

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): April 21, 2005

VASCO DATA SECURITY INTERNATIONAL, INC.

(Exact name of registrant as specified in charter)

Delaware ----- (State or other juris- diction of incorporation)	000-24389 ----- (Commission File Number)	36-4169320 ----- (IRS Employer Identification No.)
1901 South Meyers Road, Suite 210 Oakbrook Terrace, Illinois ----- (Address of principal executive offices)		60181 ----- (Zip Code)

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

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On April 21, 2005, VASCO Data Security International, Inc. (VASCO) issued a press release providing a financial update for the first quarter ended March 31, 2005. The full text of the press release is attached as Exhibit 99.1 to this Current Report on Form 8-K.

On April 21, 2005, VASCO held a conference call with investors to discuss VASCO's first quarter earnings and results of operations for the first three months of 2005. A script read by officers of VASCO during the conference call is furnished as Exhibit 99.2 to this Current Report on Form 8-K.

The press release and the comments by VASCO during the conference call contained a non-GAAP financial measure within the meaning of the Securities and Exchange Commission's Regulation G. For purposes of Regulation G, a non-GAAP financial measure is a numerical measure of a registrant's historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of income, balance sheet or statement of cash flows (or equivalent statements) of the issuer; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

The press release contained a reference to EBITDA from continuing operations and provided a reconciliation of EBITDA from continuing operations to net income (loss) from continuing operations on the face of the Consolidated Statement of Operations. EBITDA is used by VASCO for comparisons to other companies within its industry as an alternative to GAAP measures and is used by investors and analysts in evaluating performance. EBITDA, which is earnings before interest, taxes, depreciation and amortization, is computed by adding back net interest expense, income tax expense, depreciation expense, and amortization expense to net income 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.

The information in this report shall not be treated as "filed" for purposes of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

ITEM 7.01 REGULATION FD DISCLOSURE

Copies of analyst presentation materials are being furnished as Exhibit 99.3 to this Current Report on Form 8-K. This information shall not be treated as "filed" for purposes of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

Exhibit Number -----	Description -----
99.1	Press release, dated April 21, 2005, providing financial update of VASCO Data Security International, Inc. for the first quarter ended March 31, 2005.
99.2	Text of script for April 21, 2005 Earnings Conference Call.
99.3	Investor analysts' presentations dated April 21, 2005

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: April 21, 2005

VASCO Data Security International, Inc.

(Registrant)

By: /s/Clifford K. Bown

Clifford K. Bown
Chief Financial Officer

EXHIBIT INDEX

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VASCO Reports Results for First Quarter of 2005

REVENUES INCREASE 90% OVER Q1 2004 AND 23% OVER PREVIOUS QUARTER; OPERATING INCOME INCREASES 114% OVER Q1 2004; BOTH REVENUE AND OPERATING INCOME ARE BEST IN THE COMPANY'S HISTORY. FINANCIAL RESULTS FOR FIRST QUARTER OF 2005 TO BE DISCUSSED ON CONFERENCE CALL TODAY AT 10:00 A.M. E.S.T.

OAKBROOK TERRACE, Ill., and BRUSSELS, Belgium, April 21, 2005 - VASCO Data Security International, Inc. (Nasdaq: VDSI) (www.vasco.com), today reported its financial results for the first quarter ended March 31, 2005.

Revenues for the first quarter of 2005 increased 90% to \$11,444,000 from \$6,021,000 in the first quarter of 2004 and 23% from \$9,298,000 in the fourth quarter of 2004. Revenues for the quarter included \$876,000 from AOS-Hagenuk B.V. ("AOS"), which was acquired on February 4, 2005.

Net income available to common shareholders for the first quarter of 2005 was \$1,393,000, or \$0.04 per diluted share and compares to income of \$502,000, or \$0.02 per diluted share in 2004.

Financial Highlights:

- o Results reflect the ninth consecutive quarter of operating profit and positive earnings before interest, taxes, depreciation and amortization ("EBITDA").
- o Results reflect the fourth consecutive quarter-over-quarter increase in revenue.
- o Gross profit was \$7,221,000 or 63% of revenue for the first quarter of 2005 and compares to gross profit of \$4,446,000 or 74% of revenue in the first quarter of 2004.
- o Operating expenses for the first quarter of 2005 were \$5,297,000, an increase of \$1,750,000 or 49% from \$3,547,000 reported for the first quarter 2004. Operating expenses from AOS were \$459,000, including \$89,000 of expense related to amortization of intangible assets resulting from the acquisition.
- o Operating income for the first quarter was \$1,924,000, an increase of \$1,025,000 or 114% from \$899,000 reported for the first quarter of 2004. Operating income as a percentage of revenue for the first quarter of 2005 was 16.8% compared to 14.9% for the first quarter of 2004.
- o Net income for the first quarter of 2005 was \$1,407,000, an increase of \$824,000 or 142% from \$583,000 reported for the first quarter of 2004.
- o Earnings before interest, taxes, depreciation and amortization was \$2,385,000 for the first quarter of 2005, an increase of 109% from \$1,143,000 reported for the first quarter of 2004.
- o Cash balances at March 31, 2005 totaled \$6,555,000 compared to \$8,220,000 at December 31, 2004.

Operational and Other Highlights:

- o Approximately 1.5 million tokens shipped in the first quarter 2005, an increase of more than 200% from the first quarter of 2004 and an increase of more than 40% from the fourth quarter of 2004
- o A total of 184 new accounts sold in the quarter, including 18 banks and 166 Corporate Network Access customers.
- o BNL (Italy) and VW Bank (Germany) to use Digipass G03 for retail banking
- o VASCO strengthens indirect sales network by signing leading distributors LAN1 (Australia) and Renaissance (New Zealand)
- o VASCO shows extended secure smart card reader offering at CeBIT 2005
- o Digipass G03 selected by VeriSign for Unified Authentication Solution
- o VASCO acquires AOS-Hagenuk B.V.
- o VASCO & Datadesign jointly tackle German e-banking market

"We continue to build on the strength of our core strategies," said Ken Hunt, VASCO's CEO, and Chairman. "As a result of being the high-volume, high-quality, low-cost producer we have not only increased our unit volume through an increase in our customer base, we have attracted significant new distribution partners that bodes well for future growth. We have also demonstrated in this quarter that we are looking to grow by making acquisitions that can expand our authentication product offerings and product development capabilities."

"The results of the first quarter in 2005 reflect strong growth of the business in all of our markets compared to the first quarter of 2004," said Jan Valcke, VASCO's President and COO. "This growth is attributable to the strength of our product line, the continued growth in our distribution channels, the growing awareness of the benefits of strong authentication and the increased investment we made in our sales and marketing activities. We are seeing a growing awareness of the VASCO name worldwide and demand for our product, especially in the retail banking segment, continues to increase. As we start the second quarter, we have a backlog of firm orders to be shipped in the second quarter of \$10.8 million, which is 120% higher than the \$4.9 million backlog we had entering the second quarter of 2004 and 50% higher than the \$7.2 million in actual sales reported for Q2 2004."

