

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

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FORM 10-K  
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO  
SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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 (IRS Employer  
Incorporation or Organization) 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

Securities registered pursuant to Section 12(b) of the Act:  
NONE

Securities registered pursuant to Section 12(g) of the Act:  
COMMON STOCK, PAR VALUE \$.001 PER SHARE

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  
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Indicate by check mark if disclosure of delinquent filers pursuant to  
Item 405 of Regulation S-K is not contained herein, and will not be contained,  
to the best of registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any  
amendment to this Form 10-K. \_\_\_\_\_

As of March 20, 2003, 28,389,484 shares of the Company's Common Stock,  
\$.001 par value per share ("Common Stock"), were outstanding. On that date, the  
aggregate market value of voting and non-voting common equity (based upon the  
last sale price of the Common Stock as reported on Nasdaq on March 20, 2003)  
held by non-affiliates of the registrant was \$29,241,168 at \$1.03 per share.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

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

This Annual Report on Form 10-K, including "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 (as defined) 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.

ITEM 1 - DESCRIPTION OF BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

VASCO Data Security International, Inc. was incorporated in Delaware in 1997 and is the successor to VASCO Corp., a Delaware corporation. Our principal executive offices are located at 1901 South Meyers Road, Suite 210, Oakbrook Terrace, Illinois 60181 and the telephone number at that address is (630) 932-8844. Our principal offices in Europe are located at Koningin Astridlaan 164, B-1780 Wemmel (Belgium) and the telephone number at that address is 32(0)2/456.98.10. Unless otherwise noted, specifically in the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, references in this Annual Report to "VASCO," "Company," "company," "we," "our," and "us" refer to VASCO Data Security International, Inc., its predecessor, VASCO Corp., and its subsidiaries.

The Company, through its operating subsidiaries, designs, develops, markets and supports open standards-based hardware and software security systems that manage and secure access to information assets.

FINANCIAL INFORMATION RELATING TO FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

See Note 10 to VASCO Notes to Consolidated Financial Statements for certain information about foreign and domestic operations and export sales.

NARRATIVE DESCRIPTION OF THE BUSINESS

GENERAL

We design, develop, market and support patented "Identity Authentication" products for e-business and e-commerce. Our products enable secure financial transactions to be made over private enterprise networks and public networks, such as the Internet. VASCO's Identity Authentication software is delivered via its Digipass security products, small "calculator" hardware devices carried by an end user, or in a software format on mobile phones, other portable devices, and PCs. The Digipass devices, most of which incorporate an electronic digital signature capability, guarantee the integrity of electronic

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

transactions and data transmissions. For user access control, VASCO's VACMAN Server products limit application access to designated Digipass users. Digipass and VACMAN combine to provide greater flexibility and a more affordable means than competing products of authenticating to any network, including the Internet.

VASCO's target markets are the applications and their several hundred million users that utilize fixed passwords as security. VASCO's time-based system generates a "one-time" password that changes with every use. As a result, when compared to fixed passwords, it substantially reduces the risk of unauthorized access to the application.

Our security solutions are sold worldwide through our direct sales force, as well as through distributors, resellers and systems integrators. We currently have approximately 800 customers in more than 50 countries. Representative customers of our products include Rabobank Nederland, ABN AMRO Bank, Eterra Norway, ING Bank, John Hancock, Fortis Bank, Liberty Mutual, Allmerica Financial Services, CoStar Group, and the U.S. Government.

#### INDUSTRY BACKGROUND

The growth in electronic banking and electronic commerce, and the increasing use and reliance upon proprietary or confidential information by businesses, government and educational institutions that is remotely accessible by many users, has made information security a paramount concern. We believe that enterprises are seeking solutions that will continue to allow them to expand access to data and financial assets while maintaining network security.

According to International Data Corporation (IDC), demand for information security services is expected to reach \$21 billion in worldwide annual spending by 2005. Demand for security software is expected to increase to \$9.4 billion in 2005. The compound annual growth rate for each area exceeds 25%.

Internet and Enterprise Security. With the advent of personal computers and distributed information systems in the form of wide area networks, intranets, local area networks and the Internet, as well as other direct electronic links, many organizations have implemented applications to enable their work force and third parties, including vendors, suppliers and customers, to access and exchange data and perform electronic transactions. As a result of the increased number of users having direct and remote access to such enterprise applications, data and financial assets have become increasingly vulnerable to unauthorized access and misuse.

Individual User Security. In addition to the need for enterprise-wide security, the proliferation of personal computers, personal digital assistants and mobile telephones in both the home and office settings, combined with widespread access to the Internet, have created significant opportunities for electronic commerce by individual users such as electronic bill payment, home banking and home shopping.

Fueled by well-publicized incidents including misappropriation of credit card information and denial of service attacks, there is a growing perception among many consumers that there is a risk involved in transmitting information via the Internet. These incidents and this perception may hamper the development of consumer-based electronic commerce. Accordingly, we believe that electronic commerce will benefit from the implementation of improved security measures that accurately identify users and reliably encrypt data transmissions over the Internet.

Components of Security. Data and financial asset security, and secured access to and participation in on-line commerce, generally consist of the following components:

- Encryption: Maintains data privacy by converting information into an unreadable pattern and allowing only authorized parties to decrypt the data. Encryption can also maintain data integrity by creating digital signatures for transmitted data, enabling the recipient to check whether the data has been changed since or during transmission.
- Identification and Authentication: Serves as the foundation for other security mechanisms by verifying that a user is who he or she claims to be. Identification and authentication mechanisms are often employed with encryption tools to authenticate users, to determine the proper encryption key for encrypting/decrypting data, or to enable users to digitally "sign" or verify the integrity of transmitted data.

- Access Control: Software that provides authentication, authorization, and accounting functions, controlling a user's access to only that data or the financial assets which he or she is authorized to access, and that keeps track of a user's activities after access has been granted.
- Administration and Management Tools: Software that sets, implements, and monitors security policies, the access to which is typically regulated by access control systems. These tools are extremely important to the overall effectiveness of a security system.

The most effective security policies employ most, if not all, of the above components. Most companies, however, only implement a patchwork of these components, which can result in their security systems being compromised.

#### THE VASCO SOLUTION

The Company has found that, to date, most approaches to network security, including Internet security, have been limited in scope and have failed to address all of the critical aspects of data security. We believe that an effective enterprise-wide solution must address and assimilate issues relating to the following:

- Speed and ease of implementation, use, and administration;
- Reliability;
- Interoperability with diverse enterprise environments, existing customer applications, and the security infrastructure;
- Scalability; and
- Overall cost of ownership.

Accordingly, we have adopted the following approach to data security:

- In designing our products, we have sought to incorporate all industry-accepted, open, and non-proprietary protocols. This permits interoperability between our products and the multiple platforms, products, and applications widely in use.
- We have designed our products and services to minimize their integration effort with, and disruption of, existing legacy applications and the security infrastructure, such as public key infrastructure, known as PKI. We provide customers with easier implementations and a more rapid means of implementing security across the enterprise, including the Internet. With security being a critical enabling technology for on-line business initiatives, speed and ease of security implementation has become crucial to an organization's success.
- We design our products and services to have a lower total cost of security ownership than competing products and services. We have found that product improvements and tools that lower a customer's total cost of ownership create differentiating sales and marketing tools, and also help in the development of a highly loyal customer base that is open to new solutions that we offer.

As a result of this approach, we believe that we are positioned to be a leading provider of our open standards-based software and hardware security solutions.

#### VASCO'S STRATEGY

We believe we have one of the most complete lines of security products and services for Identity Authentication available in the market today and we intend to become a leading worldwide provider of these products and services. A key element of our growth strategy is to demonstrate to an increasing number of distributors, resellers and systems integrators that, by incorporating our security products into their own products, they can more effectively differentiate themselves in their marketplaces and increase the value of their products. In addition, we will demonstrate to our corporate users that our products provide mission critical security to their internal and external security infrastructures. Following this aggressive marketing and promotion effort, we will work with these resellers and integrators to support their sales of solutions that include our products. Also, we plan to expand our direct sales marketing program to new and existing blue chip customers. Further, we intend to:

Increase Sales and Marketing Efforts Worldwide. We intend to increase sales of our security products and services in our established European markets and to aggressively increase our sales and support presence and marketing efforts in North America, South America, Asia/Pacific, Australia and the Middle East. We plan to:

- Market new services and products to our existing customers by providing testimonial evidence of user experiences from other customers;
- Launch a Europe, Middle East, Africa and Asia marketing campaign to raise awareness of our solutions among the Distributors and Resellers of popular third party software products and to establish relationships with them whereby they become resellers of our products and solutions;
- Form additional strategic relationships with resellers and vendors of complementary, innovative security products and systems; and
- Develop a marketing and sales infrastructure, largely in the form of new resellers, distributors, and solution providers, in new markets.

Continue Innovation. We intend to continue to enhance and broaden our line of security products to meet the changing needs of our existing and potential customers by:

- Building on our core software and hardware security expertise, such as expanding our technology for use on different platforms (like mobile phones and personal digital assistants) and incorporating biometrics into our products;
- Acquiring complementary technologies or businesses; and
- Developing additional applications for our products in areas that may include securing the exchange of data in the healthcare field and providing security for Internet gambling and lottery transactions, among others.

#### VASCO'S PRODUCTS

##### Digipass Product Line

Our Digipass product line, which exists as a family of authentication devices as well as extensive software libraries, provides a flexible and affordable means of authenticating users to any network, including the Internet.

Security can be broken into three factors:

- What the user has (the Digipass device itself);
- What the user knows (the PIN code to activate the Digipass); and
- Who the user is (biometrics).

The Digipass family is currently based on the first two factors. Using the Digipass system, in order to enter a remote system or to digitally sign data the user needs the:

- Hardware device (the token) itself so that if he or she does not physically have the token, he or she will not be able to log on to the system; and
- PIN code for the token so if the user does not know the appropriate code, he or she will not be able to use the applications stored inside.

Both of these factors help to make sure that a natural person is authenticating (or signing), instead of a computer or another device. These factors also enable very high portability for security anytime, anywhere and anyhow.

Digipasses calculate dynamic passwords, also known as one-time passwords to authenticate users on a computer network and for a variety of other applications. There are several models of the Digipass, each of which has its own distinct characteristics depending on the platform that it uses and the functions it performs. However, the Digipass family is designed to work together and customers can switch their users' devices without requiring any changes to the customers' existing infrastructure. In addition, these devices can be used to calculate digital signatures, also known as electronic

signatures or message authentication codes, to protect electronic transactions and the integrity of the contents of such transactions.

In addition, Digipass technology is designed to operate on non-VASCO platforms such as a desktop PC or laptop. Digipass technology is also available for personal digital assistants (PDA), mobile phones and smart cards. For users of mobile phones, Digipass's Authentication Server generates on-time passwords that are sent to the mobile telephone user by SMS (Short Messaging System).

Digipass technology combines the benefits of both traditional password tokens (authentication and digital signatures) with smart card readers. They both bring portability to smart cards and allow secure time-based algorithms.

A VASCO-secured system has the features needed to secure both today and tomorrow's IT resources.

DIGIPASS AT WORK

[FLOW CHART]

The above illustration shows the various steps in the Digipass initialization process. In the first step, the devices are initialized with their unique set of secrets and keys per device. These secrets are stored in an encrypted way on a compact disk or diskette that is sent to the application owner (for example, the information technology manager in an organization or the security department of a bank). These compact disk or diskettes are one way of safely transporting the Digipass secrets to the host computer.

The files on compact disk or diskettes will be used to read all the necessary secrets and other data from the delivered Digipasses into a database. Then the application owner will assign those Digipass secrets to the end-users. This assignment is based on the serial number of the Digipass and the identity of the end-user. The Digipass is then shipped to the end-user together with a manual and the protected PIN-code on a secure PIN-mailer is sent by a separate shipment.

Using a Digipass requires a connection to the host (server) computer that knows the parameters of the end-user's Digipass. Every time the user sends a dynamic password or digital signature to the host computer, the computer will retrieve all the necessary information from the database and will check the validity of the password or signature. After the host has checked the validity of the dynamic password or signature, it will notify the end-user of the correctness or incorrectness of the validity check.

Digipass security devices are not terminal dependent and do not require any specific software platform since they only interact with a person.

Currently, the Digipass is used in many applications, the largest of which is banking. Different banking applications are:

- Corporate banking through direct dial-up, as well as over the Internet and
- Retail banking to secure transactions made through the use of a dial-up connection with a personal computer, the traditional phone system, the Internet, and wireless phones and other communication devices such as personal digital assistants.

Another significant application for the Digipass is to secure access to corporate networks for home-based, traveling and other remote users. Finally, Digipasses are increasingly being used in a variety of e-commerce applications where the user is part of a pre-defined user group. We intend to expand the use of the Digipass to other groups of users and applications, including electronic commerce transactions directed at the general public.

#### Digipass Pack

Digipass Pack is a bundling of VASCO Digipass Go 1 and VACMAN Radius Middleware, offering strong Identity Authentication to Small and Medium Sized Enterprises. Although the packs contain standard Digipass Go 1, combinations with other Digipass models are possible. Digipass Pack is compliant with server security products of VASCO Solution Partners, like CITRIX, Netscreen, Check Point, and CISCO and is marketed via VASCO's regional channel partners (Distributors).

[PHOTO]  
Digipass Pack

#### VACMAN Product Line

The VACMAN Product line incorporates a range of strong authentication utilities and solutions designed to allow organizations to add Digipass strong authentication into their existing networks and applications.

Designed to provide the greatest flexibility, while not compromising on functionality or security, VACMAN solutions are designed to integrate with most popular hardware and software. Once integrated, the VACMAN components become largely transparent to the users minimizing rollout and support issues.

#### VACMAN Controller

Designed by specialists in "system entry" security, VACMAN Controller makes it easy to administer a high level of access control. The user simply adds a field to his or her existing user database, describing the unique Digipass token assigned to the user. VACMAN Controller takes it from there, automatically authenticating the logon request using the security sequence the user specifies, whether it's a one-time password using either Response-Only or a Challenge/Response authentication scheme or an electronic signature.



VACMAN Controller allows the user the freedom to provide secure remote access to virtually any type of application. VACMAN Controller is a library requiring only a few days to implement in most systems and supports all Digipass functionality. Once linked to an application, VACMAN Controller automatically handles login requests from any users you've authorized to have a Digipass token.

#### VACMAN RADIUS Middleware

VACMAN RADIUS Middleware brings strong user authentication to existing RADIUS-based environments, while seamlessly integrating with other current infrastructure technology. Many companies already use RADIUS servers and/or firewalls to provide a way to centrally manage all remote connections to the corporate IT infrastructure. VACMAN RADIUS Middleware allows administrators to positively identify remote users before granting remote access to sensitive corporate data and applications.

Logically, VACMAN RADIUS Middleware is installed between the RADIUS client (NAS, RAS or firewall) and the existing RADIUS server or servers. Once installed, VACMAN RADIUS Middleware functions transparently, adding strong, two-factor, authentication without otherwise affecting the operation of the server or other network components.

With a range of automated administration features such as Dynamic User Registration, automatic assignment of Digipass devices and the ability to bulk manage users, VACMAN RADIUS Middleware provides transparent strong authentication without adding significantly to the administration load.

#### VACMAN Server

VACMAN Server is an integrated, cross platform solution that uses industry and international standards to provide strong two-factor authentication, access control and audit for remote, local and web-based users. It includes full support for RADIUS and web-based access solutions.

VACMAN Server has three access control modules that are available for individual or integrated use. Strong authentication is achieved for server based access control and management on an anywhere, anyhow, anytime basis. System access can be achieved independently via each module (i.e., specific to a functional task) or in concert with each other, making efficient use of common user authentication administration.

VACMAN Server provides a number of centralized services that are common to all authentication solutions including secure, web-based administration allowing administrators the option to administer either locally or remotely, customizable reporting, delegation of administrative tasks on an organizational basis or by function, full session monitoring and a full redundancy option for the authentication server and database.

#### VACMAN SERVER FOR RADIUS

[GRAPHIC]

RADIUS-based solutions have generally relied on static user name and passwords for authentication. Static passwords offer a potential weakness as they can be trapped, guessed or forced to gain access to an otherwise secure network. The VACMAN Server for RADIUS (VSR) removes this potential weakness by adding support for One Time Passwords (OTP) for secure, two-factor authentication using Vasco's Digipass technology. OTP's are designed to provide that all users are strongly authenticated with information that cannot be re-used or guessed, and thereby to eliminate the most common means of defeating security systems.

VACMAN Server for RADIUS compliments an organization's existing security infrastructure by providing that only users who have been strongly authenticated are granted access to the network. The ability to support industry standards and run on existing operating systems and hardware platforms provides the flexibility to support virtually any existing security solution adding value to an organization's existing investment in people and equipment.

#### VACMAN SERVER FOR WEB

[GRAPHIC]

Combining user authentication, authorization and audit into a single strong authentication solution, VACMAN Server for Web extends established Authentication, Authorization and Administration (AAA) principles to web-based access and also supports the use of One Time Passwords (OTP) for true, Digipass two-factor strong authentication. VACMAN Server for Web controls user access to individual resources within the protected web site allowing an organization to finely control what information is accessed, not only by whom, but also when.

With VACMAN Server for Web installed, OTP's can be used to provide secure access to remote users, through the organization's existing web servers and firewalls. Once remote access is allowed and corporate processes can be accessed, additional authentication may be required to validate any transactions undertaken. VACMAN Server for Web fully supports Digipass electronic signatures providing non-repudiation for any electronic transaction.

#### INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS AND LICENSES

We rely on a combination of patent, copyright, trademark and trade secret laws, as well as employee and third-party non-disclosure agreements to protect our proprietary rights. In particular, we hold several patents in the United States and a corresponding patent in certain European countries, which cover certain aspects of our technology. The majority of our patents cover our Digipass family of security tokens. The U.S. patents expire between 2003 and 2010 and the European patent expires in 2008. We believe these patents to be valuable property rights and we rely on the strength of our patents and on trade secret law to protect our intellectual property rights. To the extent that we believe our patents are being infringed upon, we intend to assert vigorously our patent protection rights, including but not limited to, pursuing all available legal remedies.

