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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 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 000-24389

VASCO DATA SECURITY INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	36-4169320
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1901 SOUTH MEYERS ROAD, SUITE 210
OAKBROOK TERRACE, ILLINOIS 60181
(Address of Principal Executive Offices)(Zip Code)

Registrant's telephone number, including area code: (630) 932-8844

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]

As of July 31, 2004, 32,574,467 shares of the Company's Common Stock, $.001 par value per share ("Common Stock"), were outstanding.

VASCO DATA SECURITY INTERNATIONAL, INC.
FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2004

TABLE OF CONTENTS

- ----------------------

This report contains the following trademarks of the Company, some of which are registered: VASCO, AccessKey, VACMan Server and VACMan/CryptaPak, AuthentiCard and Digipass.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2004 (UNAUDITED)	DECEMBER 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash	$ 6,204,810	$ 4,817,114
Restricted cash	144,984	-
Accounts receivable, net of allowance for doubtful accounts	4,565,901	2,522,670
Inventories, net	995,920	1,074,647
Prepaid expenses	373,803	476,353
Deferred income taxes	69,881	69,881
Foreign sales tax receivable	237,258	362,372
Other current assets	365,190	334,621
Total current assets	12,957,747	9,657,658
Property and equipment:		
Furniture and fixtures	1,905,390	1,940,399
Office equipment	2,194,396	2,221,220
	4,099,786	4,161,619
Accumulated depreciation	(3,348,749)	(3,279,527)
Property and equipment, net	751,037	882,092
Intangible assets, net of accumulated amortization	1,215,205	1,378,362
Goodwill	249,967	249,967
Note receivable and investment in SSI	966,267	1,132,499
Other assets	75,039	82,602
TOTAL ASSETS	$ 16,215,262	$ 13,383,180
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,214,586	$ 1,697,950
Deferred revenue	620,940	386,446
Accrued wages and payroll taxes	1,252,708	1,514,729
Income taxes payable	756,783	(197,360)
Other accrued expenses	980,027	1,037,840
Total current liabilities	5,825,044	4,439,605
STOCKHOLDERS' EQUITY:		
Series D Convertible Preferred Stock, $10,000 par value - 500,000 shares authorized 398 shares issued and outstanding in 2004, 800 shares issued and outstanding in 2003	2,878,161	5,785,829
Common stock, $.001 par value - 75,000,000 shares authorized; 32,571,842 shares issued and outstanding in 2004, 30,425,284 shares issued and outstanding in 2003	32,572	30,425
Additional paid-in capital	50,283,616	47,167,362
Accumulated deficit	(42,303,684)	(43,693,494)
Accumulated other comprehensive loss - Cumulative translation adjustment	(500,447)	(346,547)
Total stockholders' equity	10,390,218	8,943,575
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 16,215,262	$ 13,383,180

See accompanying notes to consolidated financial statements.

\

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003
Net revenues	$ 7,173,771	$ 5,952,649	$ 13,195,018	$ 11,071,117
Cost of goods sold	2,098,857	2,422,199	3,674,246	4,581,419
Gross profit	5,074,914	3,530,450	9,520,772	6,489,698
Operating costs:				
Sales and marketing	2,149,405	1,531,410	4,242,449	3,208,345
Research and development	663,127	595,545	1,370,842	1,118,863
General and administrative	783,588	715,112	1,529,566	1,454,620
Non-cash compensation	145	5,840	82	8,343
Total operating costs	3,596,265	2,847,907	7,142,939	5,790,171
Operating income from continuing operations	1,478,649	682,543	2,377,833	699,527
Interest income (expense), net	25,245	(47,832)	54,014	(97,069)
Other income (expense), net	(31,763)	180,347	44,882	380,717
Income before income taxes	1,472,131	815,058	2,476,729	983,175
Provision for income taxes	519,226	264,462	941,157	264,462
Net income from continuing operations	952,905	550,596	1,535,572	718,713
Discontinued operations:				
Income from discontinued operations, net of tax	-	170,225	-	483,459
Net income	952,905	720,821	1,535,572	1,202,172
Preferred stock accretion and dividends	(64,921)	(290,996)	(145,761)	(581,992)
Net income available to common shareholders	$ 887,984	$ 429,825	$ 1,389,811	$ 620,180
Basic and diluted net income per common share:				
Income from continuing operations	$ 0.03	$ 0.01	$ 0.04	$ -
Income from discontinued operations	-	-	-	0.02
	$ 0.03	$ 0.01	$ 0.04	$ 0.02
Weighted average common shares outstanding:				
Basic	31,937,943	28,389,484	31,552,751	28,389,484
Dilutive	35,240,319	28,436,854	32,266,441	28,419,508

See accompanying notes to consolidated financial statements.

