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

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

FORM 10-Q/A
AMENDMENT NO. 1 TO 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, 2004

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 October 26, 2004
Common Stock, $0.001 par value per share	15,642,555

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A for the quarter ended September 30, 2004 is being filed to amend the items described below in V-ONE Corporation's Quarterly Report on Form 10-Q for such period originally filed with the U.S. Securities and Exchange Commission on November 15, 2004. The original Form 10-Q was filed with Condensed Balance Sheets that reflected V-ONE Corporation's 7% Subordinated Convertible Notes ("7% Notes") payable as a non-current liability. V-ONE Corporation has reclassified the 7% Notes and is amending this quarterly report on Form 10-Q so that the Condensed Balance Sheets in Part I, Item 1 reflect the 7% Notes payable as a current liability. In addition, the remaining debt discount related to the 7% Notes was recognized as interest expense. This amended Form 10-Q also includes additional disclosures regarding the 7% Notes and the related debt discount in Part I, Item 1, Notes 4 and 6 of the Notes to the Condensed Financial Statements, Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 3, Defaults Upon Senior Securities.

Generally, no attempt has been made in this Amendment No. 1 on Form 10-Q/A to modify or update other disclosures presented in the original report on Form 10-Q except for amounts included in the financial statements, footnotes and management's discussion and analysis impacted by the items described above. Amendment No. 1 generally does not reflect events occurring after the filing of the original Form 10-Q or modify or update those disclosures affected by subsequent events. Information not affected by the reclassification is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-Q on November 15, 2004. Accordingly, this Amendment No. 1 should be read in conjunction with our filings made with the U.S. Securities and Exchange Commission subsequent to the filing of the original Form 10-Q, including any amendments to those filings.

V-ONE Corporation
Quarterly Report on Form 10-Q

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

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V-ONE CORPORATION
CONDENSED BALANCE SHEETS

(Unaudited)

ASSETS	September 30, 2004 (Unaudited)
Current assets:	
Cash and cash equivalents	$ 272,934
Certificate of deposit - restricted	-
Accounts receivable, less allowances of $20,000 and $15,500 respectively	188,302
Finished goods inventory, less allowances of $9,226 and $8,901 respectively	1,881
Prepaid expenses and other assets	80,920
Total current assets	544,037
Property and equipment, net	74,884
Deferred financing costs, net	316,346
Deposits	95,141
Total assets	$ 1,030,408

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

Current liabilities:	
Accounts payable and accrued expenses	$ 1,694,250
Deferred revenue	1,032,821
Convertible notes payable	1,200,000
Notes payable, other	78,279
Total current liabilities	4,005,350
Notes payable, other - noncurrent	
Deferred rent	41,605
Total liabilities	4,046,955
Commitments and contingencies	
Shareholders' deficiency:	
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 $1,126,000)	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
Common stock, $0.001 par value; 75,000,000 shares authorized; 15,642,555 and 13,950,284 shares issued and outstanding, respectively	15,643
Accrued dividends payable	3,213,058
Additional paid-in capital	64,483,268
Accumulated deficit	(70,731,580)
Total shareholders' deficiency	(3,016,547)
Total liabilities and shareholders' deficiency	$ 1,030,408

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, 2004 (unaudited)	Three months ended September 30, 2003 (unaudited)	Nine months ended September 30, 2 (unaudited)
Revenues:			
Products	$ 205,966	$ 489,907	$ 606,22
Consulting and services	385,312	388,859	1,152,78
Total revenues	591,278	878,766	1,759,00
Cost of revenues:			
Products	56,282	9,443	70,14
Consulting and services	16,983	27,284	65,77
Total cost of revenues	73,265	36,727	135,91

Gross profit	518,013	842,039	1,623,09
Operating expenses:			
Research and development	244,814	263,096	710,41
Sales and marketing	417,759	321,680	1,225,61
General and administrative	313,680	315,116	1,142,00
Total operating expenses	976,253	899,892	3,078,04
Operating profit (loss)	(458,240)	(57,853)	(1,454,94
Other (expense) income:			
Interest expense	(1,169,567)	(22,363)	(1,825,64
Interest income	197	103	2,20
Business combination costs	(244,158)	-	(244,15
Other (expense) income		-	20
Total other (expense) income	(1,413,528)	(22,260)	(2,067,39
Net loss	(1,871,768)	(80,113)	(3,522,34
Dividends on preferred stock	238,712	173,826	695,29
Loss attributable to holders of common stock	$ (2,110,480)	$ (253,939)	$ (4,217,63
Basic and diluted loss per share attributable to holders of common stock	$ (0.13)	$ (0.02)	$ (0.2
Weighted average number of common shares outstanding	15,642,555	13,618,346	15,391,32

