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: SEPTEMBER 30, 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 NOVEMBER 6, 2003
COMMON STOCK, $0.001 PAR VALUE PER SHARE	27,382,181

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.

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	September 30, 2003 (Unaudited)	December 31, 2002
Current assets:		
Cash and cash equivalents	$ 13,262	$ 93,985
Certificate of deposit - restricted	26,500	35,000
Accounts receivable less allowances of $36,414 and $97,135 respectively	707,653	237,695
Inventory, less allowances of $19,533 and $44,738 respectively	3,228	5,478
Deferred financing costs, net	-	68,974
Prepaid expenses and other assets	21,308	121,460
Total current assets	771,951	562,592
Property and equipment, net	80,815	319,294
Deposits	95,141	90,196
Total assets	$ 947,907	$ 972,082
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,385,664	$ 1,235,574
Deferred revenue	738,585	784,185
Convertible notes payable, net	528,000	591,242
Note payable, other	148,377	20,000
Total current liabilities	2,800,626	2,631,001
Deferred rent	38,945	32,831
Notes payable other - long term	78,279	-
Total liabilities	2,917,850	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 shares issued and outstanding (liquidation preference of $5,770,110)	3,021	3,021
Common stock, $0.001 par value; 50,000,000 shares authorized; 27,334,335 and 26,649,301 shares issued and outstanding, respectively	27,334	26,649
Accrued dividends payable	2,091,517	1,575,709
Additional paid-in capital	62,005,135	61,825,066
Accumulated deficit	(66,096,993)	(65,122,238)
Total shareholders' equity (deficiency)	(1,969,943)	(1,691,750)
Total liabilities and shareholders' equity (deficiency)	$ 947,907	$ 972,082

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

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V-ONE CORPORATION
CONDENSED STATEMENTS OF OPERATIONS

	Three months ended September 30, 2003 (unaudited)	Three months ended September 30, 2002 (unaudited)	Nine months ended September 30, 200 (unaudited)
Revenue:			
Products	$ 489,907	$ 805,529	$ 1,902,12
Consulting and services	388,859	346,414	1,137,13
Total revenue	878,766	1,151,943	3,039,25
Cost of revenue:			
Products	9,443	57,611	152,54
Consulting and services	27,284	80,073	67,71
Total cost of revenue	36,727	137,684	220,25
Gross profit	842,039	1,014,259	2,819,00
Operating expenses:			
Research and development	263,096	520,072	857,53
Sales and marketing	321,680	742,913	1,069,53
General and administrative	315,116	512,221	1,163,04
Total operating expenses	899,892	1,775,206	3,090,11
Operating loss	(57,853)	(760,947)	(271,11
Other (expense) income:			

Interest expense	(22,363)	(422,675)	(183,83
Interest income	103	1,633	5,15
Other (expense) income	-	(4,648)	(9,15
Total other (expense) income	(22,260)	(425,690)	(187,83
Net loss	(80,113)	(1,186,637)	(458,94
Dividend on preferred stock	173,826	173,826	515,80
Loss attributable to holders of common stock	$ (253,939)	$ (1,360,463)	$ (974,75
Basic and diluted loss per share attributable to holders of common stock	$ (0.01)	$ (0.05)	$ (0.0
Weighted average number of common shares outstanding	27,236,692	25,955,863	26,973,18

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

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V-ONE CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2003 (unaudited)	Nine months ended September 30, 2002 (unaudited)
Cash flows from operating activities:		
Net loss	$ (458,947)	$ (4,630,716)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	188,168	341,357
Amortization	43,725	47,826
Stock compensation	1,757	81,807
Amortization of debt discount	35,648	170,964
Interest expense-beneficial conversion feature	22,000	94,400
Amortization of deferred financing costs	68,974	127,078
Changes in assets and liabilities:		
Accounts receivable, net	(469,958)	(313,110)
Inventory, net	2,250	10,299
Deferred financing costs	68,974	127,078
Prepaid expenses and other assets	26,234	(274,488)
Accounts payable and accrued expenses	356,746	611,380
Deferred revenue	(45,600)	81,933
Deferred rent	6,114	(33,889)
Net cash used in operating activities	(153,915)	(3,558,081)

