V ONE CORP/ DE
Form 10-Q
November 08, 2001

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended: September 30, 2001

OR

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

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NUMBER 0-21511

V-ONE CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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 [X] 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 NOVEMBER 8, 2001
COMMON STOCK, $0.001 PAR VALUE PER SHARE	22,932,403

INDEX

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

V-ONE CORPORATION
CONDENSED BALANCE SHEET

	September 30, 2001 (Unaudited)	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,815,418	$ 2,949,398
Accounts receivable, net	916,672	776,845
Finished goods inventory, net	117,261	172,177
Prepaid expenses and other current assets	177,423	254,631
Total current assets	6,026,774	4,153,051
Property and equipment, net	890,365	929,398
Other assets	50,196	368,169
Total assets	$ 6,967,335	$ 5,450,618
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 970,886	$ 1,375,939
Deferred revenue	2,073,468	1,113,202
Capital lease obligations - current	65,600	71,943
Total current liabilities	3,109,954	2,561,084
Deferred rent	91,294	120,150
Capital lease obligations - noncurrent	722	47,803
Total liabilities	3,201,970	2,729,037
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.001 par value, 13,333,333 shares authorized; Series B convertible preferred stock, 1,287,554 designated, 643,777 and 1,287,554 issued and outstanding, respectively, (liquidation preference of $1,500,000 and $3,000,000, respectively)	644	1,288
Series C redeemable preferred stock, 500,000 designated; 42,904 and 54,714 shares issued and outstanding, respectively (liquidation preference of $1,126,388 and $1,436,243, respectively)	43	55
Series D redeemable preferred stock, 3,675,000 shares designated, issued and outstanding (liquidation preference of $7,019,250)	3,675	-
Common stock, $0.001 par value; 50,000,000 shares		

authorized; 22,932,403 and 22,109,185 shares issued and outstanding, respectively	22,932	22,109
Accrued dividends payable	670,497	180,911
Additional paid-in capital	59,768,242	51,393,818
Accumulated deficit	(56,700,668)	(48,876,600)
Total shareholders' equity	3,765,365	2,721,581
Total liabilities and shareholders' equity	$ 6,967,335	$ 5,450,618

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

V-ONE CORPORATION
CONDENSED STATEMENTS OF OPERATIONS

	Three months ended September 30, 2001 (unaudited)	Three months ended September 30, 2000 (unaudited)	Nine months ended September 30, 2001 (unaudited)	Nine months ended September 30, 2000 (unaudited)
Revenue:				
Products	$ 762,949	$ 387,844	$ 1,857,950	$2,234,595
Consulting and services	337,049	257,641	954,595	870,658
Total revenue	1,099,998	645,485	2,812,545	3,105,253
Cost of revenue:				
Products	287,062	73,566	619,408	284,800
Consulting and services	136,889	115,151	380,970	213,372
Total cost of revenues	423,951	188,717	1,000,378	498,172
Gross profit	676,047	456,768	1,812,167	2,607,081
Operating expenses:				
Research and development	1,019,257	890,820	3,071,346	2,410,036
Sales and marketing	1,220,817	1,560,887	3,757,313	4,655,604
General and administrative	642,039	810,489	1,959,724	2,484,163
Total operating expenses	2,882,113	3,262,196	8,788,383	9,549,803
Operating loss	(2,206,066)	(2,805,428)	(6,976,216)	(6,942,722)
Other (expense) income:				
Interest expense	(2,597)	(5,196)	(9,563)	(17,534)
Interest income	62,569	109,266	215,470	264,977
Other (expense) income	(2,468)	-	1,306,862	-
Total other (expense)				

income	57,504	104,070	1,512,769	247,443
Net loss	(2,148,562)	(2,701,358)	(5,463,447)	(6,695,279)
Dividend on preferred stock	205,311	36,612	2,360,622	333,778
Loss attributable to holders of common stock	$ (2,353,873)	$ (2,737,970)	(7,824,069)	$(7,029,057)
Basic and diluted loss per share attributable to holders of common stock	$ (0.10)	$ (0.12)	$ (0.35)	$ (0.34)
Weighted average number of common shares outstanding	22,850,427	22,036,612	22,429,965	20,478,168

