

UNITED STATES DISTRICT COURT  
DISTRICT OF MARYLAND  
SOUTHERN DIVISION

1999 JUL 14 11 31 AM '99

In re V-ONE CORPORATION  
SECURITIES LITIGATION,

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Master File No. MJG 00CV0263

This Document Relates To:

ALL ACTIONS.

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**CONSOLIDATED AMENDED CLASS ACTION COMPLAINT  
FOR VIOLATION OF THE FEDERAL SECURITIES LAWS  
AND DEMAND FOR JURY TRIAL**

Plaintiffs, by their undersigned attorneys, respectfully submit this Consolidated Amended Class Action Complaint for violation of the federal securities laws (the "Complaint") against the defendants named herein. All allegations made in this Complaint are based upon information and belief, except those allegations that pertain to the named plaintiffs and their counsel, which are based upon personal knowledge. Plaintiffs' information and belief is based upon the investigation made by and through their attorneys, including, but not limited to, a review of press releases, announcements, filings with the Securities and Exchange Commission ("SEC"), information publicly disseminated by defendants, news articles, documents obtained from non-parties, analyst reports, reports in financial publications and a review of documents filed in other pending actions.

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## **NATURE OF THE ACTION**

1. This is a shareholder class action on behalf of all individuals who purchased or otherwise acquired the common stock of V-One Corporation ("V-One" or the "Company") on November 30, 1999 (the "Class Period"). As is more fully alleged throughout the Complaint, defendants engaged in a scheme and common course of conduct including the knowing and/or reckless dissemination of materially false and misleading statements and/or omissions concerning the business, products and services of the Company which operated as a fraud and deceit on the Class during the Class Period.

2. V-One 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 suite of products address network user authentication, perimeter security, access control and data integrity through the use of smart cards, tokens, digital certificates, firewalls and encryption technology. V-One's principal products are SmartGate, a client/server product that offers identification and authentication, integrity, non-repudiation, authorization and encryption; and SmartWall, an application-level firewall that incorporates SmartGate's functionality. SmartGate, works within a Virtual Private Network ("VPN") and is compatible with Red Hat's Linux operating platform.

3. V-One was founded in February 1993 and introduced its first product in December 1994. V-One did not generate any significant revenues until 1995 when it commenced sales of its SmartWall firewall product and introduced its SmartGate client/server system. Revenues for the years ended 1995, 1996, 1997, 1998, and 1999 were approximately

\$1,104,000, \$5,319,000, \$5,973,000, \$6,260,000, and \$4,966,000, respectively. Revenues for the three months ended March 31, 2000, were \$1,384,000. Losses attributable to holders of Common Stock for the years ended 1995, 1996, 1997, 1998, and 1999 were approximately \$1,122,000, \$7,813,000, \$10,828,000, \$9,407,000, and \$9,952,000, respectively. Losses for the three months ended March 31, 2000, were \$1,689,000. In December 1998, V-One had an accumulated deficit of approximately \$29,692,000. By March 31, 2000, V-One's accumulated deficit had increased to approximately \$41,333,000. By all accounts, V-One had become a company in desperate need of additional capital to finance its operations. In a letter dated August 31, 1999, Nasdaq informed the Company that its common stock would be removed from the Nasdaq National Market to the Nasdaq SmallCap Market because it no longer met the National Market's tangible net asset requirement. This removal took place on September 3, 1999. To make matters worse, V-One was also in danger of being delisted from the Nasdaq all together unless it could show by September 15, 1999, that it had a minimum of \$6,350,000 in net tangible assets.

4. Desperate for an infusion of capital, defendants concocted a plan to obtain public funding. On September 7, 1999, V-One issued a press release linking its products with Red Hat's Linux Version 6.0 operating system. Red Hat had recently become a hot new computer stock because its Linux operating system offered the first reliable alternative to Microsoft's Windows. Any product associating itself with Linux, immediately benefited from of its popularity. Linking V-One's products to Linux and Red Hat caused V-One shares to double in one day, increasing from \$2.25 to \$5.56. V-One stock, typically traded on a daily volume of less

than 100,000 shares. On September 7, 1999, the day of the announcement, V-One stock traded on a staggering 20.8 million shares.

5. Notwithstanding the fact that V-One recently announced dismal quarterly results, the recent release proved that the stock had potential upward mobility. Three days later, on September 10, 1999, taking advantage of their inflated stock price, defendants sold \$8,793,750 worth of securities (the "Offering"). Based on defendants' calculated press release of the day before, the Offering was immediately oversubscribed. However, as the market digested the news and realized that the release lacked substance, the stock quickly retreated to its pre-announcement trading price.