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
Net income	$ 952,905	$ 720,821	$ 1,535,572	$ 1,202,172
Other comprehensive loss - cumulative translation adjustment	(13,715)	(80,911)	(153,900)	(139,269)
Comprehensive income	$ 939,190	$ 639,910	$ 1,381,672	$ 1,062,903

See accompanying notes to consolidated financial statements.

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003
Cash flows from operating activities:		
Net income from continuing operations	$ 1,535,572	$ 718,713
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	332,638	550,103
Non-cash compensation expense	82	8,343
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(2,198,512)	(712,952)
Inventories, net	40,972	57,930
Prepaid expenses	89,782	88,937
Foreign sales tax receivable	115,838	(193,389)
Other current assets	(12,212)	(13,106)
Other assets	6,620	-
Accounts payable	593,851	470,161
Deferred revenue	254,003	462,665
Accrued wages and payroll taxes	(208,605)	(374,066)
Income taxes payable	982,066	203,721
Accrued expenses	(33,919)	288,704
Net cash provided by discontinued operations	-	254,498
Net cash provided by operating activities	1,498,176	1,810,262
Cash flows from investing activities:		
Acquisition of Identikey, Ltd.	-	(7,341)
Additions to property and equipment	(71,931)	(11,843)
Increase in restricted cash	(144,984)	-
Payments received on note receivable	147,523	-
Net cash used in investing activities	(69,392)	(19,184)
Cash flows from financing activities:		
Repayment of debt	-	(124,048)
Proceeds from exercise of stock options	76,115	-
Dividends paid on preferred stock	(11,382)	-
Net cash provided by (used in) financing activities	64,733	(124,048)
Effect of exchange rate changes on cash	(105,821)	(299,937)
Net increase in cash	1,387,696	1,367,093
Cash, beginning of period	4,817,114	2,615,935
Cash, end of period	$ 6,204,810	$ 3,983,028

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of VASCO Data Security International, Inc. and its subsidiaries (collectively, the "Company" or "VASCO") and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

In the opinion of management, the accompanying unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the results of the interim periods presented. All significant intercompany accounts and transactions have been eliminated. The operating results for the interim periods presented are not necessarily indicative of the results expected for a full year.

RESTRICTED CASH

Restricted cash supports a bank guarantee issued in favor of a customer relating to a contract prepayment. Under the terms of the contract, the Company will have unrestricted use of this cash when it has fulfilled its commitment to deliver the products. The customer has the right to put a claim on the guarantee if the Company does not perform. The guarantee automatically ceases on January 31, 2012, but can be cancelled earlier upon mutual agreement of both parties or when all of the products have been delivered. It is the Company's intention to fulfill the contract during 2004.

STOCK-BASED COMPENSATION

At June 30, 2004, the Company had a stock-based employee compensation plan. The Company accounts for the plan using the intrinsic method under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based compensation is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying Common Stock on the date of grant. The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation', to stock-based employee compensation:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net income available to common shareholders as reported	$887,984	$429,825	$1,389,811	$620,180
Deduct: Total stock-based employee compensation determined under fair-value-based methods for all awards, net of tax	266,843	260,185	533,686	512,038
Pro forma net income	$621,141	$169,640	$ 856,125	$108,142
Net income per common share-basic and diluted:				
As reported	$ 0.03	$ 0.01	$ 0.04	$ 0.02
Pro forma	$ 0.02	$ -	$ 0.03	$ -

NOTE 2 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable represents sales made to customers on credit. An allowance for doubtful accounts is maintained based upon estimated losses resulting from the inability of customers to make payment for goods and services. Accounts receivable, net of the allowance for doubtful accounts, as of June 30, 2004 and December 31, 2003 are as follows:

	June 30, 2004	December 31, 2003
Accounts receivable.................	$ 4,907,616	$ 2,993,141
Allowance for doubtful accounts..	(341,715)	(470,471)
Accounts receivable, net......	$ 4,565,901	$ 2,522,670

NOTE 3- INVENTORIES

Inventories, consisting principally of hardware and component parts, are stated at the lower of cost or market. Cost is determined using the first-in-first-out (FIFO) method.