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

V-ONE CORPORATION
CONDENSED STATEMENT OF CASH FLOWS

	Nine months Ended September 30, 2001 (unaudited)	Nine months Ended September 30, 2000 (unaudited)
Cash flows from operating activities:		
Net loss	$(5,463,447)	$(6,695,279)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	413,916	287,666
Stock compensation	146,734	249,679
Gain on sale of investment	(1,375,000)	-
Changes in assets and liabilities:		
Accounts receivable, net	(139,827)	(146,457)
Inventory, net	54,916	(226,476)
Prepaid expenses and other assets	145,181	482,150
Accounts payable and accrued expenses	(405,053)	(92,601)
Deferred revenue	960,266	560,166
Deferred rent	(28,855)	(25,440)
Net cash used in operating activities	(5,691,169)	(5,606,592)
Cash flows from investing activities:		
Net purchases of property and equipment	(374,882)	(654,132)
Collection of subscription	-	3,785
Proceeds from sale of investment	1,625,000	-

Net cash provided by (used in) investing activities	1,250,118	(650,347)
Cash flows from financing activities:		
Exercise of options and warrants	48,642	169,697
Issuance of common stock	10,228	3,375,000
Issuance of preferred stock	7,019,250	-
Redemption of preferred stock	(84,449)	-
Payments of stock issuance costs	(632,918)	(166,547)
Payment of preferred stock dividends	(258)	(16)
Principal payments on capitalized lease obligations	(53,424)	(58,408)
Net cash provided by financing activities	6,307,071	3,319,726
Net increase (decrease) in cash and cash equivalents	1,866,020	(2,937,213)
Cash and cash equivalents at beginning of period	2,949,398	7,136,943
Cash and cash equivalents at end of period	$ 4,815,418	$ 4,199,730

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 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 nine months ended September 30, 2001 and September 30, 2000 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, 1999 and 2000 and for the three years in the period ended December 31, 2000, which are included in the Company's 2000 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 nine month period ended September 30, 2001 are not necessarily indicative of the results expected for the full year ending December 31, 2001.

Certain prior year amounts have been reclassified to conform to the 2001 presentation. These changes had no impact on previously reported results of operations.

3. Common and Preferred Stock

On February 14, 2001, the Company 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 conversation 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 are being used for general working capital purposes. The Company recorded deemed dividends of approximately $1,825,000 due to the Series D Stock being issued at a discount to fair market value on the date of issuance. For the terms and conditions of the Series D Stock, refer to the Company's Form 8-K filed with the SEC on March 1, 2001.

In the nine months ended September 30, 2001, several investors exercised the non-detachable warrants of the Series C Preferred Stock. As a result of the Series D Stock offering, this exercise was made at the adjusted price of $1.91 per share, with the balance of $84,442 of the "stub" amount paid in cash. A total of 118,100 shares of common stock were issued as a result of warrant exercises in the nine months ended September 30, 2001. A total of 19,436 shares of common stock were issued as dividends accrued on the Series C Preferred Stock through the date of the Series D Stock offering. These shares were registered as part of a Form S-3 filed on July 5, 2000. The outstanding Series C Preferred Stock was reduced by 11,810 shares as a result of the warrant exercises pursuant to the terms of the Series C Preferred Stock offering. There were no proceeds generated from this exercise.

On May 21, 2001 the Company filed a Registration Statement on Form S-8 to register 2,500,000 shares of the Company's common stock as part of the creation

of an Employee Stock Purchase Plan ("Plan"). The Plan was approved by a majority of the shareholders and was adopted at the Annual Meeting of Shareholders held on May 10, 2001. The shares registered under the Form S-8 Registration Statement are reserved for future issuance by the Company as part of the Plan.

On July 11, 2001 an investor converted 643,777 shares of Series B Preferred into an equal number of shares of Common Stock.

On September 28, 2001, the Company sold 12,405 shares of Common Stock at a price of $.825 per share as part of its Employee Stock Purchase Plan.