## RESEARCH AND DEVELOPMENT

Our research and development efforts historically have been, and will continue to be, concentrated on product enhancement, new technology development and related new product introductions. We employ 21 full-time engineers and, from time to time also engage independent engineering firms to conduct non-strategic research and development efforts on our behalf. For the fiscal years ended December 31, 2000, 2001 and 2002, we expended \$4,369,000, \$4,981,000 and \$3,117,000, respectively, on research and development, representing approximately 15%, 19% and 17% of consolidated revenues for 2000, 2001 and 2002, respectively.

While management is committed to enhancing our current product offerings, and introducing new products, we cannot be certain that our research and development activities will be successful. Furthermore, we may not have sufficient financial resources to identify and develop new technologies and bring new products to market in a timely and cost effective manner, and we cannot ensure that any such products will be commercially successful if and when they are introduced.

## PRODUCTION

Our security hardware products are manufactured by third parties pursuant to purchase orders that we issue. Our hardware products are made primarily from commercially available electronic components that are purchased globally. Our software products are produced either in-house or by several outside sources in North America, Australia and Europe.

The security tokens utilize commercially available programmable microprocessors, or chips. We use two microprocessors, made by Samsung, for the various hardware products we produce. The Samsung microprocessors are purchased from Samsung Semiconductor in France. The microprocessors are the only components of our security tokens that are not commodity items readily available on the open market.

Orders of microprocessors and some other components generally require a lead time of 12-16 weeks. We attempt to maintain a sufficient inventory of all parts to handle short-term increases in orders. Large orders that would significantly deplete our inventory are typically required to be placed with more than 12 weeks of lead time, allowing us to attempt to make appropriate arrangements with our suppliers.

We purchase the majority of our product components and arrange for shipment to third parties for assembly and testing in accordance with our design specifications. Our security token products are assembled exclusively by one independent company with headquarters in Hong Kong and production facilities in mainland China. Purchases from this company are made on a volume purchase order basis. This company commits to very high production standards, and as a result, they also have major production contracts with companies such as Sony and Samsung. Equipment designed to test product at the point of assembly is supplied by us and periodic visits are made by our personnel for purposes of quality assurance, assembly process review and supplier relations.

There can be no assurance that we will not experience interruptions in the supply of either the component parts that are used in our products or fully-assembled token devices in general. In the event that the flow of components or finished product was interrupted, there could be a considerable delay in finding suitable replacement sources for those components, as well as in replacement assembly subcontractors with the result that our business and results of operations could be adversely affected.

## COMPETITION

The market for computer and network security solutions is very competitive and, like most technology-driven markets, is subject to rapid change and constantly evolving products and services. In the corporate network access market segment, our main competitor is RSA Security, Inc. In the e-banking market segment, our main competitors are ActivCard, Xiring, Todos, Kobil, and CPS. There are many other companies such as Computer Associates International, Rainbow and Aladdin that offer authentication hardware, software and services that range from simple locking mechanisms to sophisticated encryption technologies. We believe that competition in this market is likely to intensify as a result of increasing demand for security products.

We believe that the principal competitive factors affecting the market for computer and network security products include the strength and effectiveness of the solution, technical features, ease of use, quality/reliability, customer service and

support, name recognition, customer base, distribution channels and price. Although we believe that our products currently compete favorably with respect to such factors, other than name recognition in certain markets, there can be no assurance that we can maintain our competitive position against current and potential competitors, especially those with significantly greater financial, marketing, service, support, technical and other competitive resources.

Many of our present and potential competitors have significantly greater financial, technical, marketing, purchasing and other resources than we do, and as a result, may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of products, or to deliver competitive products at a lower end user price. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our prospective customers. Accordingly, it is possible that new competitors or alliances may emerge and rapidly acquire significant market share.

Our products are designed to allow authorized users access to a computing environment, in some cases using patented technology as a replacement for the static password. Although certain of our security token technologies are patented, there are other organizations that offer token-type password generators incorporating challenge-response or response-only approaches that employ different technological solutions and compete with us for market share.

#### SALES AND MARKETING

Our security solutions are sold through our direct sales force, as well as through distributors, resellers and systems integrators. A sales staff of 26 coordinates our sales through both our sales channels and these strategic partners' sales channels and makes direct sales calls either alone or with sales personnel of vendors of computer systems. Our sales staff also provides product education seminars to sales and technical personnel of vendors and distributors with whom we have working relationships and to potential end-users of our products.

Part of our expanded selling effort includes approaching our existing strategic partners to find additional applications for our security products. In addition, our marketing plan calls for the identification of new business opportunities that may require enhanced security over the transmission of electronic data or transactions where we do not currently market our products. Our efforts also include the preparation and dissemination of white papers prepared by our support engineers that explain how we believe our security products can add value or otherwise be beneficial.

#### CUSTOMERS AND MARKETS

Customers for our products include some of the world's most recognized names:

##### BANKING/FINANCIAL SERVICES

Rabobank Nederland  
ABN Amro Bank  
SNS Bank  
ING Bank  
John Hancock  
Allmerica  
Fortis Bank  
BCA Indonesia  
SEB Sweden  
Postbanken Norway  
Oversea Chinese Banking Corporation Ltd.  
PEKAO SA Bank Poland

##### OTHER

U.S. Department of Defense  
Telindus  
Southern California Edison  
Eterra Norway  
DaimlerChrysler  
US Coast Guard  
University of Groningen  
European Commission  
CoStar Group

For the years 2000, 2001 and 2002, the Company's top 10 customers contributed 72%, 73% and 64%, respectively, of total worldwide revenues.

Long term contracts with the U.S. government accounted for 5% of revenues for the year 2002. Revenues are only recognized from these contracts when receipt of payment is assured. Future amounts due under the contracts are cancelable by the U.S. government and are not recognized as revenue by the Company.

A significant portion of our sales is denominated in various foreign currencies that could impact results of operations. To minimize exposure to risks associated with fluctuations in currency exchange rates, we attempt to match the timing of delivery, amount of product and the currency denomination of purchase orders from vendors with sales orders to customers. For additional information regarding how currency fluctuations can affect our business, please refer to Item 7A - Quantitative and Qualitative Disclosures About Market Risk.

We also experience seasonality in our business. These seasonal trends are most notable in the summer months, particularly in Europe, when many businesses defer purchase decisions.

See Note 10 to VASCO Notes to Consolidated Financial Statements for a breakdown of revenues and long-lived assets between U.S. and foreign operations.

#### EMPLOYEES

As of February 28, 2003, we had 77 full time employees. Of these, 13 were located in North America, 42 were located in Europe, 19 were located in Australia and 3 assigned in Asia/Pacific. Of the total, 46 were involved in sales, marketing and customer support, 21 in product production, research and development and 10 in administration.

#### ITEM 2 - PROPERTIES

Our corporate office is located in the United States in an office complex in Oakbrook Terrace, Illinois, a suburb of Chicago. This facility is leased through November 30, 2004, and consists of approximately 9,000 square feet.

Our European administrative, sales and marketing, research and development and support facilities are located in a suburb of Brussels, Belgium. These facilities consist of approximately 23,500 square feet of office space that are occupied under a lease expiring on October 30, 2006. We believe that these facilities are adequate for our present growth plans.

Our Australian office is located in a suburb of Brisbane, consisting of approximately 4,900 square feet under a lease expiring in December 2006.

Our Asia/Pacific sales office is located in an office complex in Singapore, consisting of approximately 377 square feet with a one-year lease, renewable annually.

#### ITEM 3 - LEGAL PROCEEDINGS

The Company is from time to time involved in litigation incidental to the conduct of its business. The Company is currently not a party to any lawsuit or proceeding which, in the opinion of management, is likely to have a material adverse effect on the Company's business, financial condition or results of operations.

On March 13, 2002, a suit was filed against the Company in the United States District Court for the District of Delaware by ActiveCard, S.A., a French corporation, claiming patent infringement, false designation of origin and trade dress infringement. The amount of monetary damages is unspecified. The Company intends to vigorously contest the action and has filed a counterclaim seeking declaratory relief. The parties are currently investigating the possibility of alternative dispute resolution, such as mediation. In view of the present state of the proceedings, however, the Company is not able to assess the impact of the claims on its business or financial condition.

#### ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 2002, through solicitation of proxies or otherwise.

## PART II

## ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On March 20, 1998, the Company's Common Stock was approved for trading on the NASD Electronic Bulletin Board system under the symbol "VDSI." On April 7, 2000, the Common Stock was listed on the Nasdaq National Market in the United States under the trading symbol "VDSI." In February 2003, the Common Stock was moved from the Nasdaq National Market to the Nasdaq SmallCap Market and continued trading under the symbol "VDSI."

On March 20, 2003, the closing sale price for the Common Stock on the Nasdaq was \$1.03 per share. Such market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent an actual transaction. On February 28, 2003, there were approximately 1,900 holders of record of the Common Stock.

The following table sets forth the high and low closing bid quotations for the Common Stock for the periods indicated.

	HIGH ----	LOW ---
2001		
First Quarter .....	\$ 8.75	\$ 5.00
Second Quarter .....	5.80	2.80
Third Quarter .....	3.27	1.19
Fourth Quarter .....	2.98	1.00
2002		
First Quarter .....	\$ 3.47	\$ 2.00
Second Quarter .....	2.81	1.50
Third Quarter .....	1.97	0.87
Fourth Quarter .....	1.60	0.67
2003		
First Quarter (thru March 18, 2003) .....	\$ 1.74	\$ 0.22

The Company has not paid any dividends on its Common Stock since incorporation. Restrictions or limitations on the payment of dividends may be imposed under the terms of credit agreements or other contractual obligations of the Company. In the absence of such restrictions or limitations, the declaration and payment of dividends will be at the sole discretion of the Board of Directors of the Company and subject to certain limitations under the General Corporation Law of the State of Delaware. The timing, amount and form of dividends, if any, will depend, among other things, on the Company's results of operations, financial condition, cash requirements, plans for expansion and other factors deemed relevant by the Board of Directors. The Company intends to retain any future earnings for use in its business and therefore does not anticipate paying any cash dividends in the foreseeable future.

ITEM 6 - SELECTED FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE DATA) (1)

	YEAR ENDED DECEMBER 31,				
	1998	1999	2000	2001	2002
Statements of Operations Data:					
Total revenues	\$ 16,500	\$ 19,397	\$ 28,066	\$ 26,727	\$ 18,913
Operating loss	(1,327)	(893)	(2,601)	(13,106) (2)	(4,144) (2)
Net loss available to common stockholders	(3,782)	(2,212)	(4,744)	(13,198) (2)	(5,703) (2)
Basic and diluted loss per common share	\$ (0.17)	\$ (0.09)	\$ (0.17)	\$ (0.47) (2)	\$ (0.20) (2)
Shares used in computing per share amounts	22,431	25,559	27,341	28,169	28,348
Balance Sheet Data:					
Cash	\$ 1,662	\$ 2,576	\$ 13,833	\$ 6,342	\$ 2,616
Working capital (deficiency)	(3,734)	2,473	14,307	6,672	(687)
Total assets	9,557	12,318	29,313	17,451	11,134
Long term obligations, less current portion	8,436	8,409	3,764	3,668	32
Stockholders' equity (deficit)	(9,660)	(1,037)	17,348	7,147	2,811

(1) Represents the financial information of VASCO Corp. prior to March 11, 1998, as the Company had not begun operations until the Exchange Offer.

(2) Includes restructuring expenses of \$4,284 in 2001 and \$320 in 2002.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BACKGROUND

Our predecessor company, VASCO Corp., entered into the data security business in 1991 through the acquisition of a controlling interest in ThumbScan, Inc., which we renamed VASCO Data Security, Inc. in 1993. In 1996, we began an expansion of our computer security business by acquiring Lintel Security NV/SA, a Belgian corporation, which included assets associated with the development of security tokens and security technologies for personal computers and computer networks. In addition, in 1996, we acquired Digipass NV/SA, a Belgian corporation, which was also a developer of security tokens and security technologies and whose name we changed to VASCO Data Security NV/SA in 1997. All of these acquisitions were accounted for under the purchase method of accounting.

On March 11, 1998, we completed a registered Exchange Offer with the holders of the outstanding securities of VASCO Corp. In the Exchange Offer, holders of the common stock and warrants, options and other rights to acquire common stock of our predecessor company exchanged their securities for the same number and kind of securities of our present company, and released any potential claims that such holders might have had against our predecessor in connection with the issuances of its securities and other corporate actions which occurred mostly during the 1980's. In the Exchange Offer, almost 98% of our predecessor's securities were tendered and accepted for exchange. In October 1998, we

completed the merger of our predecessor with and into the current company and thereby eliminated all remaining outstanding securities of our predecessor and our predecessor thereby ceased to exist.

Since the Exchange Offer, we have engaged in four acquisitions. In May 1999, we acquired the assets of SecureWare SA, a French company for a combination of our stock and cash totaling approximately \$1.4 million.

In October 1999, we acquired Intellisoft Corp. for a combination of stock and cash totaling approximately \$8 million with the cash being distributed to dissenting shareholders. This acquisition was accounted for under the pooling-of-interests method of accounting and, therefore, all of our financial information has been restated to include the results of IntelliSoft.

In August 2000, we acquired Invincible Data Systems (IDS) in a transaction that was accounted for under the pooling-of-interests method of accounting. A total of 322,565 shares of the Common Stock were issued in the transaction. Our historical financial information was not restated for this transaction, which was deemed immaterial.

Our latest acquisition was completed on March 29, 2001 when we acquired Identikey Ltd. ("Identikey"), a privately held international security software company headquartered in Brisbane, 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 Common Stock. This purchase 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. Intangible assets related to the initial purchase transaction were \$1,897,000 and are being amortized over a period of 7 years. The remaining 10% of the Identikey has been acquired at various times with the final purchase completed in January 2003. In exchange for the shares obtained in 2002, the Company has issued 126,426 shares of Common Stock and paid \$23,362 in cash. Intangible assets related to the purchase of the Identikey shares in 2002 were valued at \$297,925 and are being amortized over the same period as the intangible assets identified in the initial transaction.

#### OVERVIEW

We design, develop, market and support security products and services that manage and protect against unauthorized access to computer systems of corporate and governmental clients.

Revenue and Earnings. We sell the majority of our products in European countries with significant sales in the United States, and we intend to actively pursue additional markets, particularly South America, Asia/Pacific, Australia and the Middle East.

Revenues from sales from our Digipass family continue to represent the majority of our total revenues. Digipass products accounted for 72% of the Company's revenues in 2000 and in excess of 80% of the Company's revenues in both 2001 and 2002. Although we believe it is likely that sales of the Digipass family of tokens, which can be used on various platforms, will continue to account for a majority of our total revenues for the next few years, we also believe that revenues from sales of our other hardware and software data security products, including the VACMAN product line, will increase in the future.

Research and Development. We are devoting substantial capital and other resources to enhance our existing security products and develop new products to provide identity authentication security solutions on different platforms and for different applications. Costs of research and development, principally the design and development of hardware and software prior to the determination of technological feasibility, are expensed as incurred on a project-by-project basis. Our software capitalization policy currently defines technological feasibility as a functioning beta test prototype with confirmed manufacturability (a working model), within a reasonably predictable range of costs. Additional criteria include receptive customers, or potential customers, as evidenced by interest expressed in a beta test prototype, at some suggested selling price.

Variations in Operating Results. Our quarterly operating results have varied in the past and may vary significantly in the future. Factors affecting operating results include the:

- Level of competition;



- Size, timing, cancellation or rescheduling of significant orders;
- Costs and availability of components;
- Our success in expanding sales and marketing programs;
- Technological changes in the market for data security products including the adoption of new technologies and standards;
- Market acceptance of new products and product enhancements;
- New product announcements or introductions by our competitors;
- Our ability to develop, introduce and market new products and product enhancements;
- Changes in pricing by us or our competitors;
- Changes in foreign currency exchange rates; and
- General economic trends and other factors.

In addition, for other than the corporate network access market, we have experienced, and may experience in the future, long sales cycles for customers with new applications. We also experience seasonality in our business. These seasonal trends are most notable in the summer months, particularly in Europe, when many businesses defer purchase decisions.

Because our operating expenses are based on anticipated revenue levels and a high percentage of our expenses are fixed, a small variation in the timing of recognition of revenue could cause significant variations in operating results from quarter to quarter.

Currency Fluctuations. Approximately 60% of our operating expenses in 2002 were denominated in a foreign currency. In addition, while the majority of our supply and sales transactions are denominated in U.S. dollars, a significant portion of those transactions are denominated in various foreign currencies. In order to reduce the risks associated with fluctuations in currency exchange rates, we attempt to match the timing of delivery, amount of product and the currency denomination of purchase orders placed with vendors with sales orders received from customers.

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 year. Translation adjustments arising from differences in exchange rates are included as a separate component of stockholders' equity (deficit). Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations. Foreign exchange transaction gains aggregating \$289,000, \$183,000 and \$77,000 are included in other non-operating income for 2000, 2001, and 2002, respectively.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain consolidated financial data as a percentage of revenues for the years ended December 31, 2000, 2001 and 2002.

	PERCENTAGE OF REVENUE YEAR ENDED DECEMBER 31,		
	2000	2001	2002
Revenues .....	100.0%	100.0%	100.0%
Cost of goods sold .....	35.9	39.6	37.9
Gross profit .....	64.1	60.4	62.1
Operating costs:			
Sales and marketing .....	35.5	50.8	42.0
Research and development .....	15.5	18.6	16.5
General and administrative .....	20.5	23.8	24.1
Non-cash compensation (recovery) .....	1.8	0.2	(0.3)
Restructuring expenses .....	--	16.0	1.7
Total operating costs .....	73.3	109.4	84.0
Operating loss .....	(9.2)	(49.0)	(21.9)
Interest income (expense) .....	0.1	2.9	(1.4)
Other (expense), net .....	(4.3)	1.1	--
Loss before income taxes .....	(13.4)	(45.0)	(23.3)
Provision for income taxes .....	1.4	--	0.7
Net loss .....	(14.8)	(45.0)	(24.0)

The following discussion is based upon the Company's consolidated results of operations for the years ended December 31, 2002, 2001 and 2000 (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-K.

2002 COMPARED TO 2001

Revenues

Our consolidated revenues for the year ended December 31, 2002 were \$18,913,000, a decrease of \$7,814,000 or 29%, as compared to the year ended December 31, 2001. Sales of Digipass products decreased by \$5,254,000 or 24% and revenues from non-token products decreased by \$2,560,000 or 49%, primarily related to the VACMAN Enterprise product line, which was also known as Snareworks. The Company discontinued the active marketing of the Snareworks product in the fourth quarter of 2001.

