

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

V ONE CORP/ DE
Form 10-Q
August 14, 2002

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13(d) 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 (I.R.S. EMPLOYER
INCORPORATION OR ORGANIZATION) 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)

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

CLASS	OUTSTANDING AT AUGUST 6, 2002
-----	-----
COMMON STOCK, \$0.001 PAR VALUE PER SHARE	24,271,348

V-ONE Corporation
Quarterly Report on Form 10-Q

INDEX

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

	Page No.	

PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	3
	Condensed Balance Sheets as of June 30, 2002 (unaudited) and December 31, 2001	3
	Condensed Statements of Operations for the Three and Six Months Ended June 30, 2002 (unaudited) and June 30, 2001 (unaudited)	4
	Condensed Statements of Cash Flows for the Six Months Ended June 30, 2002 (unaudited) and June 30, 2001 (unaudited)	5
	Notes to the Condensed Financial Statements (unaudited)	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	11
PART II.	OTHER INFORMATION	11
Item 1.	Legal Proceedings	11
Item 2.	Changes in Securities and Use of Proceeds	11
Item 3.	Defaults Upon Senior Securities	11
Item 4.	Submission of Matters to a Vote of Security Holders	11
Item 5.	Other Information	11
Item 6.	Exhibits and Reports on Form 8-K	12
	SIGNATURES AND CERTIFICATION	13

2

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

V-ONE CORPORATION
CONDENSED BALANCE SHEETS

ASSETS

June 30, 2002
(Unaudited)

Current assets:

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

Cash and cash equivalents	\$ 129,798
Accounts receivable, net	677,765
Finished goods inventory, net	60,365
Prepaid expenses and other current assets	313,967

Total current assets	1,181,895
Property and equipment, net	476,296
Other assets	50,196

Total assets	\$ 1,708,387
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	\$ 1,240,687
Deferred revenue	863,658
Capital lease obligations - current	8,882

Total current liabilities	2,113,227
Deferred rent	59,783
Capital lease obligations - noncurrent	-

Total liabilities	2,173,010
Commitments and contingencies	
Shareholder' equity:	
Preferred stock, \$.001 par value, 13,333,333 shares authorized:	
Series C redeemable preferred stock, 500,000 designated; 42,904 shares issued and outstanding (liquidation preference of \$1,126,388)	43
Series D convertible preferred stock 3,675,000 shares designated, 3,021,000 and 3,675,000 issued and outstanding, respectively (liquidation preference of \$5,770,110 and \$7,019,500 respectively)	3,021
Common stock, \$0.001 par value; 50,000,000 shares authorized; 24,271,348 and 23,594,904 shares issued and outstanding, respectively	24,271
Accrued dividends payable	1,228,058
Additional paid-in capital	60,863,458
Accumulated deficit	(62,583,474)

Total shareholders' equity	(464,623)

Total liabilities and shareholders' equity	\$ 1,708,387
	=====

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

3

V-ONE CORPORATION
CONDENSED STATEMENTS OF OPERATIONS

Three months ended June 30, 2002 (unaudited)	Three months ended June 30, 2001 (unaudited)	Six mo ende June 30, (unaudi
-----	-----	-----

Revenue:

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

Products	\$ 520,633	\$ 570,745	\$
Consulting and services	366,366	351,621	
	-----	-----	-----
Total revenue	886,999	922,366	1,
Cost of revenue:			
Products	41,597	134,228	
Consulting and services	85,349	137,300	
	-----	-----	-----
Total cost of revenue	126,946	271,528	
	-----	-----	-----
Gross profit	760,053	650,838	1,
Operating expenses:			
Research and development	788,142	1,051,433	1,
Sales and marketing	760,998	1,397,989	1,
General and administrative	640,751	621,497	1,
	-----	-----	-----
Total operating expenses	2,162,391	3,070,919	4,
	-----	-----	-----
Operating loss	(1,429,838)	(2,420,081)	(3,
Other (expense) income:			
Interest expense	(949)	(3,179)	
Interest income	3,238	100,867	
Other (expense) income	(2,910)	723	
	-----	-----	-----
Total other (expense) income	(621)	98,411	
	-----	-----	-----
Net loss	(1,430,459)	(2,321,670)	(3,
Dividend on preferred stock	171,936	203,080	
Deemed dividend	--	--	
	-----	-----	-----
Loss attributable to holders of common stock	\$ (1,602,395)	\$ (2,524,750)	\$ (3,
	=====	=====	=====
Basic and diluted loss per share attributable to holders of common stock	\$ (0.07)	\$ (0.11)	
	=====	=====	=====
Weighted average number of common shares outstanding	24,271,348	22,271,441	24,
	=====	=====	=====