Inventories, net of valuation allowance of $232,236 and $252,354 at June 30, 2004 and December 31, 2003, respectively, are comprised of the following:

	June 30, 2004	December 31, 2003
Component parts	$326,166	$ 277,065
Work-in-process and finished goods............	669,754	797,582
Total	$995,920	$1,074,647

NOTE 4 - GOODWILL AND OTHER INTANGIBLES

At June 30, 2004 and December 31, 2003, the ending balances of goodwill and capitalized technology are as follows:

	June 30, 2004	December 31, 2003
Goodwill...	$ 249,967	$ 249,967
Capitalized technology..................................	5,462,949	5,462,949
Accumulated amortization................................	(4,247,744)	(4,084,587)
Capitalized technology, net..........................	$ 1,215,205	$ 1,378,362

Amortization expense for the six months ended June 30, 2004 was $163,157.

Estimated amortization expense for the years ended:

December 31, 2004	$ 326,326
December 31, 2005	326,314
December 31, 2006	326,314
December 31, 2007	326,314
December 31, 2008	73,095

NOTE 5 - OTHER ACCRUED EXPENSES

Accrued expenses are comprised of the following:

	June 30, 2004	December 31, 2003
Restructuring reserve	$ 73,443	$ 134,368
Other accrued expenses	906,584	903,472
	$ 980,027	$ 1,037,840

The decrease in the restructuring reserve from December 31, 2003 to June 30, 2004 is primarily due to the reduction in the lease liability related to excess capacity.

NOTE 6 - STOCKHOLDERS' EQUITY

During the first six months of 2004, the Company issued 76,500 shares of Common Stock as a result of the exercise of options under the Company's stock option plan generating total proceeds of $76,115. In addition, 402 shares of the Company's Series D 5% Cumulative Convertible Voting Preferred Stock were converted resulting in the issuance of 2,010,000 shares of the Company's Common Stock.

NOTE 7 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Six months ended June 30,	
	2004	2003
Supplemental disclosure of cash flow information:		
Interest paid	$ 9,217	$ 1,753
Income taxes paid	-	63,764
Supplemental disclosure of non-cash financing activities:		
Common stock issued to Series D preferred stock shareholders upon conversion of 402 shares of preferred stock (2,010,000 shares)	2,907,668	-
Common stock issued to Series D preferred stock shareholders as a dividend payment (60,058 shares)	134,536	-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based upon the Company's consolidated results of operations for the three and six months ended June 30, 2004 and 2003 (percentages in the discussion are rounded to the closest full percentage point) and should be read in conjunction with our consolidated financial statements included elsewhere in this Form 10-Q. Results of prior periods have been restated to report the results from the

VACMAN Enterprise business as a discontinued operation.

We design, develop, market and support identity authentication products that reduce the risk of loss from unauthorized transactions by validating a person's identity using a one-time password and obtaining a legally- enforceable digital signature, if needed, for financial transactions. Our products are used currently in a wide variety of applications including, but not limited to, Internet banking, Internet brokerage, e-commerce applications dealing with web or mobile access and various corporate network access applications. As evidenced by our current customer base, our products are purchased by companies and, depending on the business application, are distributed to either its employees or its customers. Those customers may be other businesses or as an example in the case of Internet banking, the banks' retail customers.