Cliff Bown, Executive Vice President and CFO added, "Our balance sheet continues to be strong. As a result of our strong operating results, we were able to fund the acquisition of AOS without adding any debt. Our working capital was \$7.8 million at the end of the first quarter, down from \$10.1 million at December 31, 2004, but up from \$6.0 million at the end of the first quarter in 2004. Days Sales Outstanding (DSO) in net accounts receivable decreased slightly to 57 days at March 31, 2005 from 59 days at December 31, 2004."

CONFERENCE CALL DETAILS

In conjunction with this announcement, VASCO Data Security International, Inc. will host a conference call today, April 21, 2005, at 10:00 a.m. EST - 16:00h CET. During the Conference Call, Mr. Ken Hunt, CEO, Mr. Jan Valcke, President and COO, and Mr. Cliff Bown, CFO, will discuss VASCO's Results for the First Quarter of 2005.

To participate in this Conference Call, please dial one of the following numbers:

USA/Canada: +1 800-938-0653

International: +1 973-935-2408

And mention access code: VASCO to be connected to the Conference Call.

The Conference Call is also available in listen-only mode on www.vasco.com. Please log on 15 minutes before the start of the Conference Call in order to download and install any necessary software. The recorded version of the Conference Call will be available on the VASCO website 24 hours a day.

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
Net revenues	\$ 11,444	\$ 6,021
Cost of goods sold	4,223	1,575
Gross profit	7,221	4,446
Operating costs:		
Sales and marketing	3,318	2,093
Research and development	893	708
General and administrative	961	746
Amortization of purchased intangible assets	89	--
Non-cash compensation	36	--
Total operating costs	5,297	3,547
Operating income	1,924	899
Interest income	25	29
Other income	216	77
Income before income taxes	2,165	1,005
Provision for income taxes	758	422
Net income	\$ 1,407	\$ 583
Preferred stock dividends	(14)	(81)
Net income available to common shareholders	\$ 1,393	\$ 502
Basic net income per common share	\$ 0.04	\$ 0.02
Diluted net income per common share	\$ 0.04	\$ 0.02
Weighted average common shares outstanding:		
Basic	34,423	31,168
Diluted	36,326	31,899

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS)

	March 31, 2005	December 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash	\$ 6,555	\$ 8,220
Accounts receivable, net of allowance for doubtful accounts	7,197	5,965
Inventories, net	1,281	1,346
Prepaid expenses	678	791
Deferred income taxes	23	23
Foreign sales tax receivable	328	313
Other current assets	445	464
	-----	-----
Total current assets	16,507	17,122
Property and equipment, net	883	838
Intangible assets, net	1,325	1,134
Goodwill	6,642	250
Note receivable and investment in SSI	668	760
Other assets	135	146
	-----	-----
TOTAL ASSETS	\$ 26,160	\$ 20,250
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,967	\$ 3,065
Deferred revenue	1,488	620
Accrued wages and payroll taxes	1,816	1,602
Income taxes payable	1,101	435
Other accrued expenses	1,296	1,345
	-----	-----
Total current liabilities	8,668	7,067
	-----	-----
Long-term deferred warranty	200	152
STOCKHOLDERS' EQUITY:		
Series D Convertible Preferred Stock	--	1,504
Common stock	35	34
Additional paid-in capital	56,598	51,825
Accumulated deficit	(39,279)	(40,672)
Accumulated other comprehensive loss - cumulative translation adjustment	(62)	340
	-----	-----
Total stockholders' equity	17,292	13,031
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 26,160	\$ 20,250
	=====	=====

Reconciliation of EBITDA to net income (in thousands):

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
	----- (Unaudited)	
EBITDA	\$ 2,385	\$ 1,143
Interest income	(25)	(29)
Provision for income taxes	758	422
Depreciation and amortization	245	167

Net income	\$ 1,407	\$ 583
	=====	=====

ABOUT VASCO: VASCO designs, develops, markets and supports patented user authentication products for the financial world, remote access, e-business and e-commerce. VASCO's user authentication software is delivered via its Digipass hardware and software security products. With approximately 15 million Digipass products sold and delivered, VASCO has established itself as a world-leader for strong User Authentication with 370 international financial institutions and approximately 1,700 blue-chip corporations and governments located in more than 80 countries.

Forward Looking Statements

Statements made in this news release that relate to future plans, events or performances are forward-looking statements. Any statement containing words such as "believes," "anticipates," "plans," "expects," and similar words, is forward-looking, and these statements involve risks and uncertainties and are based on current expectations. Consequently, actual results could differ materially from the expectations expressed in these forward-looking statements.

Reference is made to the Company's public filings with the US Securities and Exchange Commission for further information regarding the Company and its operations.

For more information contact:

Jochem Binst, +32 2 456 9810, jbinst@vasco.com

Earnings Conference Call April 21, 2005

Ken Hunt:

Good morning everyone. For those listening in from Europe, good afternoon, and from Asia, good evening. We have continuing good news to discuss with you today!

My name is Ken Hunt, and I am the Chairman, Founder & CEO of VASCO Data Security International, Inc. For the first time since I returned as CEO in November of 2002, Jan Valcke, Cliff Bown and I are together in the same room for our Earnings Conference Call. As most of you know, Jan Valcke is our President & Chief Operating Officer, and Cliff Bown is our EVP and Chief Financial Officer. We're calling you from New York City in a hotel near Times Square. After this meeting, we are sponsoring our very first Analysts Day and Investor Conference with a lunch and presentations by our management team.

Before we begin the conference call, I need to brief all of you on "Forward Looking Statements."

FORWARD LOOKING STATEMENTS

STATEMENTS MADE IN THIS CONFERENCE CALL THAT RELATE TO FUTURE PLANS, EVENTS OR PERFORMANCES ARE FORWARD-LOOKING STATEMENTS. ANY STATEMENT CONTAINING WORDS SUCH AS "BELIEVES," "ANTICIPATES," "PLANS," "EXPECTS," AND SIMILAR WORDS, IS FORWARD-LOOKING, AND THESE STATEMENTS INVOLVE RISKS AND UNCERTAINTIES AND ARE BASED ON CURRENT EXPECTATIONS. CONSEQUENTLY, ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE EXPECTATIONS EXPRESSED IN THESE FORWARD-LOOKING STATEMENTS. I DIRECT YOUR ATTENTION TO THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION FOR A DISCUSSION OF SUCH RISKS AND UNCERTAINTIES IN THIS REGARD.

GENERAL COMMENTS - KEN HUNT

Today, we are going to review the results for 1st quarter, 2005. We will also comment on trends in our industry and our role in the growth of secure transactions made possible by VASCO's products and solutions.