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, 2004 (unaudited)	Nine months ended September 30, 20 (unaudited)
Cash flows from operating activities:		
Net loss	$ (3,522,344)	$ (458,947
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	36,878	231,893

Amortization of debt discount	1,200,000	11,758
Interest expense-beneficial conversion feature	434,888	22,000
Interest expense on repricing of warrants		23,890
Amortization of deferred financing costs	111,652	68,974
Noncash charge related to issuance of warrants, options and stock as compensation	3,123	51,757
Changes in operating assets and liabilities:		
Accounts receivable	418,124	(469,958
Inventory	1,755	2,250
Deferred financing costs		68,974
Prepaid expenses and other assets	(19,045)	26,234
Accounts payable and accrued expenses	310,318	356,746
Deferred revenue	339,907	(45,600
Deferred rent	1,070	6,114
Net cash used in operating activities	(683,674)	(103,915
Cash flows from investing activities:		
Net purchase of property and equipment	(47,624)	6,586
Certificate of deposit redemption	26,500	8,500
Net cash provided by (used in) investing activities	(21,124)	15,086
Cash flows from financing activities:		
Exercise of options and warrants	900	3,750
Payment of fractional shares	(9)	-
Issuance of common stock under employee stock plans	4,072	4,356
Proceeds of notes payable	1,200,000	-
Payments of deferred financing costs	(200,301)	-
Payments on notes payable-other	(24,068)	-
Payments of notes payable	(30,617)	-
Net cash provided by financing activities	949,977	8,106
Net increase (decrease) in cash and cash equivalents	245,179	(80,723
Cash and cash equivalents at beginning of period	27,755	93,985
Cash and cash equivalents at end of period	$ 272,934	$ 13,262

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" or "V-ONE") 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 and nine months ended September 30, 2004 and September 30, 2003 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, 2003 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, 2003 and 2002 and for the three years ended December 31, 2003, which are included in the Company's 2003 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 and nine month period ended September 30, 2004 are not necessarily indicative of the results expected for the full year ending December 31, 2004.

Certain prior year amounts have been reclassified to conform to the 2004 presentation. These changes had no impact on previously reported results of operations.

3. Common and Preferred Stock

As of September 30, 2004 holders had converted all of the 8% Secured Convertible Notes ("8% Notes) into shares of common stock.

4. Management's Plans

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company reported a net loss of $449,650, $5,635,191 and $6,237,278 for the years ended December 31, 2003, 2002 and 2001, respectively, and further net losses of $1,871,768 and $3,522,344 for the three and nine months ended September 30, 2004, respectively. 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 2004.

For the immediate future, V-ONE will focus on existing and potential customers in the government sector, targeted marketing operations to commercial accounts and continued minimization of general and administrative expenditures. V-ONE may not be successful in further reducing operating levels without jeopardizing the ability to serve existing customers or grow its business base. In February 2004, the Company completed a private placement of 7% Subordinated Convertible Notes with detachable warrants for an aggregate of $1,200,000, which resulted in net proceeds to the Company of $1,065,690. The Company believes that to maintain operations for any extended period of time it must generate revenue from existing and new customers, raise additional capital or undergo a significant strategic transformative event. The Company's ability to reach sustainable profitability is dependent on its ability to generate sufficient cash flow to meet its obligations and needs on a timely basis or to obtain additional funding.

On May 19, 2004, the Company signed a letter of intent with SteelCloud Inc. ("SteelCloud"), for SteelCloud to acquire V-ONE in an all stock transaction. On August 11, 2004, the parties signed a definitive agreement for the transaction. On September 28, 2004, the Company and SteelCloud mutually agreed to terminate the definitive agreement. For further information, refer to Part II, Item 5 of this Quarterly Report on Form 10-Q, V-ONE's Current Report on Form 8-K filed with the SEC on August 11, 2004 and V-ONE's Current Report on Form 8-K filed with the SEC on September 29, 2004.

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 January 2003, the Company elected to extend the 8% Notes for an additional 180 days, paid the interest accrued under the initial term of the 8% Notes and agreed to adjust the exercise price of the warrants from $0.50 per share to $0.15 per share. In July 2003, the Company requested and received an extension of the 8% 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 a restructuring of the 8% Notes, the Company agreed in January 2004 to adjust the conversion price of certain 8% Notes constituting $150,000 in principal to $.18 per share in exchange for an extension of the term of such 8% Notes to July 15, 2004 at an interest rate of 10%. Also in connection with the January 2004 restructuring, the Company adjusted the conversion price of the remaining 8% Notes outstanding, which constituted $343,000 in principal, to $.15 per share and granted warrants to purchase a total of 250,000 shares of Common Stock at an exercise price of $0.18 per share to Joseph Gunnar & Co., LLC, placement agent for the 8% Notes offering.