Our target market is any business process that uses some form of electronic interface where the owner of that process is at risk if unauthorized users can gain access to its process and either obtain proprietary information or execute transactions that are not authorized. Our products can not only increase the security associated with accessing the business process, thereby reducing the losses from unauthorized access, but also, in many cases, can reduce the cost of the process itself by automating activities that were previously performed manually.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q, including the "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 concerning, among other things, the prospects, developments and business strategies for the Company and its operations, including the development and marketing of certain new products and the anticipated future growth in certain markets in which the Company currently markets and sells its products or anticipates selling and marketing its products in the future. These forward-looking statements (i) are identified by their use of such terms and phrases as "expected," "expects," "believe," "believes," "will," "anticipated," "emerging," "intends," "plans," "could," "may," "estimates," "should," "objective," and "goals" and (ii) are subject to risks and uncertainties and represent the Company's present expectations or beliefs concerning future events. The Company cautions that the forward-looking statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, including (a) risks of general market conditions, including demand for the Company's products and services, competition and price levels and the Company's historical dependence on relatively few products, certain suppliers and certain key customers, and (b) risks inherent to the computer and network security industry, including rapidly changing technology, evolving industry standards, increasing numbers of patent infringement claims, changes in customer requirements, price competitive bidding, changing government regulations and potential competition from more established firms and others. Therefore, results actually achieved may differ materially from expected results included in, or implied by these statements.

COMPARISON OF RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003.

Economic Conditions: The Company's revenues may vary significantly with changes in the economic conditions in the countries in which it sells products currently. With the Company's current concentration of revenues in Europe and specifically in the banking/finance vertical market, significant changes in the economic outlook for the European banking market may have a significant effect on the revenues of the Company. During difficult economic periods, our customers often delay the rollout of existing applications and defer purchase decisions related to the implementation of our products in new applications.

Currency Fluctuations. In the second quarter of both 2004 and 2003, approximately 91% of the Company's revenue was generated outside the United States. For the six months ended June 30, 2004 and 2003, approximately 91% and 93%, respectively, were generated outside of the United States.

In addition, approximately 79% and 75% of its operating expenses in the second quarter of 2004 and 2003, respectively, were incurred outside of the United States. For the first six months ended June 30, 2004 and 2003, approximately 80% and 77%, respectively, of its operating expenses were incurred outside of the United States.

As a result, changes in currency, especially the Euro to U.S. Dollar, can have a significant impact on revenue and expenses. To minimize the net impact of currency, the Company attempts to denominate its billings in a currency such that it would provide a hedge against the operating expenses being incurred in that currency. In addition, the Company denominates the majority of its supply contracts in U.S. dollars.

The Euro strengthened approximately 8% and 12% against the U.S. Dollar for the quarter and six months ended June 30, 2004, respectively, as compared to the same periods in 2003. The Australian Dollar strengthened approximately 16% and 23% against the U.S. Dollar for the quarter and six months ended June 30, 2004, respectively, as compared to the same periods in 2003. The Company estimates that the strengthening of the two currencies in 2004 compared to 2003 resulted in an increase in revenues of approximately $253,000 and $649,000 for the quarter and six months ended June 30, 2004, respectively, and an increase in operating expenses of approximately $219,000 and $642,000 for the quarter and six months ended June 30, 2004, respectively.

The financial position and results of operations of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Accordingly, assets and liabilities are translated into U.S. dollars using current exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. Translation adjustments arising from differences in exchange rates are included as a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations. Foreign exchange transaction losses aggregating $44,000 in the second quarter of 2004 compare to gains for the second quarter of 2003 of $180,000 and for the six months ended June 30, 2004, transaction gains of $26,000 compare to gains of $379,000 for the first six months of 2003. The change in transaction gains and losses are primary related to the dollar denominated term-loan to Dexia Bank that was repaid in full in the third quarter of 2003. Transaction gains and losses are included in other non-operating income (expense).

