Other assets consisted of the following at December 31:

	2000	1999
	-----	-----
Deposits	\$ 118,169	\$ 652,506
Investment in Network Flight Recorder	250,000	250,000
	-----	-----
	\$ 368,169	\$ 902,506
	=====	=====

In January 1997, the Company made an investment of \$250,000 in NFR Security, Inc., formerly Network Flight Recorder, Inc. ("NFR") in exchange for ten percent of NFR's common stock. NFR develops software to provide network administrators with network audit capabilities. NFR is headed by the Company's former chief scientist, who continues to work as a consultant for the Company. The Company's investment in these equity securities was recorded at the fair market value on the date of the transaction and is accounted for using the cost method. Subsequent to year end, the Company sold its stock in NFR for \$1,625,000.

Accounts payable and accrued expenses consisted of the following at December 31:

	2000	1999
	-----	-----
Accounts payable	\$ 580,605	\$ 847,267
Accrued compensation	589,242	270,072
Sales tax payable	247	1,936
Other accrued expenses	205,845	38,385
	-----	-----
	\$ 1,375,939	\$ 1,157,660
	=====	=====

V-ONE CORPORATION
NOTES TO FINANCIAL STATEMENTS

5. INCOME TAXES

The tax effect of temporary differences that give rise to significant portions of the deferred income taxes are as follows at December 31:

Edgar Filing: V ONE CORP/ DE - Form 10-K

	2000	1999
	-----	-----
Inventory	\$ 38,948	\$ 33,867
Accounts receivable	40,807	51,845
Property and equipment	18,203	(60,343)
Deferred rent	46,402	60,522
Non-deductible accruals	52,631	61,320
Options and warrants	-	155,991
Net operating loss carry forward	16,282,345	14,556,026
	-----	-----
Total deferred tax asset	16,479,336	14,859,228
Valuation allowance	(16,479,336)	(14,859,228)
	-----	-----
Net deferred tax asset	\$ -	\$ -
	=====	=====

The net change in the valuation allowance from 1999 to 2000 is due principally to the increase in net operating losses. Valuation allowances have been recognized due to the uncertainty of realizing the benefit of net operating loss carryforwards. At December 31, 2000 and 1999, the Company had net operating loss carryforwards of approximately \$42,200,000 and \$37,700,000 for Federal and state income tax purposes available to offset future taxable income. The net operating loss carryforwards begin to expire in 2008.

A reconciliation between income taxes computed using the statutory federal income tax rate and the effective rate for the years ended December 31, 1999 and 2000 is as follows:

	2000	1999
	-----	-----
Federal income tax (benefit) at statutory rate	(34.0%)	(34.0%)
State income taxes, net	(4.6%)	(6.6%)
Permanent items	(0.1%)	(14.6%)
Net change in valuation allowance	38.7%	55.2%
	-----	-----
Provision for Income Taxes	0.0%	0.0%
	=====	=====

6. SHAREHOLDERS' EQUITY

SERIES B PREFERRED STOCK

On June 11, 1999, the Company issued 1,287,554 shares at \$2.33 per share of Series B Convertible Preferred Stock (the "Series B Stock") to two investors for \$1.0 million in cash and a subscription agreement for \$2.0 million. Net proceeds to the Company after issuance costs of \$17,500 were \$2,982,500. The subscription receivable was repaid in two installments of \$1.0 million plus accrued interest in July and August 1999. The Series B Stock ranks senior to the Common Stock as to distributions of assets upon liquidation, dissolution or winding up of the Company. The Series B Stock

Edgar Filing: V ONE CORP/ DE - Form 10-K

is not redeemable, does not bear dividends and generally has no voting rights. Each share of Series B Stock is convertible at the option of the holder at any time into one share of Common Stock based upon an initial

39

V-ONE CORPORATION NOTES TO FINANCIAL STATEMENTS

conversion price of \$2.33 per share. The conversion price is subject to adjustment in the event the Company pays dividends or makes distributions on, splits or reverse splits its Common Stock. The holders of the Series B Stock are entitled to a liquidation preference of \$2.33 per share.

SERIES C PREFERRED STOCK

On September 9, 1999, the Company issued 335,000 shares of Series C Preferred Stock (the "Series C Stock") and 3,350,000 non-detachable warrants to purchase shares of the Company's Common Stock (the "Warrants") to certain accredited investors. Each share of Series C Stock was issued with ten Warrants (collectively a "Unit") for a price of \$26.25 per Unit. The Company received \$7,918,684 in proceeds net of issuance costs of approximately \$875,000. The Warrants are immediately exercisable at a price of \$2.625 per share and will remain exercisable until 90 days after all of the Series C Stock has been redeemed and the shares of the Common Stock underlying the Warrants have been registered for resale.

The Series C Stock bears cumulative compounding dividends at an annual rate of 10% for the first five years, 12.5% for the sixth year and 15% in and after the seventh year. The dividends may be paid in cash, or at the option of the Company, in shares of registered Common Stock. The Series C Stock is not convertible and ranks senior to the Common Stock and to the Series B Stock as to payment of dividends, and ranks senior to the Common Stock and in parity with the Series B Stock as to distributions of assets upon liquidation, dissolution or winding up of the Company. Holders of the Series C Stock are entitled to a liquidation preference of \$26.25 per share.