As of September 30, 2004, holders had converted $1,188,000, or 100% of the 8% Notes, into shares of Common Stock.

6. 7% Subordinated Convertible Notes

In a closing on February 27, 2004, V-ONE issued 7% Subordinated Convertible Notes ("7% Notes") with warrants for an aggregate principal amount of $1,200,000, resulting in net proceeds to V-ONE of $1,065,690. The 7% Notes mature on February 27, 2009. Interest at the rate of 7% per annum is payable semi-annually at the option of V-ONE in cash or in shares of Common Stock. The 7% Notes rank senior to the Common Stock and junior to the Series C Shares and Series D Shares as to the payment of dividends and as to distribution of assets upon liquidation, dissolution or winding up of V-ONE. So long as at least $500,000 of the principal amount of the 7% Notes is outstanding, the affirmative vote of the holders of at least 75% of the principal amount of the 7% Notes outstanding is required to issue any securities that rank senior to or on parity with the 7% Notes.

Under the original terms of the 7% Notes, the holders could convert the principal amount of their 7% Notes, in whole or in part, at any time into shares of Common Stock at a conversion price of $0.20 per share. On May 14, 2004, V-ONE effected a 1:2 reverse stock split modifying the original conversion price of the 7% Notes to $0.40 per share. In addition, subject to certain terms, the principal amount of the 7% Notes plus all accrued and unpaid interest shall automatically convert into shares of Common Stock at the then current conversion price on the earlier of (i) February 27, 2009 and (ii) the first date which is at least 180 days following the effective date of the Registration Statement providing for the resale of the shares of Common Stock issuable upon conversion of the 7% Notes that the closing bid price of V-ONE Common Stock exceeds $1.00 for a period of 20 consecutive trading days. On May 14, 2004, V-ONE effected a 1:2 reverse stock split modifying the closing bid price to $2.00 per share.

An event of default will occur if V-ONE fails to make any principal payment under the 7% Notes, V-ONE fails to make any interest payment for a period of five days after such payment is due, V-ONE fails to timely file the Registration Statement providing for the resale of the shares of Common Stock issuable upon conversion of the 7% Notes or the Registration Statement is not declared effective by the SEC within 180 days of February 27, 2004, the effectiveness of the Registration Statement lapses for a period of 20 consecutive trading days, or upon the occurrence of other default events, including, but not limited to, an assignment for the benefit of creditors, an application for the appointment of a trustee or receiver or the commencement of a bankruptcy proceeding. In such events of default, the 7% Note holders may demand that the Company pay interest on the outstanding principal balance of the 7% Notes at the lesser of 12% and the maximum applicable legal rate per annum from the date of the event of default until such default is cured. If such events of default continue, the 7% Note holders may at their option, (i) declare the entire unpaid principal balance of the 7% Notes, together with accrued and unpaid interest, due and payable, (ii) demand that the principal amount of the 7% Notes then outstanding and all accrued and unpaid interest thereon be converted into shares of Common Stock, or (iii) exercise or otherwise enforce any one or more of their rights under the 7% Notes and related agreements.

Upon the occurrence of certain events of default and other triggering events, a 7% Note holder shall have the right to require V-ONE to prepay in cash all or a portion of the holder's 7% Note at 120% of the aggregate principal amount of the 7% Note, plus all accrued and unpaid interest. Similar provisions apply if V-ONE cannot fully convert a 7% Note into shares of registered Common Stock upon the receipt of a proper conversion notice from the holder. In addition, in the event of a major corporate transaction such as the consolidation, merger or other business combination of V-ONE into another entity or a sale or transfer of more than 50% of V-ONE's assets, the 7% Note holder shall have the right to require V-ONE to prepay in cash all or a portion of the holder's 7% Note at 100% of the aggregate principal amount of the 7% Note, plus all accrued and unpaid interest. If the major corporate transaction is consummated within six months of the issuance of the 7% Note, then the prepayment shall be at 110% of the aggregate principal amount of the 7% Note, plus all accrued and unpaid interest. Also, beginning one year after the issuance of the 7% Notes, V-ONE may prepay any portion or all of the outstanding principal balance of the 7% Notes together with all accrued and unpaid interest at 110% of the aggregate principal amount of the 7% Notes plus any accrued and unpaid interest.

For twelve months after the issuance of the 7% Notes, each holder shall have a right of first refusal to purchase its pro rata portion of V-ONE Common Stock (or any securities convertible, exercisable or exchangeable into Common Stock) offered to a third party in a private transaction on the same terms as those offered to the third party, other than in certain permitted financings. If a holder elects not to exercise its right of first refusal, the other holders may participate on a pro rata basis. If the holders do not participate, V-ONE may proceed with the transaction with the third party.