REVENUE

Revenue by Geographic Regions: We sell the majority of our products in European countries with significant sales in the United States and other countries, primarily Australia, Asia/Pacific and South America. The breakdown of revenue for the quarter and six months ended June 30, 2004 and 2003 in each of our major geographic areas was as follows:

	Europe	United States	Other Countries	Total
SECOND QUARTER ENDED JUNE 30:				
Total Revenue:				
2004	$ 5,754,000	$ 617,000	$ 803,000	$ 7,174,000
2003	4,785,000	526,000	642,000	5,953,000
Percent of Total:				
2004	80%	9%	11%	100%
2003	80%	9%	11%	100%
SIX MONTHS ENDED JUNE 30:				
Total Revenue:				
2004	$ 10,678,000	$ 1,241,000	$1,276,000	$13,195,000
2003	9,338,000	774,000	959,000	11,071,000
Percent of Total:				
2004	81%	9%	10%	100%
2003	84%	7%	9%	100%

Total revenue in the second quarter of 2004 increased $1,221,000 or 21% over the second quarter of 2003. Geographically, revenue generated in Europe was $969,000, or 20% higher than 2003, revenue generated in the United States was $91,000 or 17% higher than 2003 and revenue generated from other countries was $161,000 or 25% higher than 2003. Approximately $253,000 of the increase was attributable to the benefit from changes in the currency rate with the balance of the increase being attributable to increased volume and a higher average price per unit. The higher average price per unit in 2004 reflected the increase in the number of customers and a lower average order quantity as compared to 2003.

Total revenue for the six months ended June 30, 2004 increased $2,124,000 or 19% over the first six months of 2003. Geographically, revenue generated in Europe was $1,340,000, or 14% higher than 2003, revenue generated in United States was $467,000 or 60% higher than 2003 and revenue generated from other countries was $317,000 or 33% higher than 2003. Approximately $649,000 of the increase was attributable to the benefit from changes in the currency rate with the balance of the increase being attributable to increased volume and a higher average price per unit. The higher average price per unit in 2004 reflected the increase in the number of customers and a lower average order quantity as compared to 2003. For the first six months of 2004, the top ten customers accounted for approximately 56% of total revenue as compared to 76% of revenue in 2003.

Revenue by Target Market: Revenues are generated currently from two primary markets, banking/finance ("Banking") and corporate network access ("CNA") through the use of both direct and indirect sales channels. The breakdown of revenue between the two primary markets is as follows:

	Banking	CNA	Total
SECOND QUARTER ENDED JUNE 30:			
Total Revenue:			
2004	$ 5,754,000	$ 1,420,000	$ 7,174,000
2003	4,419,000	1,534,000	5,953,000
Percent of Total:			
2004	80%	20%	100%
2003	74%	26%	100%
SIX MONTHS ENDED JUNE 30:			
Total Revenue:			
2004	$10,281,000	$ 2,914,000	$13,195,000
2003	8,345,000	2,726,000	11,071,000
Percent of Total:			
2004	78%	22%	100%
2003	75%	25%	100%

Total revenue in the second quarter of 2004 from the Banking market increased $1,335,000 or 30% over the second quarter of 2003 and revenue from the

CNA market decreased $114,000 or 7% in the same period. While the increase in total revenues is attributable, in part, to the development of the indirect sales channel, which includes distributors, resellers, and solution partners, the distribution of the revenues between the markets in large part reflects the sales channel's focus on banking opportunities. The indirect sales channel supplements the Company's direct sales force in the Banking market and is the primary source of revenues in the CNA market.

Total revenue for the first six months of 2004 from the Banking market increased $1,936,000 or 23% compared to the first six months of 2003 and revenue from the CNA market increased $188,000 or 7% in the same period. The increase in total revenue is primarily attributable to the development of the indirect sales channel noted above.

The amounts shown above for CNA currently include revenues generated in the e-commerce market. We expect that the e-commerce market will be an important source of future revenue for the Company as our products will not only provide a higher level of security for purchases made over the Internet, they can also help protect our customers' revenue stream by making it more difficult for subscribers to our customers' Internet services to share passwords.

GROSS PROFIT AND OPERATING EXPENSES

The following table sets forth, for the periods indicated, certain consolidated financial data as a percentage of revenues for the quarters and six months ended June 30, 2004 and 2003:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	29.3	40.7	27.8	41.4
Gross profit	70.7	59.3	72.2	58.6
Operating costs:				
Sales and marketing	30.0	25.7	32.2	29.0
Research and development	9.2	10.0	10.4	10.1
General and administrative	10.9	12.0	11.6	13.1
Non-cash compensation	0.0	0.1	0.0	0.1
Total operating costs	50.1	47.8	54.2	52.3
Operating income from continuing operations	20.6	11.5	18.0	6.3
Interest income (expense)	0.3	(0.8)	0.4	(0.8)
Other income (expense), net	(0.4)	3.0	0.3	3.4
Income before income taxes	20.5	13.7	18.7	8.9
Provision for income taxes	7.2	4.4	7.1	2.4
Net income from continuing operations	13.3	9.3	11.6	6.5