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

4

V-ONE CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS

Six months ended
June 30, 2002

Six months ended
June 30, 2001

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

	(unaudited)	(unaudited)
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (3,444,078)	\$ (3,314,885)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	275,862	283,356
Stock compensation	83,372	146,734
Gain on sale of investment	-	(1,375,000)
Changes in assets and liabilities:		
Accounts receivable, net	181,893	(127,029)
Inventory, net	(3,011)	55,605
Prepaid expenses and other assets	199,406	55,096
Accounts payable and accrued expenses	471,368	(408,753)
Deferred revenue	(88,386)	806,936
Deferred rent	(21,007)	(19,511)
	-----	-----
Net cash used in operating activities	(2,344,581)	(3,897,451)
Cash flows from investing activities:		
Net purchases of property and equipment	(3,645)	(315,323)
Proceeds from sale of investment	-	1,625,000
	-----	-----
Net cash provided by (used in) investing activities	(3,645)	1,309,677
Cash flows from financing activities:		
Exercise of options and warrants	13,716	48,642
Issuance of preferred stock	-	7,019,250
Payment of debt financing costs	(105,460)	-
Redemption of preferred stock	-	(84,449)
Payments of stock issuance costs	-	(632,918)
Payment of preferred stock dividends	-	(258)
Principal payments on capitalized lease obligations	(38,922)	(35,506)
	-----	-----
Net cash provided by financing activities	(130,666)	6,314,761
	-----	-----
Net increase in cash and cash equivalents	(2,478,892)	3,726,987
Cash and cash equivalents at beginning of period	2,608,690	2,949,398
	-----	-----
Cash and cash equivalents at end of period	\$ 129,798	\$ 6,676,385
	=====	=====

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

5

V-ONE CORPORATION
NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of the Business

V-ONE Corporation ("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

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

networks and public networks, such as the Internet. The Company's principal market is the United States, with headquarters in Maryland, with secondary markets in Europe and Asia.

2. Basis of Presentation

The condensed financial statements for the three and six months ended June 30, 2002 and June 30, 2001 are unaudited and reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary to present fairly the results for the interim periods. These financial statements should be read in conjunction with the audited financial statements as of December 31, 2000 and 2001 and for the three years in the period ended December 31, 2001, which are included in the Company's 2001 Annual Report on Form 10-K ("Form 10-K").

The preparation of financial statements to be in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

The results of operations for the three and six month periods ended June 30, 2002 are not necessarily indicative of the results expected for the full year ending December 31, 2002.

Certain prior year amounts have been reclassified to conform to the 2002 presentation. These changes had no impact on previously reported results of operations.

3. Common and Preferred Stock

On March 31, 2002, the Company sold 14,178 shares of common stock at a price of \$0.68 per share as part of its Employee Stock Purchase Plan. On June 28, 2002, the company sold 8,266 shares of common stock at a price of \$.493 per share as part of its Employee Stock Purchase Plan.

In the six months ending June 30, 2002, one investor converted 654,000 shares of Series D Convertible Preferred Stock to an equal number of shares of common stock.

4. Management's Plans

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company reported a net loss of \$6,237,278, \$8,862,015 and \$9,679,944 for the years ended December 31, 2001, 2000 and 1999, respectively, and a further net loss of \$3,444,078 for the six months ended June 30, 2002. In addition, the Company expects to continue to incur losses during 2002. Notwithstanding acceptance of V-ONE's security concepts and critical acclaim for its products, there can be no assurance that the consummation of sales of V-ONE's products to existing customers or proposed agreements with potential customers will generate timely or sufficient revenue for V-ONE to cover its costs of operations and meet its cash flow requirements. Accordingly, V-ONE may not have the funds needed to sustain operations during 2002.