The 1st Quarter continued our historical pattern of strong results from our existing customer base combined with a satisfying number of new accounts produced through our growing reseller channel. Revenues for the 1st Quarter were \$11.4 million, up 23% sequentially over 4th Quarter 2004, and a 90% increase over the comparable 1st Quarter of 2004.

New accounts continued to grow during the 1st Quarter. During the quarter we sold an additional 184 new accounts, including 18 new banks, and 166 new Corporate Network Access customers. Almost all of these Corporate Network Access new accounts and many of the new bank customers were generated through our distributor and reseller partners. Comparatively, for all of 2004, we produced 543 new accounts, including 70 banks and 473 corporate customers.

We now have over 370 banks as customers, plus over 1,700 network access accounts including corporations, federal, state and local governments located in over 80 countries around the world.

The distributor/reseller channel is a continued focus for our business development staff. Program-to-date we have signed 42 distributors who, in turn, service a network of more than 1500 resellers.

VASCO'S SUSTAINABLE, REPEATABLE SALES MODEL:

As many of you have heard me chant, we have a sustainable, repeatable sales model. Our bank customers launch multi-year projects that are supported by our strong authentication products. These projects are directed towards large corporate and consumer customers, and are rolled out over 2-4 years. Many of our bank customers secure their orders with firm 12-month PO's giving us great visibility for our future revenue flow. The 139 new bank customers we signed in 2003 & 2004 are now in various stages of their 2-4 year roll-out's, adding to the sustainable, repeatable revenue flow that we see from other long-standing banking customers, some going back to 1987.

HIGH VOLUME, HIGH QUALITY, LOW COST PRODUCER:

Many of you have also heard me chant that our strategy is to be the High-Volume, High-Quality, Low-Cost Producer. That strategy serves us well in the very large deployments on which we focus.

Our strong business continues, with approximately 1.5 million Digipass units sold and shipped during 1st Quarter 2005. This performance follows our strong 4th Quarter 2004 in which we sold and shipped over 1 million Digipasses. Although RSA has ceased reporting the number of units sold and shipped during the quarter, I suspect that they are now eating our dust. In total, approximately 15 million Digipass units have been sold and shipped through the end of 1st Quarter 2005. This number does not include the 2.5 million units sold and shipped by our newest acquisition, AOS Hagenuk, prior to the acquisition. We expect that our unit sales will continue to accelerate as we develop new markets and identify new audiences for the Company's products.

As of January 1st of this year, a new standard for smart cards was officially launched in Europe. Asia and South America will follow starting January 1st, 2006. This new standard is known as EMV, which stands for Europay, MasterCard, Visa. VASCO has been investing in this new smartcard standard for almost three years. VASCO's partner, MasterCard expects this new standard to dramatically decrease "card not present" Internet fraud. VASCO, with its unconnected smartcard reader is planning to be a major supplier to the hundreds of millions of potential users, supplied through its traditional banking partners. The acquisition of AOS-Hagenuk is consistent with our on-going investment in this opportunity.

Although not yet a significant number, we do have orders for EMV card readers, and do include the revenue from these orders in the guidance that I will discuss towards the end of our comments today. I recommend that all of you do a search on the Internet for EMV. I did so last weekend, and found many informative articles on the subject. Many countries are already reporting that their banks have begun distributing the new EMV cards to their customers. Most of the stores, restaurants, and other establishments where in-person or card-present transactions take place have upgraded their POS terminals to accept EMV cards. What follows next is that many of those same banks will begin distributing EMV card readers to their consumer customers in order to facilitate safe and secure transactions over the Internet. Our goal is to make those VASCO smartcard readers.

INTRODUCE JAN VALCKE:

At this time I would like to introduce Jan Valcke, VASCO's President and Chief Operating Officer. Jan, congratulations to you and your team on another great Quarter.

COMMENTS BY JAN

Thank you, Ken.

It is a pleasure to talk about a successful quarter as Q1 2005.

Growth is important, profitable growth is crucial. Therefore, VASCO watches very closely that sales and margins are growing faster than the costs.

VASCO's business plan allows us to choose our markets and to see which markets need more investment in order to become profitable for us. VASCO forecasted a revenue growth for 2005 of 55-65% compared with 2004. In addition, VASCO's forecast included gross margins of between 60-65% of revenue and an operating margin of 13-18% of revenue. We know very well what our revenue, margins, operating income, and our costs are. This allows us to grow in a successful way. Every quarter, we evaluate the sales results, the needs and the costs.

Interesting vertical markets are networks security, remote access, corporate banking and retail banking. Because the market is really huge, it is important to define priorities and to invest in a smart way. If in a certain country, retail banking is only going to happen in a couple of years, but there are large short-term opportunities in the corporate banking sector, we'll go for corporate banking first. Once we have entered a bank, the probability that this bank will start to use Digipass for more applications and more customers, is extremely high.

We will invest in countries with a high growth potential. The U.S.A. is for VASCO a country with a very high growth potential, where we invest considerably.

To allow this approach, we need to know the situation of a certain geographical market very well. That's why for every country, we make an individual growth plan.

If a company wants to grow in a successful way, all the different elements of that company must be growing. Those elements are the People, the Markets, the Products and the Money of a company. This is the case with VASCO.

With regards to the PEOPLE, the most important asset of a company, VASCO keeps growing. At the end of March 2005, VASCO had over 111 employees worldwide.

Again, we investigate where we need supplementary forces to maintain and speed up our growth, both with regards to geography and with regards to market. We want people with the right profiles and the right experience for the right regions. The still present crisis in the IT sector is an advantage to us. We are able to find high profiles in interesting regions for a reasonable price.

Sometimes, specific profiles are hard to find, for example in R&D. VASCO wins every third working day a new bank as customer. It is clear that we had to find new engineers to maintain customer satisfaction.

This is one of the main reasons why VASCO has acquired AOS-Hagenuk during Q1. The integration of AOS-Hagenuk in VASCO is almost completed. We expect to finalize the integration by the end of this month.

VASCO's main MARKET is the financial sector. We keep strengthening our position in that market. Something that we often see, is that when a first bank in a country starts to roll out Digipass for retail banking, other banks will follow. In this perspective, it is important to notice that we announced new banks in two major European countries, Germany and Italy. We believe that a domino effect in these countries is a possibility.

In the banking market, we really start to feel the effect of our Banking Summits, events during which VASCO's customers talk to prospects about the way they use Digipass.

With regards to VASCO's second market, the C.N.A. market, we go on building our indirect sales network. At the end of Q1, we had 42 distributors worldwide. We keep on looking for interesting distributors to work with. These distributors typically sell products of one of VASCO's solution partners and market Digipass as an easy to use and cost effective authentication add-on.

VASCO keeps strengthening its position in the solution partner market. A recent example is the VeriSign OEM. We believe that this partnership will have its first effect on our results at the end of Q2.