In connection with the 7% Notes offering, V-ONE issued detachable warrants to purchase 6,000,000 shares of Common Stock to the holders of the 7% Notes. The warrants are exercisable beginning on August 27, 2004 at an exercise price of $0.25 per share and expire on August 27, 2008. On May 14, 2004, V-ONE effected a 1:2 reverse stock split reducing the number of shares purchasable under the warrants to 3,000,000 and increasing the exercise price to $0.50. Beginning 180 days after the effective date of a Registration Statement providing for the resale of the shares of Common Stock issuable upon conversion of the 7% Notes and exercise of the warrants, V-ONE may call up to 100% of the warrants if the per share market value of its Common Stock has been greater than $0.75 for a period of 20 consecutive trading days by issuing a call notice to the warrant holders. On May 14, 2004, V-ONE effected a 1:2 reverse stock split modifying the per share market value required for a call of the warrants to $1.50. The rights and privileges granted to a warrant holder with respect to the shares subject to the call notice shall expire on the twentieth day after the holder receives the call notice if the holder does not exercise the warrant. If the holder does not exercise the warrant, V-ONE shall remit to the warrant holder (i) $0.01 per share subject to the call notice and (ii) a new warrant representing the number of shares of Common Stock, if any, which were not subject to the call notice.

The exercise price and number of shares of Common Stock to be issued upon conversion of the 7% Notes and exercise of the warrants are subject to equitable adjustment in the event of stock dividends, stock splits and similar events affecting the Common Stock. In addition, if V-ONE issues any shares of Common Stock or equivalents at a purchase price less than the then current conversion price for the 7% Notes or warrant exercise price, the conversion price and warrant exercise price will be equitably reduced, and number of shares of Common Stock to be issued upon conversion of the 7% Notes and exercise of the warrants adjusted accordingly. However, in no event shall the conversion price, or exercise price in the event of the issuance of V-ONE securities at less than the current warrant exercise price, be less than $0.15 per share. On May 14, 2004, V-ONE effected a 1:2 reverse stock split modifying the minimum warrant exercise price to $0.30 per share.

In connection with the 7% Notes offering, V-ONE granted warrants to purchase up to a total of 1,260,000 shares of Common Stock to H.C. Wainwright & Co., Inc., placement agent for the 7% Notes offering. As a result of the stock split effected in May 2004, the shares that may be purchased under warrants issued to H.C. Wainwright & Co., Inc. have been reduced to 630,000. The placement agent warrants include a cashless exercise provision. The remaining terms of the placement agent warrants mirror those of the warrants granted in connection with the 7% Notes offering.

The Merger Agreement for the Company's anticipated merger with SteelCloud, Inc. required that the Company's outstanding 7% Notes be cancelled and converted into the right to receive specified merger consideration and that all related note instruments be terminated without any obligation of the 7% Note holders or the Company. In contemplation of the merger, the Company and the 7% Note holders executed agreements effecting the note cancellation, which agreements provided that the note cancellation would be void if the merger was not consummated. On September 28, 2004, the Company and SteelCloud terminated the Merger Agreement and consequently, the Company's 7% Notes remain outstanding.

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As of September 30, 2004, the Company is in default on the interest payable on the 7% Notes in the amount of $42,000. The 7% Note holders have not made any formal claims for payment and the Company currently is seeking an extension of time for the payment of interest.

The 7% Notes also provide that the Company will be in default if the Registration Statement providing for the resale of shares of Common Stock issuable upon conversion of the 7% Notes is not declared effective by the SEC within 180 days of February 27, 2004. The Company timely filed the Registration Statement and is currently responding to comments from the SEC. However, due to unanticipated circumstances, the Registration Statement has not yet been declared effective by the SEC.

In such events of default, the 7% Note holders may demand that the Company pay interest on the outstanding principal balance of the 7% Notes at the lesser of 12% and the maximum applicable legal rate per annum from the date of the event of default until such default is cured. If such events of default continue, the 7% Note holders may at their option, (i) declare the entire unpaid principal balance of the 7% Notes, together with accrued and unpaid interest, due and payable, (ii) demand that the principal amount of the 7% Notes then outstanding and all accrued and unpaid interest thereon be converted into shares of Common Stock, or (iii) exercise or otherwise enforce any one or more of their rights under the 7% Notes and related agreements. The 7% Note holders have not made any such demands or declarations.

In addition, because the Registration Statement has not yet been declared effective by the SEC, the 7% Note holders may require the Company to prepay in cash all or a portion of the 7% Notes at a price equal to 120% of the aggregate principal amount of the 7% Notes, plus all accrued and unpaid interest. The 7% Note holders have not made any such demands or declarations.