In addition, although the Company's common stock is currently listed on the Nasdaq Small Cap Market, Nasdaq has notified the Company that it has questions concerning, among other things, the Company's ability to maintain the minimum listing requirements. The Company may not be able to continue to satisfy the minimum listing requirements. If the Company's common stock is delisted from Nasdaq, the trading market for such securities could be disrupted which could

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

make it difficult for investors to trade in the Company's common stock.

6

The Company has engaged Adams, Harkness & Hill, Inc. to explore alternatives to preserve V-ONE's operations and maximize shareholder value, including potential strategic partnering relationships, a business combination with a strategically placed partner, or a sale of V-ONE.

In July and August 2002, the Company closed on approximately \$1,188,000 in a private placement of 8% Secured Convertible Notes with detachable warrants, due 180 days after issuance with an additional 180-day extension available at the option of the Company or the holders. The holders may convert their notes at any time into the Company's common stock at a conversion price equal to the greater of \$0.25 per share or 60% of the average closing sales price of the Company's common stock for the five trading day period immediately preceding the Company's receipt of the holders notification of conversion. Detachable five year warrants, exercisable at \$0.50 per share, are included to provide 100% warrant coverage to the note holders.

The Company reduced operating expenses on April 1, 2002 by approximately 25%. Total operating expenses decreased for the second quarter by approximately \$881,000 and by approximately \$1,007,000 for the six months ended June 30, 2002 compared with the same periods last year. Further steps were taken to reduce expenses in mid-July by implementing a reduced workweek designed to ensure that customers' requirements are met without jeopardizing the Company's workforce. With these cost saving measures in place, V-ONE will focus its engineering design efforts on completing features committed to meet the needs of existing and potential customers in the government sector and supporting the relationships with our channel partners for sales and marketing to commercial accounts. Even at reduced operating levels, however, V-ONE may not be able to maintain operations for any extended period of time without additional capital or a significant strategic transformative event. The Company's ability to continue as a going concern is dependent on its ability to generate sufficient cash flow to meet its obligations on a timely basis or to obtain additional funding.

5. Supplemental Cash Flow Disclosure

Selected noncash activities were as follows:

	Six Months ended June 30, 2002	2001
	-----	-----
Noncash investing and financing activities:		
Redemption of preferred stock	\$ -	225,571
Payment of preferred stock dividends	\$ -	\$ 46,088

6. Net Loss Per Share

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

	Three Months ended June 30, 2002	2001	Six Mon 2002
	-----	-----	-----

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

Numerator:			
Net loss	\$ (1,430,459)	\$ (2,321,670)	\$ (3,444,070)
Less: Dividend on preferred stock	(171,936)	(203,080)	(352,250)
	-----	-----	-----
Net loss attributable to holders of common stock	\$ (1,602,395)	\$ (2,524,750)	\$ (3,796,320)
	=====	=====	=====
Denominator:			
Denominator for basic and diluted net loss per share - weighted average shares	24,271,348	22,271,441	24,151,690
	=====	=====	=====
Basic and diluted loss per share -			
Net loss attributable to holders of common stock	\$ (0.07)	\$ (0.11)	\$ (0.16)

Due to their anti-dilutive effect, outstanding shares of preferred stock, stock options and warrants of common stock were excluded from the computation of diluted earnings per share for all periods.

7

Item 2.

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

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

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

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

RESULTS OF OPERATIONS

REVENUES

Total revenues decreased from approximately \$922,000 for the three months ended

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

June 30, 2001 to approximately \$887,000 for the three months ended June 30, 2002. This decrease was primarily due to lower sales of the Company's network security products and delays in installations of federal government initiatives. Total revenues increased from approximately \$1,712,000 for the six months ended June 30, 2001 to approximately \$1,739,000 for the six months ended June 30, 2002. This increase was due to increased consulting and services sales. Product revenues are derived principally from software licenses and the sale of hardware products. Product revenues decreased from approximately \$571,000 and \$1,095,000 for the three and six months ended June 30, 2001, respectively, to approximately \$521,000 and \$965,000 for the three and six months ended June 30, 2002, respectively. 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 \$352,000 and \$618,000 for the three months and six months ended June 30, 2001, respectively, to approximately \$366,000 and \$775,000 for the three months and six months ended June 30, 2002, respectively, due principally to a higher number of maintenance contracts provided to customers.

