

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

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 No

As of May 3, 2001, 28,257,459 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 MONTHS ENDED MARCH 31, 2001

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 This report contains the following trademarks of the Company, some of which are registered: Vasco, AssessKey, VACman Server and VACMan/Crypak, AuthentiCard and Digipass.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2000 ----	March 31, 2001 ---- (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,832,645	\$ 14,398,461
Accounts receivable, net of allowance for doubtful accounts of \$286,377 and \$311,084 in 2000 and 2001, respectively	6,486,397	3,233,053
Inventories, net	1,111,751	2,049,231
Prepaid expenses	463,094	325,500
Deferred income taxes	83,000	83,000
Other current assets	532,081	342,515
	-----	-----
Total current assets	22,508,968	20,431,760
Property and equipment		
Furniture and fixtures	1,350,616	1,152,292
Office equipment	4,043,015	4,471,116
	-----	-----
Accumulated depreciation	5,393,631 (1,596,102)	5,623,408 (1,907,260)
	-----	-----
Goodwill and other intangibles, net of accumulated amortization of \$3,697,456 in 2000 and \$3,801,851 in 2001	3,797,529	3,716,148
Prepaid royalties and other assets	1,438,537	3,135,613
	-----	-----
Prepaid royalties and other assets	1,568,285	1,396,492
	-----	-----
TOTAL ASSETS	\$ 29,313,319 =====	\$ 28,680,013 =====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 362,250	\$ 241,682
Accounts payable	2,790,698	2,388,424
Deferred revenue	1,950,322	1,167,851
Accrued expenses	3,098,284	3,008,411
	-----	-----
Total current liabilities	8,201,554	6,806,368
Long-term debt	3,763,858	3,739,427
Minority interest	--	11,023
STOCKHOLDERS' EQUITY:		
Series C Convertible Preferred stock, \$.01 par value - 500,000 shares authorized; 150,000 shares issued and outstanding in 2000 and 2001	6,780,098	7,071,094
Common stock, \$.001 par value - 75,000,000 shares authorized; 27,866,583 shares issued and outstanding in 2000 28,256,129 shares issued and outstanding in 2001	27,867	28,257
Additional paid-in capital	36,871,200	38,647,174
Accumulated deficit	(26,035,112)	(27,073,686)
Accumulated other comprehensive income- cumulative translation adjustment	(296,146)	(549,644)
	-----	-----
Total stockholders' equity	17,347,907	18,123,195
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 29,313,319 =====	\$ 28,680,013 =====

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2000 ----	2001 ----
Net revenues	\$ 5,551,927	\$ 7,872,725
Cost of goods sold	1,862,954 -----	2,792,725 -----
Gross profit	3,688,973 -----	5,080,000 -----
Operating costs:		
Sales and marketing (exclusive of \$46,005 reported below as non-cash compensation)	2,162,637	3,340,273
Research and development	941,605	1,380,621
General and administrative (exclusive of \$105,326 reported below as non-cash compensation)	1,160,664	1,330,718
Non-cash compensation	--	151,331
Total operating costs	4,264,906 -----	6,202,943 -----
Operating loss	(575,933)	(1,122,943)
Interest income (expense), net	(162,911)	129,973
Other income (expense), net	(55,470) -----	128,173 -----
Loss before income taxes	(794,314)	(864,798)
Provision for income taxes	19,541 -----	173,777 -----
Net loss	\$ 813,855)	\$ (1,038,574)
Preferred stock accretion	-- -----	(290,996) -----
Net loss available to common stockholders	(813,855)	(1,329,570)
Basic and diluted net loss per share	\$ (0.03) =====	\$ (0.05) =====
Weighted average shares outstanding	26,786,287 =====	27,893,127 =====

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2000	2001
	----	----
Net loss	\$ (813,855)	\$(1,038,574)
Other comprehensive loss - cumulative translation adjustment	(105,738)	(253,498)
	-----	-----
Comprehensive loss	\$ (919,593)	\$(1,292,072)
	=====	=====

See accompanying notes to consolidated financial statements.

