V ONE CORP/ DE
Form 10-Q/A
January 20, 2004

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

FORM 10-Q/A

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NUMBER 0-21511

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

DELAWARE	52-1953278
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

20300 CENTURY BLVD., SUITE 200, GERMANTOWN, MARYLAND 20874
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(301) 515-5200
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

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

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

CLASS	OUTSTANDING AT MAY 8, 2003
COMMON STOCK, $0.001 PAR VALUE PER SHARE	26,961,801

EXPLANATORY NOTE

This quarterly report on Form 10-Q was previously filed with financial statements that had not been reviewed by V-ONE Corporation's auditors. Aronson & Company, an independent public accounting firm, has completed its review of V-ONE Corporation's financial statements for the period covered in this report. V-ONE Corporation is amending this quarterly report on Form 10-Q to include financial statements that have been reviewed by its independent auditors. The amended Form 10-Q includes certain revised financial information for the period covered in this quarterly report, as well as additional financial statement footnote disclosures.

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V-ONE Corporation
Quarterly Report on Form 10-Q

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

V-ONE CORPORATION
CONDENSED BALANCE SHEETS

ASSETS	March 31, 2003 (Unaudited)	December 31, 2002
Current assets:		
Cash and cash equivalents	$ 107,980	$ 93,985
Certificate of deposit - restricted	26,500	35,000
Accounts receivable, less allowances of $36,414 and $97,135 respectively	339,597	237,695
Finished goods inventory, less allowances of $31,613 and $44,738 respectively	2,850	5,478
Deferred financing costs, net	-	68,974
Prepaid expenses and other assets	118,720	121,460
Total current assets	595,647	562,592
Property and equipment, net	189,052	319,294
Deposits	95,141	90,196
Total assets	$ 879,840	$ 972,082
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,241,205	$ 1,235,574
Deferred revenue	713,865	784,185
Convertible notes payable, net	578,000	591,242
Notes payable, other	166,134	20,000
Total current liabilities	2,699,204	2,631,001
Deferred rent	18,148	32,831
Notes payable other-long term	141,849	-
Total liabilities	2,859,201	2,663,832
Commitments and contingencies		
Shareholders' 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	43
Series D convertible preferred stock 3,675,000 shares designated,		

3,021,000 and 3,021,000 issued and outstanding, respectively (liquidation preference of $5,770,110)	3,021	3,021
Common stock, $0.001 par value; 50,000,000 shares authorized; 26,761,801 and 26,649,301 shares issued and outstanding, respectively	26,762	26,649
Accrued dividends payable	1,745,756	1,575,709
Additional paid-in capital	61,889,940	61,825,066
Accumulated deficit	(65,644,883)	(65,122,238)
Total shareholders' equity (deficiency)	(1,979,361)	(1,691,750)
Total liabilities and shareholders' equity (deficiency)	$ 879,840	$ 972,082

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

V-ONE CORPORATION
CONDENSED STATEMENTS OF OPERATIONS

	Three months ended March 31, 2003 (unaudited)	Three months ended March 31, 2002 (unaudited)
Revenue:		
Products	$ 641,102	$ 443,952
Consulting and services	364,168	408,267
Total revenue	1,005,270	852,219
Cost of revenue:		
Products	15,405	49,313
Consulting and services	25,775	116,420
Total cost of revenue	41,180	165,733
Gross profit	964,090	686,486
Operating expenses:		
Research and development	322,113	968,255
Sales and marketing	383,588	1,003,974
General and administrative	474,318	737,485
Total operating expenses	1,180,019	2,709,714
Operating loss	(215,929)	(2,023,228)
Other (expense) income:		
Interest expense	(132,731)	(1,396)
Interest income	5,032	11,006
Other (expense) income	(8,970)	-
Total other (expense) income	(136,669)	9,610

Net loss	(352,598)	(2,013,618)
Dividend on preferred stock	170,047	180,313
Loss attributable to holders of common stock	$(522,645)	$ (2,193,931)
Basic and diluted loss per share attributable to holders of common stock	$ (0.02)	$ (0.09)
Weighted average number of common shares outstanding	26,718,329	24,038,801