COST OF REVENUES

Total cost of revenues as a percentage of total revenues decreased from approximately 30% and 34% for the three and six months ended June 30, 2001, respectively, to approximately 14% and 17% for the three and six months ended June 30, 2002, respectively. The decreases were primarily due to higher sales of software licenses and lower sales of large turnkey systems. Total cost of revenues is comprised of cost of product revenues and cost of consulting and services revenues.

Cost of product revenues consists principally of the costs of computer hardware, licensed technology, manuals and labor associated with the distribution and support of the Company's products. Cost of product revenues decreased from approximately \$134,000 and \$332,000 for the three and six months ended June 30, 2001, respectively, to approximately \$42,000 and \$91,000 for the three and six months ended June 30, 2002. The decreases in cost of product revenue in the three and six months ended June 30, 2002 was primarily attributable to higher sales of software licenses and lower sales of SmartWall and turnkey hardware systems. Cost of product revenues as a percentage of product revenues was approximately 24% and 30% for the three and six months ended June 30, 2001, respectively, and approximately 8% and 9% for the three and six months ended June 30, 2002, respectively. The percentage decreases were primarily attributable to higher sales of software licenses and lower sales of SmartWall and turnkey hardware systems.

8

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 decreased from approximately \$137,000 and \$244,000 for the three and six months ended June 30, 2001, respectively, to approximately \$85,000 and \$202,000 for the three and six months ended June 30, 2002, respectively. Cost of consulting and services revenues as a percentage of consulting and services revenues was approximately 39% for both the three and six months ended June 30, 2001 and 23% and 26% for the three and six months ended June 30, 2002, respectively. The dollar and percentage decreases were due in part to reductions in staff.

OPERATING EXPENSES

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

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

existing products. Research and development expenses decreased from approximately \$1,051,000 and \$2,052,000 for the three and six months ended June 30, 2001, respectively, to approximately \$788,000 and \$1,756,000 for the three and six months ended June 30, 2002, respectively. Research and development expenses as a percentage of total revenues were approximately 114% and 120% for the three and six months ended June 30, 2001, respectively, and approximately 89% and 101% for the three and six months ended June 30, 2002, respectively. The dollar and percentage decreases for 2002 were primarily due to a decrease in consulting expense of \$170,000 and in recruiting fees of \$75,000.

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 \$1,398,000 and \$2,536,000 for the three and six months ended June 30, 2001, respectively, to approximately \$761,000 and \$1,765,000 for the three and six months ended June 30, 2002, respectively. Sales and marketing expenses as a percentage of total revenues were approximately 152% and 148% for the three and six months ended June 30, 2001, respectively, and approximately 86% and 102% for the three and six months ended June 30, 2002, respectively. The dollar decrease for 2002 relates primarily to lower consulting costs of \$253,000 and lower marketing costs of \$153,000. The percentage decrease is mainly due to lower expense for fiscal 2002 when compared to similar periods for fiscal 2001.

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 increased slightly from approximately \$621,000 for the three months ended June 30, 2001 to approximately \$641,000 for the three months ended June 30, 2002. General and administrative expenses increased from \$1,318,000 for the six months ended June 30, 2001 to \$1,378,000 for the six months ended June 30, 2002. General and administrative expenses as a percentage of total revenues were approximately 67% and 77% for the three and six months ended June 30, 2001, respectively, and 72% and 79% for the three and six months ended June 30, 2002, respectively. The percentage increase in the quarter just ended was principally due to lower revenue this year as compared to last year.

Other (Expense) Income - Other (expense) income represents the net income or expense resulting from non-operational activities that are of an infrequently occurring nature. Other (expense) income for the three and six months ended June 30, 2001 was approximately \$1,000 and \$1,309,000, respectively. The 2001 figures include the gain of \$1,334,000 on the sale to NFR of a 6.8% minority interest in its common stock. The proceeds from the sale totaled \$1,625,000, the cost basis for the investment was \$250,000, and the fees associated with the sale were approximately \$41,000. Other (expense) income for the three and six month periods ended June 30, 2002 was both (\$3,000).