At least 51% of the outstanding shares of Series C Stock must vote affirmatively as a separate class for (i) the voluntary liquidation, dissolution or winding up of the Company, (ii) the issuance of any securities senior to the Series C Stock and (iii) the declaration or payment of a cash dividend on all junior stocks and certain amendments to the Company's certificate of incorporation. Prior to the exercise of the Warrants, the holders shall also be entitled to ten common votes for each share of Series C Stock on all matters on which Common Stockholders are entitled to vote, except in connection with the election of the Board of Directors. As long as at least 51% of the Series C Stock is outstanding, the holders shall have the right to elect one director to the Company's Board of Directors.

The Company has the right to redeem the outstanding shares of Series C Stock in whole (i) at any time after the third anniversary of the issuance date, (ii) upon the closing of an underwritten public offering in excess of \$20 million and at a price in excess of \$6.50 per share or (iii) prior to the third anniversary of the issuance date if the average closing bid price of the Common Stock for any 20 trading days during any 30 trading days ending within 5 trading days prior to the date of notice of redemption is at least \$3.9375 per share. The redemption price would be paid in cash in full and would be equal to the greater of the \$26.25 per

Edgar Filing: V ONE CORP/ DE - Form 10-K

share purchase price or the fair market value of each Series C share plus all unpaid dividends.

At any time after all of the Warrants have been exercised by a holder, that holder shall have the right to require the Company to redeem all of its then outstanding share of Series C Stock. The redemption price for each share of Series C Stock shall be the \$26.25 per share purchase price plus all unpaid dividends and is payable at the option of the Company in either cash or shares of Common Stock.

40

V-ONE CORPORATION NOTES TO FINANCIAL STATEMENTS

The Company has granted registration rights to the investors whereby the Company is obligated, in certain instances, to register the shares of Common Stock issuable upon conversion of the Series B Stock and exercise of the Warrants attached to the Series C Stock.

Throughout 2000, certain holders of the Series C Stock chose to exercise their warrants through the cashless exercise provision. The cashless exercise provision allowed the holders to remit each share of Series C Stock in exchange for 10 shares of Common Stock. A total of 280,286 shares of Series C Stock were remitted for 2,802,860 shares of Common Stock. An additional 97,449 shares were issued as a result of dividends earned on the Series C Stock. At December 31, 2000 there were 54,714 shares of Series C Stock outstanding. The dividend payable on these shares equals \$180,911, payable in cash or equivalent shares of Common Stock at fair market value at the exercise date.

COMMON STOCK

In the fourth quarter of 1998, the Company completed a private placement of 2,535,000 shares of its Common Stock at a price of \$2.00 per share. The Company incurred issuance costs of approximately \$546,000 and on November 20, 1998, granted a warrant to purchase 50,000 shares of Common Stock to the underwriter of the private placement. The warrant has an exercise price of \$2.125 and expires five years from the date of grant.

On January 14, 1999, a warrant to purchase 600,000 shares of Common Stock was exercised in full pursuant to its cashless exercise provision and the Company issued 223,529 shares of its Common Stock to the holder. In addition to the exercise of warrants for 633,576 shares of Common Stock for \$2,757,658, a warrant to purchase a total of 50,000 shares of Common Stock was exercised at \$2.125 per share. Proceeds from this exercise totaled \$106,250. Additionally during 1999, various employees exercised 848,629 options to purchase Common Stock. The Company received net proceeds from these exercises of \$2,670,730.

In March 2000, the Company issued 500,000 shares of Common Stock at a purchase price of \$4.75 per share to in exchange for \$2,375,000.

Restricted Common Stock amounting to 158,316 shares was issued to certain selected employees as compensation in the second quarter of 2000, 25% of which vested immediately, with the remaining shares vesting over the next three quarters. Upon termination of certain employees, 17,687 of these shares were cancelled. The shares were recorded at the fair market value on the date of grant, \$2.375, with the compensation expense of \$376,000

Edgar Filing: V ONE CORP/ DE - Form 10-K

being recognized over the vesting period.

In May 2000, the stockholders approved an increase in the number of shares of Common Stock authorized to 50,000,000.

In June 2000, the Company issued 274,967 shares of Common Stock at a purchase price of \$3.64 per share to Citrix Systems, Inc. in exchange for \$1,000,000.

The aggregate stock issuance costs for Common Stock issued in 2000 were \$183,895.

WARRANTS

In addition to the warrants issued in connection with the Transamerica debt for 210,914 shares of Common Stock at \$2.33 per share and the warrants attached to the Series C Stock for 3,350,000 shares of Common

41

V-ONE CORPORATION NOTES TO FINANCIAL STATEMENTS

Stock at \$2.625 per share discussed above, the Company issued the following warrants to purchase Common Stock during the years ended December 31, 1998, 1999, and 2000:

On November 21, 1997, the Company issued a warrant to purchase 300,000 shares of Common Stock with an exercise price of \$3.125 to the President and Chief Executive Officer. On November 27, 2000, upon the resignation of the former officer an agreement was reached whereby one half of these warrants were cancelled and the other half were extended to a new expiration date of November 27, 2005. Because the stock price on the new measurement date was less than the exercise price of the warrant, no compensation expense was recorded.