The geographic distribution of sales for the full year 2002 was 77% or \$14,658,000 from Europe, 16% or \$2,966,000 from the United States and 7% or \$1,289,000 from other countries, primarily Asia/Pacific. In 2001, the geographic distribution of sales was 79% or \$21,242,000 from Europe and 21% or \$5,485,000 from the United States.

Cost of Goods Sold

Our consolidated cost of goods sold for the year ended December 31, 2002 was \$7,171,000, a decrease of \$3,420,000, or 32%, as compared to the year ended December 31, 2001. This decrease was primarily due to the reduction in revenue but cost of goods sold was reduced further as a result of increased sales to the Corporate Network Access market, which have a lower cost than goods sold to the Banking market.

Gross Profit

Our consolidated gross profit for the year ended December 31, 2002 was \$11,743,000, a decrease of \$4,394,000, or 27%, from the year ended December 31, 2001. This represents a gross margin of 62%, as compared to 2001's gross margin of 60%. This increase in the gross margin rate was primarily due to increased sales of the Digipass products to the

Corporate Network Access market, which has a higher margin than the traditional Banking market, partially offset by the reduction in the sale of non-token products as a percent of total revenue.

#### Sales and Marketing Expenses

Consolidated sales and marketing expenses for the year ended December 31, 2002 were \$7,934,000, a decrease of \$5,646,000, or 42%, from 2001. This decrease is primarily due to the decrease in average full time sales and marketing employee headcount to 52 in 2002 from 68 in 2001 and their related expenses. The decrease also reflects a reduction in marketing activities that were related to the product lines discontinued in the fourth quarter of 2001.

#### Research and Development Expenses

Consolidated research and development costs for the year ended December 31, 2002 were \$3,117,000, a decrease of \$1,864,000, or 37%, as compared to the year ended December 31, 2001. This decrease was primarily related to our consolidation of our research activities in Europe and Australia as part of the restructuring in the fourth quarter of 2001 partially offset by having a full year of expense for Identikey in 2002 as compared to 9 months of expense in 2001. Average full time research and development employee headcount in 2002 was 20 compared to 38 in 2001.

#### General and Administrative Expenses

Consolidated general and administrative expenses for the year ended December 31, 2002 were \$4,567,000, a decrease of \$1,782,000, or 28%, from 2001. This decrease can be principally attributed to lower headcount, reduced spending on professional services and a reduction of amortization expenses resulting from the write off of assets as part of the restructuring in the fourth quarter of 2001. Average full time general and administrative employee headcount in 2002 was 12 compared to 16 in 2001.

#### Restructuring Expenses

Restructuring expenses for the year ended December 31, 2002 were \$320,000, a reduction of \$3,964,000 from 2001. The expense in 2002 reflects changes in estimates of the reserves established in the fourth quarter of 2001 and primarily relate to the shutdown of the French operation and excess office space in the United States.

#### Interest Income (expense), Net

Consolidated net interest income (expense) was an expense of \$270,000 in 2002 compared to income of \$775,000 in 2001. This increase in expense was primarily due to a reduction in average invested cash balances, down from an average of \$6,900,000 in 2001 to \$100,000 in 2002, the reversal in 2001 of an expense accrual recorded in 2000 for the restructuring of the Company's long-term debt, and an increase in the interest rate from 3.25% to 6%, effective August 1, 2001, on a \$3.4 million term loan, due September 30, 2003.

#### Income Taxes

An income tax expense for 2002 of \$140,000 compares to a recovery of \$13,000 recorded for the year ended December 31, 2001. Both amounts relate to one of our European subsidiaries.

At December 31, 2002, the Company had United States net operating loss carryforwards approximating \$26,300,000 and foreign net operating loss carryforwards approximating \$6,200,000. Such losses are available to offset future taxable income in the respective jurisdictions and expire in varying amounts beginning in 2003 and continuing through 2021. 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. carryforwards that could be utilized. The Company has recorded a 100% valuation allowance for the net operating loss carryforwards.

## 2001 COMPARED TO 2000

### Revenues

Our consolidated revenues for the year ended December 31, 2001 were \$26,727,000, a decrease of \$1,339,000, or 5%, as compared to the year ended December 31, 2000. Although sales of Digipass products increased by \$1,242,000 or 6%, revenues from non-token products, specifically VACMAN, decreased by \$2,581,000 or 33%.

The European operations contributed \$21,242,000 or 79% of total consolidated revenues, with the United States operations contributing the remaining \$5,485,000 or 21%.

### Cost of Goods Sold

Our consolidated cost of goods sold for the year ended December 31, 2001 was \$10,590,000, an increase of \$522,000, or 5%, as compared to the year ended December 31, 2000. This increase was primarily due to the sales mix. Digipass products, which carry a slightly lower gross margin, made up 81% and 72% of total sales for 2001 and 2000, respectively.

### Gross Profit

Our consolidated gross profit for the year ended December 31, 2001 was \$16,136,000, a decrease of \$1,860,000, or 10%, over the year ended December 31, 2000. This represents a gross margin of 60%, as compared to 2000's consolidated gross margin of 64%. This decrease was due to stronger sales of products with lower margins. Token products average gross margins of about 50% while non-token products average over 90%.

### Sales and Marketing Expenses

Consolidated sales and marketing expenses for the year ended December 31, 2001 were \$13,579,000, an increase of \$3,626,000, or 36%, over 2000. This increase is mainly due to the increase in average full time sales and marketing employee headcount of 68 in 2001 versus 43 in 2000. Also, increased sales efforts including, in part, increased travel costs, and an increase in marketing activities, including tradeshows, contributed to this expense. Additionally, the acquisition of Identikey in March 2001 and the opening of the sales office in Singapore resulted in additional expenses.

### Research and Development Expenses

Consolidated research and development costs for the year ended December 31, 2001 were \$4,981,000, an increase of \$612,000, or 14%, as compared to the year ended December 31, 2000. This increase was, in part, related to the acquisition of Identikey in March 2001. As Identikey is primarily a development center, the acquisition resulted in increased research and development headcount and expenditures at an additional facility. Average full time research and development employee headcount in 2001 was 38 compared to 32 in 2000.

### General and Administrative Expenses

Consolidated general and administrative expenses for the year ended December 31, 2001 were \$6,349,000, an increase of \$575,000, or 10%, over 2000. This increase can be principally attributed to the acquisition of Identikey. As a result of our fourth quarter restructuring, administrative headcount at the end of 2001 was 13 compared to 19 at the end of 2000.

### Interest Income (expense), Net

Consolidated interest income (expense), net in 2001 was \$775,000 compared to \$29,000 in 2000. This increase was due to a reversal of interest expense accrued in 2000 associated with the restructuring of the Company's long-term debt.

## Income Taxes

An income tax recovery of \$13,000 was recorded for the year ended December 31, 2001, which relates to one of our European subsidiaries.

At December 31, 2001, the Company has United States net operating loss carryforwards approximating \$22,400,000 and foreign net operating loss carryforwards approximating \$3,400,000. Such losses are available to offset future taxable income in the respective jurisdictions and expire in varying amounts beginning in 2002 and continuing through 2020. 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. carryforwards that could be utilized.

## RECENT DEVELOPMENTS

On March 18, 2003, the Company announced that it had entered into a Letter of Intent to sell its VACMAN Enterprise business, originally known as Snareworks, to Secured Services, Inc. The Company will continue to sell, support, maintain, and develop its VACMAN and Digipass strong user authentication products.

The Letter of Intent provides that the Company will receive \$2 million of a class of convertible preferred stock from Secured Services and a share of the net profits of the business earned from existing customers over the three years subsequent to the sale date. The preferred stock will accrue a 6% cumulative dividend payable at maturity in 48 months or upon earlier redemption, and will be convertible at maturity based upon a formula conversion price. Closing of the transaction is contingent upon the satisfactory completion of due diligence and the execution of a definitive agreement, and is expected to occur in the second quarter of 2003.

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2002, our aggregate consolidated indebtedness was \$3,622,000. Cash used in operating activities was \$2,910,000 during the year ended December 31, 2002. During 2002, we used \$90,000 in investing activities, \$237,000 in financing activities consisting of debt payments, and the effect of unfavorable changes in exchange rates resulted in the use of \$489,000. Net capital expenditures, assets purchased less assets sold, used \$16,000 for the year ended December 31, 2002.

In 1997, we entered into a convertible loan agreement with Artesia Bank N.V., formerly Banque Paribas Belgique S.A. and now doing business as Dexia Bank ("Dexia"), in order to refinance the \$3,400,000 payment due December 31, 1997 in connection with our acquisition of Digipass. The terms of the agreement provided that the \$3,400,000 principal amount is convertible, upon an offering, into shares of our Common Stock. The original interest was at the rate of 3.25%, payable annually, and the original maturity date was on September 30, 2002. On August 9, 2001, the terms of this loan were restructured. Under the revised terms, the loan is now convertible into shares of our Common Stock at the fixed conversion rate of \$7.50 per share rather than a floating rate based on the market price of our Common Stock. The maturity date of the convertible loan is September 30, 2003 and the interest rate is 6%. The loan is secured by a pledge of our Common Stock owned by Mr. T. Kendall Hunt, the Company's Chairman of the Board of Directors and Chief Executive Officer. In consideration of that pledge, the Company has entered into an agreement with Mr. Hunt wherein, in the event that his shares are surrendered to Dexia under the pledge agreement, the Company will indemnify Mr. Hunt for the fair value of the shares surrendered and pay such amount over a period that is mutually acceptable to the parties.

In July 2000, the Company issued 150,000 shares of preferred stock for cash of \$15,000,000. The preferred stock is convertible into 1,052,632 shares of Common Stock at any time through July 2004. If not converted by July 2004, the preferred stock will, at the option of the Company, be either repurchased or converted into Common Stock at a rate equal to the average market price of the Common Stock for 30 consecutive business days on which the common stock was traded prior to the conversion date less five (5) percent.

The Company maintains an overdraft agreement with Fortis Banque/Bank of Belgium. Under terms of the agreement, the Company can borrow an amount equal to 80% of its Belgium subsidiary's defined accounts receivable up to maximum of two million Euros. Borrowings under the overdraft agreement accrue interest at an annual rate of 6.75% and the Company is obligated to pay a quarterly commitment fee of 0.125%. As of December 31, 2002, approximately \$1,360,000 Euros was available under the overdraft agreement and there were no borrowings outstanding under the

agreement. The agreement is secured by the assets of the Belgian subsidiary and while it has no specific termination date, it can be terminated with thirty (30) days notice. The agreement is governed by the General Lending Conditions for Corporate Customers, registered in Brussels Belgium on December 16, 1989.

The net effect of 2002 activity resulted in a decrease in cash of \$3,727,000 and a cash balance of \$2,616,000 at December 31, 2002, compared to \$6,342,000 at the end of 2001. Our working capital at December 31, 2002 was a deficit of \$687,000, a decrease of \$7,348,000 from \$6,661,000 at December 31, 2001. The change is attributable to the classification of the \$3,400,000 term loan as a current liability and to operating activities. Our current ratio was 0.92 to 1.0 at December 31, 2002. We believe that our current cash balances, credit available under our existing overdraft agreement, the anticipated cash generated from operations, including the realization of deferred revenue recorded as a current liability, deposits received on orders of Digipass to be delivered in 2003 and the impact of either renegotiating the loan with Dexia, or entering into a separate agreement to replace or repay the loan to Dexia, or having Mr. Hunt surrender his shares to Dexia will be sufficient to meet our anticipated cash needs for the foreseeable future.

There is substantial risk, however, that the our revenue and cash receipts will not grow at a sufficient rate to generate the funds needed to repay our debt to Dexia within the terms of the existing agreement. If we are unable to meet our revenue and cash goals and are also unable to renegotiate the terms of the agreement with Dexia or reach a mutually acceptable agreement with Mr. Hunt as an indemnity for his loss as a result of his surrender of shares of our Common Stock to Dexia, we will need to significantly reduce our workforce, sell certain of our assets, enter into strategic relationships or business combinations, discontinue some or all of our operations, or take other similar restructuring actions. While we expect 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 we would incur substantial non-recurring costs to implement one or more of these restructuring actions.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an on-going basis, management evaluates its estimates and judgments, including those related to bad debts and intangible assets. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

**ALLOWANCE FOR DOUBTFUL ACCOUNTS:** We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payments for services. We analyze accounts receivable, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

**VALUATION OF GOODWILL AND OTHER INTANGIBLE ASSETS, AND SOFTWARE DEVELOPMENT COSTS:** We assess the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, and significant negative industry or economic trends. The Company assesses the recoverability of its purchased software against estimated future revenue for the individual products over the estimated remaining economic life of the software.

When we determine that the carrying value of intangibles and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected

discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Given the highly competitive environment and technological changes in our industry, it is reasonably possible that estimates of anticipated future revenue, the remaining economic life of the Company's software products, or both may be reduced significantly.

#### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. SFAS 143 must be applied starting with fiscal years beginning after June 15, 2002. Management does not believe the adoption of SFAS No. 143 will have a significant impact on the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS 145 requires that gains and losses from extinguishments of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30. Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent and meet the criteria for classification as an extraordinary item. SFAS No. 145 is effective beginning January 1, 2003. Management does not believe the adoption of SFAS No. 145 will have a significant impact on the Company's consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. This standard will be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management does not believe the adoption of SFAS No. 146 will have a significant impact on the Company's consolidated financial statements.

In 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"), which requires additional disclosures by a guarantor about its obligations under certain guarantees that it has issued. FIN No. 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The accounting requirements of FIN No. 45 are effective for the Company on January 1, 2003, on a prospective basis. The impact of adoption is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

In December 2002, the FASB issued SFAS No. 148 Accounting for Stock-Based Compensation--Transition and Disclosure an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123, to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS No. 148 also amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. SFAS 148 must be applied starting with fiscal years beginning after December 16, 2003.

#### ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Foreign Currency Exchange Risk - Approximately 84% of our business is conducted outside the United States, in Europe and Asia/Pacific. A significant portion of our business operations is transacted in foreign currencies. As a result, we have exposure to foreign exchange fluctuations. We are affected by both foreign currency translation and transaction adjustments. Translation adjustments result from the conversion of the foreign subsidiaries' balance sheets and income statements to U.S. dollars at year-end exchange rates and weighted average exchange rates, respectively. Translation adjustments resulting from this process are recorded directly into stockholders' equity. Transaction adjustments result from currency exchange movements when a foreign subsidiary transacts business in a currency that differs from its local currency. These transactions are recorded as gains or losses in our statement of operations. Our foreign subsidiaries' business

transactions are spread across approximately 50 different countries and currencies. This geographic diversity reduces the risk to our operating results.

**Interest Rate Risk** - We have minimal interest rate risk. Our \$3,400,000 long-term debt has a fixed rate of 6%, which is not subject to market fluctuations. This note matures in September 2003. If renegotiated, the interest rate on the debt could increase. Interest expense will increase \$34,000 annually for each percentage point that the interest rate increases.

**Impairment Risk** - At December 31, 2002, we had goodwill and other intangible assets of \$2,160,000 related mostly to technology purchased in 2001 as part of our acquisition of Identikey. We will assess the net realizable value of the intangible assets on a regular basis to determine if we have incurred any declines, other than a temporary decline, in the value of our capital investment. While we did not experience impairment for the year ended December 31, 2002, we may incur impairment charges in future periods.

#### ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information in response to this item is included in our consolidated financial statements, together with the report thereon of KPMG LLP, appearing on pages F-1 through F-20 of this Form 10-K, and in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### PART III

#### ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

##### DIRECTORS AND EXECUTIVE OFFICERS

**T. KENDALL "KEN" HUNT** -- Mr. Hunt is Chairman of the Board and Chief Executive Officer. He served as our Chief Executive Officer through June 1999. He returned as CEO in November 2002. He has been a director since July 1997 and currently serves a one-year term. He served since 1990 as Chairman and President of our predecessor, VASCO Corp. Mr. Hunt is a director of Dolfin.com, Inc. and Secured Services, Inc., both privately held companies. Mr. Hunt received a B.B.A. from the University of Miami, Miami, Florida and an M.B.A. from Pepperdine University, Malibu, California. Mr. Hunt is 59 years old.

**MICHAEL P. CULLINANE** -- Mr. Cullinane has been a director since April 10, 1998 and currently serves a one-year term. He is the Chairman of our Audit Committee and a member of our Compensation Committee. Mr. Cullinane is currently the Executive Vice President and Chief Financial Officer of Divine, Inc. From 1988 to June 1999 he served as Executive Vice President, Chief Financial Officer and a director of PLATINUM Technology International, Inc. Mr. Cullinane is a director of Divine, Inc. and Made 2 Manage Systems, Inc., both of which are public companies. Mr. Cullinane received a B.B.A. from the University of Notre Dame, South Bend, Indiana. Mr. Cullinane is 53 years old.

**FORREST D. LAIDLEY** -- Mr. Laidley has been a director since July 1997 and currently serves a one-year term. Mr. Laidley was our Secretary from our inception through September 2000. He has been involved with us and our predecessor, VASCO Corp., for certain periods since 1984 in similar capacities and currently serves as Chairman of our Compensation Committee and a member of our Audit Committee. Mr. Laidley is a partner in the law firm of Tressler, Soderstrom, Maloney & Priess, where he has practiced since 1999. Prior to that he was a partner in the law firm of Laidley & Porter (a predecessor firm) in Libertyville, Illinois since 1985. He serves on the Advisory Council on Main Street Libertyville, and is President and sole stockholder of Forrest Properties, Inc., an Illinois real estate development corporation. Mr. Laidley received a B.A. in History from Yale University, New Haven, Connecticut and a J.D. from DePaul University, Chicago, Illinois. Mr. Laidley is 59 years old.



MICHAEL A. MULSHINE -- Mr. Mulshine has been a director since July 1997 and currently serves a one-year term. He served since 1992 as a director of our predecessor, VASCO Corp. He is a member of our Audit Committee and Compensation Committee. He is, and since 1977 has been, a principal of Osprey Partners, a management consulting firm. Since 1985 he has been a director and Secretary of SEDONA Corporation, a developer and marketer of enterprise scale Internet solutions. Mr. Mulshine received a B.S. in Electrical Engineering from Newark College of Engineering, Newark, New Jersey. Mr. Mulshine is 63 years old.