Spreading the VASCO gospel all over the world is an important task. In 2004, VASCO was present or organized over 90 events. During 2005, we will do even more events. VASCO's PR Team is constantly in contact with journalists and business analysts worldwide, thus insuring worldwide coverage of VASCO, its products and its customers.

The PRODUCTS are the third important element of a company. VASCO is always making its Digipass product line more mature and adds constantly new functionalities and features.

Q1 2005 brought us the first customers using VACMAN Middleware 2.3, with Virtual Digipass functionality. Virtual Digipass is based on the server, and sends one-time passwords via text message to an end-user's mobile phone. Virtual Digipass can be used as a back-up system for end-users who forget/lose their Digipass, or as primary authentication system. VASCO will keep investing strongly in R&D, and in and around its Digipass Factory. Already, a lot of functionalities and options have been added to Digipass. For example, the new AES algorithm has been added to the majority of our Digipass models, allowing our customers to use this algorithm when they think the time is right. Another example is the recent addition of host authentication to the Digipass factory, a powerful weapon against phishing and man-in-the-middle attacks.

More and more actions will be taken to develop tools that enhance the security of Digipass deployment. A first important step was the development of a system allowing customers to securely program Digipass in a different physical place than where the security officer is.

VASCO will invest in the further development of its Middleware products. Middleware software allows VASCO to sell more Digipass. It is a product that can be sold directly via VASCO's sales channels. Once the Middleware is installed, a customer can start with 20 Digipass users and later add a multitude of users to its system. For Middleware, as for other products and technologies that VASCO sees as being interesting to help its growth, a "make or buy" strategy will be followed.

I'll leave it up to Cliff to explain our status with regards to the fourth element of a company, the money. But VASCO is profitable, and is making money.

Thank you very much and I hope to speak to you soon.

KEN HUNT INTRODUCE CLIFF BOWN:

At this time I would like to turn the call over to Cliff Bown, our Chief Financial Officer.

CLIFF:

Thank you Ken.

Revenues for the first quarter of 2005 were a Company best at \$11.4 million and, as Ken mentioned previously, reflected an increase over the first quarter of 2004 of 90%. Revenues for the quarter included \$0.9 million, net of purchase accounting adjustments, from AOS-Hagenuk, which we acquired in February 2005. Revenues for AOS were \$1.0 million before purchase accounting adjustments. Excluding the revenue from AOS, our revenue grew 76% over the first quarter 2004.

As noted in previous call, the growth rate of the business has been expanding and the current quarter has continued that trend. Not only have our quarter-over-quarter comparisons to the prior year being growing stronger, the first quarter of 2005 was 23% higher than the fourth quarter of 2004 if you include the AOS revenue and 14% higher than Q4 of 2004 if you exclude the AOS revenue.

Compared to 2004, the increase in revenue for the first quarter reflected significant increases from both the Banking and the Corporate Network Access markets. Revenues in the first quarter of 2005 from the Banking segment increased 115% over the first quarter of 2004 and revenues from the Corporate Network Access market segment increased 14%.

The distribution of our revenue in the first quarter of 2005 between our two primary markets, Banking and Corporate Network Access, was approximately 85% from the Banking segment and 15% from the Corporate Network Access segment. In the first quarter of 2004, approximately 77% came from the Banking and 23% came from Corporate Network Access.

The geographic distribution of our revenue in the first quarter of 2005 was approximately 88% from Europe, 6% from the U.S. and the remaining 6% from other countries, with notable contributions from Australia in 2005. It should be noted that revenue from each of the geographic areas increased in the first quarter 2005 as compared to the first quarter of 2004. For the first quarter of 2004, 82% of the revenue was from Europe, 10% was from the U.S. and 8% was from other countries.

Gross profit as a percentage of revenue for the first quarter of 2005 was approximately 63% and compares to 74% for first quarter of 2004. The decline in gross profit as a percentage of revenue in 2005 compared to 2004 was primarily related to a lower average sales price, primarily within the Banking market, partially offset by lower average cost of product produced, and the stronger Euro. The lower sales price in the banking market reflects the increase in large deployments to the Banks' retail customers.

It is important to note that as strong authentication is deployed to consumers in large volumes, the average selling price per token will be lower than sales into the C.N.A. and Corporate banking markets. As Ken has noted previously, our strategy of being the high-volume, high quality, low-cost producer has positioned the company to compete effectively in this consumer market and has resulted in significant sales for consumer-related applications in each of the last two quarters. The Company shipped approximately 1.5 million tokens in the first quarter of 2005, which was more than 200% greater than the first quarter of 2004. The gross profit in the first quarter of 2005 of 63% is more comparable to the margin for the fourth quarter of 2004 of approximately 65% when approximately 1,060,000 tokens were shipped.

Operating expenses for the first quarter of 2005 were \$5.3 million, an increase of \$1,750,000 or 49% from the first quarter of 2004. Operating expenses included \$459,000 related to AOS, of which \$89,000 were related to the amortization of intangibles assets arising from the acquisition. Excluding the AOS expenses, operating expenses increased 37% over the first quarter of 2004.

In addition to the expenses related to AOS, operating expenses were higher primarily as a result of increased spending on sales and marketing, general administrative expenses and the impact of currency. As noted in previous conference calls, the Company increased its investment in sales and marketing, people and programs, in the second half of 2004 to accelerate its revenue growth. The growth in general and administrative expenses was largely due to professional fees. Changes in exchange rates for the first quarter resulted in an increase in expense of approximately \$228,000 over the first quarter of 2004.

As a final comment on the absolute dollar amount of operating expenses, it should be noted that spending in the first quarter of 2005 was approximately 3% higher than the fourth quarter of 2004 if the AOS expenses and the impact of currency are excluded from the comparison.

It should be noted that while overall operating expenses increased, operating expense as a percentage of revenue declined. Operating expenses as a percentage of revenue were 46.3% for the first quarter of 2005, an improvement of 12.6 percentage points from the 58.9% reported for the first quarter of 2004. Operating expenses as a percentage of revenue were 48.8% in the fourth quarter of 2004. As Ken also mentioned earlier, we believe that the decline in operating expenses as a percentage of revenue reflects the leverage that is in the Company's business model. By working through the distributor and reseller network and also as a result of selling larger quantities related to consumer applications, the Company is able to support higher levels of revenue without commensurate increases in its expense base.

As discussed in prior conference calls, changes in currency exchange rates can have a significant impact on our results. Approximately 78% of our operating expenses in the first quarter of 2005 were denominated in currencies other than the U.S. Dollar. Two primary foreign currencies, the Euro and the Australian Dollar, were both stronger in the first quarter of 2005 than in the comparable period of 2004. The Euro was approximately 7% stronger in the first quarter of 2005 compared to 2004 rates. The Australian Dollar was approximately 2% stronger in the first quarter 2005 compared to 2004 rates. Currency also had a negative impact on first quarter 2005 expenses compared to the fourth quarter of 2004. The average exchange rate of the Euro was approximately 4% higher in the first quarter of 2005 than in the fourth quarter of 2004.