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

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V-ONE CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2003 (unaudited)	Three months ended March 31, 2002 (unaudited)
Cash flows from operating activities:		
Net loss	$ (352,598)	$ (2,013,618)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	123,994	146,667
Stock compensation	609	-
Amortization of debt discount	35,648	-
Interest expense-beneficial conversion feature	14,000	-
Amortization of deferred financing costs	68,974	-
Changes in assets and liabilities:		
Accounts receivable, net	(101,902)	176,853
Inventory, net	2,628	11,621
Deferred financing costs	68,974	-
Prepaid expenses and other assets	(71,179)	101,240
Accounts payable and accrued expenses	293,614	156,805
Deferred revenue	(70,320)	(204,067)
Deferred rent	(14,683)	(10,503)
Net cash used in operating activities	(2,241)	(1,635,002)
Cash flows from investing activities:		
Redemption of Certificate of deposit	8,500	-
Net purchases of property and equipment	6,248	(6,915)
Collection of subscription	-	-
Proceeds from sale of investment	-	-
Net cash provided by (used in) investing activities	14,748	(6,915)

Cash flows from financing activities:		
Exercise of options and warrants	1,488	9,640
Issuance of common stock	-	-
Issuance of preferred stock	-	-
Redemption of preferred stock	-	-
Payments of stock issuance costs	-	-
Payment of preferred stock dividends	-	-
Principal payments on capitalized lease obligations	-	(19,140)
Net cash provided by financing activities	1,488	(9,500)
Net increase in cash and cash equivalents	13,995	(1,651,417)
Cash and cash equivalents at beginning of period	93,985	2,608,690
Cash and cash equivalents at end of period	$ 107,980	$ 957,273

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

V-ONE CORPORATION
NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Nature of the Business

V-ONE Corporation ("Company") develops, markets and licenses a comprehensive suite of network security products that enables 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 months ended March 31, 2003 and March 31, 2002 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. The balance sheet at December 31, 2002 is as presented in the financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the audited financial statements as of December 31, 2002 and 2001 and for the three years in the period ended December 31, 2002, which are included in the Company's amended 2002 Annual Report on Form 10-K ("Form 10-K").

The preparation of financial statements to be in conformity with accounting principles generally accepted in the United States 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 affect future results of operations and cash flows.

The results of operations for the three-month period ended March 31, 2003 are not necessarily indicative of the results expected for the full year ending December 31, 2003.

Certain prior year amounts have been reclassified to conform to the 2003 presentation. These changes had no impact on previously reported results of operations.

3. Common and Preferred Stock

On March 31, 2003, the Company sold 12,500 shares of common stock at a price of $.119 per share as part of its Employee Stock Purchase Plan.

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. As of March 31, 2003, holders had converted $610,000, or 51%, of the notes into shares of common stock at $.25 per share.

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 $5,635,191, $6,237,278, and $8,862,015 for the years ended December 31, 2002, 2001 and 2000, respectively, and a further net loss of $352,598 for the three months ended March 31, 2003. In addition, the Company expects to continue to incur losses during 2003. Notwithstanding acceptance of the Company's security concepts and critical acclaim for its products, there can be no assurance that the consummation of sales of the Company's products to existing customers or proposed agreements with potential customers will generate timely or sufficient revenue for the Company to cover its costs of operations and meet its cash flow requirements. Accordingly, the Company may not have the funds needed to sustain operations during 2003.

The Company has taken steps to reduce expenses by implementing a reduced workweek designed to ensure that customers' requirements are met without jeopardizing the Company's workforce. Additional staff reductions were effected on January 10, 2003, approximating 20% of the Company's employees. For the immediate future, the Company will focus on existing and potential customers in

the government sector, targeted marketing operations to commercial accounts through its distribution and reseller channel partners, and minimizing general and administrative expenditures and all possible capital expenditures. The Company may not be successful in further reducing operating levels or, even at reduced operating levels, the Company may not be able to maintain operations for any extended period of time without generating revenue from existing and new customers, 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.

The Company is seeking to expand its current banking relationships to explore alternatives to preserve its operations and maximize shareholder value, including potential strategic partnering relationships, a business combination with a strategically placed partner, or a sale of the Company.

5. 8% Secured Convertible Notes with Detachable Warrants

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. Detachable five year warrants, exercisable at $0.50 per share, are included to provide one warrant share for every dollar invested as warrant coverage to the note holders. In connection with its efforts to raise capital, the Company agreed in January 2003 to adjust the exercise price of the warrants from $0.50 per share to $0.15 per share. As of March 31, 2003, holders had converted $610,000, or 51%, of the notes into shares of common stock at $.25 per share.