#### EXECUTIVE OFFICERS

JAN VALCKE -- Mr. Valcke is President & Chief Operating Officer. Mr. Valcke has been an officer of the Company since 1996. From 1992 to 1996, he was Vice-President of Sales and Marketing of Digipass NV/SA, a member of the Digiline group. He co-founded Digiline in 1988 and was a member of the Board of Directors of Digiline. Mr. Valcke received a degree in Science from Kortrijk High School in Kortrijk, Belgium. Mr. Valcke is 49 years old.

CLIFFORD K. BOWN -- Mr. Bown is Executive Vice President & Chief Financial Officer. Mr. Bown started his career with KPMG where he directed the audits for several publicly held companies, including a global leader that provides integrated and embedded communications solutions. He was CFO for publicly held XL/DATACOMP, a \$300 million provider of midrange computer systems and support services in the U. S. and U. K. Mr. Bown also held CFO positions in two other companies focused on insurance and healthcare. Mr. Bown received his MBA from the University of Chicago, a B.S. in Accountancy from the University of Illinois, and he has a CPA certificate. Mr. Bown is 51 years old.

## ITEM 11 - EXECUTIVE COMPENSATION

## SUMMARY COMPENSATION TABLE

The following table sets forth all compensation awarded to, earned by, or paid for services rendered to VASCO and our subsidiaries in all capacities during the three years ended December 31, 2000, 2001 and 2002 for our Chief Executive Officer and President and Executive Vice Presidents, who are the only executive officers of VASCO and our subsidiaries whose salary and bonus for such year exceeded \$100,000 (collectively, the "Named Executive Officers").

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION			
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)	AWARDS		PAYOUTS	
					RESTRICTED STOCK AWARD(S) (\$)	SECURITIES UNDERLYING OPTIONS/SARS (#)	LTIP PAYOUTS (\$)	ALL OTHER COMPENSATION (\$)
T. KENDALL HUNT (1) Chairman and Chief Executive Officer	2002	152,627	42,500	--	--	120,000	--	--
	2001	165,000	25,000	--	--	90,000	--	--
	2000	165,000	--	--	--	30,000	--	--
JAN VALCKE (2) President and Chief Operating Officer	2002	166,667	40,000	34,889	--	50,000	--	--
	2001	155,000	36,600	8,597	--	50,000	--	--
	2000	107,895	29,288	--	--	--	--	--
CLIFFORD K. BOWN (3) Executive Vice President, Chief Financial Officer and Secretary	2002	50,600	--	--	--	75,000	--	--
MARIO R. HOUTHOOFT (4) Chief Executive Officer, President and Director	2002	186,875	81,250	103,372	--	120,000	--	75,113
	2001	225,000	110,000	99,337	--	120,000	--	--
	2000	180,000	--	103,793	--	--	--	--
DENNIS D. WILSON (5) Executive Vice President, Chief Financial Officer and Secretary	2002	100,347	40,000	--	--	150,000	--	--
	2001	155,000	45,000	--	--	50,000	--	--
	2000	94,167	15,000	--	--	100,000	--	--

- (1) Mr. Hunt returned as CEO as of the Company on November 20, 2002.
- (2) Mr. Valcke was elected President and COO as of November 20, 2002. Other Annual Compensation primarily includes employment-related expenses billed by Mr. Valcke as an independent contractor.
- (3) Mr. Bown joined the Company as Executive Vice President and Chief Financial Officer on August 19, 2002. He was appointed Secretary of the Company as of October 21, 2002.
- (4) Mr. Houthoof was terminated from the Company as its President and CEO on November 20, 2002. Other Annual Compensation primarily includes employment-related expenses billed by Mr. Houthoof as an independent contractor. All Other Compensation includes the forgiveness of loans made to Mr. Houthoof related to taxes paid under Belgium law related to the granting of Employee Stock Options.
- (5) Mr. Wilson resigned as the Company's Executive Vice President and CFO on August 21, 2002.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

The following table sets forth all options granted to the Named Executive Officers during 2002.

INDIVIDUAL GRANTS

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (1)	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OF BASE PRICE (\$/SH)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (2)	
					5% (\$)	10% (\$)
T. Kendall Hunt	120,000	7.3 %	2.27	1/09/12	171,310	434,135
Jan Valcke	50,000	3.0 %	2.27	1/09/12	71,380	180,890
Clifford K. Bown	75,000	4.6 %	1.20	8/19/12	56,600	143,440
Mario R. Houthoof (3)	120,000	7.3 %	2.27	1/09/12	171,310	434,135
Dennis D. Wilson (3)	150,000	9.1 %	2.27	1/09/12	214,140	542,670

(1) Vesting schedule is based on a time period of 36 months, with 6/36th of the options vesting at the end of the first six months and 1/36th of the options vesting each month thereafter on the last day of each month.

(2) The potential realizable value amounts shown illustrate the values that might be realized upon exercise immediately prior to the expiration of their term using five percent and ten percent appreciation rates as required to be used in this table by the Securities and Exchange Commission, compounded annually, and are not intended to forecast future appreciation, if any, of our stock price. Additionally, these values do not take into consideration the provisions of the options providing for nontransferability or termination of the options following termination of employment. Therefore, the actual values realized may be greater or less than the potential realizable values set forth in the table.

(3) All of the options granted to Mr. Houthoof and Mr. Wilson lapsed ninety (90) days after their separation from the Company.

AGGREGATED OPTION /SAR EXERCISES IN LAST FISCAL YEAR  
AND FISCAL YEAR END OPTION/SAR VALUES

The following table sets forth the aggregate value as of December 31, 2002 of unexercised stock options held by the Named Executive Officers. The Named Executive Officers did not exercise any stock options during 2001 and the relevant columns have, therefore, been omitted.

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FISCAL YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FISCAL YEAR-END (\$)(1)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
T. Kendall Hunt	227,164	167,836	0	0
Jan Valcke	134,582	99,168	0	0
Clifford K. Bown	0	75,000	0	0
Mario R. Houthoofst	566,999	278,001	0	0
Dennis D. Wilson	0	0	0	0

(1) Market value of underlying securities is based on the closing price of the Common Stock as reported on the Nasdaq National market on December 31, 2002 (\$0.97) minus the exercise price.

COMPENSATION OF DIRECTORS

The Compensation Committee of our Board of Directors reviews and sets the salaries and incentive compensation for our executive officers, directors and other key personnel. The Compensation Committee also administers our stock option plan. In its capacity as administrator of the stock option plan, the Compensation Committee has authority to grant stock options and determine the terms thereof. The members of the Compensation Committee for 2002 were: Forrest D. Laidley, Michael P. Cullinane and Michael A. Mulshine.

Each of our directors received a quarterly cash payment of \$3,750 in connection with his service on the Board of Directors in 2002. Our directors are also reimbursed for expenses incurred in connection with their attendance at periodic Board meetings. In addition, non-employee directors are eligible to receive stock option grants from time to time. In 2002, options to purchase 18,000 shares of our Common Stock, at a per share exercise price of \$2.27, were issued to each of Messrs. Cullinane, Dumolin, Laidley, Lebeer and Mulshine.

EMPLOYMENT AGREEMENTS

Mr. Hunt's salary and bonus are determined pursuant to his employment agreement dated November 20, 2002. Mr. Hunt's annual salary, any discretionary bonus and stock options will be determined by the Compensation Committee for each fiscal year of the Company during the employment period. In 2002, Mr. Hunt received a base salary of \$152,627, a cash bonus of \$42,500, and 120,000 stock options. In the event Mr. Hunt is terminated Without Cause, he quits for Good Reason, or he is terminated or quits for Good Reason after a Change in Control (as the foregoing terms are defined in his employment agreement), Mr. Hunt will continue to receive his base pay and any applicable Incentive Compensation over a 24-month period. In the event of such termination, Mr. Hunt has agreed to abide by several non-compete restrictions. Mr. Hunt's current 2003 annual base salary is \$140,000, and can be adjusted by the Compensation Committee based on the Company's performance in 2003. There is no bonus plan for 2003; however, the Compensation Committee has the discretion to award merit bonuses based on the Company's performance in 2003.

Mr. Valcke's salary and bonus are determined pursuant to an Independent Contractor Employment Agreement dated November 20, 2002. Mr. Valcke's annual salary, his bonus and stock options will be determined by the Compensation Committee for each fiscal year of the Company during the employment period. In 2002, Mr. Valcke received \$201,556 in base compensation, including employment-related expenses billed as an independent contractor, cash bonuses totaling 40,000 and 50,000 stock options. Either Party shall have the option to terminate Mr. Valcke's employment with or without

cause, for any reason whatsoever, without any breach of this Agreement by giving six (6) month's written notice. In the event of such termination, Mr. Valcke has agreed to abide by various non-compete and non-solicitation restrictions for up to 12 months following termination of the Agreement. Mr. Valcke's 2003 base compensation is \$260,000. There is no bonus plan for 2003; however, the Compensation Committee has the discretion to award merit bonuses based on the Company's performance in 2003.

Mr. Bown's salary and bonus are determined pursuant to his employment agreement dated January 1, 2003. Mr. Bown's annual salary, any discretionary bonus and stock options will be determined by the Compensation Committee for each fiscal year of the Company during the employment period. In 2002, Mr. Bown received a base salary of \$50,600, no cash bonus, and 75,000 stock options. In the event Mr. Bown is terminated Without Cause, he quits for Good Reason, or he is terminated or quits for Good Reason after a Change in Control (as the foregoing terms are defined in his employment agreement), Mr. Bown will continue to receive his base pay and any applicable Incentive Compensation over a 12-month period. In the event of such termination, Mr. Bown has agreed to abide by various non-compete restrictions. Mr. Bown's 2003 annual base salary is \$150,000. There is no bonus plan for 2003; however, the Compensation Committee has the discretion to award merit bonuses based on the Company's performance in 2003.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

For 2002, our Compensation Committee was comprised of Messrs. Laidley, Cullinane and Mulshine. Forrest D. Laidley serves as a Director and was previously our Secretary. Also, Mr. Laidley was previously a partner in the law firm of Laidley & Porter, which firm performed various legal services for us. Since 1999, Mr. Laidley has been a partner in the law firm of Tressler, Soderstrom, Maloney & Priess. Tressler, Soderstrom, Maloney & Priess has not provided any services to the Company. Mr. Laidley and his former partners have made equity investments in us from time to time through various private placements and are currently stockholders.

#### SECTION 16(A) BENEFICIAL OWNERSHIP COMPLIANCE

Section 16(a) of the Exchange Act requires directors and executive officers, and persons who beneficially own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Commission and The Nasdaq Stock Market, Inc. Directors, executive officers and beneficial owners of more than 10% of the outstanding shares of Common Stock are required by Commission regulations to furnish us with copies of all Section 16(a) forms that they file. Based solely on review of the copies of such forms or written representations that no reports under Section 16(a) were required, we believe that for the year period ended December 31, 2002, all of the Company's directors, executive officers and greater than 10% beneficial owners complied with Section 16(a) filing requirements applicable to them.

#### REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

##### OVERVIEW

Our Board of Directors established a Compensation Committee in March of 1998. For 2002, the Compensation Committee consisted of Messrs. Laidley, Cullinane and Mulshine, none of whom is employed by the Company, and none of whom has any "interlocking" relationships as defined for proxy statement disclosure purposes.

The Compensation Committee is responsible for determining the compensation for our officers and employees. In accordance with its right to do so, the Committee has elected to delegate the fixing of salaries below certain levels to VASCO's Chief Executive Officer. The Compensation Committee also administers our Amended and Restated 1997 Stock Option Plan ("Amended and Restated Option Plan") and the Executive Incentive Compensation Plan ("Incentive Plan"), including the designation of which officers, key employees and directors shall receive options under the Option Plan and the amount, terms, pricing, and vesting provisions of options granted pursuant to the Option Plan.

##### EXECUTIVE COMPENSATION PHILOSOPHY

We operate in the competitive technology industry and view our ability to attract and retain highly qualified and dedicated executives and key employees as a critical component of our future success. We strive to maintain an

entrepreneurial atmosphere and to maintain a low cost operating structure. Consequently, we employ a combination of salary, bonuses and stock options to reward, retain and provide incentives to our executives and key employees.

#### 2002 CHIEF EXECUTIVE OFFICER COMPENSATION

The Compensation Committee believes that the salary approved for Mr. Houthoof, the former Chief Executive Officer of the Company, reflected market value for his services in 2002. Given this and the relative performance of the Company during 2002, the Compensation Committee of the Company believes that Mr. Houthoof's approved compensation was appropriate. Mr. Houthoof was terminated as of November 20, 2002.

Mr. Hunt, the Company's current CEO, is being paid below market and is expected to be adjusted based on the performance of the Company.

#### 2002 COMPENSATION OF OTHER EXECUTIVE OFFICERS

Although we strove to maintain a low cost operating structure, our Compensation Committee aimed to set other executives' and key employees' salaries at a competitive level. The base salary for each executive officer is set on the basis of personal performance and the salary level in effect for comparable positions at companies that compete for executive talent.

At our 1999 Annual Meeting of Stockholders, VASCO's stockholders approved the Amended and Restated Option Plan. The Amended and Restated Option Plan was designed to serve as a performance incentive to encourage our executives, key employees and others to acquire or increase a proprietary interest in the success of VASCO. The Compensation Committee believes that, over a period of time, our share performance will, to a great extent, reflect executive and key employee performance.

The Amended and Restated Option Plan provides that options may be granted at the discretion of the Compensation Committee, in such amounts and subject to such conditions as the Compensation Committee may determine in accordance with the terms thereof. Options granted to employees are priced at market, are generally fully vested after five years and expire at the end of ten years.

The Executive Incentive Compensation Plan covers our eligible executives and key employees (each a "participant"), with such eligibility determined at the end of each year at the sole discretion of the Compensation Committee. Awards are based on prior year operating results, such results being subject to audit by our independent accountants, and are distributed following the completion of such audit.

The Compensation Committee approved a quarterly bonus program for its executives at the beginning of 2002. This program was designed to reward the executive team for achieving its revenue and operating income business plan targets for each quarter in 2002. As was the case in determining the annual 2002 salaries for each executive, the quarterly bonuses were determined by analyzing the actual 2000 compensation for other executives in our industry. It was the Compensation Committee's goal to target these quarterly bonuses at a level commensurate with "market" compensation for comparable executives

Awards, in whole or in part, may be offered in the form of shares of the Common Stock or cash at the sole discretion of the Compensation Committee and the Compensation Committee also may elect to delegate the choice of cash or stock to the individual participants. To the extent that shares of stock are awarded in lieu of cash, the number of shares is based on the market value of the Common Stock on the date the award is determined, and are taxable to the participant in the year the award is granted. Such shares are restricted and cannot be sold or transferred except pursuant to registration under the Securities Act of 1933 or an exemption from such registration.

Respectfully submitted,

Forrest D. Laidley, Chairman  
Michael P. Cullinane  
Michael A. Mulshine

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our Common Stock as of March 20, 2003 for each person or entity who is known to us to beneficially own five percent or more of the Common Stock. For purposes of the table, a person or group of persons is deemed to have beneficial ownership of any shares as of a given date that such person has the right to acquire within 60 days after such date.

CLASS OF SECURITIES	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Common	T. Kendall Hunt 1901 S. Meyers Road Ste. 210 Oakbrook Terrace, IL 60181	10,369,306 (1)	35.683%

(1) Includes 200,000 shares held in the T. Kendall Hunt Charitable Remainder Trust and 1,111,300 shares held by Barbara J. Hunt, Mr. Hunt's spouse, as to which shares Mr. Hunt disclaims beneficial ownership.

The table below sets forth certain information with respect to the beneficial ownership of our Common Stock as of March 31, 2003 for (i) each of our directors, (ii) each of our named executive officers, and (iii) all directors and executive officers as a group. The persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them unless otherwise indicated. For purposes of the table, a person or group of persons is deemed to have beneficial ownership of any shares as of a given date which such person has the right to acquire within 60 days after such date.

CLASS OF SECURITIES	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1)	PERCENT OF CLASS
Common	T. Kendall Hunt 1901 S. Meyers Road Ste. 210 Oakbrook Terrace, IL 60181	10,369,306 (2)	35.683%
Common	Jan Valcke Koningin Astridlaan 164 B-1780 Wommel, Belgium	154,235	0.531%
Common	Forrest D. Laidley 552 Stevenson Drive Libertyville, IL 60048	644,403	2.218%
Common	Michael P. Cullinane 2233 Edgebrook Drive Lisle, IL 60532	57,000	0.196%
Common	Michael A. Mulshine 2517 Route 35, suite D-201 Manasquan, NJ 08736	95,900	0.330%
Common	Cliff Bown 1901 S. Meyers Road Ste. 210 Oakbrook Terrace, IL 60181	23,750	0.081%
Common	All Executive Officers and Directors as a Group (6 persons)	11,344,594	39.039%

(1) The number of shares beneficially owned by each director and executive officer is determined under rules promulgated by the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days after March 31, 2003 through the exercise of any stock option or other right. The inclusion herein of such shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of such shares. Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares such power with his or her spouse) with respect to all shares of capital stock listed as owned by such person or entity.

(2) Includes 200,000 shares held in the T. Kendall Hunt Charitable Remainder Trust and 1,111,300 shares held by Barbara J. Hunt, Mr. Hunt's spouse, as to which shares Mr. Hunt disclaims beneficial ownership.

#### ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In consideration of the pledge of the Company's Common Stock owned by Mr. Hunt to Dexia Bank, in connection with our \$3,400,000 term loan, the Company has entered into an agreement with Mr. Hunt wherein, in the event that his shares are surrendered to Dexia under the pledge agreement, the Company will indemnify Mr. Hunt for the fair value of the shares surrendered and pay such amount over a period that is mutually acceptable to the parties. The agreement further provides that the Company will grant a lien on the general assets of the Company as security for the amount due Mr. Hunt.

In 2002, the Company loaned Belgian employees who received stock options in 1999 and 2000, 141,895 Euros to pay taxes assessed on those options by the Belgian Government. Even though stock options granted to all employees were granted at prices equal to the fair market value of the Common Stock on the date of the grant, Belgian employees who were recipients of stock options were assessed taxes based on the value determined under Belgian tax legislation dated March 26, 1999. The total amounts advanced in 2002 were based on each recipient's specific tax assessment. Due to the uncertainty of collecting the amounts loaned to the employees, the notes have been fully reserved for as of December 31, 2002.