Upon issuance of the 7% Notes, the Company recorded a debt discount of approximately $1,200,000 in accordance with the accounting requirements for a beneficial conversion feature on the 7% Notes. The debt discount was to be amortized over the 5 year term of the notes indicated by the stated redemption date. Since the 7% Notes are in default, the holders, may, at their option, declare the entire unpaid principal balance of the 7% Notes, together with accrued and unpaid interest, due and payable. As a result of the default, the 7% Notes no longer have a stated redemption date and the Company is now required to amortize the debt discount over the period from the date of issuance to the earliest conversion date. Therefore, the Company has amortized the remaining debt discount to interest expense as of the date of the default.

During the three and nine months ended September 30, 2004, the Company amortized $1,118,302 and $1,200,000 of the discount to interest expense, respectively, related to the 7% Notes. Additionally, the Company recorded $21,467 in accrued interest expense for the third quarter of 2004.

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:

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Three months ended September 30,	Nine month

	2004	2003	2004
Net Loss, as reported	$ (2,110,480)	$ (253,939)	$ (4,217,6
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects			
Deduct: Total stock-based employee compensation income (expense) determined under fair value based method for all awards, net of related tax effects	$ 37,181	$ (66,407)	$ 56,2
Pro forma net loss	$ (2,073,299)	$ (320,346)	$ (4,161,3
Earnings per share:			
Basic - as reported	$ (0.13)	$ (0.02)	$ (0.
Basic - pro forma	$ (0.13)	$ (0.02)	$ (0.
Diluted - as reported	$ (0.13)	$ (0.02)	$ (0.
Diluted - pro forma	$ (0.13)	$ (0.02)	$ (0.
Denominator for basic and diluted net loss per share-adjusted weighted average shares	15,642,555	13,618,346(1)	15,391,3

(1) reflects 1:2 reverse stock split effected May 14, 2004

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,		Nine
	2004	2003	2004
Numerator:			
Net Loss	$ (1,871,768)	$ (80,113)	$ (3,52
Less: Dividend on preferred stock	(238,712)	(173,826)	(69

Net loss attributable to holders of common stock	$ (2,110,480)	$ (253,939)	$ (4,21
Denominator:			
Denominator for basic and diluted net loss per share - weighted average shares	15,642,555	13,618,346	15,39
Effect of dilutive securities:			
Preferred Stock	-	-	
Stock Options	-	-	
Warrants	-	-	
Dilutive potential common shares	-	-	
Denominator for diluted net loss per share - adjusted weighted average shares	15,642,555	13,618,346(1)	15,39
Net loss attributable to holders of common stock	$ (0.13)	$ (0.02)	$ (

(1) reflects 1:2 reverse stock split effected May 14, 2004

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

	Nine Months ended September 30, 2004	2003
Preferred stock:		
Series D	1,510,500	1,510,500 (1)
Stock options	2,331,068	2,485,577 (1)
Warrants	4,693,662	1,153,352 (1)

(1) reflects 1:2 reverse stock split effected May 14, 2004

9. Supplemental Cash Flow Disclosure

	Three Months Ended Sept. 30, 2004	Sept. 30, 2003	Nine Months Sept. 30, 2004	S
Cash paid for interest	3,838	25,157	56,138	
Non-cash investing and financing activities:				
Beneficial conversion feature on 7% Convertible Notes	0	0	1,200,000	
Issuance of warrants for financing costs	0	0	227,696	
Debt converted to common stock	0	0	343,000	

Item 2.

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

This Quarterly Report on Form 10-Q 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 decreased from approximately $879,000 and $3,039,000 for the three and nine months ended September 30, 2003, respectively, to approximately $591,000 and $1,759,000 for the three and nine months ended September 30, 2004, respectively. This decrease of approximately $287,000 or 33% and $1,280,000 or 42% is due primarily to a decrease in product revenue of $284,000 and $1,296,000 for the three and nine months ended September 30, 2004, respectively, offset in part by an increase in consulting and services revenues for the nine months ended September 30, 2004. Product revenues are derived principally from software licenses and the sale of hardware products. Product revenues decreased from approximately $490,000 and $1,902,000 for the three and nine months ended September 30, 2003, respectively, to approximately $206,000 and $606,000 for the three and nine months ended September 30, 2004, respectively. 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 $389,000 for the three months ended September 30, 2003 to approximately $385,000 for the three months ended September 30, 2004. Consulting and services revenues increased from approximately $1,137,000,000 for the nine months ended September 30, 2003 to approximately $1,153,000 for the nine months ended September 30, 2004. This was due principally to an increase in the number of renewing maintenance contracts provided to customers in the first quarter of fiscal 2004.