4. Management's Plans

Management's plans include the development of additional revenue from several sources including but not limited to V-ONE's new Channel Partners program associated with its 4.2 product release, its OEM agreement with Citrix Systems, Inc., and its sales agreement with a supplier to the Department of the Treasury of a managed VPN service. There can be no assurance that the timing of acceptance and implementation of the Company's products with existing customers or proposed agreements will generate revenue for the Company to cover its cost of operations and meet its cash flow requirements. Management intends to pursue additional capital investment opportunities through the development of potential strategic partnering relationships. Management has identified several candidates that it believes have synergistic and/or compatible technologies that may have the potential to provide a strategic investment that could accelerate V-ONE's growth and position in the marketplace and fund additional development and distribution of V-ONE's technology products for specific applications. There can be no assurance that such strategic partnering relationships will be completed, and V-ONE may be unable to place equity securities on favorable terms or in an amount required to meet its future cash requirements. V-ONE anticipates that it will continue to expend significant amounts to fund its operations and research and development and currently has no plans to significantly alter its number of employees. Management, however, is actively monitoring revenue and expense levels and can implement contingency plans for changes as may be necessary to maintain sufficient resources until the anticipated additional revenue and associated cash flow has been achieved. V-ONE may not be successful in reducing operating levels or, if operating levels are reduced, V-ONE may not be able to maintain operations for any extended period of time. In the event that all of these efforts are not successful, V-ONE believes it may not have the funds needed to sustain operations or to maintain capital needed to satisfy listing requirements on the Nasdaq Small Cap Market beyond March 31, 2002.

5. Supplemental Cash Flow Disclosure

Selected noncash activities were as follows:

	Nine Months ended September 30,	
	2001	2000
Noncash investing and financing activities:		
Redemption of preferred stock	$ 225,571	$ 7,357,508
Payment of preferred stock dividends	$ 46,088	$ 461,353

6. Net Loss Per Share

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2001	2000	2001	2000
Numerator:				
Net loss	$(2,148,562)	$(2,701,358)	$(5,463,447)	$(6,695,279)
Less: Dividend on preferred stock	(205,311)	(36,612)	(2,360,622)	(333,778)
Net loss attributable to holders of common stock	$(2,353,873)	$(2,737,970)	$(7,824,069)	$(7,029,057)
Denominator:				
Denominator for basic and diluted net loss per share - weighted average shares	22,850,427	22,036,612	22,429,965	20,478,168
Basic and diluted loss per share - Net loss attributable to holders of common stock	$ (0.10)	$ (0.12)	$ (0.35)	$ (0.34)

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

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 increased from approximately $645,000 for the three months ended September 30, 2000 to approximately $1,100,000 for the three months ended September 30, 2001. This increase of approximately $455,000 or 70% is due primarily to a $375,000 increase in product sales of turnkey systems to new customers and of hardware systems to existing customers to upgrade them to the current version of SmartGate, as well as an $80,000 increase in consulting and services revenue. Total revenues decreased from approximately $3,105,000 for the nine months ended September 30, 2000 to approximately $2,813,000, for the nine months ended September 30, 2001. Product revenue was down approximately $377,000, or 17%, while consulting and services revenue was up approximately $84,000, or 10%. Product revenues are derived principally from software licenses and the sale of hardware products. Product revenues increased from approximately $388,000 for the three months ended September 30, 2000, to approximately $763,000 for the three months ended September 30, 2001. The increase resulted from strong orders for turnkey systems to new customers and hardware systems to existing customers to upgrade them to SmartGate version 4.2. Product revenues decreased from approximately $2,235,000 for the nine months ended September 30, 2000, to approximately $1,858,000 for the nine months ended September 30, 2001. The decrease this year was due to weaker orders for software products. Consulting and services revenues are derived principally from fees for services complementary to the Company's products, including consulting, maintenance, installation and training. Consulting and services revenues increased from approximately $258,000 and $871,00 for the three and nine months ended September 30, 2000, respectively, to approximately $337,000 and $955,000 for the three and nine months ended September 30, 2001, respectively. This was due principally to a higher number of new and renewing maintenance contracts provided to customers in the third quarter and year. For the three and nine months ended September 30, 2001, the maintenance and support of customers revenue was 96% and 94% of total consulting and services revenue, respectively. For the three and nine months ended September 30, 2001, the installation and training revenue was 4% and 6% of total consulting and services revenue, respectively.

While the Company anticipates that the unpredictability of the revenue streams will stabilize during the fourth quarter of 2001 and believes that it is on track to achieve the previously announced revenue projection of approximately

9

$2.3 million for the fourth quarter of 2001, it cannot be certain that revenue will, in fact, become more predictable or certain of the relative levels of software, hardware, consulting and services revenues to be generated in future periods.