6. Defendants knew that the run-up of its stock price was caused by the perceived link with Linux and Red Hat, rather than the nature or quality of V-One's products. A number of other companies known to defendants had similar stock inflations from a mere reference to Linux. As with V-One, the stock prices of these companies retreated as quickly as they rose.

7. Notwithstanding the success of the Offering, defendants were still desperate for additional capital and needed to boost the value of their languishing stock. Moreover, defendants needed to afford warrant holders the opportunity to take profits on their recent investment. Armed with the knowledge that linking V-One with Linux and Red Hat would cause V-One's stock to dramatically increase, on November 30, 1999, defendants issued another release. V-One announced that its product "SmartGate" had no competitors and that it was compatible with "with Red Hat Linux Version 6.0" enabling "End-to-End Linux-Based Virtual Private Networking."

8. The November 30, 1999, press release had the desired effect, causing V-One's stock to soar 279% on a volume of more than 60 million shares. Since V-One only had a float of 17 million shares, the volume indicates that each share traded three times in one day. The stock hit an all time high of \$15-1/2 before settling back to close at \$13-1/2, up \$9-1/2 on the day. Never before and never since has the stock traded in the double digits.

9. Unfortunately for the investing community, V-One's announcement was false and misleading. By November 30, 1999, SmartGate had been selling for more than a month. Moreover, the representation that it was the first VPN product that supported both client and server support for Linux was false. A company called InfoExpress had been marketing a similar product for over a year. V-One's true purpose in issuing the November 30, 1999, announcement was to link V-One to the popularity of Linux thereby artificially inflating the price of V-One stock.

10. By the next day, December 1, 1999, the price of V-One's stock plummeted 50%. Class members lost millions. However, not everyone lost money on V-One. The undisclosed warrant holders of V-One's recent private placement sold millions of shares. Similarly, on November 30, 1999, defendant Steve Mogul, the Vice-President of Business Development, sold 5,000 shares of stock at a price of over \$10 per share.

#### **JURISDICTION AND VENUE**

11. This action arises under §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5). This Court has jurisdiction over this action pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. §§1331 and 1337.

12. Venue is proper in this district pursuant to §27 of the Exchange Act and 28 U.S.C. §1391(b) because the acts charged herein, including the dissemination of materially false and misleading information, occurred in this district. Defendant V-One's principal place of business is also in this District.

13. In connection with the wrongs alleged herein, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

### **THE PARTIES**

14. Plaintiffs George McMeen, Ziad and Kaid Alnajjar, Jeramic Dreyfuss, Philip Sheridan, Lee Tachman and Kurt Taube, have been designated lead plaintiffs by order of the Court dated June 1, 2000. All of the lead plaintiffs purchased or otherwise acquired the stock of V-One during the Class Period, at artificially inflated prices, and have been harmed thereby, as is set forth in detail in certifications they previously filed with the Court. Said lead plaintiffs are representatives of the class of shareholders who purchased or otherwise acquired the common stock of V-One on November 30, 1999.

15. Defendant V-One 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 suite of products address network user authentication, perimeter security, access control and data integrity through the use of smart cards, tokens, digital certificates, firewalls and encryption technology. V-One's principal products are SmartGate, a client/server product that offers identification and authentication, integrity, non-repudiation,

authorization and encryption; and SmartWall, an application-level firewall that incorporates SmartGate's functionality. The Company, at all relevant times, was listed as a publicly held corporation whose shares were traded in an efficient market on a national exchange. V-One's common stock is currently listed on the Nasdaq Small Cap Market under the trading symbol "VONE." V-One is a Delaware corporation with its principal executive offices located at 20250 Century Boulevard, Suite 300, Germantown, Maryland 20874.

16. Defendant David Dawson was, during the Class Period and at all times relevant hereto, the Chairman of the Board of Directors, President and Chief Executive Officer of V-One.

17. Defendant Steve Mogul was, during the Class Period and at all times relevant hereto, the Vice President, Business Development of V-One. On November 30, 1999, he sold 5,000 shares of stock at a price of over \$10 per share.

18. Defendant Margaret Grayson was, during the Class Period and at all times relevant hereto, a director, the Chief Financial Officer and Senior Vice-President of V-One.

19. Defendants David Dawson, Steve Mogul and Margaret Grayson, are collectively referred to herein as the "Individual Defendants."

20. As officers, directors and/or controlling persons of a company registered with the SEC under the federal securities laws, whose common stock is registered with the SEC, and during the Class Period traded on the NASDAQ and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate truthful information promptly and accurately with respect to the Company's operations, products, markets, management, earnings and business prospects, to correct any previously issued statements that had become materially misleading or untrue, and to disclose any trends that would materially

affect earnings and the financial results of the price of the Company's publicly traded securities based upon truthful and accurate information. The Individual Defendants' representations during the Class Period violated these specific requirements and obligations.