Interest Income and Expenses -- Interest income represents interest earned on cash and cash equivalents. Interest income decreased from approximately \$101,000 and \$153,000 for the three and six months ended June 30, 2001, respectively, to approximately \$3,000 and \$14,000 for the three months ended June 30, 2002, respectively. The decrease in the second quarter of 2002 was attributable to lower levels of cash and cash equivalents. Interest expense represents interest paid or payable on loans and capitalized lease obligations. Interest expense decreased from approximately \$3,000 and \$7,000 for the three and six months ended June 30, 2001, respectively, to approximately \$1,000 and \$2,000 for the three and six months ended June 30, 2002, respectively, due to a decrease in the capital equipment lease balance.

Income Taxes -- The Company did not incur income tax expenses as a result of the net loss incurred during the six months ended June 30, 2001 and 2002.

Dividend on Preferred Stock -- The Company provided for dividends on preferred

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

stock of approximately \$203,000 \$3,300,000 during the three months and six months ended June 30, 2001, respectively, and approximately \$172,000 and \$352,000 for the three and six months ended June 30, 2002. Under the terms of the purchase agreements for the Series C and Series D Preferred Stock, the Company may elect to pay these dividends in cash or stock. In 2001, the Company recorded a deemed dividend of approximately \$2,932,000 in accordance with the accounting requirements for a beneficial conversion feature on the Series D

9

Preferred Stock. The proceeds received in the Series D offering were first allocated between the convertible instrument and the Series D warrant on a relative fair value basis. A calculation was then performed to determine the difference between the effective conversion price and the fair market value of the common stock at the commitment date. The difference between the fair market value of the common stock on the commitment date and the effective conversion price was recorded as a deemed dividend.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities used cash of approximately \$3,897,000 for the six months ended June 30, 2001 and approximately \$2,345,000 for the six months ended June 30, 2002. Cash used in operating activities resulted principally from net operating losses in both periods.

The Company's investing activities provided cash of approximately \$1,310,000 in the six months ended June 30, 2001 and used cash of approximately \$4,000 in the six months ended June 30, 2002. Net capital expenditures for property and equipment were approximately \$315,000 and \$4,000 during the six months ended June 30, 2001 and 2002, respectively. These expenditures have generally been for computer workstations and personal computers, office furniture and equipment, and leasehold additions and improvements.

The Company's financing activities provided cash of approximately \$6,315,000 during the six months ended June 30, 2001 and used cash of approximately \$131,000 for the six months ended June 30, 2002. In fiscal 2001, the cash was provided primarily by the issuance of a private placement of Series D Convertible Preferred Stock to certain accredited investors pursuant to Rule 506 of Regulation D under the Securities Act of 1933, as amended, for an aggregate offering price of \$7,019,250. The Company received \$6,469,250 in net proceeds after payment of all fees and offering expenses. The net proceeds of the offering are being used for general working capital purposes. In July and August 2002, the Company closed on approximately \$1,188,000 in a private placement of 8% Secured Convertible Notes with detachable warrants, due 180 days after issuance with an additional 180-day extension available at the option of the Company or the holders. The holders may convert their notes at any time into the Company's common stock at a conversion price equal to the greater of \$0.25 per share or 60% of the average closing sales price of the Company's common stock for the five-trading-day period immediately preceding the Company's receipt of the holders notification of conversion. Detachable five year warrants, exercisable at \$0.50 per share, are included to provide 100% warrant coverage to the note holders.

The Company had net tangible assets of \$2,882,000 and (\$465,000) at December 31, 2001 and June 30, 2002, respectively. As of June 30, 2002, the Company had an accumulated deficit of approximately \$62,583,000.

The Company reported a net loss of \$6,237,278, \$8,862,015 and \$9,679,944 for the years ended December 31, 2001, 2000 and 1999, respectively and a further net loss of approximately \$3,444,078 for the six months ended June 30, 2002. In addition, the Company expects to continue to incur losses during 2002 and its

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

financial statements have been prepared assuming the Company will continue as a going concern. Notwithstanding acceptance of V-ONE's security concepts and critical acclaim for its products, there can be no assurance that the consummation of sales of V-ONE's products to existing customers or proposed agreements with potential customers will generate timely or sufficient revenue for V-ONE to cover its costs of operations and meet its cash flow requirements. Accordingly, V-ONE may not have the funds needed to sustain operations during 2002.