#### ITEM 14 - CONTROLS AND PROCEDURES

##### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by the Company in this Form 10-K, and in other reports required to be filed under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the rules and forms for such filings. Management of the Company, under the direction of the Company's Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of the Company's disclosure controls and procedures within 90 days prior to filing this report (the "Evaluation Date"). Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with other key management of the Company, have determined that the disclosure controls and procedures were and are effective as designed to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them on a timely basis.

##### CHANGES IN INTERNAL CONTROLS

There were no significant changes in the Company's internal controls or other factors that could significantly affect these controls subsequent to the Evaluation Date.

#### PART IV

#### ITEM 15 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) The following consolidated financial statements and notes thereto, and the related independent auditors' report, are included on pages F-1 through F-20 of this Form 10-K:

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 2001 and 2002

Consolidated Statements of Operations for the Years Ended December 31, 2000, 2001 and 2002

Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2000, 2001 and 2002



Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 2000, 2001 and 2002

Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 2001 and 2002

Notes to Consolidated Financial Statements

(2) The following consolidated financial statement schedule of the Company is included in this Form 10-K:

- Schedule II - Valuation and Qualifying Accounts

All other financial statement schedules are omitted because such schedules are not required or the information required has been presented in the aforementioned consolidated financial statements.

(3) The following exhibits are filed with this Form 10-K or incorporated by reference as set forth at the end of the list of exhibits:

EXHIBIT  
NUMBER

DESCRIPTION

- 
- +3.1 Certificate of Incorporation of Registrant, as amended.
  - ++3.2 Bylaws of Registrant, as amended and restated.
    - 4.1 Intentionally Omitted.
  - +4.2 Specimen of Registrant's Common Stock Certificate.
    - 4.3 Intentionally Omitted.
  - +4.4 Form of Letter of Transmittal and Release.
  - +4.5 Form of Registrant's Warrant Agreement.
  - +4.6 Form of Registrant's Option Agreement.
  - +4.7 Form of Registrant's Convertible Note Agreement.
  - +10.1 Netscape Communications Corporation OEM Software Order Form dated March 18, 1997 between VASCO Data Security, Inc. and Netscape Communications Corporation.\*\*
  - +10.2 License Agreement between VASCO Data Security, Inc. and SHIVA Corporation effective June 5, 1997.\*\*
  - +10.3 Heads of Agreement between VASCO Data Security International, Inc., VASCO Data Security Europe S.A., Digiline International Luxembourg, Digiline S.A., Digipass S.A., Dominique Colard and Tops S.A. dated May 13, 1996.
  - +10.4 Agreement relating to additional terms and conditions to the Heads of Agreement dated July 9, 1996, among the parties listed in Exhibit 10.3.
  - +10.5 Agreement between VASCO Data Security International, Inc., VASCO Data Security Europe SA/NV, Mario Houthoof and Guy Denudt dated March 1, 1996.
  - +10.6 Asset Purchase Agreement dated as of March 1996 by and between Lintel Security SA/NV and Lintel SA/NV, Mario Houthoof and Guy Denudt.

EXHIBIT NUMBER	DESCRIPTION
+10.7	Management Agreement dated January 31, 1997 between LINK BVBA and VASCO Data Security NV/SA (concerning services of Mario Houthoof).
+10.8	Sublease Agreement by and between VASCO Data Security International, Inc. and APL Land Transport Services, Inc. dated as of August 29, 1997.
+10.9	Office Lease by and between VASCO Data Security International, Inc. and LaSalle National Bank, not personally, but as Trustee under Trust Agreement dated September 1, 1997, and known as Trust Number 53107, dated July 22, 1985.
+10.10	Lease Agreement by and between TOPS S.A. and Digipass S.A. effective July 1, 1996.
+10.11	Lease Agreement by and between Perkins Commercial Management Company, Inc. and VASCO Data Security, Inc. dated November 21, 1995.
+10.12	Asset Purchase Agreement by and between VASCO Data Security International, Inc. and Wizdom Systems, Inc. dated August 20, 1996.
+10.13	1997 VASCO Data Security International, Inc. Stock Option Plan, as amended.
+10.14	Distributor Agreement between VASCO Data Security, Inc. and Hucom, Inc. dated June 3, 1997.**
+10.15	Non-Exclusive Distributor Agreement by and between VASCO Data Security, Inc. and Concord-Eracom Nederland BV dated May 1, 1994.**
+10.16	Banque Paribas Belgique S. A. Convertible Loan Agreement for \$3.4 million.
+10.17	Pledge Agreement dated July 15, 1997 by and between T. Kendall Hunt and Banque Paribas Belgique S.A.
+10.18	Engagement Letter between Banque Paribas S.A. and VASCO Data Security International, Inc. dated June 20, 1997, as amended.
+10.19	Financing Agreement between Generale Bank and VASCO Data Security International, Inc. dated as of June 27, 1997.
+10.20	Letter Agreement between Generale Bank and VASCO Data Security International, Inc. dated June 26, 1997.
+10.21	Form of Warrant dated June 16, 1997 (with Schedule).
+10.22	Form of Warrant dated October 31, 1995 (with Schedule).
+10.23	Form of Warrant dated March 7, 1997 (with Schedule).
+10.24	Form of Warrant dated August 13, 1996 (with Schedule).
+10.25	Form of Warrant dated June 27, 1996 (with Schedule).
+10.26	Form of Warrant dated June 27, 1996 (with Schedule).
+10.27	Convertible Note in the principal amount of \$500,000.00, payable to Generale de Banque dated July 1, 1997 (with Schedule).
+10.28	Agreement by and between VASCO Data Security NV/SA and S.I. Electronics Limited effective January 21, 1997.**

EXHIBIT NUMBER	DESCRIPTION
+10.29	Agreement effective May 1, 1993 by and between Digipass s.a. and Digiline s.a.r.l.
+10.30	VASCO Data Security, Inc. purchase order issued to National Electronic & Watch Co. LTD. **
+10.31	VASCO Data Security, Inc. purchase order issued to Micronix Integrated Systems.**
+10.32	Agreement between Registrant and VASCO Data Security International, Inc. dated as of August 25, 1997.
+10.33	Convertible Note dated June 1, 1996 made payable to Mario Houthoof in the principal amount of \$373,750.00.
+10.34	Convertible Note dated June 1, 1996 made payable to Guy Denudt in the principal amount of \$373,750.00.
+10.35	Osprey Partners Warrant (and Statement of Rights to Warrant and Form of Exercise) issued June 1, 1992.
+10.36	Registration Rights Agreement dated as of October 19, 1995 between certain purchasing shareholders and VASCO Data Security International, Inc.
+10.37	First Amendment to Registration Rights Agreement dated July 1, 1996.
+10.38	Second Amendment to Registration Rights Agreement dated March 7, 1997.
+10.39	Purchase Agreement by and between VASCO Data Security International, Inc. and Kyoto Securities Ltd.
+10.40	Convertible Note dated May 28, 1996 payable to Kyoto Securities, Ltd. in principal amount of \$5 million.
+10.41	Amendment to Purchase Agreement and Convertible Note by and between VASCO Data Security International, Inc. and Kyoto Securities, Ltd.
+10.42	Executive Incentive Compensation Plan.
+10.43	Letter for Credit granted by Generale de Banque to Digipass SA dated January 27, 1997.
++10.44	License Agreement dated as of March 25, 1998 by and between VASCO Data Security International, Inc., for itself and its subsidiaries, and Lernout & Hauspie Speech Products N.V.
++10.45	Loan Agreement dated as of March 31, 1998 by and between Lernout & Hauspie Speech Products N.V. and VASCO Data Security International, Inc.
++10.46	Convertible Note dated April 1, 1998 payable to Lernout & Hauspie Speech Products N.V. in the principal amount of \$3 million.
#10.47	Amendment I dated as of December 31, 1998 to the License Agreement dated as of March 25, 1998 by and between VASCO Data Security International, Inc., for itself and its subsidiaries, and Lernout & Hauspie Speech Products N.V.
10.48	Acquisition of Identikey, Ltd. (Incorporated by reference - Form 8-K filed March 29, 2001.)

EXHIBIT NUMBER	DESCRIPTION
10.49	Agreement with Artesia Bank to revise the terms of the \$3.4 million convertible loan. (Incorporated by reference - Form 8-K filed August 9, 2001.)
10.50	Employment agreement with T. Kendall Hunt
10.51	Independent Contractor Employment agreement with Jan Valcke
10.52	Employment agreement with Clifford Bown
10.53	Indemnification Agreement with T. Kendall Hunt
21	Subsidiaries of Registrant. (Incorporated by reference - Form 10-K filed April 2, 2001.)
23	Consent of KPMG LLP.
99.1	Certification of Chief Executive Officer.
99.2	Certification of Chief Financial Officer.

- - - - -  
+ Incorporated by reference to the Registrant's Registration Statement on Form S-4, as amended (Registration No. 333-35563), originally filed with the Securities and Exchange Commission on September 12, 1997.

++ Incorporated by reference to the Registrant's Annual Report on Form 10-K, originally filed with the Securities and Exchange Commission on May 5, 1998.

# Incorporated by reference to the Registrant's Annual Report on Form 10-K, originally filed with the Securities and Exchange Commission on April 14, 1999.

\*\* Confidential treatment has been granted for the omitted portions of this document.

VASCO DATA SECURITY INTERNATIONAL, INC. WILL FURNISH ANY OF THE ABOVE EXHIBITS TO ITS STOCKHOLDERS UPON WRITTEN REQUEST ADDRESSED TO THE SECRETARY AT THE ADDRESS GIVEN ON THE COVER PAGE OF THIS FORM 10-K. THE CHARGE FOR FURNISHING COPIES OF THE EXHIBITS IS \$.25 PER PAGE, PLUS POSTAGE.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by the Registrant during the quarter ended December 31, 2002.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
VASCO Data Security International, Inc.:

We have audited the accompanying consolidated balance sheets of VASCO Data Security International, Inc. and subsidiaries (the "Company") as of December 31, 2001 and 2002 and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2002. In connection with our audits of the consolidated financial statements, we have also audited the accompanying consolidated financial statement Schedule II - Valuation and Qualifying Accounts. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VASCO Data Security International, Inc. and subsidiaries as of December 31, 2001 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets", in 2002.

/s/ KPMG LLP

Chicago, Illinois  
February 13, 2003

VASCO DATA SECURITY INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2001	DECEMBER 31, 2002
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash	\$ 6,342,440	\$ 2,615,935
Accounts receivable, net of allowance for doubtful accounts of \$206,913 and \$461,129 in 2001 and 2002, respectively	3,791,916	2,881,257
Inventories, net	2,012,567	1,579,125
Prepaid expenses	405,815	407,479
Deferred income taxes	83,000	-
Other current assets	661,597	119,687
	-----	-----
Total current assets	13,297,335	7,603,483
Property and equipment		
Furniture and fixtures	1,733,349	1,514,125
Office equipment	2,070,090	2,537,611
	-----	-----
Accumulated depreciation	3,803,439 (2,088,939)	4,051,736 (2,763,411)
	-----	-----
Intangible assets, net of accumulated amortization of \$3,913,086 in 2001 and \$3,545,104 in 2002	1,714,500 2,223,416	1,288,325 1,910,504
Goodwill, net of accumulated amortization of \$708,074 in 2001 and \$972,931 in 2002	188,472	249,967
Other assets	27,273	81,161
	-----	-----
Total assets	\$ 17,450,996 =====	\$ 11,133,440 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 158,990	\$ 3,589,645
Accounts payable	3,326,652	1,850,424
Deferred revenue	869,893	720,051
Other accrued expenses	2,280,491	2,130,236
	-----	-----
Total current liabilities	6,636,026	8,290,356
Long-term debt, less current maturities	3,667,882	32,006
STOCKHOLDERS' EQUITY :		
Series C Convertible Preferred Stock, \$.01 par value - 500,000 shares authorized; 150,000 shares issued and outstanding in 2000 and 2001	7,944,082	9,108,066
Common stock, \$.001 par value - 75,000,000 shares authorized; 28,263,058 shares issued and outstanding in 2001	28,263	28,389
28,389,484 shares issued and outstanding in 2002	37,693,098	36,763,330
Additional paid-in capital	(38,069,082)	(42,608,077)
Accumulated deficit	-	-
Accumulated other comprehensive loss cumulative translation adjustment	(449,273)	(480,630)
	-----	-----
Total stockholders' equity	7,147,088	2,811,078
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 17,450,996 =====	\$ 11,133,440 =====

See accompanying notes to consolidated financial statements.

VASCO DATA SECURITY INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	2001	2002
Net revenues	\$ 28,065,680	\$ 26,726,849	\$ 18,913,178
Cost of goods sold	10,068,969	10,590,485	7,170,644
Gross profit	17,996,711	16,136,364	11,742,534
Operating costs:			
Sales and marketing (exclusive of \$152,545, \$15,065 and \$(11,719) for 2000, 2001 and 2002, respectively, reported below as non-cash compensation (recovery))	9,953,598	13,579,493	7,933,907
Research and development	4,368,501	4,980,544	3,116,497
General and administrative (exclusive of \$349,198, \$34,490 and \$(38,397) for 2000, 2001 and 2002, respectively, reported below as non-cash compensation (recovery))	5,773,495	6,348,527	4,566,560
Non-cash compensation (recovery)	501,743	49,555	(50,116)
Restructuring expenses	-	4,283,752	319,743
Total operating costs	20,597,337	29,241,871	15,886,591
Operating loss	(2,600,626)	(13,105,507)	(4,144,057)
Interest income (expense), net	29,334	774,894	(269,867)
Other income (expense), net	(1,195,234)	283,861	15,375
Income (loss) before income taxes	(3,766,526)	(12,046,752)	(4,398,549)
Provision (benefit) for income taxes	395,246	(12,782)	140,446
Net loss	(4,161,772)	(12,033,970)	(4,538,995)
Preferred stock accretion	(581,992)	(1,163,984)	(1,163,984)
Net loss available to common shareholders	\$ (4,743,764)	\$ (13,197,954)	\$ (5,702,979)
Basic and diluted net loss per common share	\$ (0.17)	\$ (0.47)	\$ (0.20)
Weighted average common shares outstanding	27,341,439	28,168,685	28,347,573

See accompanying notes to consolidated financial statements.



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

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	2001	2002
	-----	-----	-----
Net loss	\$ (4,161,772)	\$ (12,033,970)	\$ (4,538,995)
Other comprehensive income (loss) - cumulative translation adjustment	(403,777)	(153,127)	(31,357)
	-----	-----	-----
Comprehensive income (loss)	\$ (4,565,549)	\$ (12,187,097)	\$ (4,570,352)
	=====	=====	=====

See accompanying notes to consolidated financial statements.

VASCO DATA SECURITY INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002

Description	Preferred Stock		Common Stock		APIC	Accumulated Deficit
	Shares	Amount	Shares	Amount		
BALANCE AT 12/31/99.....	-	\$ -	26,462,083	\$ 26,462	\$ 20,702,387	\$ (21,873,340)
Net loss.....	-	-	-	-	-	(4,161,772)
Foreign currency translation adjustment.....	-	-	-	-	-	-
Exercise of stock options.....	-	-	342,400	342	556,871	-
Exercise of stock warrants.....	-	-	303,625	304	1,724,413	-
Conversion of note and interest to common stock.....	-	-	435,910	436	5,164,618	-
Stocks issued for acquisition.....	-	-	322,565	323	1,266	-
Issuance of series C preferred stock.....	150,000	6,198,106	-	-	8,801,894	-
Preferred stock accretion.....	-	581,992	-	-	(581,992)	-
Non-cash compensation.....	-	-	-	-	501,743	-
BALANCE AT 12/31/00.....	150,000	\$6,780,098	27,866,583	\$ 27,867	\$ 36,871,200	\$ (26,035,112)
Net loss.....	-	-	-	-	-	(12,033,970)
Foreign currency translation adjustment.....	-	-	-	-	-	-
Exercise of stock options.....	-	-	25,633	26	15,638	-
Exercise of stock warrants.....	-	-	3,929	3	17,690	-
Stocks issued for acquisition.....	-	-	366,913	367	1,902,999	-
Preferred stock accretion.....	-	1,163,984	-	-	(1,163,984)	-
Non-cash compensation.....	-	-	-	-	49,555	-
BALANCE AT 12/31/01.....	150,000	\$7,944,082	28,263,058	\$ 28,263	\$ 37,693,098	\$ (38,069,082)
Net loss.....	-	-	-	-	-	(4,538,995)
Foreign currency translation adjustment.....	-	-	-	-	-	-
Stock issued for acquisition.....	-	-	126,426	126	284,332	-
Preferred stock accretion.....	-	1,163,984	-	-	(1,163,984)	-
Non-cash compensation (recovery) ....	-	-	-	-	(50,116)	-
BALANCE AT 12/31/02.....	150,000	\$9,108,066	28,389,484	\$ 28,389	\$ 36,763,330	\$ (42,608,077)

Description	Accumulated Other Comprehensive Income	Total Stockholders' Equity(Deficit)
BALANCE AT 12/31/99.....	\$ 107,631	\$ (1,036,860)
Net loss.....	-	(4,161,772)
Foreign currency translation adjustment.....	(403,777)	(403,777)
Exercise of stock options.....	-	557,213
Exercise of stock warrants.....	-	1,724,717
Conversion of note and interest to common stock.....	-	5,165,054
Stocks issued for acquisition.....	-	1,589
Issuance of series C preferred stock.....	-	15,000,000
Preferred stock accretion.....	-	-
Non-cash compensation.....	-	501,743
BALANCE AT 12/31/00.....	(296,146)	\$ 17,347,907
Net loss.....	-	(12,033,970)
Foreign currency translation adjustment.....	(153,127)	(153,127)
Exercise of stock options.....	-	15,664
Exercise of stock warrants.....	-	17,693
Stocks issued for acquisition.....	-	1,903,366
Preferred stock accretion.....	-	-
Non-cash compensation.....	-	49,555
BALANCE AT 12/31/01.....	\$ (449,273)	\$ 7,147,088
Net loss.....	-	(4,538,995)
Foreign currency translation adjustment.....	(31,357)	(31,357)
Stock issued for acquisition.....	-	284,458
Preferred stock accretion.....	-	-
Non-cash compensation (recovery) ....	-	(50,116)

BALANCE AT 12/31/02.....

\$ (480,630) \$ 2,811,078  
=====

See accompanying notes to consolidated financial statements.