As noted in previous calls, we attempt to balance our currency exposure in operating expenses by denominating a portion of our sales in Euros and Australian Dollars. We estimate that our sales were approximately \$185,000 higher in the first quarter of 2005 compared to the first quarter of 2004 and \$119,000 higher than the fourth quarter of 2004 as a result of revenues being denominated in a foreign currency.

Operating income for the first quarter of 2005 was \$1,924,000, an increase of \$1,025,000, or 114%, from the \$899,000 reported in the first quarter of 2004.

Operating income as a percent of revenue, or operating margin, was approximately 17% for the quarter and is 2 percentage points better, respectively, than the first quarter of 2004. The improvement in operating margin is attributable to the reduction in operating expenses as a percentage of revenue partially offset by the decline in gross margin, as previously noted in this call.

As we look forward, and as has been mentioned in previous calls, we plan to invest a portion of our increased operating profit in discretionary programs that will increase our sales and marketing capability, and over time, are expected to generate incremental revenues from new geographic regions or increase our penetration in existing markets.

Other income was \$215,000 for the quarter and is \$138,000 better than the first quarter of 2004. The increase in other income and expense is primarily due to exchange gains that result from the combination of our increasing U.S. Dollar net asset position in our Belgian subsidiary and the continuing strengthening of the Euro versus the dollar.

To date, the Company has not hedged the income statement exposure to transactions gains or losses resulting from changes in currency rates. We anticipate that we will start a hedging program in the second quarter of 2005.

The Company reported income tax expense of \$758,000 for the first quarter of 2005 compared to \$422,000 in the first quarter of 2004. The effective tax rate for the first quarter of 2005 was 35% compared to 42% in the first quarter of 2004. The effective tax rate declined as projected earnings in countries where the Company has net operating loss carryforwards that can be used to offset taxable income are estimated to be higher in 2005 than they were in 2004.

Earnings before interest, taxes, depreciation, and amortization (EBITDA or operating cash flow if you will) from continuing operations was \$2,385,000 for the first quarter of 2005, an improvement of \$1,242,000 or 109% from the first quarter of 2004. The first quarter of 2005 reflected the ninth consecutive quarter of positive operating cash flow.

The makeup of our workforce as of March 31, 2005 was 111 people worldwide with 69 in sales, marketing and customer support, 28 in research and development and 14 in general and administrative.

I would now like to make a few comments on the balance sheet. While our cash and working capital balances decreased from the prior quarter as a result of purchasing AOS, our balance sheet continued to be strong. During the first quarter, our cash balance decreased \$1,665,000, or 20%, to \$6,555,000 and our working capital decreased \$2,216,000, or 21%, to \$7,839,000. The acquisition of AOS reduced cash by approximately \$3.7 million on a net basis. The reduction reflects the original purchase price of 3.75 million Euros less cash balances of AOS that were included among the assets purchased.

During the quarter our Days Sales Outstanding in accounts receivable decreased from 59 days at December 31, 2004 to 57 days at the end of the first quarter.

The Company continues to have no term debt and maintains a line of credit for up to 2 million Euros that is secured by its receivables. There were no borrowings against the line as of March 31, 2005.

Going forward, we expect that our cash balances and the positive operating cash flow projected for the balance of 2005 will be more than sufficient to meet all of our operating needs in 2005.

Now, I would like to turn the meeting back to Ken

COMMENTS ON 1ST QUARTER AND FULL-YEAR 2005 - KEN HUNT

First, I would like to comment on order backlog for Q2 2005. As of this date, we have firm orders with shipments scheduled for the 2nd Quarter of approximately \$10.8 million, including \$1.1 million for AOS-Hagenuk, net of estimated purchase accounting adjustments. Any new orders received before quarter's end and shipped during the quarter would be additive to this number. This backlog shows the growing strength of our order flow. The backlog is 120% higher than the backlog going in to Q2 2004 and 1% higher than the backlog we reported for the first quarter of 2005 just ended. In addition, the backlog is 50% higher than the \$7.2 million in revenues reported for Q2 2004.

Today, we are reaffirming our guidance that was updated during our conference call of February 15th. As in the past, we only comment on annual numbers, not quarterly numbers. With the acquisition of AOS-Hagenuk, we expect full year revenue growth of 55-65% for 2005 compared to 2004. Consistent with our previous announcement, we expect that our gross margins as a percentage of revenue to be in a range of 60-65%. Finally, we expect that our operating income as a percentage of revenue to be in the range of 13-18%. This operating income range is GAAP. Excluding the costs of integrating AOS and the amortization of the purchase price for AOS Hagenuk, and the cost for the Company's Option Plan, the pro-forma range is 15-20%. These numbers may change as the actual integration and amortization costs are more clearly defined.

Please note that the guidance we are giving today includes the organic growth of our business and the expected impact of the acquisition of AOS-Hagenuk. The guidance does not include any incremental revenue from the VeriSign agreement announced on February 15th and does not include any significant amount of revenues from the rollout of the EMV standard. We plan to update the guidance to reflect those items and any other changes in our business as such items become more clearly quantifiable.

In summary, we are very pleased with what we have accomplished in 1st Quarter 2005. As in the past, we will not rest on our laurels and be satisfied with past performance as a measurement of our future achievements. You can rely on VASCO's people to do their very best, always!

Q&A SESSION:

This concludes our presentations today and we will now open the call for questions. Operator

T. Kendall Hunt

Founder, Chairman and CEO

April 2005

Analyst Presentation T. Kendall Hunt April 2005

Today's VASCO Speakers

T. Kendall Hunt, Chairman and CEO

Mr. Hunt has been a director since July 1997. He served since 1984 as Chairman, President and CEO as the founder of our predecessor company, VASCO Corp. Mr. Hunt received a B.B.A. from the University of Miami, Miami, Florida and an M.B.A. from Pepperdine University, Malibu, California.

Jan Valcke, President and COO

Mr. Valcke has been managing worldwide sales, marketing, business development, and product management for both the Digipass and VACMAN product lines since 2000. From 1992 until joining VASCO in 1996, he served as Vice President of Sales and Marketing of Digipass NV/SA, a member of the Digiline International group. He was co-founder and a member of the Board of Directors of Digiline.

Clifford K. Bown, Executive Vice President and CFO

Cliff has his MBA from the University of Chicago, a B.S. in Accountancy from the University of Illinois, and his CPA certificate. Prior to VASCO, he held the position of CFO with several companies, including a \$300 million computer company, and was an audit manager at KPMG.