21. The Individual Defendants, because of their positions with the Company, controlled and/or possessed the power and authority to control the contents of V-One's press releases and presentations to securities analysts, which information was conveyed through the analysts to the investing public. Each defendant was provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected.

22. Because of their positions and access to material non-public information available to them but not to the public, each of these defendants knew or consciously disregarded the fact that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations which were being made were then materially false and misleading.

23. Defendants are also each liable as individual participants in a fraudulent scheme and course of conduct that operated as a fraud and/or deceit upon the Class. Because of their executive, managerial and/or directorial positions with the Company, each of the defendants had access to the adverse, non-public information about the business, finances and future business prospects of V-One as particularized herein and acted to misrepresent, misstate or conceal such information from the plaintiffs and the investing public.

24. It is also appropriate to treat the defendants as a group for pleading purposes under the federal securities laws and the Federal Rules of Civil Procedure and to presume that the

false and misleading information complained of herein was disseminated through the collective actions of the defendants. Defendants were involved in the drafting, producing, reviewing, and/or dissemination of the false and misleading information detailed herein, knew or consciously disregarded the fact that such materially misleading statements were being issued by the Company, and/or approved or ratified these statements in violation of the federal securities laws. Defendants' false and misleading statements and omissions of fact consequently had the effect of, both on their own and in the aggregate, artificially inflating the price of V-One securities at all times during the Class Period.

### **SUBSTANTIVE ALLEGATIONS**

25. V-One specializes in authentication and encryption software used by companies that have Virtual Private Networks ("VPN") which are accessed by customers and employees. V-One's software is compatible with Linux, which is a popular operating platform put out by Red Hat, a company which distributes and services its own version of Linux.

26. Since going public in 1996, V-One has lost money each year. The Company's stock has consistently traded around \$3 a share.

27. In December 1998, V-One's independent auditors, PricewaterhouseCoopers, issued a "going concern" opinion because it did not meet the Nasdaq's \$4 million tangible net asset requirement to stay on the Nasdaq National Market. V-One later dismissed PricewaterhouseCoopers as its accountants.

28. By July of 1999, V-One had been suffering from massive turn-overs in their sales force, faced stiff competition from other authentication and encryption companies such as Check Point Software Technologies, and was running low on working capital.

29. On September 1, 1999, the Company received a final determination from the Nasdaq Stock Market ("Nasdaq") regarding the status of the Company's listing on the Nasdaq National Market. Nasdaq informed the Company that it had been moved from the Nasdaq National Market to the Nasdaq SmallCap Market effective September 3, 1999. Furthermore, the Company was notified that it was in danger of being delisted all together if it could not show by September 15, 1999, that it had a minimum of \$6,350,000 in net tangible assets. In short, V-One was a company in severe distress which was desperately looking for a way to stay afloat.

30. Realizing that delisting was almost certain, and that such an event would surely ruin the Company, defendants undertook all efforts to raise enough capital to meet Nasdaq's net tangible asset requirement. Defendants had decided on a private placement to certain undisclosed investors. According to V-One's Form 8-K filed with the U.S. Securities and Exchange Commission, the Company planned to issue 335,000 shares of Series C Preferred Stock and 3,350,000 non-detachable warrants to purchase shares of the Company's common stock to certain accredited investors, for an aggregate price of \$8,793,750. Under the terms of the offering, each warrant allowed the holder to purchase V-One common stock at \$2.625 per share.

31. The problem V-One now faced was that it was in poor financial condition and by any account, an unattractive investment opportunity. The Company's stock was trading in the \$2 range and, as reported in the May 12, 1999, *PR Newswire*, V-One had posted miniscule revenues that were significantly overshadowed by its losses.

V-ONE Corporation (Nasdaq: VONE) today announced revenue for the first quarter ended March 31, 1999 of \$1.7 million, compared to revenue of \$1.3 million for the first quarter of 1998 and \$1.7 million for the fourth quarter of 1998. The net loss for the first quarter was \$2.2 million, or (0.13) per share,

compared to a net loss of \$2.8 million, or (0.21) per share, for the first quarter of 1998 and a net loss of \$2.4 million, or (0.16), for the fourth quarter of 1998. The Company is in the process, as indicated on Form 10-K, of raising additional capital to provide adequate funds for operations and to address concerns under its Transamerica loan and its listing requirements from Nasdaq.