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

	For the Years ended December 31,		
	2000	2001	2002
Cash flows from operating activities:			
Net loss	\$ (4,161,772)	\$(12,033,970)	\$ (4,538,995)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,415,763	5,576,096	1,351,804
Common stock issued for interest	165,054	-	-
Loss on disposal of fixed assets	2,073	-	-
Deferred tax expense	-	-	83,000
Gain on sale of fixed assets	-	(15)	-
Non-cash compensation expense (recovery)	501,743	49,555	(50,116)
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	(3,615,030)	2,790,193	1,304,790
Inventories, net	(306,369)	(943,269)	666,205
Prepaid expenses	(305,474)	51,609	34,187
Other current assets	393,253	(76,146)	560,952
Prepaid royalties and other assets	150,208	-	-
Accounts payable	770,234	368,334	(1,703,517)
Deferred revenue	67,569	(1,110,621)	(228,723)
Accrued expenses	2,772,721	(983,397)	(389,971)
Net cash used in operating activities	(2,150,027)	(6,311,631)	(2,910,384)
Cash flows from investing activities:			
Cash acquired (paid) in the acquisition of Identikey, Ltd.	-	141,156	(23,362)
Other assets	-	-	(50,952)
Additions to property and equipment	(3,473,564)	(948,412)	(15,961)
Net cash used in investing activities	(3,473,564)	(807,256)	(90,275)
Cash flows from financing activities:			
Repayment of debt	-	(299,236)	(236,954)
Proceeds from exercise of stock options/warrants	2,281,930	33,357	-
Issuance of Series C Convertible Preferred Stock	15,000,000	-	-
Net cash provided by (used in) financing activities	17,281,930	(265,879)	(236,954)
Adjustment to conform immaterial pooled business	1,589	-	-
Effect of exchange rate changes on cash	(403,777)	(105,439)	(488,892)
Net increase (decrease) in cash	11,256,151	(7,490,205)	(3,726,505)
Cash, beginning of year	2,576,494	13,832,645	6,342,440
Cash, end of year	\$ 13,832,645	\$ 6,342,440	\$ 2,615,935
Supplemental disclosure of cash flow information:			
Interest paid	\$ 323,341	\$ 188,294	\$ 341,998
Income taxes paid	293,875	121,359	-
Supplemental disclosure of non-cash financing and investing activities:			
Conversion of note to common stock	5,000,000	-	-
Common stock issued in connection with acquisition	-	1,903,366	284,458

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

VASCO Data Security International, Inc. and its wholly owned subsidiaries (the Company) designs, develops, markets and supports security products and services which manage and protect against unauthorized access to computer systems of corporate and government customers. VASCO has operations in Belgium, Australia, Singapore and the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of VASCO Data Security International, Inc. and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency Translation and Transactions

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 year. 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 gains aggregating \$289,000, \$183,000 and \$77,000 are included in other income (expense) for 2000, 2001 and 2002, respectively.

Revenue Recognition

License Fees. Revenues from the sale of computer security hardware and software are recorded upon shipment or, if an acceptance period is allowed, at the later of shipment or customer acceptance. No significant obligations exist with regard to delivery or customer acceptance at the time of recognizing revenue.

Support Agreements. Support agreements generally call for the Company to provide technical support and software updates to customers. Revenue on technical support and software update rights is recognized ratably over the term of the support agreement.

Consulting and Education Services. The Company provides consulting and education services to its customers. Revenue from such services is generally recognized during the period in which the services are performed.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets ranging from three to seven years. Additions and improvements are capitalized, while expenditures for maintenance and repairs are charged to operations as incurred. Gains or losses resulting from sales or retirements are recorded as incurred, at which time related costs and accumulated depreciation are removed from the accounts.

Software Costs

The Company capitalizes software development costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed". Research and development costs, prior to the establishment of technological feasibility, determined based upon the creation of a working model, are expensed as incurred. The Company's policy is to amortize capitalized costs by the greater of (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product, generally two to five years, including the period being reported on. The Company did not capitalize any software costs during the years ended December 31, 2000, 2001 and 2002.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Fair Value of Financial Instruments

The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of SFAS No. 107, "Disclosures and Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. The fair values of the Company's financial instruments were not materially different from their carrying amounts at December 31, 2001 and 2002.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Goodwill and Other Intangibles

During the first quarter of 2002, VASCO implemented SFAS No. 142, "Goodwill and Other Intangible Assets", which replaced the requirements to amortize intangible assets with indefinite lives and goodwill with a requirement for an impairment test. SFAS 142 also established requirements for identifiable intangible assets, which included customer lists and proprietary technology. As a result, during the first quarter VASCO reclassified \$320,507 of gross intangible assets, \$55,650 net, to goodwill. Operating income for the twelve months ended December 31, 2001 included \$183,291 of amortization of goodwill and other intangible assets that are not included in 2002 results, because of the implementation of SFAS No. 142.

Intangible asset data as of December 31, 2002 is as follows:

	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	-----	-----
Amortized intangible assets -		
Capitalized Technology and Customer Lists.....	\$ 5,455,609	\$ 3,545,104
Unamortized intangible assets - Goodwill.....	\$ 1,222,898	\$ 972,931
Aggregate amortization expense.....	\$ 549,954	
Estimated amortization expense for the years ended:		
December 31, 2003.....	\$ 532,355	
December 31, 2004.....	319,186	
December 31, 2005.....	319,186	
December 31, 2006.....	319,186	

Net loss would have been \$183,291 lower and basic and diluted loss per share would have decreased \$.01 for the year ended December 31, 2001, if SFAS 142 had been implemented at the beginning of that period.

The Company assesses the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include

significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, and significant negative industry or economic trends. The Company assesses the recoverability of its software development costs against estimated future revenue for the individual products over the estimated remaining economic life of the software.

When the Company determines that the carrying value of intangibles and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Given the highly competitive environment and technological changes, it is reasonably possible that estimates of anticipated future revenue, the remaining economic life of the Company's software products, or both may be reduced significantly.

At December 31, 2001 and 2002, ending balances of goodwill and other intangibles, net of amortization are as follows:

	2001	2002
	-----	-----
Goodwill.....	\$ 188,472	\$ 249,967
Capitalized Technology.....	2,048,850	1,874,862
Customer Lists and Other.....	174,586	35,642
	-----	-----
Total.....	\$ 2,411,908	\$ 2,160,471
	=====	=====

#### Stock-Based Compensation

At December 31, 2002, the Company had a stock-based employee compensation plan, which is described more fully in Note 8. The Company accounts for the plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based employee compensation cost 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 earnings 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.

	FOR THE YEAR ENDED DECEMBER 31,		
	2000	2001	2002
	-----	-----	-----
Net loss available to common stockholders as reported	\$ (4,743,764)	\$(13,197,954)	\$ (5,702,979)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(517,261)	(614,084)	(1,005,451)
	-----	-----	-----
Pro forma net loss	\$ (5,261,025)	\$(13,812,038)	\$ (6,708,430)
	=====	=====	=====
Net loss per common share-basic and diluted:			
As reported	\$ (0.17)	\$ (0.47)	\$ (0.20)
Pro forma	(0.19)	(0.49)	(0.24)

For purposes of calculating the compensation cost consistent with SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000, 2001 and 2002: dividend yield of 0%; expected volatility of 50%, 119%, 118%; risk free interest rates ranging from 3.40% to 6.80%; and expected lives ranging from 1 to 5 years.

Loss Per Common Share

Basic earnings per share are based on the weighted average number of shares outstanding and excludes the dilutive effect of unexercised Common Stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of unexercised Common Stock equivalents to the extent they are not anti-dilutive.

Shares issuable from securities that could potentially dilute basic earnings per share in the future that were not included in the computation of earnings per share because their effect was anti-dilutive were as follows:

	2000	2001	2002
Stock options.....	2,342,217	3,280,837	4,609,000
Warrants.....	1,764,883	1,377,251	1,239,747
Convertible term loan.....	532,029	453,333	453,333
Convertible Preferred Stock.....	1,052,632	1,052,632	1,052,632
Total.....	5,691,761	6,164,053	7,354,712

The amounts included above for the Convertible Preferred Stock reflect the number of shares that would be issued if converted prior to the mandatory conversion date. See Note 7 for information related to the mandatory conversion.

Additionally, the net loss applicable to Common Stockholders for the years ended December 31, 2000, 2001 and 2002 would have been decreased by adding back interest expense related to the convertible term loan of approximately \$275,000, \$149,000 and \$204,000, respectively, and the net loss would have been further decreased by adding back accretion related to the Convertible Preferred Stock of \$581,992 in 2000, and \$1,163,984 in both 2001 and 2002

NOTE 2 - ACQUISITIONS

At the end of August 2000, the Company acquired Invincible Data Systems (IDS) in a transaction that has been accounted for under the pooling-of-interests method. A total of 322,565 shares were issued in this transaction, which was deemed immaterial. Accordingly, results of operations of IDS prior to the date of acquisition have not been included in the Company's results of operations.

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 were based on defined performance incentives as specified in the purchase agreement.

The acquisition of Identikey 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. Intangible assets consisting of technology licenses related to this transaction were \$1,897,000 and are being amortized over a period of 7 years.



VASCO DATA SECURITY INTERNATIONAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The following summarized unaudited pro forma financial information for the year 2000 and 2001 assumes the Identikey acquisition occurred as of January 1, 2000.

	2000	2001
	-----	-----
Net revenues	\$ 28,490,904	\$ 26,726,849
Net loss	(6,136,427)	(13,084,785)
Preferred stock accretion	(581,992)	(1,163,984)
Basic and diluted net loss per common share	\$ (0.24)	\$ (0.50)
	=====	=====
Weighted average common shares outstanding	27,708,352	28,257,387
	=====	=====

The remaining 10% of the Identikey has been acquired at various times with the final purchase completed in January 2003. During 2002, in exchange for the shares not obtained in the initial transaction, the Company has issued 126,426 shares of Common Stock and paid \$23,362 in cash. Intangible assets related to the purchase of the Identikey shares in 2002 were valued at \$297,925 and are being amortized over the same period as the intangible assets identified in the initial transaction.

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 \$91,518 and \$111,566 at December 31, 2001 and 2002, respectively, are comprised of the following:

	DECEMBER 31,	
	2001	2002
	-----	-----
Component parts .....	\$ 412,921	\$ 772,523
Work-in-process and finished goods .....	1,599,646	806,602
	-----	-----
Total .....	\$ 2,012,567	\$ 1,579,125
	=====	=====

NOTE 4 - OTHER ACCRUED EXPENSES

Accrued expenses are comprised of the following:

	DECEMBER 31,	
	2001	2002
	-----	-----
Accrued interest .....	\$ 82,734	\$ 56,745
Accrued payroll .....	908,814	1,175,037
Other accrued expenses .....	1,288,943	898,454
	-----	-----
Total .....	\$ 2,280,491	\$ 2,130,236
	=====	=====

NOTE 5 - INCOME TAXES

At December 31, 2002, the Company has United States net operating loss carryforwards approximating \$26,300,000 and foreign net operating loss carryforwards approximating \$6,200,000. Such losses are available to offset future taxable income in the respective jurisdictions and expire in varying amounts beginning in 2003 and continuing through 2022. In addition, if certain substantial changes in the Company's ownership are deemed to have occurred, there would be an annual limitation on the amount of the U.S. carryforwards that could be utilized.

Income (loss) before income taxes was generated was in the following jurisdictions:

	FOR THE YEARS ENDED		
	DECEMBER 31,		
	2000	2001	2002
Domestic .....	\$ (4,293,166)	\$ (9,195,346)	\$ (3,506,644)
Foreign .....	526,640	(2,851,406)	(891,905)
Total .....	<u>\$ (3,766,526)</u>	<u>\$ (12,046,752)</u>	<u>\$ (4,398,549)</u>

The provision for income taxes consists of the following:

	FOR THE YEARS ENDED		
	DECEMBER 31,		
	2000	2001	2002
Current:			
Federal	\$ -	\$ -	\$ -
State .....	2,632	-	-
Foreign .....	392,614	(12,782)	57,446
Deferred:			
Federal .....	\$ -	\$ -	\$ 83,000
State .....	-	-	-
Foreign .....	-	-	-
Total .....	<u>\$ 395,246</u>	<u>\$ (12,782)</u>	<u>\$ 140,446</u>

The differences between income taxes computed using the statutory federal income tax rate of 34% and the provisions for income taxes reported in the consolidated statements of operations are as follows:

	FOR THE YEARS ENDED		
	DECEMBER 31,		
	2000	2001	2002
Expected tax benefit at the statutory rate .....	\$ (1,231,023)	\$ (4,095,896)	\$ (1,495,506)
Increase (decrease) in income taxes resulting from:			
Foreign taxes at rates other than 34% .....	(4,243)	60,210	75,734
State tax net of federal benefit .....	(142,908)	(368,546)	(175,439)
Change in valuation allowance primarily related to NOL ....	1,739,000	4,380,000	1,731,996
Nondeductible expenses .....	34,420	11,450	3,661
Total .....	<u>\$ 395,246</u>	<u>\$ (12,782)</u>	<u>\$ 140,446</u>

VASCO DATA SECURITY INTERNATIONAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Included in the net change in the valuation allowance are differences between estimates used for book purposes and the actual tax return as filed for fiscal 2001.

The deferred income tax balances are comprised of the following:

	FOR THE YEARS ENDED	
	DECEMBER 31,	
	2001	2002
Deferred tax assets:		
U.S. net operating loss carryforwards .....	\$ 8,749,000	\$ 10,260,000
Foreign net operating loss carryforwards .....	1,709,000	1,994,000
Accounts receivable .....	23,000	47,000
Accrued expenses .....	28,000	135,000
Deferred revenue .....	40,000	27,000
Total gross deferred tax assets .....	\$ 10,549,000	\$ 12,463,000
Less valuation allowance .....	(10,240,000)	(12,445,000)
	309,000	18,000
Deferred tax liabilities:		
Fixed assets .....	(226,000)	(18,000)
Net deferred income taxes .....	\$ 83,000	\$ -

The net change in the total valuation allowance for the years ended December 31, 2000, 2001 and 2002 was an increase of \$1,739,000, \$4,380,000 and \$2,205,000, respectively. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which these temporary differences become deductible. This valuation allowance will be reviewed on a regular basis and adjustments made as appropriate. Due to the uncertainty of the recoverability of the deferred tax asset, the Company has provided a reserve for 100% of the gross tax asset at December 31, 2002.

In December 2002 and in January 2003, the Company received assessments from the Belgian tax authorities in the amounts of 119,000 and 208,000 Euros for tax years 1999 and 2000, respectively, wherein the authorities indicated that the Company had not properly accounted for intercompany R&D expenses. The tax authorities indicated that the Company should have capitalized such intercompany amounts, and amortized the amounts over three years, rather than recording the full amount as expense in the year incurred. The Company maintains that such amounts were properly expensed when incurred as the amounts were for maintenance-related activities and did not add to the long-term value of the intellectual property. The Company plans to contest those assessments and believes that the outcome will not have a material adverse affect on the financial position of the Company. Under Belgian law, the Company is not obligated to make payments on the assessments until the protest is finally adjudicated.

NOTE 6 - DEBT

Debt consists of the following:

	DECEMBER 31,	
	2001	2002
Convertible note, interest payable at 3.25% (6% beginning September 2001) .....	\$ 3,400,000	\$ 3,400,000
Installment notes payable .....	426,872	221,651
	3,826,872	3,621,651
Less current maturities .....	(158,990)	(3,589,645)
Long-term debt .....	\$ 3,667,882	\$ 32,006

In August 1997, the Company renegotiated the guarantee with Artesia Bank N.V., formerly Banque Paribas Belgique S.A. and now doing business as Dexia Bank ("Dexia") related to the final payment for the 1996 acquisition of Digipass into a term loan in the amount of \$3.4 million with a maturity date of September 30, 2002 and an interest rate of 3.25%. In August 2001, the Company agreed to revise the terms of the loan. Under the new terms, the loan will now be convertible into shares of VASCO Common Stock at the fixed conversion rate of \$7.50 per share rather than a floating rate based on the market price of the VASCO Common Stock. Also, the maturity date of this convertible loan was reset to September 30, 2003 with a revised interest rate of 6%. The loan is secured by the pledge of VASCO Common Stock owned by Mr. Ken Hunt, Chairman and CEO of the Company.

The installment notes payable primarily reflect amounts due under an unsecured installment loan with KBC Bank of Belgium. The loan was initiated on September 28, 1999 in the amount of 495,788 Euros payable monthly over the next 60 months with interest accruing at 5.3% annually. In September 2003, the terms were revised to accelerate the payment on the loan such that it will be fully repaid by September 30, 2003 and the interest rate was reduced to 5.16 percent.

The Company maintains an overdraft agreement with Fortis Banque/Bank of Belgium. Under terms of the agreement, the Company can borrow an amount equal to 80% of its Belgium subsidiary's defined accounts receivable up to maximum of two million Euros. Borrowings under the overdraft agreement accrue interest at an annual rate of 6.75% and the Company is obligated to pay a quarterly commitment fee of 0.125%. As of December 31, 2002, approximately \$1,360,000 Euros was available under the overdraft agreement and there were no borrowings outstanding under the agreement. The agreement is secured by the assets of the Belgian subsidiary and while it has no specific termination date, it can be terminated with thirty (30) days notice. The agreement is governed by the General Lending Conditions for Corporate Customers, registered in Brussels Belgium on December 16, 1989.

Aggregate maturities of debt at December 31, 2002 are as follows:

2003 .....	\$ 3,589,645
2004 .....	10,669
2005 .....	10,669
2006 .....	10,668
	-----
Total .....	\$ 3,621,651
	=====

Interest expense related to debt was \$165,000, \$0 and \$220,895 for the years ended December 31, 2000, 2001 and 2002, respectively. The weighted average interest rate related to debt was 6.0% for 2002.

#### NOTE 7 - STOCKHOLDERS' EQUITY

##### Preferred Stock

In July 2000, the Company issued 150,000 shares of preferred stock for cash of \$15,000,000. The preferred stock is convertible into 1,052,632 shares of Common Stock at any time through July 2004. If not converted by July 2004, the preferred stock will, at the option of the Company, be either repurchased or converted into Common Stock at a rate equal to the average market price of the Company's Common Stock for 30 consecutive business days on which the Common Stock was traded prior to the conversion date less five (5) percent.