Cash flows from investing activities:		
Redemption of certificate of deposit	8,500	(35,000)
Net purchases of property and equipment	6,586	(64,823)
Net cash provided by (used in) investing activities	15,086	(99,823)
Cash flows from financing activities:		
Exercise of options and warrants	3,750	-
Issuance of common stock	54,356	16,467
Issuance of preferred stock	-	-
Issuance of notes payable	-	1,208,000
Redemption of preferred stock	-	-
Payments of stock issuance costs	-	-
Payment of preferred stock dividends	-	-
Principal payments on capitalized lease obligations	-	(47,082)
Net cash provided by financing activities	58,106	1,177,385
Net increase in cash and cash equivalents	(80,723)	(2,480,519)
Cash and cash equivalents at beginning of period	93,985	2,608,690
Cash and cash equivalents at end of period	$ 13,262	$ 128,171

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

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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, and secondary markets in Europe and Asia.

2. Basis of Presentation

The condensed financial statements for the three and nine months ended September 30, 2003 and September 30, 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 ended December 31, 2002, which are included in the Company's amended 2002 Annual Report on 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 affect future results of operations and cash flows.

The results of operations for the three and nine months ended September 30, 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 September 28, 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. On June 30, 2003, the Company sold 12,500 shares of common stock at a price of $.111 per share as part of its Employee Stock Purchase Plan. 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.

During the three months ended September 30, 2003, the Company issued 193,710 shares of common stock in exchange for governmental consulting services. On June 13, 2003, the Company issued 128,824 shares of common stock in exchange for governmental consulting services.

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 September 30, 2003, holders had converted $660,000, or 56%, of the notes into shares of common stock at $.25 per share. In July 2003 holders exercised warrants for 25,000 shares of common stock at $.15 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 $458,947 for the nine months ended September 30, 2003. In addition, the Company may continue to incur losses during 2003. 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.

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 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 of approximately 20% of the Company's employees were effected on January 10, 2003. The Company reduced operating expenses for the third quarter by approximately $875,000 and by approximately $3,585,000 for the nine months ended September 30, 2003, compared with the same periods last year. The Company may not be successful in further reducing operating levels and, 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 September 30, 2003, holders had converted $660,000, or 56%, of the notes into shares of common stock at $.25 per share. In July 2003, holders exercised warrants for 25,000 shares of common stock at $.15 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 nine months ended September 30, 2003, the Company amortized approximately $11,758 of the discount to interest expense. 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 nine months ended September 30, 2003, the Company amortized all of the debt discount of $23,890 to interest expense. Additionally, the Company records interest expense upon conversion of the notes as a result of the embedded conversion feature. The additional interest expense is not recorded until conversion because the notes contain a contingency that does not permit the number of shares to be received upon conversion to be calculated until conversion occurs. Upon conversion of $25,000 and $50,000 of notes during the three and nine months ended September 30, 2003, respectively, the Company recorded $8,000 and $11,000 in interest expense, respectively. Additionally, the Company recorded $15,714 in accrued interest expense for the third quarter of 2003. Accrued interest expense is payable upon the earlier of maturity or conversion of the notes.

In January 2003, the Company elected to extend the notes for an additional 180 days 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.

6. Supplemental Cash Flow Disclosure

Selected noncash activities were as follows:

	Nine Months ended September 30,	
	2003	2002
Noncash investing and financing activities:		
Redemption of preferred stock	$ -	$ -
Payment of preferred stock dividends	$ -	$ -

7. 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:

	Three months ended September 30,		Nine months ended Septembe	
	2003	2002	2003	2002
Net Income, as reported	$ (253,939)	$(1,360,463)	$ (974,755)	$ (5,156
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 of related tax effects	$ (66,407)	$ (44,280)	$ (199,221)	$ (132,
Pro forma net income	$ (320,346)	$(1,404,743)	$(1,173,976)	$ (5,289,
Earnings per share:				
Basic - as reported	$ (0.01)	$ (0.05)	$ (0.04)	$ (0
Basic - pro forma	$ (0.01)	$ (0.05)	$ (0.04)	$ (0
Diluted - as reported	$ (0.01)	$ (0.05)	$ (0.04)	$ (0

Diluted - pro forma	$ (0.01)	$ (0.05)	$ (0.04)	$ (0
	27,236,692	25,955,863	26,973,189	24,759,

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.