On July 8, 1998, the Company granted warrants to purchase 10,000 shares of Common Stock each to two directors of the Company. The warrants have an exercise price of \$2.688 and expire five years from the date of grant. Upon resignation of one of the directors, 10,000 warrants were cancelled.

On November 27, 2000 the Company granted fully vested warrants to purchase 100,000 shares of Common Stock to MindSquared, LLC, a related party, as part of a consulting agreement. The warrants have an exercise price of \$1.188 and expire five years from the date of grant. The Company valued these warrants using the Black-Scholes model with the following assumptions: volatility of 123%, risk free interest rate of 6% and expected term of 5 years. The value of the warrants, \$101,000, is being recognized ratably over the four-month term of the consulting agreement.

During the year ended December 31, 2000, warrants to purchase 2,802,860 shares of Common Stock that were attached to the Series C Stock were redeemed for an equal amount of shares of Common Stock. Of the original warrants issued, 547,140 remain at an exercise price of \$2.625 per share.

Warrants to purchase shares of the Company's Common Stock outstanding at December 31, 1999 and 2000 were as follows:

1999	2000	Exercise Price
----	----	-----

Edgar Filing: V ONE CORP/ DE - Form 10-K

-	100,000	\$1.19
139,485	139,485	\$2.33
3,350,000	547,140	\$2.63
71,429	71,429	\$2.65
20,000	10,000	\$2.69
300,000	150,000	\$3.13
25,000	-	\$3.88
60,000	54,000	\$4.73
-----	-----	
3,965,914	1,072,054	
=====	=====	

At December 31, 2000, warrants to purchase 1,072,054 shares of Common Stock were exercisable. The weighted average fair value of warrants granted during 2000 was estimated at \$1.01. The fair market value was determined using the Black-Scholes option-pricing model with the following assumptions: dividend yield 0%, volatility of 123%, risk free interest rate of 6%, and expected life of 5 years.

V-ONE CORPORATION
NOTES TO FINANCIAL STATEMENTS

STOCK OPTIONS PLANS

The Company has the following active stock options plans: the 1995 Non-Statutory Stock Option Plan, the 1996 Incentive Stock Plan and the 1998 Incentive Stock Option Plan. These plan were adopted to attract and retain key employees, directors, officers and consultants and are administered by the Compensation Committee appointed by the Board of Directors.

1995 NON-STATUTORY STOCK OPTION PLAN

The Compensation Committee determined the number of options granted to key employees, the vesting period and the exercise price provided they were not below market value on the date of the grant for the 1995 Non-Statutory Stock Option Plan ("the 1995 Plan"). In most cases, the options vest over a two-year period and terminate ten years from the date of grant. The 1995 Plan will terminate during May 2005 unless terminated earlier within the provisions of the 1995 Plan. On June 12, 1996, the Board of Directors determined that no further options would be granted under the 1995 Plan.

Option activity under the 1995 Plan for the three years ended December 31, 2000 was as follows:

	Shares	Weighted Average Exercise Price
	-----	-----
Balance as of December 31, 1997	231,223	\$1.398
Exercised	(158,333)	\$1.213
Cancelled	(8,888)	\$0.425

Edgar Filing: V ONE CORP/ DE - Form 10-K

Balance as of December 31, 1998	----- 64,002	\$1.855
Exercised	(53,400)	\$1.726
Balance as of December 31, 1999	----- 10,602	\$2.505
Balance as of December 31, 2000	=====	\$2.505
	=====	

1996 INCENTIVE STOCK PLAN

During June 1996, the Company adopted the 1996 Incentive Stock Plan ("the 1996 Plan"), under which incentive stock options, non-qualified stock options and restricted share awards may be made to the Company's key employees, directors, officers and consultants. Both incentive stock options and options that are not qualified under Section 422 of the Internal Revenue Code of 1986, as amended ("non-qualified options"), are available under the 1996 Plan. The options are not transferable and are subject to various restrictions outlined in the 1996 Plan. The Compensation Committee or the Board of Directors determines the number of options granted to key employees, officers or consultants, the vesting period and the exercise price provided that they are not below fair market value. The 1996 Plan will terminate during June 2006 unless terminated earlier by the Board of Directors.

On February 17, 1998, the Company's Board of Directors authorized an offer to reset the exercise price of all full-time employees' (other than the President and any vice presidents) incentive stock options and non-qualified stock options granted under the 1996 Plan. If accepted by the option holder, such options were replaced with non-qualified options at the new exercise price of \$2.625 per share. To have been eligible for

V-ONE CORPORATION
NOTES TO FINANCIAL STATEMENTS

repricing, a participant must: 1) have been a full-time employee on February 17, 1998; 2) have agreed to remain an employee of the Company until August 17, 1998, and 3) have accepted the offer by February 24, 1998.