VASCO Data Security International, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended March 31,	
	2000	2001
	----	----
Cash flows from operating activities:		
Net loss	\$ (813,855)	\$ (1,038,574)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	255,563	606,314
Interest paid in shares of common stock	78,750	--
Gain on sale of fixed assets	--	(13,081)
Non-cash compensation expense	--	151,331
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable, net	(538,311)	3,358,711
Inventories, net	8,558	(922,567)
Prepaid expenses	(127,980)	137,594
Other current assets	96,230	241,048
Accounts payable	(1,145,231)	(498,391)
Deferred revenue	205,311	(334,654)
Customer deposits	--	(554,439)
Accrued expenses	1,911,859	(182,302)
	-----	-----
Net cash (used in) provided by operations	(69,106)	950,990
	-----	-----
Cash flows from investing activities:		
Acquisition of Identikey, Ltd.	--	141,156
Additions to property and equipment, net	(183,511)	(140,495)
	-----	-----
Net cash (used in) provided by investing activities	(183,511)	661
	-----	-----
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	965,109	12,662
Proceeds from issuance of debt	427,975	--
Repayment of debt	(176,035)	(144,999)
	-----	-----
Net cash provided by (used in) financing activities	1,217,049	(132,337)
	-----	-----
Effect of exchange rate changes on cash	(105,738)	(253,498)
	-----	-----
Net increase (decrease) in cash	858,694	565,816
Cash and cash equivalents, beginning of period	2,576,494	13,832,645
	-----	-----
Cash and cash equivalents, end of period	\$ 3,435,188	\$ 14,398,461
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$ 43,999	\$ 48,509
Income taxes paid	\$ 2,632	\$ --
Common stock issued in connection with acquisition	\$ --	\$ 1,903,366

See accompanying notes to consolidated financial statements.

VASCO DATA SECURITY INTERNATIONAL, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - 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, 2000.

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.

NOTE 2- BUSINESS COMBINATIONS

On March 29, 2001, the Company acquired Identikey Ltd., ("Identikey"), a privately held international security software company headquartered in Brisbane, Australia, with operations in the United States, Europe and Australia. Under the terms of the purchase agreement, more than 90 percent of the outstanding capital stock of Identikey was exchanged for 366,913 shares of Company common stock, with potential additional earn-out payments made in the form of additional shares which are based on defined performance incentives as specified in the purchase agreement.

The acquisition of Identikey Ltd. was accounted for under the purchase method of accounting, and accordingly, the acquired assets have been recorded at their estimated fair values at the date of acquisition. Goodwill related to this transaction is estimated to be \$1,997,000 and is being amortized over a period of 7 years.

The following summarized unaudited pro forma financial information for the three months ended March 31, 2001 assumes the Identikey Ltd. acquisition occurred as of January 1, 2000. No data is shown for the first three months of 2000 because operations in Identikey Ltd. commenced on May 17, 2000.

	Three Months Ended March 31, ----- 2000 -----
Net Revenues	\$ 7,863,303
Net loss	(2,089,389)
Basic and diluted net loss per share	\$ (0.08)

These amounts are based upon certain assumptions and estimates, and do not necessarily represent results that would have occurred if the acquisition had taken place on the basis assumed above, nor are they indicative of the results of future combined operations.

NOTE 3- DERIVATIVE INSTRUMENTS AND CERTAIN HEDGING ACTIVITIES

During 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities"), which is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes a comprehensive standard for the recognition and measurement of derivative instruments and hedging activities. The adoption of this new standard did not have a material effect on our consolidated financial position, liquidity, or results of operations.

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

VASCO designs, develops, markets and supports open standards-based hardware and software security systems which manage and secure access to data.

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 THREE MONTHS ENDED MARCH 31, 2000 AND MARCH 31, 2001

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements for the three months ended March 31, 2000 and 2001.

Revenues

Revenues for the three months ended March 31, 2001 were \$7,873,000, an increase of \$2,321,000, or 42%, as compared to the three months ended March 31, 2000. Revenues from the Digipass product line represented about 71% of our sales while revenues from the Snareworks product line represented about 29% of our sales. This compares with 62% of revenues from Digipass products versus 38% from Snareworks products in the prior year first quarter. The change in composition of sales is due to a dramatic increase in Digipass sales in the current year. Digipass products represented \$5,626,000 of total revenues in the first quarter of 2001 versus \$3,435,000 in the first quarter of 2000. Geographically, 35% of revenues in the first quarter of 2001 were from the U.S. and 65% from outside the U.S., primarily Europe. In the first quarter of 2000, 42% of revenues were from the U.S. and 58% from outside the U.S., primarily Europe.