In conjunction with this financing, the Company issued warrants to purchase 789,474 common shares at \$15 per share with an estimated fair value, using the Black-Scholes pricing-model, of approximately \$4.1 million and warrants to purchase 480,000 shares at \$4.25 per share with an estimated fair value, using the Black-Scholes pricing-model, of approximately \$4.7 million. The warrants issued at \$15 per share were immediately exercisable. The warrants issued at \$4.25 were exercisable over 48 months and the related fair value is being accreted over their lives reducing earnings available to holders of Commons Stock. In September 2000, 30,000 warrants at \$4.25 per share were exercised.

The value of the warrants which reduces the carrying value of the preferred stock is being accreted and reduces earnings available to common shareholders.

Common Stock

In 2002, the Company issued 126,426 shares of Common Stock to acquire the majority of the remaining outstanding capital stock of Identikay Ltd. The Company recorded additional intangible assets, in the form of capitalized technology of \$274,563 related to the issuance of this stock.

In 2001, the Company issued 25,633 shares of Common Stock as a result of the exercise of options under the Company's stock compensation plan (see Note 8) generating total proceeds of \$15,664; 3,929 shares of Common Stock were issued as a result of the exercise of warrants, generating total proceeds of \$17,693.

In March 2001, the Company issued 366,913 shares of Common Stock to acquire 90% of the outstanding capital stock of Identikay Ltd.

In 2000, the Company issued 435,910 shares of Common Stock to convert a \$5,000,000 note and related accrued interest. In September 2000, the Company issued 322,565 shares of Common Stock as part of the acquisition of Invincible Data Systems.

Also in 2000, the Company issued 342,400 shares of Common Stock as a result of the exercise of options under the Company's stock compensation plan (see Note 8) generating total proceeds of \$557,213 and 303,625 shares of Common Stock were issued as a result of the exercise of the warrants, generating total proceeds of \$1,724,717.

Warrants

Warrant activity for the years ended December 31, 2000, 2001 and 2002 are summarized below:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISE PRICE
Outstanding at December 31, 1999 .....	804,034	\$5.97	\$4.00 - 10.00
Granted .....	1,269,474	10.94	4.25 - 15.00
Exercised .....	(303,625)	5.68	4.00 - 10.0
Canceled .....	(5,000)	5.19	-
Outstanding at December 31, 2000 .....	1,764,883	9.59	4.25 - 15.00
Granted .....	-	-	-
Exercised .....	(3,929)	4.50	4.50
Canceled .....	(383,703)	6.61	-
Outstanding at December 31, 2001 .....	1,377,251	10.44	4.25 - 15.00
Granted .....	-	-	-
Exercised .....	-	-	-
Canceled .....	(137,777)	4.50	4.50
Outstanding at December 31, 2002 .....	1,239,474	\$11.10	\$4.25 - 15.00

NOTE 8 - STOCK COMPENSATION PLAN

The Company's 1997 Stock Compensation Plan, as amended and restated in 1999, ("Compensation Plan") is designed and intended as a performance incentive. The Compensation Plan is administered by the Compensation Committee as appointed by the Board of Directors of the Company ("Compensation Committee").

The Compensation Plan permits the grant of options to employees of the Company to purchase shares of Common Stock and is intended to be a nonqualified plan. All options granted to employees are for a period of ten years, are granted at a price equal to the fair market value of the Common Stock on the date of the grant and are typically vested 25% on the first anniversary of the grant, with an additional 25% vesting on each subsequent anniversary of the grant. Alternative vesting schedules may include either date or event-based vesting.

During 2001, the Compensation Committee approved a revised vesting schedule. The new vesting schedule for officers is based on a time period of 36 months, with 6/36th of the options vesting at the end of the first 6 months and 1/36th of the options vesting each month thereafter on the last day of each month.

The Compensation Plan further permits the grant of options to directors, consultants and other key persons (non-employees) to purchase shares of Common Stock. All options granted to non-employees are granted at a price equal to the fair market value of the Common Stock on the date of the grant, and may contain vesting requirements and/or restrictions as determined by the Compensation Committee at the time of grant. Non-cash compensation expense (recovery) of \$(50,116) was recognized in 2002 in accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of Accounting Principles Board Opinion No. 25. This recovery was attributed to stock options issued to officers of the Company who are located outside the U.S. and whose services are rendered under consulting agreements.

As of December 31, 2002, the Compensation Plan was authorized to issue options representing up to 5,652,612 shares of the Company's Common Stock. The authorized shares under the Compensation Plan represent 20% of the issued and outstanding shares of the Company.

The following is a summary of activity under the Compensation Plan:

	Options Outstanding		Options Exercisable		Weighted-Average Fair Value of Options Granted
	Number of Shares	Weighted-Average Price	Number of Shares	Weighted-Average Price	
Outstanding at December 31, 1999 .....	2,377,200	\$ 3.23	1,074,138	\$ 3.04	
Granted .....	560,000	11.29			\$ 5.82
Exercised .....	(342,400)	1.63			
Forfeited .....	(252,583)	5.08			
Outstanding at December 31, 2000 .....	2,342,217	5.30	984,775	3.71	
Granted .....	1,248,000	1.34			0.65
Exercised .....	(25,633)	2.54			
Forfeited .....	(283,747)	8.07			
Outstanding at December 31, 2001 .....	3,280,837	3.76	1,235,545	4.49	
Granted .....	1,642,750	2.22			\$ 1.75
Exercised .....	-	-			
Forfeited .....	(314,587)	5.11			
Outstanding at December 31, 2002 .....	<u>4,609,000</u>	<u>\$ 3.12</u>	<u>1,917,056</u>	<u>\$ 3.63</u>	

The following table summarizes information about stock options outstanding at December 31, 2002:

VASCO DATA SECURITY INTERNATIONAL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Range of Exercise Prices					
\$ 0.0000 - \$ 2.3000	2,822,750	8.9 years	\$ 1.81	598,381	\$ 1.58
\$ 2.3001 - \$ 4.6000	1,227,250	5.9 years	\$ 3.41	1,000,650	\$ 3.48
\$ 4.6001 - \$ 6.9000	187,000	4.8 years	\$ 5.73	166,025	\$ 5.74
\$ 6.9001 - \$ 9.2000	115,000	7.0 years	\$ 8.83	73,500	\$ 8.84
\$ 9.2001 - \$ 11.5000	120,000	7.7 years	\$ 10.30	60,000	\$ 10.30
\$ 11.5001 - \$ 13.8000	112,000	7.3 years	\$ 11.82	6,000	\$ 12.42
\$ 13.8001 - \$ 16.1000	15,000	7.1 years	\$ 15.88	7,500	\$ 15.88
\$ 20.7001 - \$ 23.0000	10,000	7.1 years	\$ 20.81	5,000	\$ 20.81
	4,609,000			1,917,056	\$ 3.27

In 2002, the Company loaned Belgian employees who received stock options in 1999 and 2000, 141,895 Euros to pay taxes assessed on those options by the Belgian Government. Even though stock options granted to all employees were granted at prices equal to the fair market value of the Common Stock on the date of the grant, Belgian employees who were recipients of stock options were assessed taxes based on the value determined under Belgian tax legislation dated March 26, 1999. The total amounts advanced in 2002 were based on each recipient's specific tax assessment. Due to the uncertainty of collecting the amounts loaned to the employees, the notes have been fully reserved for as of December 31, 2002.

NOTE 9 - EMPLOYEE BENEFIT PLAN

The Company maintains a contributory profit sharing plan established pursuant to the provisions of Section 401(k) of the Internal Revenue Code, which provides benefits for eligible employees of the Company. The Company made no contributions to the plan during the years ended December 31, 1999 and 2000. In January 2001, the Company amended its benefit plan to allow Company-matching. For the years ended December 31, 2001 and 2002, the Company contributed \$106,000 and \$19,000, respectively, to this plan.

NOTE 10 - GEOGRAPHIC AND CUSTOMER INFORMATION

The Company allocates revenue based on the location of the country that initiates the sale. Information regarding geographic areas for the years ended December 31, 2000, 2001 and 2002 are as follows:

	United States	Belgium	Other	Total
2000				
Revenue	\$ 11,065,000	\$ 16,831,000	\$ 170,000	\$ 28,066,000
Gross profit	8,846,000	9,060,000	91,000	17,997,000
Long-lived assets	4,436,000	1,998,000	370,000	6,804,000
2001				
Revenue	\$ 5,485,000	\$ 20,746,000	\$ 496,000	\$ 26,727,000
Gross profit	4,594,000	11,167,000	375,000	16,136,000
Long-lived assets	2,272,000	1,783,000	99,000	4,154,000
2002				
Revenue	\$ 2,966,000	\$ 14,641,000	\$ 1,306,000	\$ 18,913,000
Gross profit	2,694,000	8,640,000	409,000	11,743,000
Long-lived assets	2,081,000	1,354,000	95,000	3,530,000

VASCO DATA SECURITY INTERNATIONAL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

For the years 2000, 2001 and 2002, the Company's top 10 customers contributed 72%, 73% and 64% of total worldwide revenues, respectively.

In 2000, there were two customers that each accounted for more than 10% of total revenues. In 2001 and 2002, there was one customer that contributed more than 10% of consolidated revenues.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Company leases office space and equipment under operating lease agreements expiring at various times through 2007.

Future minimum rental payments required under noncancelable leases are as follows:

Year	Amount
- ----	-----
2003.....	\$ 1,149,000
2004.....	837,000
2005.....	560,000
2006.....	451,000
2007.....	8,000
Thereafter.....	-
	-----
Total.....	\$ 3,005,000
	=====

Rent expense under operating leases aggregated approximately \$693,000, \$714,000 and \$799,000 for the years ended December 31, 2000, 2001 and 2002, respectively.

From time to time, the Company has been involved in litigation incidental to the conduct of its business. Currently, the Company is not a party to any lawsuit or proceeding that, in management's opinion, is likely to have a material adverse effect on its business, financial condition or results of operations.

NOTE 12 - RESTRUCTURING

During the fourth quarter of 2001, the Company announced a restructuring of its operations to redirect resources to its core business, strong authentication and server software to enable enhanced security for the web, remote access, corporate networks and financial transactions. The restructuring included a reduction in workforce of approximately 60 employees, in addition to the write-off of related intangible assets and property and equipment related to discontinued activities.

A restructuring charge of \$4,284,000 was recorded in the fourth quarter. A breakdown of this charge is as follows:

Write off of goodwill	\$	266,000
Write off of software licenses		2,772,000
Write off of other intangible assets		32,000
Accrual of severance and related costs		901,000
Write off of property and equipment		36,000
Other		277,000
		-----
Total	\$	4,284,000
		=====

Of the \$901,000 in severance and related costs, \$180,000 remained outstanding as of December 31, 2001 and was paid by the end of the first quarter of 2002.



VASCO DATA SECURITY INTERNATIONAL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

As part of the restructuring, 46 employees were terminated in the United States and 14 in Europe. Research and development activities were consolidated and are now performed primarily outside the United States and sales and marketing activities in the United States were reduced.

During the fourth quarter of 2002, the Company recorded additional restructuring charges of \$320,000 related to operations in France and excess space in its U.S. headquarters. Of the \$320,000 recorded, \$247,700 remained unpaid at December 31, 2002 and was recorded as an accrued liability.

NOTE 13 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

2002 ----	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----
Net sales.....	\$ 6,032,000	\$ 4,150,000	\$ 5,127,000	\$ 3,604,000
Gross profit.....	3,804,000	2,504,000	3,060,000	2,375,000
Operating expenses.....	3,972,000	3,788,000	3,753,000	4,374,000
Operating loss.....	(169,000)	(1,283,000)	(693,000)	(1,999,000)
Net loss.....	\$ (160,000)	\$ (1,670,000)	\$ (809,000)	\$ (1,900,000)
Basic and diluted net loss per share.....	\$ (0.02)	\$ (0.07)	\$ (0.04)	\$ (0.07)
	=====	=====	=====	=====
2001 ----				
Net sales.....	\$ 7,873,000	\$ 8,035,000	\$ 4,788,000	\$ 6,031,000
Gross profit.....	5,080,000	5,128,000	2,440,000	3,488,000
Operating expenses.....	6,203,000	6,654,000	6,464,000	9,921,000
Operating loss.....	(1,123,000)	(1,526,000)	(4,024,000)	(6,433,000)
Net loss.....	\$ (1,039,000)	\$ (1,523,000)	\$ (3,579,000)	\$ (5,893,000)
Basic and diluted net loss per share.....	\$ (0.05)	\$ (0.06)	\$ (0.14)	\$ (0.21)
	=====	=====	=====	=====

SCHEDULE II

VASCO DATA SECURITY INTERNATIONAL, INC.

VALUATION AND QUALIFYING ACCOUNTS

	Beginning Balance	Bad Debt Expense (Recovery)	Accounts Written Off	Ending Balance
	-----	-----	-----	-----
Allowance for Doubtful Accounts For Trade Accounts Receivable				
Year ended December 31, 2000 .....	\$ 120,216	\$ 195,161	\$ (29,000)	\$ 286,377
Year ended December 31, 2001 .....	286,377	259,714	(339,178)	206,913
Year ended December 31, 2002 .....	206,913	320,735	(66,519)	461,129

	Beginning Balance	Obsolescence Expense (Recovery)	Inventory Written Off	Ending Balance
	-----	-----	-----	-----
Reserve for Obsolete Inventories				
Year ended December 31, 2000 .....	\$ -	\$ 109,000	\$(109,000)	\$ -
Year ended December 31, 2001 .....	-	136,332	(44,814)	91,518
Year ended December 31, 2002 .....	91,518	20,048	-	111,566

See accompanying independent auditors' report.

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 March 28, 2003.

VASCO Data Security International, Inc.

/s/ T. Kendall Hunt

-----  
T. Kendall Hunt  
Chief Executive Officer

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT IN THE CAPACITIES INDICATED ON MARCH 28, 2003.

POWER OF ATTORNEY

Each of the undersigned, in his capacity as an officer or director, or both, as the case may be, of VASCO Data Security International, Inc. does hereby appoint T. Kendall Hunt, and each of them severally, his true and lawful attorneys or attorney to execute in his name, place and stead, in his capacity as director or officer, or both, as the case may be, this Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and any and all amendments thereto and to file the same with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission. Each of said attorneys shall have power to act hereunder with or without the other attorney and shall have full power and authority to do and perform in the name and on behalf of each of said directors or officers, or both, as the case may be, every act whatsoever requisite or necessary to be done in the premises, as fully and to all intents and purposes as to which each of said officers or directors, or both, as the case may be, might or could do in person, hereby ratifying and confirming all that said attorneys or attorney may lawfully do or cause to be done by virtue hereof.

SIGNATURE -----	TITLE -----
/s/ T. Kendall Hunt ----- T. Kendall Hunt	Chief Executive Officer and Chairman (Principal Executive Officer)
/s/ Jan Valcke ----- Jan Valcke	President and Chief Operating Officer (Principal Operating Officer)
/s/ Clifford K. Bown ----- Clifford K. Bown	Chief Financial Officer and Secretary (Principal Financial Officer and Principal Accounting Officer)
/s/ Michael P. Cullinane ----- Michael P. Cullinane	Director
/s/ Forrest D. Laidley ----- Forrest D. Laidley	Director
/s/ Michael A. Mulshine ----- Michael A. Mulshine	Director

Certification of Principal Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  
and Securities and Exchange Commission Release 34-46427

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

1. I have reviewed this annual report on Form 10-K of VASCO Data Security International, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures 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 annual report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent function):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 28, 2003

/s/ T. KENDALL HUNT

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

Certification of Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  
and Securities and Exchange Commission Release 34-46427

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

1. I have reviewed this annual report on Form 10-K of VASCO Data Security International, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures 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 annual report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent function):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect the internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 28, 2003

/s/ CLIFFORD K. BOWN

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

VASCO Data Security International, Inc.  
EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is made and entered into as of November 20, 2002 (the "Effective Date"), by and between VASCO Data Security International, Inc., a Delaware corporation (the "Company"), and T. KENDALL HUNT (the "Executive").

WHEREAS, the Company and the Executive desire to enter into this Agreement to establish the rights and obligations of the Executive and the Company in such employment relationship; and

WHEREAS, the terms of this Agreement have been approved by the Board of Directors of the Company,

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Executive and the Company hereby agree as follows:

1. Employment of Executive.

As of the Effective Date, the Company hereby engages and employs Executive in an executive capacity as described in Exhibit A attached hereto, and Executive hereby accepts such employment and agrees to act as an employee of the Company in accordance with the terms of employment hereinafter specified ("Executive Employment").

2. Term of Executive Employment.

The period of Executive Employment shall begin on the Effective Date and continue until terminated as hereinafter provided (the "Employment Period").

3. Duties.

(a) Executive shall be employed by Company as an Officer of the Company in the capacity and with the duties set forth in Exhibit A attached hereto.

(b) Nothing contained herein shall be construed so as to prohibit Executive from performing such other or additional duties or responsibilities, and exercising such other or additional authority in furtherance of the goals of the Company, as the Executive and Chief Executive Officer and/or the Board of Directors of the Company shall from time to time agree upon.

(c) Executive shall devote such portion of his business time and attention as is necessary to appropriately and efficiently discharge his duties and responsibilities as herein set forth. If Executive so discharges his duties, he may engage in other business and civic activities, in addition to those relating to the Company's business, if such activities are not otherwise prohibited by the terms of this Agreement, or do not substantially interfere with the performance of such responsibilities.

(d) During Executive's employment hereunder, Executive shall not be required to relocate his principal residence from his current location as a result of the Company moving its principal executive offices or the Executive's office to an address greater than forty (40) miles away from the Company's principal executive offices (or the Executive's office) at the Effective Date and shall not be required to perform services which could make the continuance of Executive's principal residence in such location unreasonably difficult or inconvenient for Executive except to the extent that the performance of such services (and travel) is commensurate with Executive's duties specified hereunder.

4. Executive Salary and Compensation.

(a) Base Salary. During the Employment Period, the Company shall pay or cause to be paid to Executive an initial base salary ("Base Salary") as set forth in Exhibit A attached hereto and made a part hereof, payable to Executive on a periodic basis in accordance with the Company's then current executive salary payment practice; provided, however, that the installments may not be made less frequently than on a monthly basis. Such Base Salary shall be subject to review in accordance with the Company's normal practice for executive salary review from time to time in effect, and will not be

reduced without the prior written consent of Executive. Any increase in Base Salary shall be in writing and be attached to this Agreement as an amendment to Exhibit A.