VASCO's First Analysts/Investors Day

AGENDA

- > 12:00 Noon Introduction & Welcome Ken Hunt
- > 12:15 PM Review of Q1 2005 Financials
Q&A Cliff Bown
- > 12:45 PM VASCO Markets, Current & Future
Q&A Jan Valcke
- > 1:45 PM Customer Testimonials
- > 2:00 PM Phishing & Man-in-the-middle Attacks
- > 2:30 PM Final Comments & Q & A Ken Hunt

ABOUT VASCO

- > VASCO, is the High Volume, High Quality, Low Cost Producer of Strong Authentication products for the financial world, remote access, e-commerce and e-government
- > We've developed a Sustainable, repeatable revenue model

High volume, High Quality, Low Cost Producer

Leading provider of strong authentication products to the financial world, with over 370 banks as customers

Over 15 million of Digipass products sold and delivered

Nine consecutive profitable quarters

Growing strongly, with a year-to-year growth of 90% in Q1 2005

42 distributors and over 1,500 resellers worldwide

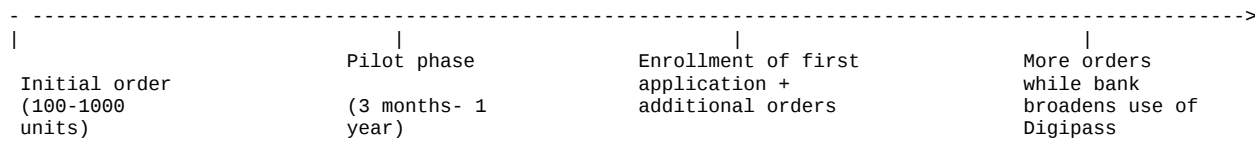
Sold and Delivered over 1,000,000 Digipass in Q4 2004

Sold and Delivered over 1,500,000 Digipass in Q1 2005

Product lifespan of 5-7 years, allowing customers to amortize the cost over several years

Easy to install middleware software (VACMAN)

Sustainable, Repeatable Revenue Model



Sustainable, Repeatable Revenue Model

> Case Study: Rabobank (The Netherlands)

- > 1992: Initial order - 10,000 units of Digipass 500 Phone banking.
- > 1994: start of www.rabobank.be for retail banking
- > 1997: online transactions possible - with Digipass
- > 2000: 700,000 units of Digipass 500 in the field
- > 2001: introduction of Random Reader (Digipass 800 - secure smart card reader)
- > 2004-2005: 2,000,000 units of Random Reader in the field
- > Largest Internet Bank in Europe, according to Nielsen Webratings

Comparable cases: Swedbank (Sweden), Fortis (Belgium), ZaBa (Croatia), Wachovia (U.S. - corporate banking), ABN-Amro (U.S. - corporate banking)

VASCO - TGhe Leader in Large Deployments

- > 80 % of the largest deployments of strong user authentication products in the financial sector, including.
 - > Fortis (Belgium & Netherlands)
 - > Swedbank (Sweden)
 - > Den Norske Bank (Norway)
 - > Zagrebacka Banka (Croatia)
 - > BN L (Italy)
 - > Rabobank (The Netherlands)
 - > ABN-Amro (The Netherlands)
 - > Mandiri Bank (Indonesia)
 - > SEB (Sweden)

DIGIPASS FACTORY

A concept for Strong User Authentication & Digital Signatures

[GRAPHIC]

DIGIPASS
FACTORY

[VASCO LOGO]

[VASCO LOGO] THE AUTHENTICATION COMPANY

Nasdaq: VDSI

Analyst Presentation T. Kendall Hunt April 2005

[VASCO LOGO]THE AUTHENTICATION COMPANY

VASCO Analyst Day Presentation

Jan Valcke, President & COO

April 2005

Analyst Presentation Jan Valcke April 2005

Agenda: Actual Situation

- > 1. General

- > 2. Elements of a company
 - > Markets
 - > Regions
 - > Products
 - > People

- > 3. Questions and Answers

General

> Overview of last two years' work

4 Elements in a Company:

> Markets

> Products

> People

> Cash

Growth can only be successful if the 4 elements
grow at the same time.

Markets

MARKETS

> Mature Markets

- > Retail Banking
- > Corporate Banking
- > Enterprise Security
- > Remote Access

> Potential Markets

- > B-to-C e-Commerce (Including EMV)
- > B-to-B e-Commerce
- > E-government

Markets: Mature

> Markets ready to deploy strong authentication:

Remote Access: 70 Mio users
Enterprise Security: 300 Mio users
Corporate Banking: 10 Mio users
Retail Banking: 130 Mio users

All those markets are fast growing

Source: Jan Valcke - June 2004

Markets: Mature

> Market penetration strong authentication:

Remote Access: 13%
Enterprise Security: 3%
Corporate Banking: 20%
Retail Banking: 8%

Source: Jan Valcke - June 2004

Markets: Strategy

- > Large deployments in banks, but lower margins
- > Customers of banks are also working in companies (banks are promoting our brand name)

More actions towards the enterprises:
 - > more products, more sales and marketing in the enterprise security market
 - > Business plan to define priorities by segment & by country

Potential Markets

- > B-to-B e-Commerce
- > B-to-C e-Commerce (including EMV)
- > E-Government

B-to-B e-Commerce

- > Vendors offering products/services to a closed user group of companies
- > Customers have a loyalty (smart) card or a Digipass
- > Authentication with Digipass 800/820 & smart card or stand-alone Digipass
- > Strategy: we go to C.N.A. customers - proposal to use Digipass in e-commerce application

B-to-C e-Commerce

- > Companies selling products & services to end consumer

- > EMV and beyond

- > Strategy: to get as many banks as possible as customers - let them use DP as secure Internet banking application - multi-application capabilities of DP allows banks to enter e-commerce business + credit card companies

EMV B-to-C e-Commerce

- > EMV = Europay, Mastercard, VISA: new generation of credit cards
- > EMV-CAP: EMV Chip Authentication Protocol: authentication software needed for online transactions + reader (Digipass 800, 820,...): << card not present >> transactions
- > Roll-out of EMV-cards speeds up in several important markets
- > First pilots including EMV-CAP & Digipass started in 2004
- > First big EMV-CAP deals + Digipass expected in 2005
- > Easy migration for existing Digipass customers to Digipass for EMV

E- Government

- > First big deployments projected for 2006/2007
- > Belgium, Estonia, Malaysia, Hong Kong trendsetters with regards to national ID-cards
- > VASCO ready with Digipass 800/820/850 secure card readers

Regions

[MAP]

The worldwide, Local approach

- > Boston, Sydney, Singapore:
- > First focus was to create a "cushion"
- > Strategy is global, tactics are locally defined
 - Using VASCO's European experience with a localized approach/local flavor
 - To Export Knowledge:
 - Local banking summits to/with prospects & customers Vasco-on-Tour:
 - Roadshows for banks and resellers/customers of the CNA market