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 increased from approximately 4% and 7% for the three and nine months ended September 30, 2003, respectively, to approximately 12% and 8% for the three and nine months ended September 30, 2004, respectively. The percentage increase was primarily due to the purchase of SmartGuard hardware for immediate fulfillment of an order for the U.S. Army in the third quarter of 2004 and lower sales of software licenses 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 increased from approximately $9,000 for the three months ended September 30, 2003 to approximately $56,000 for the three months ended September 30, 2004 and decreased from approximately $153,000 for the nine months ended September 30, 2003 to approximately to $70,000 for the nine months ended September 30, 2004. The increase in cost of product revenues for the three months ended September 30, 2004 was primarily attributable to greater purchases of SmartGuard appliance hardware in the current quarter. The decrease in cost of product revenues for the nine months ended September 30, 2004 was attributable to lower sales of turnkey hardware solutions in the current year. Cost of product revenues as a percentage of product revenues was approximately 2% and 8% for the three and nine months ended September 30, 2003, respectively, and approximately 27% and 11% for the three and nine month periods ended September 30, 2004, respectively.

Cost of consulting and services revenue 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 $27,000 and $68,000 for the three and nine months ended September 30, 2003, respectively, to approximately $17,000 and $66,000 for the three and nine months ended September 30, 2004, respectively. Cost of consulting and services revenues as a percentage of consulting and services revenue was approximately 7% and 6% for the three and nine months ended September 30, 2003, respectively, and 4% and 6% for the three and nine months ended September 30, 2004, respectively.

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 $263,000 and $858,000 for the three and nine months ended September 30, 2003, respectively, to approximately $245,000 and $710,000 for the three and nine months ended September 30, 2004, respectively. The dollar decrease of approximately $18,000 and $147,000 was primarily due to lower consulting expense of $22,000 and $431,000, lower depreciation expense of $27,000 and $107,000 and lower rent expense of $8,000 and $34,000, partially offset by higher salary expense of $45,000 and $50,000, respectively. Research and development expense as a percentage of total revenue was approximately 30% and 28% for the three and nine months ended September 30, 2003, respectively, and approximately 41% and 40% for the three and nine months ended September 30, 2004, respectively. The percentage increase was primarily due to lower revenues for the three and nine months ended September 30, 2004.

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 increased from approximately $322,000 and $1,070,000 for the three and nine months ended September 30, 2003, respectively, to approximately $418,000 and $1,226,000 for the three and nine months ended September 30, 2004, respectively. The dollar increase of $96,000 for the three months ended September 30, 2004 relates primarily to higher salary expense of $42,000, higher marketing expense of $7,000, higher consulting expense of $15,000, higher travel expense of $2,000, higher public relations expense of $20,000, higher commission expense of $8,000 and higher relocation expense of $3,000, partially offset by lower telephone expense of $8,000 and lower depreciation expense of $3,000. The dollar increase of $156,000 for the nine months ended September 30, 2004 is primarily attributable to higher salary expense of $116,000, higher marketing expense of $54,000, higher consulting expense of $37,000, higher travel expense of $18,000 and higher public relations expense of $41,000, partially offset by lower commission expense of $58,000 and lower depreciation expense of $60,000. Sales and marketing expense as a percentage of total revenues were approximately 32% and 35% for the three and nine months ended September 30, 2003, respectively, and approximately 84% and 69% for the three and nine months ended September 30, 2004, respectively. The percentage increase is due primarily to lower revenue for fiscal 2004 when compared to the same period for fiscal 2003.

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 $315,000 and $1,163,000 for the three and nine months ended September 30, 2003, respectively, to approximately $314,000 and $1,142,000 for the three and nine months ended September 30, 2004. The decrease in expense of approximately $21,000 for the nine months ended September 30, 2004 was due principally to higher salary expense of $42,000, higher consulting expense of $61,000, higher annual report expense of $13,000, higher travel expense of $2,000, higher membership expense of $4,000 and higher legal expense of $30,000, partially offset by lower accounting and audit fees of $86,000, lower D&O insurance expense of $7,000, lower depreciation expense of $28,000, lower miscellaneous expense of $16,000 and lower commission expense of $26,000. General and administrative expenses as a percentage of total revenues were approximately 36% and 38% for the three and

nine months ended September 30, 2003, respectively, and 53% and 65% for the three and nine months ended September 30, 2004, respectively.

Business Combination Costs – Business combination costs associated with the contemplated merger with SteelCloud, Inc. were approximately $244,000 attributable primarily to legal fees. On September 28, 2004, the Company and SteelCloud mutually agreed to terminate the definitive agreement and recorded the related expenses as business combination costs.