Cost of Goods Sold

Cost of goods sold for the three months ended March 31, 2001 was \$2,793,000, an increase of \$930,000, or 49.9%, as compared to the three months ended March 31, 2000. The increase was due to the increase in sales as previously described.

Gross Profit

The Company's gross profit for the three months ended March 31, 2001 was \$5,080,000, an increase of \$1,391,000, or 38%, as compared to the three months ended March 31, 2000. The increase in gross profit is due to higher revenues for the period. This represents a gross margin of 65%, as compared to 66% for the same period of 2000.

Sales and Marketing Expenses

Sales and marketing expenses for the three months ended March 31, 2001 were \$3,340,000, an increase of \$1,178,000, or 54%, over the three months ended March 31, 2000. This increase is primarily due to headcount. At the end of this first quarter, sales and marketing headcount was 59, compared to 32 for the same period last year. Additionally, increased travel costs and development of a company-wide marketing program attributed to this variance.

Research and Development

Research and development costs for the three months ended March 31, 2001 were \$1,381,000, an increase of \$439,000, or 47%, as compared to the three months ended March 31, 2000. This increase is due to growth in headcount from 24 to 38. This manpower increase is needed for the development of Snareworks products, as well as, ongoing product development work in the Digipass product line.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2001 were \$1,331,000, an increase of \$170,000, or 15%, compared to the three months ended March 31, 2000. Headcount in the U.S. grew from 7 to 10 to support administrative activities resulting from increased sales growth. Additional rental space, increased rental charges and utilities expenses also contributed to this variance.

Interest Income, Net

Net interest income for the three months ended March 31, 2001 was \$130,000, compared to net interest expense of \$163,000 for the same period in 2000. This change was due to a reduction in the debt base that resulted from a conversion of a \$5,000,000 note to equity after the first quarter of 2000. Additionally, interest on invested cash balances increased from \$0 in the first quarter of 2000 to \$178,000 in the first quarter of 2001.

Income Taxes

Income tax expense of \$174,000 for the three months ended March 31, 2001 and \$20,000 for the three months ended March 31, 2000 relates to foreign operations. The increase in income tax expense is a result of increased profitability in European operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were \$14,398,000 at March 31, 2001, which is an increase of approximately \$566,000 from \$13,833,000 at December 31, 2000. As of March 31, 2001, the Company had working capital of \$13,625,000 compared with \$14,307,000 at December 31, 2000.

At March 31, 2001, the Company had lines of credit from European banks totaling approximately \$3,400,000 of which all were used.

Capital expenditures during the first three months of 2001 were \$140,000 and consisted primarily of computer equipment and office furniture and fixtures.

In March 29, 2001, 366,913 shares of the Company's common stock were issued to acquire 90.2247% of Identikay Ltd.

The Company recorded an operating loss before non-cash compensation for stock options to certain officers of the Company, of \$972,000 and a net loss before these options of \$887,000. However, the Company had a loss before non-cash compensation, interest, taxes, depreciation and amortization of \$365,000. The Company believes that its current cash balances, anticipated cash generated from operations, will be sufficient to meet its anticipated cash needs through the next twelve months.

The Company intends to seek acquisitions of businesses, products and technologies that are complementary or additive to those of the Company. While from time to time the Company engages in discussions with respect to potential acquisitions, there can be no assurance that any such acquisitions will be made.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk during the three month period ended March 31, 2001. For additional information, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS, NONE.

ITEM 2. CHANGES IN SECURITIES. NONE.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES. NONE.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS. NONE.

ITEM 5. OTHER INFORMATION. NONE.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are filed with this Form 10-Q or incorporated by reference as set forth below: None.

(b) Reports on Form 8-K

Form 8-K has been filed by the Registrant during the quarter ended March 31, 2001. The report was filed on April 12, 2001.

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 May 9, 2001.

VASCO Data Security International, Inc.

/s/ Mario R. Houthoof

Mario R. Houthoof
Chief Executive Officer and President

/s/ Dennis D. Wilson

Dennis D. Wilson
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)