GROSS PROFIT

Consolidated gross profit for the quarter ended June 30, 2004 was $5,075,000, an increase of $1,544,000, or 44%, from the quarter ended June 30, 2003. Gross profit as a percentage of revenue was 71% in the second quarter of 2004, as compared to 59% in the second quarter of 2003. The increase in the gross profit as a percentage of revenue was primarily related to three factors; the change of mix of sales within our Banking market, the lower cost of product produced, and the stronger Euro. Sales to new customers, both in Banking and Corporate Network Access markets, are generally for smaller quantities and, therefore, have higher average selling prices and result in higher margins than sales to our larger customers in the Banking market.

Consolidated gross profit for the six months ended June 30, 2004 was $9,521,000, an increase of $3,031,000, or 47%, from the comparable period in 2003. Gross profit as a percentage of revenue was 72% for the first six months of 2004, as compared to 59% for the comparable period in 2003. The increase in the gross profit as a percentage of revenue was due to the same factors noted for the quarter ended June 30, 2004.

As noted above, gross profit as a percentage of revenue improved as a result of a change in mix of sales within the Banking market. In 2004, orders from the Company's larger strategic Banking customers were a smaller percentage of total revenue. The larger strategic Banking customers generally benefit from volume purchase discounts and, as a result, have a lower average selling price and a lower gross margin as a percentage of revenue. As a result of the larger customers being a smaller percentage of Banking revenues, the margin within the Banking market in 2004 was higher than in 2003.

The average cost per unit sold declined approximately 11% in the second quarter of 2004 and 19% for the first six months of 2004 compared to the same periods in 2003. The decline in cost is primarily attributable to a change in the mix of units sold and a reduction in the per-unit cost of most models.

As previously noted, the Company's purchases of inventory are denominated in U.S. dollars. Also, as previously noted, the Company denominates a portion of its sales in Euros in order to offset the affects of currency on operating expenses. As the Euro and Australian Dollar strengthened during the year, revenues from sales made in Euros and Australian Dollars increased, as measured in U.S. Dollars, without the corresponding increase in cost of goods sold. The benefit from changes in currency rates as noted above was approximately $253,000 for the quarter and $649,000 for the six months ended June 30, 2004. The benefit represents an improvement in the gross profit rate of approximately 1.0 and 1.5 percentage points for the three and six months ended June 30, 2004, respectively.

OPERATING EXPENSES

Sales and Marketing Expenses

Consolidated sales and marketing expenses for the quarter ended June 30, 2004 were $2,149,000, an increase of $618,000, or 40%, from the second quarter of 2003. This increase was primarily due to increased strength of the Euro and Australian Dollar to the U.S. Dollar, increases in compensation-related expenses, including the cost of agents in countries where the Company does not have a direct sales presence, and increased trade show and other marketing expense associated with providing support to our reseller network. The average full-time sales and marketing employee headcount, excluding agents, was 46 in the second quarters of both 2004 and 2003.

Consolidated sales and marketing expenses for the six months ended June 30, 2004 were $4,242,000, an increase of $1,034,000, or 32%, from the same period of 2003. The increase in expense was related to the same factors noted for the quarter above.

Research and Development Expenses

Consolidated research and development costs for the quarter ended June 30, 2004 were $663,000, an increase of $68,000, or 11%, from the second quarter of 2003. This increase was primarily due to increased strength of the Euro and Australian Dollar to the U.S. Dollar and increased compensation expenses. Average full-time research and development employee headcount for continuing operations was 18 in 2004 compared to 17 in 2003.

Consolidated research and development costs for the six months ended June 30, 2004 were $1,371,000, an increase of $252,000, or 23%, from the same period of 2003. This increase was primarily due to increased strength of the Euro and Australian Dollar to the U.S. Dollar, compensation expenses and increased costs related to the introduction of new products. Average full-time research and development employee headcount for continuing operations was 17 in both 2004 and 2003.