In addition, although the Company's common stock is currently listed on the Nasdaq Small Cap Market, Nasdaq has notified the Company that it has questions concerning, among other things, the Company's ability to maintain the minimum listing requirements. The Company may not be able to continue to satisfy the minimum listing requirements. If the Company's common stock is delisted from Nasdaq, the trading market for such securities could be disrupted which could make it difficult for investors to trade in the Company's common stock.

The Company has engaged Adams, Harkness & Hill, Inc. to explore alternatives to preserve V-ONE's operations and maximize shareholder value, including potential strategic partnering relationships, a business combination with a strategically placed partner, or a sale of V-ONE.

The Company reduced operating expenses on April 1, 2002 by approximately 25%. Total operating expenses decreased for the second quarter by approximately \$881,000 and by approximately \$1,007,000 for the six months ended June 30, 2002 compared with the same periods last year. Further steps were taken to reduce expenses in mid-July by implementing a reduced workweek designed to ensure that customers' requirements are met without jeopardizing the Company's workforce. With these cost saving measures in place, V-ONE will focus its engineering design efforts on completing features committed to meet the needs of existing and potential customers in the government sector and supporting the relationships with our channel partners for sales and marketing to commercial accounts. Even at reduced operating levels, however, V-ONE may not be able to maintain operations for any extended period of time without additional capital or a significant strategic transformative event. The Company's ability to continue as a going concern is dependent on its ability to generate sufficient cash flow to meet its obligations on a timely basis or to obtain additional funding.

10

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is not materially exposed to fluctuations in currency exchange rates as all of its products are invoiced in U.S. dollars. The Company does not hold any derivatives or marketable securities. However, the Company is exposed to interest rate risk. The Company believes that the market risk arising from holdings of its financial instruments is not material.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

In closings on July 23 and 26 and August 2, 2002, the Company issued in a private placement to accredited investors 8% Secured Convertible Notes with detachable warrants for an aggregate price of \$1,188,000. The notes are due 180 days after issuance with an additional 180-day extension available at the option

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

of the Company or the holders. The holders may convert their notes at any time into the Company's common stock at a conversion price equal to the greater of \$0.25 per share or 60% of the average closing sales price of the Company's common stock for the five-trading-day period immediately preceding the Company's receipt of the holders notification of conversion. Detachable five year warrants to purchase 1,188,000 shares of the Company's common stock, exercisable six months after issuance at \$0.50 per share, are included to provide 100% warrant coverage to the note holders. The net proceeds of the offering will be used for general working capital purposes. The offering was made pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended. The Company intends to file a registration statement within thirty days to register for resale, the common shares underlying the notes and the detachable warrants.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

On May 16, 2002, the following items were voted on at the Annual Meeting of Stockholders:

Proposal	For ---	Withheld -----	Abstain -----
1. Reelection of Directors:			
Heidi B. Heiden	22,573,679	491,393	N/A
William E. Odom	22,723,879	341,193	N/A

The terms of office for Molly G. Bayley, Margaret E. Grayson, James T. McManus and Michael O'Del meeting.

	For ---	Against -----	Abstain -----
2. Ratification of auditors	22,937,853	26,169	37,773

Item 5. Other Information

None.

11

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed as part of this quarterly report on Form 10-Q for the period ended June 30, 2002:

Exhibit	Description
---------	-------------

None.

(b) Reports on Form 8-K

None.

12

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

SIGNATURE

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

V-ONE CORPORATION
Registrant

Date: August 14, 2002

By: /s/ Margaret E. Grayson

Name: Margaret E. Grayson

Title: President, Chief Executive Officer and Principal Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of V-ONE Corporation ("Company") on Form 10-Q for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof ("Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to her knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: August 14, 2002

By: /s/ Margaret E. Grayson

Name: Margaret E. Grayson

Title: Chief Executive Officer and Principal Financial Officer