COST OF REVENUES

Total cost of revenues as a percentage of total revenues increased from approximately 29% and 16% for the three and nine months ended September 30, 2000, respectively, to approximately 38% and 36% for the three and nine months ended September 30, 2001, respectively. The increases were primarily due to several large turnkey and hardware system sales, added staff in training and a higher proportion of total revenue of third-party product maintenance contracts in the periods. 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 increased from approximately $74,000 and $285,000 for the three and nine months ended September 30, 2000, respectively, to approximately $287,000 and $619,000 for the three and nine months ended September 30, 2001, respectively. The increase in costs of product revenue for the three and nine months ended September 30, 2001 was primarily attributable to a higher proportion of turnkey systems and third-party firewalls sales. Cost of product revenues as a percentage of product revenues was approximately 19% and 13% for the three and nine months ended September 30, 2000, respectively, and approximately 38% and 33% for the three and nine months ended September 30, 2001, respectively. The percentage increases were primarily attributable to a higher proportion of turnkey systems and third-party firewalls sales, as compared to sales of software licenses.

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 $115,000 and $213,000 for the three and nine months ended September 30, 2000, respectively, to approximately $137,000 and $381,000 for the three and nine months ended September 30, 2001, respectively. Cost of consulting and services revenues as a percentage of consulting and services revenues was approximately 45% and 24% for the three and nine months ended September 30, 2000, respectively, and approximately 41% and 40% for the three and nine months ended September 30, 2001. The dollar increases were due mainly to the hiring of additional training staff and a higher proportion of sales of third-party firewall maintenance contracts.

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 existing products. Research and development expenses increased from approximately $891,000 and $2,410,000 for the three and nine months ended September 30, 2000, respectively, to approximately $1,019,000 and $3,071,000 for the three and nine months ended September 30, 2001, respectively. The dollar increases for the three and nine months ended September 30, 2001 of approximately $128,000 and $661,000, respectively, over the same periods in the prior fiscal year were primarily due to higher wage related expenses of $30,000 and $220,000, respectively, as well as higher consulting expense of $88,000 and $351,000, respectively. Research and development expenses as a percentage of total revenues were approximately 138% and 78% for the three and nine months ended September 30, 2000, respectively and approximately 93% and 109% for the three and nine months ended September 30, 2001, respectively.

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 $1,561,000 and $4,656,000 for the three and nine months ended September 30, 2000, respectively, to approximately $1,221,000 and $3,757,000 for the three and nine months ended September 30, 2001, respectively. The dollar decreases for the three and nine months ended September 30, 2001 of $340,000 and $898,000, respectively, relate

to lower wage related expenses of $202,000 and $579,000, respectively, lower travel expense of $88,000 and $233,000, respectively, lower rent of $37,000 and $116,000, respectively, and lower advertising and trade show expenses of $85,000 and $315,000, respectively, offset in part by higher consulting costs of $131,000 and $447,000, respectively. Sales and marketing expenses as a percentage of total revenues were approximately 242% and 150% for the three and nine months ended September 30, 2000, respectively, and approximately 111% and 134% for the three and nine months ended September 30, 2001, respectively. The percentage decreases for the quarter and year are due to lower expense for fiscal 2001 when compared to similar periods for fiscal 2000.

General and Administrative -- General and administrative expenses consist principally of the costs of accounting and finance, legal and human resources management, administrative personnel and facilities expenses. General and administrative expenses decreased from approximately $810,000 and $2,484,000 for the three and nine months ended September 30, 2000, respectively, to approximately $642,000 and $1,960,000 for the three and nine months ended September 30, 2001, respectively. The decrease for the third quarter of 2001 of approximately $168,000 was due principally to lower wage related expenses of $94,000 and accounting fees of $31,000. The decrease in expenses for the nine months ended September 30, 2001 of approximately $524,000 was due to lower wages related expenses of approximately $261,000, lower legal fees of approximately $170,000 and lower bad debt expense of approximately $51,000. General and administrative expenses as a percentage of total revenues were approximately 126% and 80% for the three and nine months ended September 30, 2000, respectively, and 58% and 70% for the three and nine months ended September 30, 2001, respectively. The percentage decreases were due to lower expense in both periods and higher revenue in the third quarter of this year as compared to the third quarter of 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 nine months ended September 30, 2001 was approximately ($2,000) and $1,307,000, respectively. The year-to-date income includes 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 nine month periods last year was immaterial.