General and Administrative Expenses

Consolidated general and administrative expenses for the quarter ended June 30, 2004 were $784,000, an increase of $68,000, or 10%, from the second quarter of 2003. This increase was primarily due to increased strength of the Euro and Australian Dollar to the U.S. Dollar, increased compensation expenses and lower recoveries of bad debt expenses recorded in prior periods partially offset by reductions in depreciation expense and expenses related to professional services. Average full-time general and administrative employee headcount in 2004 was 11 compared to 10 in 2003.

Consolidated general and administrative expenses for the six months ended June 30, 2004 were $1,530,000, an increase of $75,000, or 5%, from the same period of 2003. This increase was due to the same factors as noted for the second quarter.

Interest Income (Expense), Net

Consolidated net interest income (expense) was income of $25,000 in the second quarter and $54,000 for the first six months of 2004 compared to expense of $48,000 and $97,000 for the comparable periods in 2003. This change in expense was primarily due to the repayment of all debt in 2003 and the collection of amounts due under the installment note from SecureD Services, Inc. (SSI). The Company invested its cash balances in savings accounts earning nominal rates of interest.

Other Income (Expense), Net

Other income (expense) primarily includes exchange gains (losses) on transactions that are denominated in currencies other than the subsidiaries' functional currency. The decrease in other income of $212,000 for the quarter and $336,000 for the first six months in 2004 from 2003 primarily reflects the decrease in U.S. Dollar denominated liabilities as a result of the repayment of the term loan in the third quarter of 2003.

Income Taxes

Income tax expense in the second quarter and first six months of 2004 was $519,000 and $941,000, respectively, and compares to $264,000 for both periods in 2003. The expense relates primarily to the Belgian operating subsidiary, whose tax loss carry-forwards were fully utilized in 2003. The rate in 2004 reflects the Company's current estimate of its tax rate for the full year, but may vary in future periods as earnings are realized in different countries with different tax attributes.

At December 31, 2003, the Company had United States net operating loss carry-forwards approximating $27,650,000 and foreign net operating loss carry-forwards approximating $4,070,000. Such losses are available to offset future taxable income in the respective jurisdictions and expire in varying amounts beginning in 2004 and continuing through 2023. In addition, if certain substantial changes in the Company's ownership were deemed to have occurred, there would be an annual limitation on the amount of the U.S. carry-forwards that could be utilized.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash was $6,350,000 at June 30, 2004, which is an increase of approximately $1,533,000 or 32% from $4,817,000 at December 31, 2003. The increase in cash was primarily related to positive earnings before interest, taxes, depreciation and amortization (EBITDA) partially offset by an increase in days sales outstanding in accounts receivable.

The cash balance noted above includes restricted cash of $145,000 at June 30, 2004. The Company expects that the restrictions on the cash will be removed as product is shipped throughout the next six months.

Days sales outstanding in net accounts receivable increased from 37 days at December 31, 2003 to 58 days at June 30, 2004. Days sales outstanding in receivables increased in the second quarter as a higher percentage of the revenue in the quarter was realized in the final month of the quarter. In addition, days sales outstanding in the fourth quarter of 2003 benefited from prepayments for orders that were shipped in the quarter.

EBITDA from continuing operations for the quarter and six months ended June 30, 2004 were $1,613,000 and $2,756,000, respectively, and reflect an increase of $473,000 or 41% and $1,126,000 or 69% over the same periods of the prior year. A reconciliation of EBITDA to net income from continuing operations for the three and six-month periods ended June 30, 2004 and 2003 follows:

	Three Months Ended,		Six Months Ended,	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	(unaudited)		(unaudited)	
EBITDA from continuing operations	$ 1,613,000	$ 1,140,000	$ 2,756,000	$ 1,630,000
Interest expense (income), net	(25,000)	48,000	(54,000)	97,000
Provision for income taxes	519,000	264,000	941,000	264,000
Depreciation and amortization	166,000	277,000	333,000	550,000
Net income from continuing operations	$ 953,000	$ 551,000	$ 1,536,000	$ 719,000

EBITDA is used by management for comparisons to other companies within our industry as an alternative to generally accepted accounting principles measures and is used by investors and analysts in evaluating performance. EBITDA from continuing operations is computed by adding back net interest, taxes, depreciation and amortization to net income from continuing operations as reported. EBITDA should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States. EBITDA, as defined above, may not be comparable to similarly titled measures reported by other companies.