Upon issuance of the notes, the Company recorded a debt discount of approximately $184,980 in accordance with the accounting requirements for a beneficial conversion feature on the notes. During the three months ended March 31, 2003, the Company amortized approximately $11,758 of the discount to interest expense. Additionally, the Company recorded $14,000 in accrued interest expense for the first quarter of 2003. Interest expense is payable upon conversion of the notes. The Company elected to extend the notes for an additional 180 days in January 2003 and paid the interest accrued under the initial term of the notes. In July 2003, the Company requested and received an extension of the notes for an additional 180 days and agreed to an increase in the interest rate from 10% to 12% during the extension period.

In connection with the Company's agreement to adjust the exercise price of the warrants, the Company recorded a debt discount of approximately $23,890 in accordance with the accounting requirements for a beneficial conversion feature on the notes. The Company used the Black-Scholes model to determine the fair value of the warrant repricing with the following assumptions" volatility of 0%, risk free interest rate of 3.43% and expected term of 5 years. During the three months ended March 31, 2003, the Company amortized $23,890 of the discount to interest expense.

6. Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), 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. The following table illustrates the effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123:

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	Three months ended March 31, 2003	2002
Net Income, as reported	$ (522,645)	$ (2,193,931)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	$ -	$ -
Deduct: Total stock-based employee		

compensation expense determined under fair value based method for all awards, 8(1) net or related tax effects	$ (66,407)	$ (44,280)
Pro forma net income	$ (589,052)	$ (2,238,211)
Earnings per share:		
Basic - as reported	$ (0.02)	$ (0.09)
Basic - pro forma	$ (0.02)	$ (0.09)
Diluted - as reported	$ (0.02)	$ (0.09)
Diluted - pro forma	$ (0.02)	$ (0.09)
	26,718,329	24,038,801

This disclosure is in accordance with Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," that the Company has adopted in these financial statements.

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 and warrants is determined using the Black-Scholes model.

7. Net Loss Per Share

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

	Three Months ended March 31,	
	2003	2002
Numerator:		
Loss before extraordinary item	$ (352,598)	$ (2,013,618)
Less: Dividend on preferred stock	(170,047)	(180,313)
Deemed dividend on preferred stock	-	-
Net loss before extraordinary item	(522,645)	(2,193,931)
Extraordinary item-early extinguishments of debt	-	-
Net loss attributable to holders of common stock	$ (522,645)	$ (2,193,931)
Denominator:		
Denominator for basic and diluted net loss per share - weighted average shares	26,718,329	24,038,801
Effect of dilutive securities:		
Preferred Stock	-	-
Stock Options	-	-

Warrants	-	-
Dilutive potential common shares	-	-
Denominator for diluted net loss per share-adjusted weighted average shares	26,718,329	24,038,801
Basic and diluted loss per share - Loss before extraordinary item	$ (0.02)	$ (0.09)
Extraordinary item-early extinguishment of debt	-	-
Net loss attributable to holders of common stock	$ (0.02)	$ (0.09)

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

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

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

RESULTS OF OPERATIONS

REVENUES

Total revenues increased from approximately $852,000 for the three months ended March 31, 2002 to approximately $1,005,000 for the three months ended March 31, 2003. This increase of approximately $153,000 or 18% is due primarily to a $197,000 increase in product revenue while consulting and services revenue for the three months ended March 31, 2003 was down approximately $44,000 or 11% compared to the first quarter of 2002. Product revenues are derived principally from software licenses and the sale of hardware products. Product revenues increased from approximately $444,000 for the three months ended March 31, 2002 to approximately $641,000 for the three months ended March 31, 2003. Consulting and services revenues are derived principally from fees for services complementary to the Company's products, including consulting, maintenance, installation and training. Consulting and services revenues decreased from approximately $408,000 for the three months ended March 31, 2002 to approximately $364,000 for the three months ended March 31, 2003. This was due principally to a lower cost of maintenance for new international distribution customers and a lower number of new and renewing maintenance contracts provided to customers in the first quarter of fiscal 2003.

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

COST OF REVENUES

Total cost of revenues as a percentage of total revenues decreased from approximately 19% for the three months ended March 31, 2002 to approximately 4% for the three months ended March 31, 2003. The percentage decrease was primarily due to higher sales of software licenses and lower sales of Smartwall and turnkey hardware systems sales in the current year. 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 $49,000 for the three months ended March 31, 2002 to approximately $15,000 for the three months ended March 31, 2002. The decrease in cost of product revenues for the three months ended March 31, 2003 was primarily attributable to higher sales of software licenses and lower sales of Smartwall and turnkey hardware systems sales in the current year. Cost of product revenues as a percentage of product revenues was approximately 11% for the three months

ended March 31, 2002 and approximately 2% for the three months ended March 31, 2003. The percentage decrease was primarily attributable to higher sales of software licenses and lower sales of Smartwall and turnkey hardware systems sales in the current year.