Interest Income and Expense -- Interest income represents interest earned on cash and cash equivalents. Interest income decreased from approximately zero and $5,000 for the three and nine months ended September 30, 2003, respectively, to approximately zero and $2,000 for the three and nine months ended September 30, 2004, respectively. 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 $22,000 and $183,000 for the three and nine months ended September 30, 2003, respectively, to approximately $1,170,000 and $1,826,00 for the three and nine months ended September 30, 2004, respectively, substantially all of which was for interest payable on the 7% Subordinated Convertible Notes and recognition of a beneficial conversion feature on the 7% Subordinated Convertible Notes.

Income Taxes -- The Company did not incur income tax expenses as a result of the net loss incurred during the three and nine months ended September 30, 2003 and 2004.

Dividend on Preferred Stock -- The Company provided for dividends on preferred stock of approximately $239,000 and $695,000 during the three and nine months ended September 30, 2004, 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 $104,000 for the nine months ended September 30, 2003 and approximately $684,000 for the nine months ended September 30, 2004. Cash used in operating activities resulted principally from net operating losses in the periods offset in part by an increase in accounts payable in 2003 and interest expense, accounts receivable, accounts payable and deferred rent in 2004. The increase in cash used in operating activities of approximately $580,000 in the first nine months of 2004 was attributable primarily to an increase in net operating loss of $3,063,000.

The Company's investing activities provided cash of approximately $15,000 in the nine months ended September 30, 2003 and used approximately $21,000 in the nine months ended September 30, 2004. Net capital expenditures for property and equipment were approximately $7,000 and ($48,000) during the nine months ended September 30, 2003 and 2004, respectively. These expenditures have generally been for computer workstations and personal computers, office furniture and equipment, and leasehold additions and improvements.

The Company's financing activities provided cash of approximately $8,000 during the nine months ended September 30, 2003 and provided cash of approximately $950,000 during the nine months ended September 30, 2004. In fiscal 2004, the cash was provided primarily by the 7% Notes.

The Company had a working capital deficiency of ($1,931,000) and ($3,461,313) at December 31, 2003 and September 30, 2004, respectively. As of September 30, 2004, the Company had an accumulated deficit of approximately $69,673,000.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company reported a net loss of $449,650, $5,635,191 and $6,237,278 for the years ended December 31, 2003, 2002 and 2001, respectively, and a further net losses of $1,871,768 and $3,522,344 for the three and nine months ended September 30, 2004, respectively. 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 2004.

For the immediate future, V-ONE will focus on existing and potential customers in the government sector, targeted marketing operations to commercial accounts and continued minimization of general and administrative expenditures. V-ONE may not be successful in further reducing operating levels without jeopardizing the ability to serve existing customers or grow its business base. In February 2004, the Company completed a private placement of 7% Subordinated Convertible Notes with detachable warrants for an aggregate of $1,200,000, which resulted in net proceeds to the Company of $1,065,690. The Company believes that to maintain operations for any extended period of time it must generate revenue from existing and new customers, raise additional capital or undergo a significant strategic transformative event. The Company's ability to reach sustainable profitability is dependent on its ability to generate sufficient cash flow to meet its obligations and needs on a timely basis or to obtain additional funding.

On May 19, 2004, the Company signed a letter of intent with SteelCloud Inc. ("SteelCloud"), for SteelCloud to acquire V-ONE in an all stock transaction. On August 11, 2004, the parties signed a definitive agreement for the transaction. On September 28, 2004, the Company and SteelCloud mutually agreed to terminate the definitive agreement. For further information, refer to Part II, Item 5 of this Quarterly Report on Form 10-Q, V-ONE's Current Report on Form 8-K filed with the SEC on August 11, 2004 and V-ONE's Current Report on Form 8-K filed with the SEC on September 29, 2004.

CONTRACTUAL OBLIGATIONS

The following table discloses aggregate information about the Company's contractual obligations as of September 30, 2004 and the periods in which payments are due:

	Payments Due By Period				
	Remainder of 2004	2005 and 2006	2007 and 2008	Thereafter	Total
Long-term debt obligations	$34,676	$46,234	$0	$0	$80,910
Convertible debt	0	0	0	1,200,000	1,200,000
Operating leases	116,064	465,069	296,275	0	877,408
	$185,415	$511,303	$296,275	$1,200,000	$2,158,318

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no material off-balance sheet arrangements during the first three and nine months of fiscal 2004 or 2003.

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

The Company carried out an evaluation under the supervision and with 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-15 under the Securities Exchange Act of 1934 as of the period covered by this report. Based on that evaluation, the Company's President, Chief Executive Officer and Principal Financial Officer have concluded that disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commissions rules and forms. There was no change in the Company's internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

The Merger Agreement for the Company's anticipated merger with SteelCloud, Inc. required that the Company's outstanding 7% Notes be cancelled and converted into the right to receive specified merger consideration and that all related note instruments be terminated without any obligation of the 7% Note holders or the Company. In contemplation of the merger, the Company and the 7% Note holders executed agreements effecting the note cancellation, which agreements provided that the note cancellation would be void if the merger was not consummated. On September 28, 2004, the Company and SteelCloud terminated the Merger Agreement and consequently, the Company's 7% Notes remain outstanding.