8. Net Loss Per Share

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

	Three Months ended September 30, 2003	2002	Nine Months ended 2003	
Numerator:				
Loss before extraordinary item	$ (80,113)	$ (1,186,637)	$ (458,947)	$ (
Less: Dividend on preferred stock	(173,826)	(173,826)	(515,808)	
Deemed dividend on preferred stock	-	-	-	
Net loss before extraordinary item	(253,939)	(1,360,463)	(974,755)	(5
Extraordinary item-early extinguishments of debt	-	-	-	
Net loss attributable to holders of common stock	$ (253,939)	$ (1,360,463)	$ (974,755)	$ (
Denominator:				
Denominator for basic and diluted net loss per share - weighted average shares	27,236,692	25,955,863	26,973,189	24
Effect of dilutive securities:				
Preferred Stock	-	-	-	
Stock Options	-	-	-	
Warrants	-	-	-	
Dilutive potential common shares	-	-	-	
Denominator for diluted net loss per share-adjusted weighted average shares	27,236,692	25,955,863	26,973,189	24

Basic and diluted loss per share - Loss before extraordinary item	$ (0.01)	$ (0.05)	$ (0.04)	
Extraordinary item-early extinguishment of debt				
Net loss attributable to holders of common stock	$ (0.01)	$ (0.05)	$ (0.04)	
	=============	==============	============	===

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 performance in recent periods may not be an accurate indication of future results of operations in light of the evolving nature of the network security market and the uncertainty of the demand for Internet and intranet products in general and the Company's products in particular. Because the Company's operating expenses are based on anticipated revenue levels, a small variation in the timing of recognition of revenues can cause significant variations in operating results from quarter to quarter.

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

RESULTS OF OPERATIONS

REVENUES

Total revenues decreased from approximately $1,152,000 for the three months ended September 30, 2002, to approximately $879,000 for the three months ended September 30, 2003, a decrease of approximately $273,000 or 24%; however, total revenues increased from approximately $2,891,000 for the nine months ended

September 30, 2002 to approximately $3,039,000 for the nine months ended September 30, 2003, an increase of approximately 5%. These changes in total revenues are due primarily to changes in product revenues for the stated periods. Product revenues increased significantly during the earlier part of the nine month period ended September 30, 2003 contributing to the increase in total revenues for the nine months ended September 30, 2003 as compared to the comparable period in 2002. Product revenues, however, decreased during the three month period ended September 30, 2003 contributing to the decrease in total revenues for the nine months ended September 30, 2003 as compared to the comparable period in 2002. Product revenues are derived principally from software licenses and the sale of hardware products. Product revenues decreased from approximately $806,000 for the three months ended September 30, 2002, to approximately $490,000 for the three months ended September 30, 2003. The decrease resulted from delayed orders from existing customers for expansion of current product deployments. Product revenues increased from approximately $1,770,000 for the nine months ended September 30, 2002, to approximately $1,902,000 for the nine months ended September 30, 2003. The increase this year was primarily due to an increase in software sales. 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 slightly from approximately $346,000 for the three months ended September 30, 2002, to approximately $389,000 for the three months ended September 30, 2003. Consulting and services revenues increased slightly from approximately $1,121,00 for the nine months ended September 30, 2002, to approximately $1,137,000 for the nine months ended September 30, 2003. This was due principally to a higher number of new and renewing maintenance contracts provided to customers in the third quarter and year to date.