At June 30, 2004, the Company had an overdraft agreement in place with Fortis Bank, secured by the Company's trade accounts receivable, wherein the Company could borrow up to 2,000,000 Euros. Based on receivable balances as of June 30, 2004, the full amount of the overdraft agreement was available to the Company. There were no borrowings outstanding under the overdraft agreement at June 30, 2004.

As of June 30, 2004, the Company had working capital of $7,133,000, an increase of $1,915,000, or 37%, compared with $5,218,000 at December 31, 2003.

The Company believes that its current cash balances, credit available under its existing overdraft agreement, the anticipated cash generated from operations, including the realization of deferred revenue recorded as a current liability, and deposits that will be received in future quarters on orders of the Digipass product will be sufficient to meet its anticipated cash needs over the next twelve months.

There is substantial risk, however, that the Company may not be able to achieve its revenue and cash goals. If the Company does not achieve those goals, it may need to significantly reduce its workforce, sell certain of its assets, enter into strategic relationships or business combinations, discontinue some or all of its operations, or take other similar restructuring actions. While the Company expects that these actions would result in a reduction of recurring costs, they also may result in a reduction of recurring revenues and cash receipts. It is also likely that the Company would incur substantial non-recurring costs to implement one or more of these restructuring actions.

For additional information related to risks, refer to Certain Factors noted in Management's Discussion and Analysis included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk during the six-month period ended June 30, 2004. For additional information, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

ITEM 4. CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of the end of the period covered by this Report, that the Company's disclosure controls and procedures (as defined pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods required by the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chairman and Chief Executive Officer and the Chief Financial Officer of the Company, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in internal controls over financial reporting identified in connection with the foregoing evaluation that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS.

On June 22, 2004 the Shareholders of the Company entitled to vote thereon elected the following individuals as Directors of the Company (total shares eligible to vote were 33,642,071; total shares voted were 26,485,815):

Name	For	Against	Abstain
T. Kendall Hunt	26,028,973	-	456,842
Michael Cullinane	26,002,042	-	483,773
Forrest D. Laidley	25,963,054	-	522,761
Michael A. Mulshine	25,987,594	-	498,221
John R. Walter	26,003,512	-	482,303

There were 1,221,740 broker non-votes for the matter.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K. .

(a) EXHIBITS:

Exhibit 31.1 Statement Under Oath of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, August 12, 2004.

Exhibit 31.2 Statement Under Oath of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 12, 2004.

Exhibit 32.1 Statement Under Oath of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 12, 2004.

Exhibit 32.2 Statement Under Oath of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 12, 2004.

(b) REPORTS ON FORM 8-K:

(i) On July 23, 2004 we furnished a Current Report on Form 8-K reporting financial results for the second quarter ended June 30, 2004.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on August 12, 2004.

VASCO Data Security International, Inc.

/s/ T. Kendall Hunt

T. Kendall Hunt
Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)

/s/ Clifford K. Bown

Clifford K. Bown
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, T. Kendall Hunt, the principal executive officer of VASCO Data Security International, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of VASCO Data Security International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 12, 2004 /s/ T. Kendall Hunt

T. Kendall Hunt
Chief Executive Officer and Chairman of the Board of Directors
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Clifford K. Bown, the principal financial officer of VASCO Data Security International, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of VASCO Data Security International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 12, 2004

/s/ Clifford K. Bown

Clifford K. Bown
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of VASCO Data Security International, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2004 (the "Report"), I, T. Kendall Hunt, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ T. Kendall Hunt
- ---------------------------------
T. Kendall Hunt
Chief Executive Officer and Chairman of the Board of Directors
August 12, 2004

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of VASCO Data Security International, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2004 (the "Report"), I, Clifford K. Bown, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Clifford K. Bown
- -------------------------
Clifford K. Bown
Chief Financial Officer
August 12, 2004