As of September 30, 2004, the Company is in default on the interest payable on the 7% Notes in the amount of $42,000. The 7% Note holders have not made any formal claims for payment and the Company currently is seeking an extension of time for the payment of interest.

The 7% Notes also provide that the Company will be in default if the Registration Statement providing for the resale of shares of Common Stock issuable upon conversion of the 7% Notes is not declared effective by the SEC within 180 days of February 27, 2004. The Company timely filed the Registration Statement and is currently responding to comments from the SEC. However, due to unanticipated circumstances, the Registration Statement has not yet been declared effective by the SEC.

In such events of default, the 7% Note holders may demand that the Company pay interest on the outstanding principal balance of the 7% Notes at the lesser of 12% and the maximum applicable legal rate per annum from the date of the event of default until such default is cured. If such events of default continue, the 7% Note holders may at their option, (i) declare the entire unpaid principal balance of the 7% Notes, together with accrued and unpaid interest, due and payable, (ii) demand that the principal amount of the 7% Notes then outstanding and all accrued and unpaid interest thereon be converted into shares of Common Stock, or (iii) exercise or otherwise enforce any one or more of their rights under the 7% Notes and related agreements. The 7% Note holders have not made any such demands or declarations.

In addition, because the Registration Statement has not yet been declared effective by the SEC, the 7% Note holders may require the Company to prepay in cash all or a portion of the 7% Notes at a price equal to 120% of the aggregate principal amount of the 7% Notes, plus all accrued and unpaid interest. The 7% Note holders have not made any such demands or declarations.

Upon issuance of the 7% Notes, the Company recorded a debt discount of approximately $1,200,000 in accordance with the accounting requirements for a beneficial conversion feature on the 7% Notes. The debt discount was to be amortized over the 5 year term of the notes indicated by the stated redemption date. Since the 7% Notes are in default, the holders, may, at their option, declare the entire unpaid principal balance of the 7% Notes, together with accrued and unpaid interest, due and payable. As a result of the default, the 7% Notes no longer have a stated redemption date and the Company is now required to amortize the debt discount over the period from the date of issuance to the earliest conversion date. Therefore, the Company has amortized the remaining debt discount to interest expense as of the date of the default.

During the three and nine months ended September 30, 2004, the Company amortized $1,118,302 and $1,200,000 of the discount to interest expense, respectively, related to the 7% Notes. Additionally, the Company recorded $21,467 in accrued interest expense for the third quarter of 2004.

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

None.

Item 5. Other Information

On May 19, 2004, the Company signed a letter of intent with SteelCloud Inc. ("SteelCloud"), for SteelCloud to acquire V-ONE in an all stock transaction. The letter of intent contemplated that V-ONE common shareholders would receive one share of SteelCloud Common Stock in exchange for approximately 8.5 shares of V-ONE Common Stock. Because of continuing delays in the governmental programs underlying V-ONE's revenue plan and the resulting adverse effect on V-ONE's financial position, the parties renegotiated the transaction valuation, taking into consideration the risks associated with possible additional delays in V-ONE's government programs. The parties signed a definitive agreement, a copy of which was filed with the Securities and Exchange Commission on August 11, 2004 as an exhibit to V-ONE's Current Report on Form 8-K. The definitive agreement contemplated that V-ONE common shareholders would receive one share of SteelCloud Common Stock in exchange for approximately 21 shares of V-ONE Common Stock, plus warrants to purchase an aggregate of 750,000 shares of SteelCloud Common Stock. On September 28, 2004, the Company and SteelCloud mutually agreed to terminate the definitive agreement. For further information, refer to V-ONE's Current Report on Form 8-K filed with the SEC on August 11, 2004, V-ONE's Current Report on Form 8-K filed with the SEC on September 29, 2004.

Item 6. Exhibits

The following exhibits are filed as part of this quarterly report on Form 10-Q for the period ended September 30, 2004:

Exhibit	Description
2.1	Agreement and Plan of Merger dated August 11, 2004 (the information required by this exhibit is incorporated herein by reference to V-ONE's Form 8-K dated August 11, 2004).
10.1	Termination Agreement dated September 28, 2004 (the information

required by this exhibit is incorporated herein by reference to V-ONE's Form 8-K dated September 29, 2004).

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

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: December 16, 2004

By: /s/ Margaret E. Grayson

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