On May 1, 1998, the Company's Board of Directors authorized an offer to reset the exercise price of all options issued to the President and any vice presidents granted under the 1996 Plan. If accepted by the option holder, such options were replaced with non-qualified options at the new exercise price of \$2.875 per share. To have been eligible for repricing, a participant must: 1) have been a full-time employee on May 1, 1998; 2) have agreed to remain an employee of the Company until November 1, 1998, and 3) have accepted the offer by May 8, 1998.

Option activity under the 1996 Plan for the three years ended December 31, 2000 was as follows:

Edgar Filing: V ONE CORP/ DE - Form 10-K

	Shares -----	Exercise Price -----
Balance as of December 31, 1997	1,972,035	\$4.243
Granted	558,667	\$2.780
Exercised	(35,000)	\$2.625
Expired	(613,326)	\$4.280

Balance as of December 31, 1998	1,882,376	\$3.221
Exercised	(677,479)	\$3.438
Cancelled	(290,666)	\$2.787
Expired	(99,250)	\$2.785

Balance as of December 31, 1999	814,981	\$3.268
Exercised	(21,000)	\$2.714
Cancelled	(560,750)	\$3.077
Expired	(6,676)	\$2.657

Balance as of December 31, 2000	226,555	\$3.833
	=====	

1998 INCENTIVE STOCK OPTION PLAN

On February 2, 1998, the Board of Directors authorized the adoption of the 1998 Incentive Stock Option Plan (the "1998 Plan"). The purpose of the 1998 Plan is to provide for the acquisition of an equity interest in the Company by non-employee directors, officers, key employees and consultants. The 1998 Plan will terminate February 2, 2008.

Incentive stock options may be granted to purchase shares of Common Stock at a price not less than fair market value on the date of grant. Only employees may receive incentive stock options; all other qualified participants may receive non-qualified stock options with an exercise price determined by a Committee or the Board. Options are generally exercisable after one or more years and expire no later than ten years from the date of grant. The 1998 Plan also provides for reload options and restricted share awards to employee and consultant participants subject to various terms.

V-ONE CORPORATION
NOTES TO FINANCIAL STATEMENTS

Option activity under the 1998 Plan for the three years ended December 31, 2000 was as follows:

Shares -----	Weighted Average Exercise Price -----
-----------------	---

Edgar Filing: V ONE CORP/ DE - Form 10-K

Balance as of December 31, 1997	-	-
Granted	712,000	\$2.694
Exercised	-	-
Cancelled	(101,000)	\$2.688

Balance as of December 31, 1998	611,000	\$2.695
Granted	1,641,500	\$2.328
Exercised	(117,750)	\$2.530
Cancelled	(437,000)	\$2.507
Expired	(7,500)	\$2.688

Balance as of December 31, 1999	1,690,250	\$2.400
Granted	1,783,780	\$2.224
Exercised	(32,500)	\$2.595
Cancelled	(818,975)	\$2.723
Expired	(8,500)	\$2.283

Balance as of December 31, 2000	2,614,055	\$2.178
	=====	

Awards may be granted under the 1998 Plan with respect to a total of 5,000,000 shares of Common Stock.

For all of its plans, the Company measures compensation expense for its employee stock-based compensation using the intrinsic value method and provides pro forma disclosures of net loss as if the fair value method had been applied in measuring compensation expense. Under the intrinsic value method of accounting for stock-based compensation, when the exercise price of options granted to employees is less than the fair value of the underlying stock on the date of grant, compensation expense is to be recognized over the applicable vesting period. The effect of applying SFAS 123's fair value method to the Company's stock based awards is not necessarily representative of the effects on reported net income for future years, due to, among other things, the vesting period of the stock options and the fair value of additional stock options in future years.

	Year ended December 31,		
	2000	1999	1998
	-----	-----	-----
Loss attributable to holders of common stock:			
As reported	\$9,231,994	\$9,952,189	\$ 9,400,000
Pro forma	\$10,277,777	\$10,895,072	\$10,460,000
Basic and diluted loss per share attributable to holders of common stock			
As reported	\$0.44	\$0.59	\$0.44
Pro forma	\$0.53	\$0.64	\$0.44

Edgar Filing: V ONE CORP/ DE - Form 10-K

V-ONE CORPORATION NOTES TO FINANCIAL STATEMENTS

The fair value of each option is estimated on the date of grant using a type of Black-Scholes option pricing model with the following weighted-average assumptions used for grants during the years ended December 31, 1998, 1999 and 2000, respectively: dividend yield of 0% for all periods; expected volatility of 68%, 92%, and 100%; risk-free interest rate of 5.3%, 5.5% and 6.0%; and expected term of 4.0 years for 1998 and 1999, and 3.8 years for 2000. The weighted-average fair value of the options granted under all of the Company's plans during the years ended December 31, 1998, 1999 and 2000 was \$1.10, \$1.60 and \$1.54, respectively. The weighted average exercise price of the options outstanding under all of the Company's plans at December 31, 1998, 1999 and 2000 was \$3.06, \$2.68 and \$2.31, respectively. As of December 31, 2000, the weighted average remaining contractual life of the options outstanding under all of the Company's plans is 7.6 years and the number of options exercisable is 1,207,925.