32. It was crucial for V-One to fully subscribe its Offering. Without the infusion of capital anticipated from the Offering, financial disaster and delisting would be imminent. Armed with the knowledge that Red Hat had recently become the hot new computer stock because its Linux system offered a competitive alternative to Microsoft's Windows platform, defendants concocted a press release that linked V-One's products with Red Hat's Linux v6.0. On September 7, 1999, V-One issued a press release to that effect, causing its shares to skyrocket 132% on heavy volume.

33. Defendants knew the inflation of V-One's stock price directly correlated to the overt linkage to Red Hat and Linux. As reported on September 9, 1999, in *The Washington Post*, this fact was admitted by Jim Reed, V-One's marketing director, who stated, "I would assume the run-up was due to the Linux announcement."

34. Defendants' scheme was a resounding success and on September 10, 1999, V-One announced that the "offering was oversubscribed and closed at the maximum." Since the inflation of V-One stock was based solely on the reference to "Linux," it was no surprise that V-One's stock price soon retreated to its pre-announcement price.

35. The power of words such as "Linux" and "Red Hat" were well documented. *Internet Stock News* commenting on V-One's recent release posed a rhetorical question. "How do you set a sleepy little security sector stock on fire? Simple, link them to a red hot Red Hat!"

Even if defendants had not known the power of mentioning "Linux" or "Red Hat" or the dramatic effect it would have on V-One's stock price, the consequences of such actions were now clear.

36. Even with the recent capital infusion, V-One's financial condition continued to deteriorate. As reported by *The Washington Times* on November 5, 1999, V-One stated that losses for its third quarter ended September 30, 1999, increased 74% to \$4.63 million (16 cents) from \$1.51 million (11 cents) for the 1998 period.

37. Defendants were well aware that "Linux" had become a buzz word and associating with it meant an immediate inflation of the Company's stock price. Defendants needed to re-invigorate the Company's stagnating stock price and follow through on promises made to investors of V-One's September private placement.

38. In late November 1999, insiders leaked information that V-One would soon make a "big" announcement. Trading volume more than quadrupled and the stock price almost doubled in one trading day on no news. Sure enough, on November 30, 1999, V-One released the following announcement via the *Business Wire*:

"V-One Corporation, a leading provider of client/server Virtual Private Networks (VPN), today announced the availability of SmartGate for Linux, the first VPN product to ship with both client and server support for Linux (emphasis added). V-One's award-winning SmartGate VPN provides this compatibility with Red Hat Inc.'s (Nasdaq: RHAT) Red Hat Linux version 6.0."...

"The growth of Linux as an enterprise solution has made clear the need for Linux compatibility at both ends of the VPN and we're pleased that SmartGate is the first to market with such a solution," said David D. Dawson, CEO of V-One Corporation. "The fact that we are already shipping to customers will continue to maximize our success with the large and expanding Linux enterprise community."

39. As defendants knew it would, the market reacted remarkably to V-One's announcement, running up the stock price 279% in one day. The stock hit a high of \$15-1/2 on a volume of 60 million shares before settling back to close at \$13-1/2, up \$9-1/2 on the day. As reported by *CBS MarketWatch*:

"That heavy volume of shares traded compares with an average daily volume of only 527,000. Tuesday's volume was 60 million shares. On Tuesday, the stock soared to a close at 13 1/2. The 3-year-old security software company had never before traded in the double digits."

40. As reported by *CNNFN* on November 30, 1999, "V-One is also up 8 5/16. That is a gain of 232 percent. More excitement over Linux. It is the securities software maker, and V-One is unveiling a new version of its SmartGate product which supports Linux operating systems."

41. Due to the uncharacteristic and dramatic increase in its stock price, later that day V-One issued a statement trying to explain the unusual activity. As reported by the *Business Wire* of November 30, 1999.

"V-One Corporation previously announced that the Company expected to make a number of product announcements during the second half of 1999.

This morning V-One announced the release of the Company's SmartGate VPN supporting Linux on both client and server. Noting the volume and price movement in the Company's stock, Margaret Grayson, CFO of V-One Corporation commented, We know of no other basis for today's market activity in V-One's shares."

42. Not only did defendants know that the market would react favorably to an announcement connecting their product to Linux, but defendants also knew that the announcement was false and misleading at the time it was made because:

(a) a competing company, InfoExpress, had a product with the identical features that had already been on the market for at least a year;

(b) SmartGate had been released nearly a month earlier. In fact, on November 4, 1999, defendants announced that Summit DataNet, a division of Blue Cross and Blue Shield of Montana, had purchased a 5,000 seat license for SmartGate. As such, the announcement of November 30, 1999, was just a rehash of old information about SmartGate, this time with the all-important 'Linux' tie-in.