Cost of consulting and services revenues consists principally of personnel and related costs incurred in providing consulting, support and training services to customers and costs of third-party product support. Cost of consulting and services revenues decreased from approximately $116,000 for the three months ended March 31, 2002 to approximately $26,000 for the three months ended March 31, 2003. Cost of consulting and services revenues as a percentage of consulting and services revenue was approximately 28% for the three months ended March 31, 2002 and approximately 7% for the three months ended March 31, 2003. The decrease was due mainly to lower salary expense in the first quarter of fiscal 2003.

OPERATING EXPENSES

Research and Development -- Research and development expense consists principally of the costs of research and development personnel and other expenses associated with the development of new products and enhancement of existing products. Research and development expenses decreased from approximately $968,000 for the three months ended March 31, 2002 to approximately $322,000 for the three months ended March 31, 2002. The dollar decrease of approximately $646,000 was primarily due to lower salary and consulting expenses of $457,000 and $73,000, respectively. Research and development expense as a percentage of total revenue was approximately 114% for the three months ended March 31, 2002 and approximately 32% for the three months ended March 31, 2003.

Sales and Marketing -- Sales and marketing expense consists principally of the costs of sales and marketing personnel, advertising, promotions and trade shows. Sales and marketing expenses decreased from approximately $1,004,000 for the three months ended March 31, 2002 to approximately $384,000 for the three months ended March 31, 2003. The dollar decrease for the three months ended March 31, 2003 of $620,000 relates to primarily to lower salary expense of $324,000, lower consulting costs of $62,000, lower tradeshow expense of $52,000, lower advertising expense of $27,000, lower travel expense of $24,000 and lower direct mail expense of $22,000. Sales and marketing expenses as a percentage of total revenues were approximately 118% for the three months ended March 31, 2002 and approximately 38% for the three months ended March 31, 2003. The percentage decrease is due to lower expense for fiscal 2003 when compared to similar periods for fiscal 2002 as well as higher revenue.

General and Administrative -- General and administrative expense consists principally of the costs of accounting and finance, legal and human resources management, administrative personnel and facilities expenses. General and administrative expenses decreased from approximately $737,000 for the three months ended March 31, 2002 to approximately $474,000 for the three months ended March 31, 2003. The decrease in expense of approximately $263,000 was due principally to lower salary expense of $128,000, reduced cost of D&O insurance of $53,000, lower legal expense of $25,000 and lower consulting expense of $25,000. General and administrative expenses as a percentage of total revenues were approximately 87% for the three months ended March 31, 2002 and 47% for the three months ended March 31, 2003.

Other (Expense) Income -- Other (expense) income represents the income or expense resulting from non-operational activities that are of an infrequently occurring nature. Other (expense) income decreased from approximately zero for the three months ended March 31, 2002 to $(9,000) for the three months ended March 31, 2003 due primarily to early retirement of certain fixed assets.

Interest Income and Expense -- Interest income represents interest earned on cash and cash equivalents. Interest income decreased from approximately $11,000 for the three months ended March 31, 2002 to approximately $5,000 for the three months ended March 31, 2003. The decrease was attributable to lower levels of cash and cash equivalents in the current period. Interest expense represents interest paid or payable on loans and capitalized lease obligations. Interest expense increased from approximately $1,000 for the three months ended March 31, 2002 to approximately $133,000 for the three months ended March 31, 2003, substantially all of which was for recognition of a beneficial conversion feature on the 8% Secured Convertible Notes.

Income Taxes -- The Company did not incur income tax expenses as a result of the net loss incurred during the three months ended March 31, 2002 and 2003.

Dividend on Preferred Stock -- The Company provided for dividends on preferred stock of approximately $180,000 during the three months ended March 31, 2002 and approximately $170,000 for the three months ended March 31, 2003. Under the

terms of the purchase agreements for the Series C and Series D Preferred Stock, the Company may elect to pay these dividends in cash or stock.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities used cash of approximately $1,635,000 for the three months ended March 31, 2002 and used cash of approximately $2,000 for the three months ended March 31, 2003. Cash used in operating activities resulted principally from net operating losses in the periods offset in part by an increase in accounts payable. The decrease in cash used in operating activities of approximately $1,641,000 was attributable primarily to a reduction in net operating loss of $1,661,000.