7. COMMITMENTS AND CONTINGENCIES

LEASES

The Company is obligated under various operating and capital lease agreements, primarily for office space and equipment through 2003. Future minimum lease payments under these non-cancelable operating and capital leases as of December 31, 2000 are as follows:

	OPERATING -----	CAPITAL -----
2001	\$ 612,385	\$ 83,499
2002	576,590	50,059
2003	341,199	-
2004	-	-

Total minimum payments	\$1,530,174	133,558
Interest	=====	(13,812)
Present value of capital lease obligations		119,746
Less: current portion		(71,943)
Capital lease obligations non-current		\$ 47,803
	=====	

Rent expense was \$583,582, \$919,550 and \$701,133 for the years ended December 31, 2000, 1999 and 1998 respectively.

At December 31, 2000, the Company expects to receive \$61,573 in future minimum sublease rental income payments in 2001.

CONTINGENCIES

On January 27, 2000, a class action lawsuit alleging violations of the federal securities laws was filed in the U.S. District Court of Maryland

Edgar Filing: V ONE CORP/ DE - Form 10-K

on behalf of purchasers of the Company's Common Stock on November 30, 1999. See Note 11.

46

V-ONE CORPORATION
NOTES TO FINANCIAL STATEMENTS

8. EMPLOYEE 401(K) DEFERRED COMPENSATION PLAN

The Company has a 401(k) plan (the "Plan") for all employees over the age of 21. Contributions are made through voluntary employee salary reductions, up to 15% of their annual compensation, and discretionary matching by the Company. Employer contributions vest based on the participant's number of years of continuous service. A participant is fully vested after six years of continuous service. There were no employer contributions for the years ended December 31, 2000, 1999 or 1998.

9. SUPPLEMENTAL CASH FLOW DISCLOSURE

Selected cash payments and noncash activities were as follows:

	Year ended December 31,		
	2000	1999	1998
Cash paid for interest	\$21,982	\$728,221	\$
Cash paid for dividends	16	-	
Noncash investing and financing activities:			
Notes repaid from return and retirement of Common Stock	-	-	115,95
Deemed dividend on preferred stock	-	-	102,75
Issuance of stock options to consultants	95,422	93,764	
Issuance of restricted stock	282,000	-	
Collection and forgiveness of subscriptions receivable	-	46,236	
Conversion of Preferred Stock to Common Stock	-	-	1,538,00

47

Edgar Filing: V ONE CORP/ DE - Form 10-K

V-ONE CORPORATION NOTES TO FINANCIAL STATEMENTS

10. NET LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share:

	Year Ended December 31,		
	2000	1999	1998
Numerator:			
Loss before extraordinary item	\$ (8,862,015)	\$ (9,307,892)	\$ (9,307,892)
Less: Dividend on preferred stock	(369,979)	(272,245)	(272,245)
Deemed dividend on preferred stock	-	-	-
	-----	-----	-----
Net loss before extraordinary item	(9,231,994)	(9,580,137)	(9,580,137)
Extraordinary item-early extinguishments of debt	-	(372,052)	-
	-----	-----	-----
Net loss attributable to holders of Common Stock	\$ (9,231,994)	\$ (9,952,189)	\$ (9,952,189)
	=====	=====	=====
Denominator:			
Denominator for basic net loss per share-weighted average shares	20,871,076	16,938,205	13,938,205
Effect of dilutive securities:			
Preferred Stock	-	-	-
Stock Options	-	-	-
Warrants	-	-	-
	-----	-----	-----
Dilutive potential common shares	-	-	-
	-----	-----	-----
Denominator for diluted net loss per share-adjusted weights average shares	20,871,076	16,938,205	13,938,205
	=====	=====	=====
Basic and diluted loss per share:			
Loss before extraordinary item	\$ (0.44)	\$ (0.57)	\$ (0.57)
Extraordinary item-early extinguishments of debt	-	(0.02)	-
	-----	-----	-----
Net Loss attributable to holders of Common Stock	\$ (0.44)	\$ (0.59)	\$ (0.59)
	=====	=====	=====

The following equity instruments were not included in the diluted net loss per share calculation because their effect would be anti-dilutive:

	Year ended December 31,		
	2000	1999	1998
Preferred stock:			
Series A	-	-	-

Edgar Filing: V ONE CORP/ DE - Form 10-K

Series B	1,287,554	1,287,554	-
Series C	54,714	335,000	-
Stock	2,851,212	2,515,833	2,557,378
options			
Warrants	1,072,054	3,974,957	1,688,576

48

V-ONE CORPORATION NOTES TO FINANCIAL STATEMENTS

11. SUBSEQUENT EVENTS (UNAUDITED)

As of February 14, 2001, V-ONE issued 3,675,000 shares of Series D Convertible Preferred Stock ("Series D Stock") and non-detachable warrants to purchase 735,000 shares of the Company's Common Stock ("Warrants") to certain accredited investors for an aggregate offering price of \$7,019,250. The securities were sold in units, each unit containing five shares of Series D Stock and a Warrant to purchase one share of Common Stock ("Unit") for a price of \$9.55 per Unit pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended. The Series D Stock is immediately convertible at an initial conversion price of \$1.91 per share. The Warrants are immediately exercisable at an initial exercise price of \$2.29 per share and expire on February 14, 2004. The Company received \$6,469,250 in net proceeds after payment of all fees and offering expenses. The net proceeds of the offering will be used for general working capital purposes.