COST OF REVENUES

Total cost of revenues as a percentage of total revenues decreased from approximately 12% and 15%, or approximately $138,000 and $430,400 for the three and nine months ended September 30, 2002, respectively, to approximately 4% and 7%, or approximately $36,700 and $220,300 for the three and nine months ended September 30, 2003, respectively. The decreases were primarily due to an increase in software product sales and reductions in large turnkey and hardware system sales. Software product sales involve lower variable costs compared to the higher variable costs, primarily salary expense and hardware costs,

associated with large turnkey and hardware system sales. 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 $58,000 for the three months ended September 30, 2002, to approximately $9,000 for the three months ended September 30, 2003. The decrease in costs of product revenue for the three months ended September 30, 2003 was primarily attributable to an increase in software product sales and a lower proportion of turnkey systems sales. Cost of product revenues increase slightly from approximately $149,000 for the nine months ended September 30, 2002 to approximately $153,000 for the nine months ended September 30, 2003. The increase in costs of product revenue for the nine months ended September 30, 2003 was attributable to a slight increase in the Company's SmartGuard turnkey product sales. Cost of product revenues as a percentage of product revenues was approximately 7% and 8% for the three and nine months ended September 30, 2002, respectively, and approximately 2% and 8% for the three and nine months ended September 30, 2003, respectively. The percentage decreases were primarily attributable to a lower 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 decreased from approximately $80,000 and $282,000 for the three and nine months ended September 30, 2002, respectively, to approximately $27,000 and $68,000 for the three and nine months ended September 30, 2003, respectively. Cost of consulting and services revenues as a percentage of consulting and services revenues was approximately 23% and 25% for the three and nine months ended September 30, 2002, respectively, and approximately 7% and 6% for the three and nine months ended September 30, 2003, respectively. The percentage decreases were due mainly to product enhancements enabling a reduction in staff hours needed to provide help desk and onsite customer support, an increase in sales of the Company's SmartGuard appliance with the Company's firewall and a lower proportion of support required for third-party firewall maintenance contracts.

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 expense decreased from approximately $520,000 and $2,276,000 for the three and nine months ended September 30, 2002, respectively, to approximately $263,000 and $858,000 for the three and nine months ended September 30, 2003, respectively. Research and development expense as a percentage of total revenue was approximately 45% and 79% for the three and nine months ended September 30, 2002, respectively, and approximately 30% and 28% for the three and nine months ended September 30, 2003, respectively. The dollar and percentage decreases for the first nine months of 2003 were primarily due to lower salary expenses of $966,000, lower consulting expenses of $130,000, lower depreciation expenses of $78,000 and lower rent expenses of $52,000.

Sales and Marketing -- Sales and marketing expense consists principally of the costs of sales and marketing personnel, advertising, promotions and trade shows. Sales and marketing expense decreased approximately $421,000 and $1,438,000, respectively for the three and nine months ended September 30, 2003 from approximately $743,000 and $2,508,000 for the three and nine months ended September 30, 2002, respectively, to approximately $322,000 and $1,070,000 for the three and nine months ended September 30, 2003, respectively. Sales and marketing expense as a percentage of total revenues decreased 28% and 52%, respectively from approximately 65% and 87% for the three and nine months ended September 30, 2002, respectively, to approximately 37% and 35% for the three and nine months ended September 30, 2003, respectively. The dollar and percentage decreases for the nine months ended September 30, 2003 relate predominately to lower salary and consulting expense of $820,000 and reductions in tradeshow, advertising and general operating expenses.

General and Administrative -- General and administrative expense consists principally of the costs of accounting and finance, legal and human resources management, administrative personnel and facilities expenses. General and administrative expense decreased from approximately $512,000 and $1,890,000 for the three and nine months ended September 30, 2002, respectively, to approximately $315,000 and $1,163,000 for the three and nine months ended September 30, 2003, respectively. The decrease in general and administrative expense for the nine months ended September 30, 2003 of approximately $727,000 was due to lower salary, legal, D & O insurance, bad debt, depreciation and rent expense. General and administrative expense as a percentage of total revenues were approximately 44% and 65% for the three and nine months ended September 30, 2002, respectively, and 36% and 38% for the three and nine months ended September 30, 2003, respectively.

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, 2003 was approximately $0 and ($9,000), respectively. Other (expense) income for the three and nine months ended September 30, 2002 was approximately ($5,000) and ($8,000), respectively.