The Company's investing activities used cash of approximately $7,000 in the three months ended March 31, 2002 and provided cash of approximately $15,000 in the three months ended March 31, 2003. Net capital expenditures for property and equipment were approximately $7,000 and $6,000 during the three months ended March 31, 2002 and 2003, 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 used cash of approximately $9,500 during the three months ended March 31, 2002 and provided cash of approximately $1,500 for the three months ended March 31, 2003. In fiscal 2002, the cash was used primarily by principal payments on capitalized lease obligations.

The Company had net tangible assets of ($1,692,000) and ($1,979,000) at December 31, 2002 and March 31, 2003, respectively. As of March 31, 2003, the Company had an accumulated deficit of approximately $65,645,000.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company reported a net loss of $5,635,191, $6,237,278, and $8,862,015 for the years ended December 31, 2002, 2001 and 2000, respectively, and a further net loss of $352,598 for the three months ended March 31, 2003. In addition, the Company expects to continue to incur losses during 2003. Notwithstanding acceptance of the Company's security concepts and critical acclaim for its products, there can be no assurance that the consummation of sales of the Company's products to existing customers or proposed agreements with potential customers will generate timely or sufficient revenue for the Company to cover its costs of operations and meet its cash flow requirements. Accordingly, the Company may not have the funds needed to sustain operations during 2003.

The Company has taken steps to reduce expenses by implementing a reduced workweek designed to ensure that customers' requirements are met without jeopardizing the Company's workforce. Additional staff reductions were effected on January 10, 2003, approximating 20% of the Company's employees. For the immediate future, the Company will focus on existing and potential customers in the government sector, limited and targeted marketing operations to commercial accounts, and minimizing general and administrative expenditures and all possible capital expenditures. The Company may not be successful in further reducing operating levels or, even at reduced operating levels, the Company may not be able to maintain operations for any extended period of time without generating revenue from existing and new customers, 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.

The Company is seeking to expand its current banking relationships to explore alternatives to preserve its operations and maximize shareholder value, including potential strategic partnering relationships, a business combination with a strategically placed partner, or a sale of the Company.

CONTRACTUAL OBLIGATIONS

The following table discloses aggregate information about the Company's contractual obligations as of March 31, 2003 and the periods in which payments are due:

	Payments Due By Period				
	Remainder of 2003	2004 and 2005	2006 and 2007	Thereafter	Total
Long-term debt obligations	$270,908	$624,828	$466,681	$59,486	$1,421,903
Operating leases	10,782	26,357	0	0	37,140
	$281,690	$651,185	$466,681	$59,486	$1,459,043

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OFF-BALANCE SHEET ARRANGEMENTS

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

Item 4. Controls and Procedures

Within the ninety-day period prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President, Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Company's President, Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting management to material information relating to the Company required to be included in the Company's periodic filings with the SEC. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

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

The Company entered into a new lease agreement effective March 1, 2003 for 9,396 square feet of office space at 20300 Century Boulevard, Suite 200, Germantown, Maryland that terminates on March 31, 2008. The Company expects that this space will be sufficient for its needs through expiration of the lease. In 2002, the Company leased approximately 28,312 square feet of office space at 20250 Century Boulevard, Suite 300, Germantown, Maryland. The termination of the old lease included a full release of occupancy obligations of the Company for the premises from the date of the lease termination. Amounts due for unpaid rents during the term of occupancy under the old lease in the amount of $325,000, recorded as notes payable other, will be paid in equal installments over two years beginning March 1, 2003.

The cost to complete the Company's annual audit is approximately $100,000. The Company's cash position during the fourth quarter of 2002 and the first quarter of 2003 was not sufficient to prepay these fees in addition to meeting operational expenses for development and equipment purchases required to deliver products to the Company's customers. The Company decided to meet its customer's requirements first, believing that it is in the best interest of the Company's shareholders to do so. This decision resulted in a delay in completing the 2002 year-end audit and the auditor's review of results of operations for the first quarter of 2003. The Company's shares, traded on the OTC Bulletin Board, were

assigned an "E" status and removed from active listing until such time as the Company demonstrates compliance with the OTC Bulletin Board listing regulations.

The Company completed the 2002 year-end audit and 2003 quarterly reviews in December 2003.

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 March 31, 2003:

Exhibit	Description
31	Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Title 18, United States Code, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(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: January 13, 2004

By: /s/ Margaret E. Grayson

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