Effective March 13, 2001, the Company completed a sale to NFR of the 6.8% minority interest in its common stock. The sale price per share was \$3.25 and the proceeds of the sales of the 500,000 shares were \$1,625,000.

On February 20, 2001, a class action lawsuit alleging violations of the federal securities laws, filed in the U.S. District Court of Maryland, was dismissed in its entirety, with prejudice. In granting the Company's motion to dismiss, the United States District Court ruled that plaintiffs had failed to state a cause of action for violations of the securities laws and awarded costs to the defendants.

V-ONE CORPORATION
NOTES TO FINANCIAL STATEMENTS

12. SELECTED QUARTERLY FINANCIAL DATA - UNAUDITED

The following table presents the quarterly results for V-ONE Corporation and its subsidiaries for the years ending December 31, 1999 and 2000:

	1ST QUARTER -----	2ND QUARTER -----	3RD QUARTER -----
2000			
Revenue	\$ 1,383,921	\$ 1,075,846	\$ 645,485
Gross profit	1,300,926	924,388	500,866
Net loss	\$ (1,482,222)	\$ (2,511,701)	\$ (2,701,358)
	=====	=====	=====
Net loss per share, basic and diluted	\$ (0.09)	\$ (0.12)	\$ (0.12)
	=====	=====	=====
1999			
Revenue	\$ 1,696,472	\$ 1,006,668	\$ 932,894
Gross profit	1,514,083	776,279	787,515
Net loss before extraordinary item	(2,179,297)	(2,192,669)	(2,638,051)
Extraordinary item - early extinguishment of debt	-	-	-
	-----	-----	-----
Net loss	\$ (2,179,297)	\$ (2,192,669)	\$ (2,638,051)
	=====	=====	=====
Basic and diluted net loss per share before extraordinary item	\$ (0.13)	\$ (0.13)	\$ (0.16)
Extraordinary item - early extinguishment of debt	-	-	-
	-----	-----	-----
Net loss per share, basic and diluted	\$ (0.13)	\$ (0.13)	\$ (0.16)
	=====	=====	=====

Edgar Filing: V ONE CORP/ DE - Form 10-K

V-ONE CORPORATION
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS-

For the years ended December 31, 1998, 1999 and 2000

Description		Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Bala of
ALLOWANCE FOR DOUBTFUL ACCOUNTS					
December 31, 1998	\$	500,405	24,233	---	\$
December 31, 1999	\$	524,638	(220,912)	169,482	\$
December 31, 2000	\$	134,244	68,490	97,070	\$
DEFERRED TAX ASSET					
VALUATION ALLOWANCE					
December 31, 1998	\$	7,431,743	2,017,021	---	\$
December 31, 1999	\$	9,448,764	5,410,464	---	\$
December 31, 2000	\$	14,859,228	1,620,108	---	\$
ALLOWANCE FOR					
NON-SALABLE INVENTORY					
December 31, 1998	\$	212,700	100,656	---	\$
December 31, 1999	\$	313,356	---	225,662	\$
December 31, 2000	\$	87,694	32,699	41,737	\$

51

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Edgar Filing: V ONE CORP/ DE - Form 10-K

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item concerning directors and executive officers is incorporated herein by reference to the Company's definitive proxy statement for its annual stockholders' meeting to be held on May 10, 2001.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item concerning executive compensation is incorporated herein by reference to the Company's definitive proxy statement for its annual stockholders' meeting to be held on May 10, 2001.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item concerning security ownership of certain beneficial owners and management is incorporated herein by reference to the Company's definitive proxy statement for its annual stockholders' meeting to be held on May 10, 2001.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item concerning certain relationships and related transactions is incorporated herein by reference to the Company's definitive proxy statement for its annual stockholders' meeting to be held on May 10, 2001.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K

None.

52

(a) (1) Financial Statement Schedule.

See index to Financial Statements on page 30 All required financial statement schedules of the Company are set forth under Item 8 of this Annual Report on Form 10-K.

(a) (2) Exhibits

NUMBER	DESCRIPTION
-----	-----
3.1	Amended and Restated Certificate of Incorporation as of July 2, 1996 (1)
3.2	Amended and Restated Bylaws dated as of February 2, 1998 (4)
3.3	Certificate of Amendment to Certificate of Designation, Preferences, and Rights of Series A Convertible Preferred Stock dated September 9, 1996 (1)
3.4	Certificate of Elimination of Certificate of Designation, Preferences and Rights of Series A Convertible Preferred Stock (2)
3.5	Certificate of Designations of Series A Convertible Preferred