Interest Income and Expenses -- Interest income represents interest earned on cash and cash equivalents. Interest income decreased from approximately $2,000 and $16,000 for the three and nine months ended September 30, 2002, respectively, to approximately $0 and $5,000 for the three and nine months ended September 30, 2003, 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 $423,000 and $425,000 for the three and nine months ended September 30, 2002, respectively, to approximately $22,000 and $184,000 for the three and nine months ended September 30, 2003, respectively, substantially all of which was for recognition of a beneficial conversion feature on the 8% Secured Convertible Notes and Detachable Warrants.

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, 2002 and 2003.

Dividend on Preferred Stock -- The Company provided for dividends on preferred stock of approximately $174,000 and $526,000 for the three and nine months ended September 30, 2002, respectively, and approximately $174,000 and $516,000 for the three and nine months ended September 30, 2003, respectively. Under the terms of the purchase agreements for the Series C and Series D Preferred Stock, the Company may elect to pay these dividends in cash or stock.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities used cash of approximately $3,558,000 for the nine months ended September 30, 2002 and approximately $154,000 for the nine months ended September 30, 2003. The decrease was primarily due to a decrease in net loss, partially offset by an increase in accounts payable.

The Company's investing activities used cash of approximately $100,000 for the nine months ended September 30, 2002 and provided cash of approximately $15,000 for the nine months ended September 30, 2003. The Company's investing activities consisted of net capital expenditures for property and equipment of approximately $65,000 and ($6,000) during the nine months ended September 30, 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 capital expenditures were higher in 2002 as the Company acquired approximately $65,000 of equipment, replacing equipment that had been under a five-year capital lease.

The Company's financing activities provided cash of approximately $1,177,000 and $58,000 during the nine months ended September 30, 2002 and 2003, respectively. In fiscal 2002, the cash was provided primarily by the issuance 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. In January 2003, the Company elected to extend the notes for an additional 180 days 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. The Company received $807,000 in net proceeds after payment of all fees and offering expenses.

The Company had net tangible assets of ($1,692,000) and ($1,970,000) at December 31, 2002 and September 30, 2003, respectively.

As of September 30, 2003, the Company had an accumulated deficit of approximately $66,097,000.

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 $458,947 for the nine months ended September 30, 2003. In addition, the Company may continue to incur losses during 2003. 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 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.

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 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 of approximately 20% of the Company's employees were effected on January 10, 2003. The Company reduced operating expenses for the third quarter by approximately $875,000 and by approximately $3,585,000 for the nine months ended September 30, 2003, compared with the same periods last year. The Company may not be successful in further reducing operating levels and, 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.

CONTRACTUAL OBLIGATIONS

The following table discloses aggregate information about the Company's contractual obligations as of September 30, 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	$87,528	$624,828	$466,681	$59,486	$1,238,52
Operating leases	3,594	26,357	0	0	29,95
	$91,122	$651,185	$466,681	$59,486	$1,268,47

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no material off-balance sheet arrangements during the first three and nine 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.

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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 cost to complete the Company's annual audit for the fiscal year ended 2002 is approximately $100,000. The Company's cash position during the fourth quarter of 2002 and the three and nine months ended September 30, 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 the Company's financial position and results of operations for the first, second and third quarters of 2003. The Company's common stock, traded on the OTC Bulletin Board, was assigned an "E" status and removed from active listing until such time as the Company demonstrates compliance with the OTC Bulletin Board listing regulations.

Aronson & Company began audit field work on November 3, 2003. 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 September 30, 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

On October 2, 2003, the Company dismissed its independent auditors, Ernst & Young LLP, and engaged the services of Aronson & Company as its new independent auditors. Aronson & Company will audit the Company's financial statements for the fiscal year ending December 31, 2003, and is expected to complete the audit of the Company's financial statements for the fiscal year ending December 31, 2002 and to issue a report on such financial statements in conjunction with the filing by the Company of its amended Annual Report on Form 10-K for the fiscal year ended December 31, 2002. Aronson & Company also is expected to review the Company's financial statements for the quarters ended March 31, 2003, June 30, 2003, and September 30, 2003 in conjunction with the filing by the Company of its amended Quarterly Reports on Form 10-Q for such periods. Aronson & Company began audit field work on November 3, 2003.

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

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