43. As these facts became known to the market, V-One's stock crashed. On December 1, 1999, V-One's stock lost \$6 9/16, or 48.6%, to close at \$6 15/16 on a volume of 24.5 million shares. As reported by *Reuters* of that day:

Shares of Internet security software maker V-One Corp. fell back sharply on Wednesday from the lofty gains it posted Tuesday after the company announced new products based on Linux software system.

Wednesday's pullback in the stock came after the company issued a second statement late Tuesday tying the stock price activity to its Linux announcement earlier in the day Tuesday.

"We know of no other basis for today's market activity in V-ONE's shares," said Margaret Grayson, V-ONE chief financial officer.

44. It was clear that the temporary run-up in V-One's stock was due to the tie-in with Linux. It was equally obvious that defendants, having done the same thing two months earlier, knew the rubber-band effect it would have and the losses that shareholders, who bought at inflated levels, would suffer. As reported by the *Interactive Investor* on November 30, 1999,

Expect V-One shares to plummet Wednesday after its stock surged 279 percent to an all-time high of 13 1/2 after it announced a virtual private network product that supports both the Windows CE and Linux operating systems.

\* \* \*

A series of managerial missteps and development delays combined with the exodus of its entire sales team this summer have kept this stock down below \$2 a share as recently as early November.

With only 17 million shares outstanding, more than 59 million shares of V-One changed hands Tuesday. But simply having the word Linux in its press release was enough to send its shares through the roof.

"V-One's got a lot of issues," said Elan Danon, an analyst at LaSalle Street Capital Markets. "It's a very speculative play. Momentum players want anything associated with Linux right now. In truth, this is a \$3 stock at the most."

45. Similarly, as reported on December 1, 1999, in *TheStreet.com.*,

All a company has to do these days, to become one of Cramer's Red Hots, is to somehow align itself with Red Hat (RHAT:Nasdaq), which makes software for the Linux operating system. Which is just what V-One (VONE:Nasdaq) did yesterday when it announced the "availability" of new Internet security software that it says has "compatibility with Red Hat."

The news caused V-One's stock to leap 279%, giving it a total market cap of \$230 million. That's 279%, or an additional \$169 million in market value, for a company that did little more than issue a news release!

If that doesn't underscore the insanity of how far this momentum mania has gone, maybe a peek at V-One's fundamentals will. (Like fundamentals mean anything, right?!) This, after all, is a company whose revenue last quarter fell by roughly half from a year earlier.

But wait, there's more: This is the same V-One that hasn't made a dime since going public in 1996, and as of last quarter had a deficit of \$36 million. This is also the same V-One whose independent auditors, PriceWaterhouseCoopers, last December issued a "going concern" opinion because it didn't meet the Nasdaq's \$4 million tangible net asset requirement to stay on the Nasdaq National Market. The company was then relegated to the Nasdaq SmallCap Market, but was warned its listing there was contingent on showing net tangible assets of \$6.3 million.

That "going concern" opinion apparently didn't go over too well because at the end of last quarter V-One fired PriceWaterhouseCoopers and hired Ernst & Young. No reason was given, but such changes often occur after a company gets

an unfavorable opinion from an auditor -- and they're not generally considered a good omen.

But wait, there's more: To get its net tangible assets up to snuff, so it could remain listed on any Nasdaq market (and to help it stay in business), the company issued 3.3 million warrants to several undisclosed investors, via a private placement, to buy V-One stock. The warrants can be converted at any time once the price rises above 2 5/8.

Such a deal: Not only did the stock rise high enough yesterday for those warrant holders to cash it all in for a tidy profit, it did the same thing after a similar Red Hat-related announcement two months ago, only to lose all of that gain. Any bets on history repeating itself?

46. A day later *TheStreet.com.* ran another article highlighting inaccuracies in V-One's press release and underscoring the fact that it was done as a shameless attempt to artificially inflate the Company's stock price. As reported in *TheStreet.com.* of December 2, 1999,

A single press release on Tuesday was all it took for V-One's (VONE:Nasdaq) stock to lift 279% in a single day. While it gave up part of that gain Wednesday, investors continue to believe it has something really hot with a new virtual private networking (VPN) software that V-One touts is "the first ... to ship with both client and server support" for the Linux operating system.

Just one problem -- one that afflicts all too many public companies under pressure to please Wall Street: V-One's press release went a little overboard with the hype. Specifically, V-One wasn't the first company to ship a VPN software product that supports both clients and servers. Just ask Stacey Lum, president and founder of InfoExpress, of Los Altos, Calif. He says his company has been shipping a similar product to Fortune 500 companies for more than a year, and he calls the claim in V-One's news release "an absolute lie. And there's nothing they can add to that that makes it truthful."