Facts in Markets: Year 2004

> Revenues By Region

U.S. is the fastest growing region for VASCO

	2003	2004
Europe:	84%	81%
US:	7%	10%
Others:	9%	9%

> Revenues by Markets

Banking: 82%

Corporate network Access: 18%

The worldwide, Local approach

- > Corporate Headquarters in Chicago
- > North American Operational HQ in Boston
- > Growing presence & revenue
- > Corporate Banking and Corporate Network Access (Novell, F5, Citrix,...)
- > VeriSign OEM agreement
- > Investing strongly
- > U.S. E-Commerce market more advanced than European

Products

DIGIPASS FACTORY

A concept for Strong User Authentication & Digital Signatures

FROM:

- - Transactions with high value
- - High frequency of use

[GRAPHIC]

TO:

- Transactions with low value
- Low frequency of use

[DIGIPASS FACTORY LOGO]

[VASCO LOGO] THE AUTHENTICATION COMPANY

Analyst Presentation Jan Valcke April 2005

Products

- > Manufacturing with just-in-time delivery program
- > Japanese quality is the standard
- > Focus and vision:
 - The authentication company
 - Largest suit of products
 - Leader in that field: here to stay
- > Environmental conscious production
 - Lead free

Products

- > Business mix: same products in different market segments for different applications (banking, CNA) etc.
- > Largest manufacturer of strong authentication products
 - 1.5 million units deployed in Q1

The VeriSign OEM Agreement

- > Digipass G03 is the One-Time Password component of VeriSign's OATH infrastructure
- > Digipass G03 to Support OATH algorithm - entirely new product
- > First G03 for OATH will be delivered during Q2
- > VeriSign's sales force to sell Digipass G03
- > Important asset for VASCO towards U.S.A. financial, e-commerce and Enterprise sector.

People

People

- > 75 employees end Q3 2004
- > Over 110 employees end Q1 2005
- > Extremely skilled and experienced team
- > Same goal
- > People grow together with company

The Acquisition of AOS

- > Debt free and profitable
- > Smart Card Reader Specialist
- > EMV Ready
- > Seasoned high level R&D team
- > Headquartered at short distance from VASCO's Belgian office
- > Creating revenue from Day 1
- > Integration finalized at the end of April 2005
- > Target: to make VASCO's readers ready for every commercially interesting smart card type and application in the world

VASCO's Future Vision

Products

- > Hardware Products
- > Middleware Software
- > Services
- > Security Software

Hardware Products

> Definition

Having the best TCO pricing in the market for all kind of authentication products. OEM strategy towards strong solution partners and large end-user customers.

> Local assembly will be possible (avoid high import taxes)

> Highest quality standards (lowest TCO in the market - low fall-out)

> Transport with a Just-in-Time delivery Programm

> Programming-initialization can be done remotely

> OEM Factory Concept

Hardware Products

- > Local Design
- > Multi-application and Products
- > Standard Platforms for different products

Software Middleware Products

> Definition:

- Works with the Partners' Solution
- Software that can be distributed through the channel.
- Software that allows Vasco to sell more Digipass.
- Goal: to have a better margin rate

> PKI - Federated Identity

> Authentication

Services

> Definition:

is selling a customer (by month/year/transaction) several times towards different companies (applications).

Authentication is not anymore a security add-on, but becomes more and more business.

> Digipass PKI Solution:

Private Key is stored on a Secure Server and retrieved with a classic Digipass.

> Already over one million Digipass in deployment.

> Extremely low cost (TCO) solution for high level security applications.

Services

- > Digipass enables Federated Identity Management.
- > Activation code principle.
- > Digipass concept is multimedia and multi-application
- > Banks/Credit Card Companies becomes a trusted center and are willing to commercialize their DB.

Security Software

> Definition:

Software that is important to our Core Business and that will not compete with our Largest Solution Partner Software.

> Authentication Server Software

Markets and Regions

Markets

- > Mature Markets
- > Potential Markets
- > Markets under investigation

Markets: Mature

> Markets ready to deploy strong authentication

Banking:

We are the No. 1 vendor.

Digipass Factory fits for all banking applications

Have enough people to serve the market worldwide

Institutional Banking is in the most countries a mature market

Most Countries are moving forward to use strong authentication for
retail banking

Markets: Mature

> USA: Banking

Institutional Banking is mature

> Retail Banking:

more and more influence of international banks

FDIC advises strong authentication for retail banking.

Most advanced banks are anticipating to future laws.

Some banks are investigating the use of strong authentication for retail banking

Start: probably some tests end this year, beginning next year.

Deployments: 2006/2007

Marketing: Road Shows

Markets: Mature

> CNA

Middleware strategy for own Vasco Products.

Enterprise security through partnerships like Verisign, Novell,
Tivoli, . . .

We have a good growth but to boost that growth, we need more people and
products.

Will be prority No. 1 as from now.

We do not compete with our solution partners

Markets: Mature

> CNA:

2004: priority was to find new distributors/resellers

Also to partner with the market leaders.

Now: Lead Generation is the priority.

Marketing is road show principle.

> USA:

Whole US is covered by resellers.

Resellers are specialized by solution partner.

Reseller network is extremely fast growing.

Lead Generation is the priority for Marketing.

Markets: Potential

> e-Commerce B2B: Market is ready.

Strategy is to go in the first place to existing CNA customer. Lead generation by market segment.

Healthcare, Car Industry, Distribution, Government, Social Security, Real Estate,..... We have several references by markets segment.

> e-Commerce B2C: The consumer market by Excellence

EMV: will start this year with more pilots. Large deployments as from 2006.

VASCO is ready to deploy the Digipass through large consumer distribution channels.

Digipass Factory concept applies.

Markets: Potential

> e-Government: National ID-Cards

2004: Prototypes

2005: testing and probably as from 2006/2007 deployments. It is possible that the Norway bankId PKI solution will be deployed in other countries

Markets: under investigation

> On-line Gaming

> Healthcare - Social Security

Markets: Strategy - Priority

> Our Focus and Vision is working

- - We will continue to work aggressively in the banking market.
- - We are hiring more people for the CNA market.
- - We will continue to develop, OEM, buy new products for the existing customers
- - Business plan to define priorities by segment & by country
- - Business development for the new opportunities
- - "Cushion" strategy is over: we have trained talent in all regions.

People

People

> Definition:

To have a strong organization and professional people management. International Headquarters and local funtions. Integration of new personnel (new hires and or acquisitions) must happen fast and in a professional way.

> Assestments has been done

> Develoment Centers has been set up

> Next one and a half year: a strategy by department and implementation of a balanced scoring system.