Edgar Filing: V ONE CORP/ DE - Form 10-K

	Stock (2)
3.6	Certificate of Elimination of Certificate of Designation, Preferences and Rights of Series A Convertible Preferred Stock, dated March 4, 1999(9)
3.7	Certificate of Designations of Series B Convertible Preferred Stock, dated June 11, 1999 (10)
3.8	Certificate of Designations of Series C Preferred Stock, dated September 9, 1999 (11)
3.9	Certificate of Designations of Series D Convertible Preferred Stock, dated February 14, 2001(14)
9.1	Voting Trust Agreement between Hai Hua Cheng and James F. Chen, Trustee (1)
9.2	Voting Trust Agreement between Robert Zupnik and James F. Chen, Trustee (1)
9.3	Voting Trust Agreement between Dennis Winson and James F. Chen, Trustee (1)
10.1	Employment Agreement between V-ONE Corporation ("V-ONE") and James F. Chen dated as of June 12, 1996 (1)
10.2	V-ONE 1995 Non-Statutory Stock Option Plan (1)
10.3	V-ONE 1996 Non-Statutory Stock Option Plan (1)
10.4	V-ONE 1996 Incentive Stock Plan (1)
10.5	Software License Agreement between Trusted Information Systems, Inc. ("TIS") and V-ONE executed October 6, 1994 (1)
10.6	First Amendment to the Software License Agreement between TIS and V-ONE (1)
10.7	Second Amendment to the Software License Agreement between TIS and V-ONE (1)
10.8	Third Amendment to the Software License Agreement between TIS and V-ONE (1)
10.9	Fourth Amendment to the Software License Agreement between TIS and V-ONE (1)
10.10	OEM Master License Agreement between RSA Data Security, Inc. ("RSA") and V-ONE dated December 30, 1994 and Amendment Number One to the OEM Master License Agreement between RSA and V-ONE (1)
10.11	Amendment Number Two to the OEM Master License Agreement between RSA and V-ONE and Conversion Agreement dated May 23, 1996 (1)
10.12	Promissory Note for Hai Hua Cheng with Allonge and Amendment dated June 12, 1996 (1)
10.13	Form of Exchange and Purchase Agreement dated April 1996 (1)
10.14	Registration Rights Agreement Between V-ONE and JMI Equity Fund II, L.P. ("JMI") (1)
10.15	8% Senior Subordinated Note due June 18, 2000 Issued by V-ONE to JMI (1)
10.16	Warrant to Purchase 100,000 shares of Common Stock Issued by V-ONE to JMI (1)
10.17	Warrant to Purchase 400,000 shares of Common Stock Issued by V-ONE to JMI (1)
10.18	Employment Agreement between V-ONE and Jieh-Shan Wang dated as of July 8, 1996 (1)
10.19	Subscription Agreement dated as of December 3, 1997 between V-ONE and Advantage Fund II Ltd. (2)

NUMBER	DESCRIPTION
-----	-----
10.20	Registration Rights Agreement dated as of December 3, 1997 between V-ONE and Advantage Fund II Ltd. (2)
10.21	Commitment Letter dated December 8, 1997 between V-ONE and

Edgar Filing: V ONE CORP/ DE - Form 10-K

	Advantage Fund II Ltd. (2)
10.22	Registration Rights Agreement dated as of December 8, 1997 between V-ONE and Wharton Capital Partners, Ltd. (2)
10.23	Warrant to Purchase 60,000 shares of Common Stock Issued on December 8, 1997 by V-ONE to Wharton Capital Partners, Ltd. (2)
10.24	Letter Agreement between V-ONE and Wharton Capital Partners, Ltd. dated October 22, 1997 (2)
10.25	V-ONE 1998 Incentive Stock Plan (4)
10.26	Warrants dated November 21, 1997 to Purchase 300,000 shares of Common Stock granted to David D. Dawson (4)
10.27	Employment Agreement dated November 21, 1997 between V-ONE and David D. Dawson (4)
10.28	Amendment to Employment Agreement dated November 7, 1997 between V-ONE and Charles B. Griffis (4)
10.29	Amendment to Section 2.08 of 1996 Incentive Stock Plan (4)
10.30	Lease Agreement dated March 24, 1997 between Bellemead Development Corporation and V-ONE (3)
10.31	Inconvertibility Notice dated September 21, 1998 (5)
10.32	Waiver Agreement, dated as of September 22, 1998, between the Company and Advantage Fund II Ltd. (5)
10.33	Amendment No. 1 dated as of September 22, 1998 to the Registration Rights Agreement between the Company and Advantage Fund II Ltd. (5)
10.34	Warrant to purchase 100,000 shares of Common Stock issued on September 22, 1998 by V-ONE to Advantage Fund II Ltd. (5)
10.35	Warrant to purchase 389,441 shares of Common Stock issued on September 22, 1998 by V-ONE to Advantage Fund II Ltd. (5)
10.36	Waiver Letter, dated November 5, 1998 between the Company and Advantage Fund II Ltd. (6)
10.37	Placement Agent Agreement, dated October 9, 1998, between the Company and LaSalle St. Securities, Inc. (6)
10.38	Amendment No. 1 to Placement Agent Agreement, dated November 9, 1998, between the Company and LaSalle St. Securities, Inc. (6)
10.39	Escrow Agreement, dated October 9, 1998, among the Company, LaSalle St. Securities, Inc. and LaSalle National Bank (6)
10.40	Amendment No. 1 to Escrow Agreement, dated November 9, 1998, among the Company, LaSalle St. Securities, Inc. and LaSalle National Bank (6)
10.41	Form of Subscription Documents (6)
10.42	Form of Addendum #1 to Subscription Documents (6)
10.43	Form of Addendum #2 to Subscription Documents (6)
10.44	Form of Warrant granted to A.L. Giannopoulos to purchase 10,000 shares of the Company's Common Stock (6)
10.45	Form of Warrant granted to William E. Odom to purchase 10,000 shares of the Company's Common Stock (6)
10.46	Amendment No. 1 to Placement Agent Agreement, dated November 16, 1998, between the Company and LaSalle St. Securities, Inc. (7)
10.47	Waiver Letter dated November 18, 1998 between the Company and LaSalle St. Securities, Inc. (7)
10.48	Form of Second Version of Subscription Documents (7)
10.49	Form of Addendum #1 to Second Version of Subscription Documents (7)
10.50	Form of Addendum #2 to Second Version of Subscription Documents (7)
10.51	Warrant dated November 20, 1998 to purchase 50,000 shares of Common Stock issued to LaSalle St. Securities, Inc. (7)