Of course, who was to know? InfoExpress is a private company that tends to keep a very low profile outside of its own industry. (Which is the case with many private companies that get big-footed by a public competitor.) It was started without venture capital backing in 1993 by Lum, an engineer, and didn't get into the VPN space until 1996. Without venture capitalists breathing down its neck, it has been under no pressure to prematurely go public or sell itself. That has left Lum and his colleagues time to concentrate on developing and selling what they

believe is software that is superior to V-One's. In fact, Lum says, he believes one of his customers currently has one of the largest VPN deployments anywhere.

Imagine his surprise when he saw V-One's press release and the market value of its stock. The hoopla surrounding V-One prompted him to check out V-One's financials, "and we were shocked to see that our run rate is equal to theirs." InfoExpress's revenue, he says, has tripled in each of the past three years. (V-One's, which was \$932,000 last quarter, has been falling this year.) What's more, Lum says, "We make money." (As of the third quarter, V-One had an accumulated deficit of \$36.7 million.)

47. The positive representations made by defendants about SmartGate and V-One during the Class Period were false and misleading because defendants knowingly or recklessly failed to disclose the following:

a. SmartGate was not the first VPN product to ship with both client and server support for Linux. Although InfoExpress is not a public company, on August 11, 1997, it announced the "beta release of VTCP/Secure 3.0" -- a software-based virtual private network tool capable of securely transmitting data using one of several encryption algorithms. The software was both a server and client solution. As reported by *InfoWorld*, "VTCP/Secure comprises the VSGate server component; the VSClient client component; and the VSAdmin administrative interface." On October 30, 1997, InfoExpress announced a new release of VTCP/Secure 3.0 that was Linux compatible. As reported by the *Business Wire* of that day: "VTCP/Secure 3.0 is available now. The client software starts at \$89/seat and supports Windows 3.1, WFW, Windows 95 and Windows NT 3.51/4.0. A Solaris and Linux version of the client is expected to be available later this quarter. The server software is \$1495/server and supports Windows 95, Windows NT 3.51/4.0, AIX 4.2, BSDI 1.1, BSDI 2.x, HP-UX 9.x/10.x, Linux, and Sparc Solaris." To further clarify, on December 2, 1999, InfoExpress announced the "Industry's

First VPN Software For Red Hat Linux 6.1." VTCP/Secure 4.2 server software runs on Red Hat Linux 6.1/6.0/5.2, Solaris, Windows NT, HP-UX, and AIX. The VPN client software runs on Red Hat Linux 6.1/6.0/5.2, Sparc Solaris 2.5/2.6, Windows 95/98/NT/2000, and MacOS 8/9. Clearly the release indicates compatibility with versions of Linux (e.g. 5.2) that predate V-One's announcement.

b. SmartGate was not a new product as it had previously been on sale. On November 4, 1999, defendants announced that Summit DataNet, a division of Blue Cross and Blue Shield of Montana, had purchased a 5,000 seat license for SmartGate.

c. Defendants knew that including Linux and Red Hat in a press release would mislead investors and cause the stock to sky-rocket, but then come crashing back down. Defendants had made a "Linux" related release in September and saw the Company's stock price double in one day.

d. No new information was contained in the November 30, 1999 press release. The sole purpose of the press release was to inflate the value of the Company's stock allowing corporate insiders to reap ill-gotten gains and warrant investors to take profits.

#### **INSIDER TRADING**

48. According to Form 144 filed with the SEC, defendant Steve Mogul sold 5,000 shares of V-One's stock at a price of over \$10 per share on November 30, 1999. Defendant Mogul knew of the November 30, 1999, press release before it was issued and also knew that V-One's stock would be artificially inflated by the false November 30, 1999, press release.

### **OPPORTUNITY AND MOTIVE**

49. By virtue of their positions with V-One and because of the significant reputational and monetary benefits they stood to gain from a positive public perception of V-One and as a result of artificially inflated stock prices, each of the defendants had both the opportunity and motive to commit the acts alleged herein. Defendants were aware of V-One's true capabilities and financial condition yet recklessly disregarded the limitations of the Company. The air of accomplishment and success created as a result of defendants' material misrepresentations made V-One more attractive to potential investors, and served to maintain its stock price at artificially high levels.

### **SCIENTER**

50. During the Class Period, each of the Individual Defendants who were senior executives and/or directors of V-One were privy to confidential and proprietary information concerning V-One, its operations, finances, financial condition, products and present and future business prospects. These defendants knew, or were reckless in not knowing that, SmartGate was not the first VPN product to ship with both client and server support for Linux. Moreover, by virtue of their September 1999 press release, defendants knew that mentioning 'Linux' in a press release would artificially inflate the price of the stock. Their representation to the public about SmartGate, its capabilities and its link with Linux were knowingly and/or recklessly deceitful and perpetrated a fraud on the Class.