Answers and Questions

Customer Testimonials

-Evert Fekkes, Rabobank Netherlands

-Qasif Shahid, ABN-Amro Singapore

Digipass:
an effective weapon against Phishing
and Man-in-the-Middle Attacks

Clifford K. Bown

Executive Vice President, Chief Financial Officer

April 2005

 Actual Results 2002-2004 (Continuing Operations)

(Dollars in Thousands)

	Actual Results			Better (Worse)	
	2004	2003	2002	2004 vs 2003	2003 vs 2002
Sales	\$ 29,893	\$ 22,866	\$ 17,370	30.7 %	31.6
Gross profit	\$ 20,709	\$ 13,856	\$ 10,210	49.5 %	35.7
Gross margin % of revenue	69.3%	60.6%	58.8%	8.7 pts	1.8 pts
Operating expenses	\$ 15,157	\$ 12,733	\$ 15,109	(19.0) %	15.7%
Oper. exp. % of revenue	50.7%	55.7%	87.0%	5.0 pts	31.3 pts
Operating income (loss)	\$ 5,552	\$ 1,123	\$ (4,898)	394.4 %	N/M
Oper. margin % of revenue	18.6%	4.9%	-28.2%	13.7 pts	33.1 pts

N/M = Not Meaningful

Turn Around - Quarterly Results (Continuing Operations)

SALES (\$000s)

Q1 02	Q2 02	Q3 02	Q4 02	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04	Q4 04	Q1 05
5,478	3,761	4,740	3,391	5,118	5,953	5,599	6,196	6,021	7,174	7,400	9,298	11,444

EXECUTIVE MANAGEMENT CHANGE

OPERATING MARGIN

Q1 02	Q2 02	Q3 02	Q4 02	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04	Q4 04	Q1 05
(9)%	(39)%	(19)%	(59)%	0%	11%	1%	6%	15%	21%	23%	16%	17%

 Consolidated Statement of Operations - Q1 05 vs. Q1 04 (unaudited)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2005		2004		Q1 2005 ACTUAL B/(W) THAN 2004		EXCLUDING AOS Q1 2005 ACTUAL B/(W) THAN 2004	
	Q1 ACTUAL	Q1 ACTUAL	Q1 ACTUAL	Q1 ACTUAL	AMOUNT	PERCENT	AMOUNT	PERCENT
TOTAL REVENUE	\$ 11,444	\$ 6,021	\$ 5,422			90%	\$ 4,546	75%
GROSS PROFIT	7,221	4,446	2,775			62%	\$ 2,407	54%
Gross Profit %	63.1%	73.8%	(10.7) pts					
OPERATING EXPENSES:								
Sales and Marketing Expenses	3,311	2,093	(1,218)			(58)%	(1,048)	(50)%
R&D Expense	885	708	(178)			(25)%	(37)	(5)%
General and Administrative Expense	976	746	(230)			(31)%	(170)	(23)%
Non-cash expense (AOS Amort. & Equity Plan)	125	--	(125)				(36)	
Total operating expenses:	\$ 5,297	\$ 3,547	\$ (1,750)			(49)%	\$ (1,291)	(36)%
OPERATING INCOME (LOSS)	\$ 1,924	\$ 899	\$ 1,025			114%	\$ 1,116	124
As a percentage of total revenue	16.8%	14.9%	1.9 pts					
Income before income taxes	\$ 2,165	\$ 1,005	\$ 1,160			115		
Income taxes	758	422	(336)			(80)%		
NET INCOME	\$ 1,407	\$ 583	\$ 825			142%		
Preferred stock accretion/Dividend	(14)	(81)	66			82%		
Net income available to common shareholders	\$ 1,393	\$ 502	891			178%		
FULLY-DILUTED EARNINGS PER SHARE	\$ 0.04	\$ 0.02	\$ 0.02			146%		

 Consolidated Statement of Operations - Q1 05 vs. Q4 04 (unaudited)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2005 Q1 ACTUAL	2004 Q4 ACTUAL	Q1 2005 ACTUAL B/(W) THAN 2004		EXCLUDING AOS Q1 2005 ACTUAL B/(W) THAN 2004	
			AMOUNT	PERCENT	AMOUNT	PERCENT
TOTAL REVENUE	\$11,444	\$9,298	\$2,146	23%	\$1,269	14%
GROSS PROFIT	7,221	6,032	1,189	20%	\$ 821	14%
Gross Profit %	63.1%	64.9%	(1.8) pts			
OPERATING EXPENSES:						
Sales and Marketing Expenses	3,311	2,942	(369)	(13)%	(192)	(7)%
R&D Expense	885	787	(98)	(12)%	50	6
General and Administrative Expense	976	810	(166)	(20)%	(121)	(15)%
Non-cash expense (AOS Amort. & Equity Plan)	125	-	(125)		(36)	
Total operating expenses:	\$ 5,297	\$4,539	\$ (758)	(17)%	\$ (299)	(7)%
OPERATING INCOME (LOSS)	\$ 1,924	\$1,493	\$ 431	29%	\$ 522	35%
As a percentage of total revenue	16.8%	16.1%	0.8 pts			
Income before income taxes	\$ 2,165	\$ 986	\$1,179	120%		
Income taxes	758	471	(287)	(61)%		
NET INCOME	\$ 1,407	\$ 515	\$ 892	173%		
Preferred stock accretion/Dividend	(14)	(35)	21	59%		
Net income available to common shareholders	\$ 1,393	\$ 480	913	190%		
FULLY-DILUTED EARNINGS PER SHARE	\$ 0.04	\$ 0.02	\$ 0.02	150%		

Revenue and Token Volume

(Dollars and units in thousands)
Revenue Units
----- -----
(Dollars)

Q1 04	6,021	480
Q2 04	7,174	625
Q3 04	7,400	660
Q4 04	9,298	1,070
Q1 05	11,444	1,505

Average Selling Price (ASP) and Token Volume

	ASP ---- (Dollars)	Units ----- (Units in thousands)
Q1 04	12.54	480
Q2 04	11.48	625
Q3 04	11.21	660
Q4 04	8.69	1,070
Q1 05	7.60	1,505

Operating Components as a Percentage of Revenue

	Q1 04 -----	Q2 04 -----	Q3 04 -----	Q4 05 -----	Q1 05 -----
Gr. Mgn.	73.8%	70.7%	69.7%	64.9%	63.1%
Oper. Exp.	58.9%	50.1%	47.0%	48.8%	46.3%
Oper. Mgn.	14.9%	20.6%	22.7%	16.1%	16.8%

Operating Percentages and Operating Income

	Q1 04 -----	Q2 04 -----	Q3 04 -----	Q4 05 -----	Q1 05 -----
Gr. Mgn.	73.8%	70.7%	69.7%	64.9%	63.1%
Oper. Exp.	58.9%	50.1%	47.0%	48.8%	46.3%
Oper. Mgn	14.9%	20.6%	22.7%	16.1%	16.8%
Oper. Earnings	\$899	\$1,479	\$1,681	\$1,493	\$1,924

Target Market - VASCO vs. Competitors

Total Addressable Market Size - By Market Segment*

Enterprise Market

Competitors
High-Cost Producers

Natural Barrier

Retail Market

VASCO
Low-Cost Producer

*Based on total number of potential end users.

Nasdaq: VDSI