NUMBER	DESCRIPTION
-----	-----
10.52	Employment Agreement dated November 6, 1998 between V-ONE and

Edgar Filing: V ONE CORP/ DE - Form 10-K

	Charles B. Griffis (9)
10.53	Employment Agreement dated August 1, 1998 between V-ONE and Robert F. Kelly (9)
10.54	Loan and Security Agreement dated February 24, 1999 between V-ONE and Transamerica Business Credit Corporation ("Transamerica") (8)
10.55	Patent and Trademark Security Agreement dated February 24, 1999 between V-ONE and Transamerica (8)
10.56	Security Agreement in Copyrighted Works dated as of February 24, 1999 between V-ONE and Transamerica (8)
10.57	Amendment to Employment Agreement dated as of August 1, 1998 by and between the Company and Jieh-Shan Wang (9)
10.58	Amendment to Employment Agreement dated as of January 1, 1999 by and between the Company and James F. Chen (9)
10.59	Subscription Agreement for Series B Convertible Preferred Stock, dated June 11, 1999 (10)
10.60	Registration Rights Agreement, dated June 11, 1999 (10)
10.61	Non-Negotiable Promissory Note, dated June 11, 1999 (10)
10.62	Form of Series C Preferred Stock Purchase Agreement (11)
10.63	Employment Agreement dated July 1, 1999 by and between the Company and Margaret E. Grayson (12)
10.64	Employment Agreement dated July 1, 1999 by and between the Company and David D. Dawson (13)
10.65	Series D Convertible Preferred Stock and Non-Detachable Warrant Purchase Agreement dated February 14, 2001
10.66	Form of Warrant Granted to Holders of Series D Convertible Preferred Stock, dated February 14, 2001
10.67	2001 Employee Stock Purchase Plan
10.68	Form of Subscription Agreement between the Company and Employees under the 2001 Employee Stock Purchase Plan
10.69	Agreement for Purchase and Sale of Stock between the Company and NFR Security, Inc., dated March 13, 2001
23.1	Consent of Ernst & Young LLP
23.2	Consent of PricewaterhouseCoopers LLP

(1) The information required by this exhibit is incorporated herein by reference to V-ONE's Registration Statement on Form S-1 (No. 333-06535).

(2) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 8-K dated December 8, 1997.

(3) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 10-Q for the three months ended June 30, 1997.

(4) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 10-K for the twelve months ended December 31, 1997.

(5) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 8-K dated September 22, 1998.

(6) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 10-Q for the nine months ended September 30, 1998.

(7) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 8-K dated November 20, 1998.

Edgar Filing: V ONE CORP/ DE - Form 10-K

(8) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 8-K dated March 11, 1999.

(9) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 10-K for the twelve months ended December 31, 1998.

(10) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 8-K dated June 23, 1999.

(11) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 8-K dated September 15, 1999.

(12) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 10-Q for the three months ended June 30, 1999.

(13) The information required by this exhibit is incorporated herein by reference to V-ONE's Form 10-K for the twelve months ended December 31,1999.

(14) The information required by this exhibit is incorporated by reference to V-ONE's Form 8-K, dated March 1, 2001.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: March 30, 2001

By: /s/ Margaret E. Grayson

Margaret E. Grayson
President and Chief Executive Officer

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

SIGNATURE	TITLE	DATE
/s/ Margaret E. Grayson ----- Margaret E. Grayson	President, Chief Executive Officer and Director	March 30, 2001

Edgar Filing: V ONE CORP/ DE - Form 10-K

/s/ John F. Nesline ----- John F. Nesline	Chief Financial Officer and Treasurer Controller	March 30, 2001
/s/ James F. McManus ----- James F. McManus	Director	March 30, 2001
----- Michael O'Dell		
/s/ Heidi B. Heiden ----- Heidi B. Heiden	Director	March 30, 2001
/s/ Michael J. Mufson ----- Michael Mufson	Director	March 30, 2001
/s/ William E. Odom ----- William E. Odom	Director	March 30, 2001