### **INAPPLICABILITY OF STATUTORY SAFE HARBOR**

51. The statutory safe harbor provided for forward looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Amended

**Complaint.** The statements alleged to be false and misleading herein all relate to facts and conditions existing at the time the statements were made. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as "forward looking" when made, there was no statement made with respect to any of those representations forming the basis of this Complaint that actual results "could differ materially from those projected," and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements.

52. Alternatively, to the extent that the statutory safe harbor is intended to apply to any forward-looking statements pled herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker had actual knowledge that the particular forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized and/or approved by an executive officer of V-One who knew that those statements were false when made.

### **CLASS ACTION ALLEGATIONS**

53. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3), individually and on behalf of all other persons or entities who purchased or otherwise acquired V-One's common stock during the Class Period and were damaged thereby (the "Class"). Excluded from the Class, as defined above, are the defendants herein, their affiliates and any of the Company's officers or directors or its affiliates, and any members of their immediate families and their heirs, successors and assigns.

54. Members of the Class are so numerous that joinder of all members is impracticable. Plaintiffs believe that hundreds, if not thousands, of investors purchased or otherwise acquired the Company's common stock during the Class Period, and are located throughout the United States and elsewhere.

55. Plaintiffs' claims are typical of the claims of absent Class members. Members of the Class sustained damages arising out of defendants' wrongful conduct in violation of the federal securities laws in the same way as the plaintiffs sustained damages from the unlawful conduct.

56. Plaintiffs will fairly and adequately protect the interests of the Class. They have retained counsel competent and experienced in class and securities litigation.

57. A class action is superior to other available methods for the fair and efficient adjudication of the controversy. Members of the Class are numerous and geographically dispersed, rendering it impracticable for each member of the Class to bring separate actions. The individual damages of any member of the Class may be relatively small when measured against the potential costs of bringing this action, and thus make the expense and burden of this litigation unjustifiable for individual actions. In this class action, the Court can determine the rights of all members of the Class with judicial economy.

58. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. These questions include, but are not limited to:

a. Whether the federal securities laws were violated by defendants' acts and omissions as alleged herein;

- b. Whether defendants misrepresented or omitted material facts during the Class Period as detailed herein;
- c. Whether defendants knew, had reason to know or recklessly disregarded that their statements were false and misleading, or failed to have a reasonable basis for those statements;
- d. Whether the market price of V-One's stock was artificially inflated by the omissions and misrepresentations of material fact complained of herein;
- e. Whether the members of the class have sustained damages and, if so, what is the proper measure of such damages;
- f. Whether the market price of the Company's common stock during the Class Period was artificially inflated due to the non-disclosure and/or misrepresentations complained of herein; and
- g. Whether reports, press releases and other documents and statements disseminated to the investing public and/or filed with the SEC by defendants during the Class Period omitted and/or misrepresented material facts concerning the business of V-One.

59. Plaintiffs know of no difficulty which will be encountered in the management of this litigation which would preclude its maintenance as a class action.

60. Plaintiffs rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

- a. V-One stock met the requirements for listing, and was listed, on the NASDAQ, a highly efficient market;

- b. As a regulated issuer, the Company filed periodic public reports with the SEC;
- c. The trading volume of the Company's securities was substantial, reflecting numerous trades each day;
- d. V-One was followed by securities analysts employed by several major brokerage firms who wrote reports which were distributed to the sales force and certain customers of such firms and which were available to various automated data retrieval services;
- e. The misrepresentations alleged herein would tend to induce a reasonable investor to misjudge the value of V-One securities; and
- f. Plaintiffs and the Class purchased or otherwise acquired V-One securities during the Class Period without knowledge of the omitted or misrepresented facts.

61. Based upon the foregoing, plaintiff and the Class are entitled to a presumption of reliance upon the integrity of the market for the purpose of class certification as well as for ultimate proof of their claims on the merits. Plaintiff will also rely, in part, upon the presumption of reliance established by material omissions and upon the actual reliance of the Class members.

**COUNT I**  
**VIOLATION OF SECTION 10(b) OF THE EXCHANGE**  
**ACT AND RULE 10b-5 PROMULGATED THEREUNDER**  
**(Against All Defendants)**

62. Plaintiffs repeat and reallege each and every allegation contained in the preceding paragraphs as if fully set forth herein. This claim is asserted against all defendants, and each of them.