Interest Income and Expenses -- Interest income represents interest earned on cash and cash equivalents. Interest income decreased from approximately $109,000 and $265,000 for the three and nine months ended September 30, 2000, respectively, to approximately $63,000 and $215,000 for the three and nine months ended September 30, 2001, respectively. The decreases were 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 $5,000 and $17,000 for the three and nine months ended September 30, 2000, respectively, to approximately $3,000 and $10,000 for the three and nine months ended September 30, 2001, 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 nine months ended September 30, 2000 and 2001.

Dividend on Preferred Stock -- The Company provided approximately $37,000 and $334,000 for the three and nine months ended September 30, 2000, respectively, for dividends on the Series C Preferred Stock and approximately $205,000 and $2,360,000 during the three and nine months ended September 30, 2001, respectively, for the Series C Preferred Stock and the Series D Stock. Under the terms of the purchase agreements for the Series C Preferred Stock and the Series D Stock, the Company may elect to pay these dividends in cash or stock. The

Company recorded deemed dividends of approximately $1,825,000 in the nine months ended September 30, 2001 due to the Series D Stock being issued at a discount to fair market value on the date of issuance.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities used cash of approximately $5,607,000 for the nine months ended September 30, 2000 and approximately $5,691,000 for the nine months ended September 30, 2001. Cash used in operating activities resulted principally from net operating losses in both periods, offset in part by increases in deferred revenue in 2000 and 2001 of approximately $560,000 and approximately $960,000, respectively. Deferred revenue increases are a direct result of the scheduled payments received under the Company's OEM agreement with Citrix Systems, Inc. Until all contractual obligations are completed, revenue for products sold by Citrix Systems, Inc. cannot be recognized and therefore will remain in deferred revenue.

The Company's investing activities used approximately $650,000 in the nine months ended September 30, 2000 and provided cash of approximately $1,250,000 in the nine months ended September 30, 2001. Net capital expenditures for property and equipment were approximately $654,000 and $375,000 during the nine months ended September 30, 2000 and 2001, respectively. These expenditures have generally been for computer workstations and personal computers, office furniture and equipment, and leasehold additions and improvements. The capital expenditures were higher in 2000 as the Company acquired approximately $300,000 of equipment and furniture, which had been under a three-year operating lease. Proceeds from the sale of the Company's minority interest in the common stock of NFR Security, Inc. were approximately $1,625,000 in the nine months ended September 30, 2001.

The Company's financing activities provided cash of approximately $3,320,000 and $6,307,000 during the nine months ended September 30, 2000 and 2001, respectively. 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 a March 2000 private placement of securities, the Company issued, pursuant to Rule 506 of Regulation D under the Securities Act of 1933, as amended, 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.

The Company had net tangible assets of $2,722,000 and $3,765,000 at December 31, 2000 and September 30, 2001, respectively.

As of September 30, 2001, the Company had an accumulated deficit of approximately $56,701,000.

Management intends to pursue additional capital investment opportunities through the development of potential strategic partnering relationships. Management has identified several candidates that it believes have synergistic and/or compatible technologies that may have the potential to provide a strategic investment that could accelerate V-ONE's growth and position in the marketplace and fund additional development and distribution of V-ONE's technology products for specific applications. There can be no assurance that such strategic partnering relationships will be completed, and V-ONE may be unable to place equity securities on favorable terms or in an amount required to meet its future

cash requirements. V-ONE anticipates that it will continue to expend significant amounts to fund its operations and research and development and currently has no plans to significantly alter its number of employees. Management, however, is actively monitoring revenue and expense levels and can implement contingency plans for changes as may be necessary to maintain sufficient resources until the anticipated additional revenue and associated cash flow has been achieved. V-ONE may not be successful in reducing operating levels or, if operating levels are reduced, V-ONE may not be able to maintain operations for any extended period of time. In the event that all of these efforts are not successful, V-ONE believes it may not have the funds needed to sustain operations or to maintain capital needed to satisfy listing requirements on the Nasdaq Small Cap Market beyond March 31, 2002.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

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 September 30, 2001:

Exhibit	Description
None.	

(b) Reports on Form 8-K

None.

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: November 8, 2001 By: /s/ John F. Nesline

Name: John F. Nesline
Title: Chief Financial Officer
(Duly authorized officer)