63. During the Class Period, defendants, and each of them, carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive

the investing public, including plaintiffs and the Class; (ii) artificially inflate and maintain the market price of V-One common stock; and (iii) cause plaintiffs and the Class to purchase or otherwise acquire V-One common stock at inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants took the actions set forth herein.

64. Defendants (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements made not misleading; and/or (c) engaged in acts, practices and a course of business which operated as a fraud and deceit upon the purchasers and/or acquirers of the Company's stock in an effort to maintain artificially high market prices for V-One common stock in violation of §10(b) of the Exchange Act, 15 U.S.C. 78j(b), and Rule 10b-5 promulgated thereunder, 17 C.F.R. §240.10b-5. Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

65. Each of the defendants: (a) knew or had access to the material adverse non-public information about V-One's financial results and then-existing business conditions, which was not disclosed; and (b) participated in drafting, reviewing and/or approving the misleading statements, releases, reports and other public representations of and about V-One.

66. During the Class Period, defendants, with knowledge of or conscious disregard for the truth, disseminated or approved the false statements specified above, which were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

67. Defendants violated §10(b) of the Exchange Act and Rule 10b-5 in that they:

- a. Employed devices, schemes and artifices to defraud;
- b. Made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- c. Engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiffs and others similarly situated in connection with their purchases of V-One securities during the Class Period.

68. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth herein, the market price of V-One stock was artificially inflated during the Class Period. In ignorance of the fact that market prices of V-One's publicly traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the securities trade, and the truth of any representations made to appropriate agencies and to the investing public, at the times at which any statements were made, and/or in the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by such defendants during the Class Period, plaintiffs and the Class purchased or otherwise acquired for value V-One stock during the Class Period at artificially high prices and were damaged thereby.

69. At the time of such misstatements and omissions plaintiffs and the Class were ignorant of their falsity and believed them to be true. Had plaintiffs and the Class and the marketplace known of the true condition of the Company and its products, all of which was not

disclosed by defendants, plaintiffs and the Class would not have purchased or otherwise acquired their V-One stock during the Class Period, or, if they had purchased or otherwise acquired such stock during the Class Period, they would not have done so at the artificially inflated prices which they had paid.

70. By virtue of the foregoing, defendants have violated §10(b) of the Exchange Act, and Rule 10-5 promulgated thereunder.

71. As a direct and proximate result of defendants' wrongful conduct, plaintiffs and the Class suffered damages.

**COUNT II**  
**VIOLATION OF SECTION 20(a) OF THE EXCHANGE ACT**  
**(Against the Individual Defendants)**

72. Plaintiffs repeat and reallege each and every allegation contained in the preceding paragraphs, as if fully set forth herein. This claim is asserted against the Individual Defendants, and each of them.

73. The Individual Defendants and each of them acted as a controlling person of V-One within the meaning of §20(a) of the Exchange Act, as alleged herein. By virtue of their executive positions, each had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the statement(s) which plaintiffs contend are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's internal reports, press releases, and other statements alleged by plaintiffs to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

74. In particular, each of the Individual Defendants had direct involvement in the day-to-day operations of the Company and therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, especially by virtue of their senior positions, and exercised the same.

75. As set forth above, the Individual Defendants violated §10(b) and Rule 10b-5 by their acts and omissions as alleged herein. By virtue of their positions as controlling persons of V-One, each of the Individual Defendants is liable pursuant to §20(a) of the Exchange Act. As a direct and proximate result of the Individual Defendants' wrongful conduct, plaintiffs and the Class suffered damages.

#### PRAYER FOR RELIEF

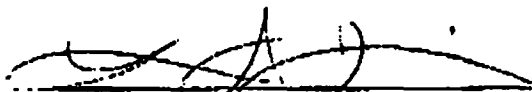
WHEREFORE, plaintiffs demand judgment:

1. Declaring this action to be a proper class action on behalf of the Class defined herein and maintainable under Rule 23 of the Federal Rules of Civil Procedure;
2. Awarding proper damages in favor of plaintiffs and the Class against each defendant;
3. Awarding punitive damages in favor of plaintiffs and the Class against each defendant;
4. Awarding plaintiffs and the Class costs, including reasonable attorneys' and experts' fees;
5. Awarding pre-judgment and post-judgment interest; and
6. Awarding such other and further relief as this Court may deem just and proper.

**JURY DEMAND**

**Plaintiffs hereby demand a trial by jury.**

**Dated: July 14, 2000**



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**Co-Lead Counsel For Plaintiffs and the Class**

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that on July 14, 2000, a copy of the Consolidated Amended Class Action Complaint for Violation of the Federal Securities Laws and Demand for Jury Trial was mailed, by first-class mail, postage prepaid, to:

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Andrew M. Herscovitz, Esquire  
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Lawrence J. Quinn