(b) Incentive Compensation The Compensation Committee of the Company's Board of Directors (the "Committee") shall determine for each fiscal year of the Company during the Employment Period the amount of incentive compensation, if any, to be awarded to the Executive.

(c) Withholding of Certain Taxes. All compensation referred to in Section 4(a) and 4(b) of this Agreement is stated in terms of gross amount, it being understood that the Company will be required to withhold from such gross amount deductions for federal, state and local income taxed (if any). F.I.C.A.. unemployment compensation taxes and the like.

5. Expenses. The Company shall pay or reimburse Executive in accordance with the Company's policy for all expenses reasonably incurred by Executive during the period of Executive's employment in connection with the performance of Executive's duties under this Agreement, including, without limitation, travel, entertainment and automobile expenses. As the Company may reasonably request, Executive shall provide to the Company documentation or supporting information relating to the expenses for which Executive seeks reimbursement.

6. (a) Termination of Executive Employment Other than by the Executive. The Company shall have the option to terminate Executive's employment with or without cause, for any reason whatsoever, without any breach of this Agreement under the following circumstances:

(i) Death or Disability. The Executive's employment hereunder shall terminate upon his death, and may be terminated by the Company in the event of his Disability, which for the purposes of this Agreement shall mean being unable to perform his duties to the Company as set forth herein for a continuous period of at least one hundred and eighty (180) days, provided that the Executive does not return to work on a substantially full-time basis within thirty (30) days after Notice of Termination is given by the Company pursuant to the provisions of this paragraph. A return to work of less than thirty (30) days shall not interrupt a continuous period of Disability. During any period that the Executive fails to perform his duties hereunder as a result of incapacity due to physical or mental illness, the Executive shall continue to receive his Base Salary at the rate then in effect until the date his employment is terminated.

(ii) Cause. The Company may terminate the Executive's employment for cause. For the purpose of this Agreement, "Cause" shall mean: any act by the Executive that constitutes fraud, dishonesty, bad faith or a felony toward the Company; the conviction of the Executive of a felony or crime involving moral turpitude; the Executive entering into any transaction or contractual relationship causing diversion of business opportunity from the Company (other than on behalf of the Company, or with the prior written consent of the Board of Directors of the Company); or the Executive's willful and continued neglect of his material duties hereunder after thirty (30) days written notice to the Executive by the Board of Directors. The Company will pay to the Executive all compensation owing through the date of termination; however, in no event will any bonus be paid to an Executive terminated for Cause. Executive is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Exhibit A.

(iii) Without Cause. The Company may terminate the Executive's employment hereunder without cause. If the Executive is terminated without Cause, the Company shall continue to pay the Executive his Base Salary at the rate then in effect for the period set forth in Exhibit A, from the Date of Termination. Executive is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Exhibit A.

(b) Termination of Employment by Executive.

(i) The Executive may terminate his employment at any time. If the Executive terminates his employment with the Company, the Company shall pay the Executive all compensation owing through the Date of Termination. Executive is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Exhibit A.

(ii) For Good Reason. If the Executive terminates his employment for Good Reason, the Company shall continue to pay the Executive his Base Salary at the rate then in effect for the period set forth as Severance in Exhibit A, from the Date of Termination. Executive is bound by the Non-Compete terms contained in this

Agreement for the period of time set forth in Exhibit A. For purposes of this Agreement, "Good Reason" shall mean:

- (1) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;
- (2) any failure by the Company to comply with any provision of any employment agreement entered into between the Executive and the Parent Company (or any direct or indirect subsidiary thereof) other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;
- (3) the Parent Company's (or any direct or indirect subsidiary thereof) requiring the Executive to be based at any office or location other than the office occupied by the Executive as of the date of this Agreement or a reasonably comparable office located within a 40-mile radius of such current office; or
- (4) any failure by the Company to continue at least its customary base compensation payments to the Executive.

Any good faith determination of "Good Reason" made by the Executive shall be conclusive.

(c) Notice of Termination. Any termination of the Executive's employment by the Company hereunder or by the Executive other than termination upon the Executive's death, shall be communicated by written Notice of Termination to the other party. For purposes of this Agreement, a "Notice of Termination" means a notice that shall indicate the specific termination provision in this Agreement relied upon, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

(d) Date of Termination. "Date of Termination" shall mean:

- (i) If Executive's employment is terminated by his death, the date of his death;
- (ii) If the Executive's employment is terminated by the Company as a result of Disability pursuant to this paragraph, the date that is thirty (30) days after Notice of Termination given; provided the Executive shall not have returned to the performance of his duties on a full-time basis during such thirty (30) day period.
- (iii) If the Executive terminates his employment at his election pursuant to this paragraph, the date that is ten (10) days after Notice of Termination is given.
- (iv) If the Executive's employment is terminated by the Company without Cause pursuant to this paragraph, the date that is ten (10) days after Notice of Termination is given.
- (v) If the Executive's employment is terminated by the Company for Cause pursuant to this paragraph, the date on which Notice of Termination is given.

## 7. Change in Control.

(a) For purposes hereof, a "Section 7 Termination" shall have occurred if Executive's employment is terminated by the Company other than for Cause, at any time following the occurrence of a change in control of VASCO Data Security International, Inc. (the "Parent Company") or the Company.

(b) "Change in Control" shall mean the happening of any of the following events:



- (i) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 25% or more of either (1) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition by the Company; (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (4) any acquisition by any Person pursuant to a transaction which complies with clauses (1), (2) and (3) of subsection (iii) of this Section 7(b); or
- (ii) Within any period of 24 consecutive months, a change in the composition of the Board such that the individuals who, immediately prior to such period, constituted the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 7(b)(ii), that any individual who becomes a member of the Board during such period, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or
- (iii) The approval by the stockholders of the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company ("Corporate Transaction"); excluding, however, such a Corporate Transaction pursuant to which (1) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets, either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no Person (other than the Company; any employee benefit plan (or related trust) sponsored or maintained by the Company, by any corporation controlled by the Company, or by such corporation resulting from such Corporate Transaction) will beneficially own, directly or indirectly, more than 25% of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors, except to the extent that such ownership existed with respect to the Company prior to the Corporate Transaction, and (3) individuals who were members of the Board immediately prior to the approval by the stockholders of the Corporation of such Corporate Transaction will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or
- (iv) The approval by the stockholders of the Company of a complete liquidation or dissolution of the Company, other than to a corporation pursuant to a transaction which would comply with clauses (1), (2) and (3) of subsection (iii) of this Section 7(b), assuming for this purpose that such transaction were a Corporate Transaction.

(c) If a Section 7 Termination occurs, the Company shall continue to pay to Executive, as severance compensation, his Base Salary and Incentive Compensation at the rate then in effect for the period set forth in Exhibit A, from

the effective date of Executive's termination. Executive is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Exhibit A. In lieu of regular payments of Base Salary, the Executive shall be entitled to receive, upon Executive's written election, a lump sum payment equal to the present value of the stream of monthly payments due and unpaid. Executive may also similarly elect to receive a lump sum payment equal to the present value of the Incentive Compensation due pursuant to this Agreement. For purposes of this computation, present value shall be calculated on the basis of the prime rate of interest announced by the Company's principal bank, or if it has no such bank, published in the Wall Street Journal, on the date of Executive's election to receive the lump sum payments provided for herein.

(d) In the event of a Change in Control, if the Executive terminates his employment for Good Reason, the Company shall continue to pay the Executive his Base Salary and Incentive Compensation at the rate then in effect for the period set forth as Severance in Exhibit A, from the Date of Termination. In lieu of regular payments of Base Salary, the Executive shall be entitled to receive, upon Executive's written election, a lump sum payment equal to the present value of the stream of monthly payments due and unpaid. Executive may also similarly elect to receive a lump sum payment equal to the present value of the Incentive Compensation due pursuant to this Agreement. Executive is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Exhibit A.

8. Gross Up for Excise Tax Liability. If it shall be determined that any payment or benefit received or to be received by Executive under this Agreement or any other plan, arrangement or agreement of the Company or any person whose actions result in a Change in Control of the Company or any affiliate thereof (all such payments and benefits a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (the "Excise Tax"), then the Company shall pay to Executive an additional payment (a "Gross-Up Payment") in an amount necessary to reimburse Executive, on an after-tax basis, for the Excise Tax and for any federal, state and local income tax and excise tax (including any interest and penalties imposed with respect to such taxes) that may be imposed by reason of the Payment. For purposes of determining the amount of any Gross-Up Payment, Executive shall be deemed to pay federal, state and local income taxes at the highest applicable marginal rate of taxation in the calendar year in which the Gross-Up Payment is to be made. All determinations required to be made under this Section 8, including whether a Gross-Up Payment is required and the amount of such Gross-Up Payment shall be made by the Accounting Firm which shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the request for such determination. Such request may be made by either party. The Company shall pay the fees and expenses of the Accounting Firm in connection with any determinations hereunder. The Gross-Up Payment shall be paid by the Company within 10 days of the Accounting Firm's determination of the amount thereof.

9. Non-Compete. In the event Executive terminates his employment or is terminated pursuant to this Agreement, Executive hereby agrees that he shall not, directly or indirectly, as employee, agent, consultant, stockholder, director, co-partner or in any other individual or representative capacity, own, operate, manage, control, invest in or participate in any manner in, act as a consultant or advisor to, render services for (alone or in association with any person, firm, corporation or entity), or otherwise assist any firm, corporation or entity which is in direct competition with the Company ("Competitor") upon the terms and conditions and for the term set forth in Exhibit A; provided, however, that nothing contained herein shall be construed to prevent Executive from investing in the stock of a Competitor, but only if Executive is not involved in the business of said Competitor and if Executive and his associates (as such term is defined in Regulation 14(A) promulgated under the Securities Exchange Act of 1934, as in effect on the date hereof), collectively, do not own more than an aggregate of two (2%) percent of the stock of such Competitor.

10. Mitigation of Amounts Payable Under This Agreement. The Executive shall not be required to mitigate the amount of any payment provided for pursuant to this Agreement by seeking other employment or otherwise, and, further, any payment or benefit to be provided to Executive pursuant to this Agreement shall not be reduced by any compensation or other amount earned or collected by Executive at any time before or after the termination of Executive Employment hereunder.

11. Miscellaneous.

(a) Notice. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed given when delivered in person or other forms of delivery including certified mail, fax, etc., to the following addresses:

- (i) if to the Company, to:  
VASC0 Data Security International, Inc.

1901 South Meyers Road, Suite 210  
Oakbrook Terrace, IL 60181  
Attn: Compensation Committee Chairman  
with a copy to:

Forrest D. Laidley, Esq  
339 N. Milwaukee Ave.  
Suite 200  
Libertyville, Illinois 60048

(ii) If to Executive to:

To the address set forth in Exhibit A.

Any party may change its address for notice hereunder by notice to the other party hereto.

(b) Governing Law. The parties agree that this Agreement shall be construed and governed in accordance with the laws of the State of Illinois applicable to agreements made and to be performed entirely within such state.

(c) Binding Effect. This Agreement shall be binding upon and incur to the benefit of the parties hereto and their respective heirs, legal representatives, executors, administrators, successors and assigns.

(d) Counterparts. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

(e) Entire Agreement. This Agreement represents the entire agreement and understanding of the parties hereto with respect to the matters set forth herein. This Agreement supersedes all prior negotiations, discussions correspondence, communications, understandings and agreements between the parties, written or oral, relating to the subject matter of this Agreement. This Agreement may be amended, superseded, canceled, renewed, or extended and the terms hereof may be waived, only by a written instrument signed by the parties hereto or, in the case of a waiver, by the party waiving compliance.

(f) Waivers. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof. Nor shall any waiver on the part of any party of any such right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

(g) Headings. The headings in this Agreement are inserted for convenience only and are not to be considered in the interpretation or construction of the provisions hereof.

(h) Arbitration. Except for any claim or dispute which gives rise or could give rise to equitable relief under this Agreement, at the request of the Executive any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the breach hereof shall be settled exclusively and finally by arbitration. The arbitration shall be conducted in accordance with such rules and before such arbitrator as the parties shall agree and if they fail to so agree within 15 days after demand for arbitration, such arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association (hereinafter referred to as "AAA Rules"). Such arbitration shall be conducted in Chicago, Illinois, or in such other city as the parties to the dispute may designate by mutual consent. The arbitral tribunal shall consist of three arbitrators (or such lesser number as may be agreed upon by the parties) selected according to the procedure set forth in the AAA Rules in effect on the date hereof and the arbitrators shall be empowered to order any remedy which is appropriate to the proceedings and issues presented to them. The chairman of the arbitral tribunal shall be appointed by the American Arbitration Association from among the three arbitrators so selected. Any party to a decision rendered in such arbitration proceedings may seek an order enforcing the same by any court having jurisdiction.

(i) No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the Executive and the Company to express their mutual intent, and no rule of strict construction will be applied against the Executive or Company.

IN WITNESS WHEREOF, the Company and Executive have signed this Agreement as of the day and year written above.

VASCO Data Security International, Inc.

By:

-----  
Forrest D. Laidley  
Its: Compensation Committee Chairman

By:-----

T. KENDALL HUNT

VASCO Data Security International, Inc.  
EMPLOYMENT AGREEMENT

EXHIBIT A

Address: T. Kendall Hunt  
11735 Briarwood Court  
Burr Ridge, IL 60527

Salary: \$260,000 annualized Effective: November 20, 2002

Title: Chairman and Chief Executive Officer

Duties: Executive shall act as Chairman of the Board of Directors and will fulfill his duties as such. Additionally, he will serve as Chief Executive Officer of the Company. In this role, the President and Chief Operating Officer, and the Chief Financial Officer will report to Executive. Executive will follow the rules set out by the Sarbanes-Oxley Act of 2002, and will manage the Company in an honest and trustworthy manner. Executive will also be charged with communicating clearly and truthfully with investors, analysts, the press, and other individuals and institutions.

Executive Leaves Without a Change of Control:

1. Terminated by the Company without Cause:

-----  
Severance Yes 24 months  
Non-compete Yes 12 months

2. Terminated by the Company with Cause:

-----  
Severance No 0 months  
Non-compete Yes 12 months

3. Executive quits without Good Reason:

-----  
Severance Yes 0 months  
Non-compete Yes 12 months

4. Executive quits with Good Reason:

-----  
Severance Yes 24 months  
Non-compete Yes 24 months

Executive Leaves In The Event of a Change of Control:

1. Terminated

-----  
Severance Yes 24 months  
Non-compete Yes 24 months

2. Executive quits for Good Reason:

-----  
Severance Yes 24 months  
Non-compete Yes 24 months

Severance & Non-compete:

Severance is meant to provide the executive with a reasonable period of time in which to find new employment. So long as Severance continues, the executive is expressly prohibited from joining a firm that is competitive to the Company. After the Severance period is complete, and through the last month of the Non-compete period, the executive is prohibited from contacting in any manner, a customer or prospect of the Company that existed at the time of the executive's departure from the Company. If there is no Severance, for the defined Non-compete period from the executive's separation from the Company, the executive is prohibited from contacting in any manner, a customer or Prospect of the Company that existed at the time of the executive's departure from the Company. A Prospect is defined as an organization that is listed on the Company's forecasting reporting system at the time of the executive's separation from the Company.

VASCO Data Security International, Inc.  
INDEPENDENT CONTRACTOR EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), is made and entered into as of November 20, 2002 (the "Effective Date"), by and between VASCO Data Security International, Inc., a Delaware corporation (the "Company"), and E-SECUVISION BVBA (incorporated on 17.11.1999), having its registered office at 8501 Bissegem, Dumortierlaan 9, hereby represented by Mr. Jan VALCKE, Managing Director, who, as an Independent Contractor, commits himself jointly and severally; hereinafter referred to as (the "Executive").

WHEREAS, the Company and the Executive desire to enter into this Agreement to establish the rights and obligations of the Executive and the Company in such Employment relationship; and

WHEREAS, the terms of this Agreement have been approved by the Board of Directors of the Company,

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Executive and the Company hereby agree as follows:

1. Employment of Executive.

As of the Effective Date, the Company hereby engages and employs Executive in an executive capacity as described in Exhibit A attached hereto, and Executive hereby accepts such Employment and agrees to act as an independent contractor to the Company in accordance with the terms of Employment hereinafter specified ("Executive Employment").

2. Term of Executive Employment.

The period of Executive Employment shall begin on the Effective Date and continue until terminated as hereinafter provided (the "Employment Period").

3. Duties.

(a) Executive shall be employed by Company as an Officer of the Company in the capacity and with the duties set forth in Exhibit A attached hereto.

(b) Nothing contained herein shall be construed so as to prohibit Executive from performing such other or additional duties or responsibilities, and exercising such other or additional authority in furtherance of the goals of the Company, as the Executive and Chief Executive Officer and/or the Board of Directors of the Company shall from time to time agree upon.

(c) Executive shall devote such portion of his business time and attention as is necessary to appropriately and efficiently discharge his duties and responsibilities as herein set forth. If Executive so discharges his duties, he may engage in other non-competing business and civic activities, in addition to those relating to the Company's business, if such activities are not otherwise prohibited by the terms of this Agreement, or do not substantially interfere with the performance of such responsibilities.

4. Base Pay. During the Employment Period, the Company shall pay or cause to be paid to Executive an initial base Pay ("Base Pay") as set forth in Exhibit A attached hereto and made a part hereof, payable to Executive on a periodic basis in accordance with the Company's then current executive payment practice; provided, however, that the installments may not be made less frequently than on a monthly basis. Such Base Pay shall be subject to review in accordance with the Company's normal practice for executive Pay review from time to time in effect, and will not be reduced without the prior written consent of Executive. Any increase in Base Pay shall be in writing and be attached to this Agreement as an amendment to Exhibit A.

5. Expenses. The Company shall pay or reimburse Executive in accordance with the Company's policy for all expenses reasonably incurred by Executive during the period of Executive's Employment in connection with the performance of Executive's duties under this Agreement, including, without limitation, travel, entertainment and other business related expenses. The Company will also pay to Executive a car allowance, in lieu of reimbursing Executive for car-related expenses,

of 868 Euro monthly. As the Company may reasonably request, Executive shall provide to the Company documentation or supporting information relating to the expenses for which Executive seeks reimbursement.

6. Termination of Executive Employment Either Party shall have the option to terminate Executive's Employment with or without cause, for any reason whatsoever, without any breach of this Agreement by giving six (6) month's written notice.

7. Non-Compete. In the event Executive terminates his Employment or is terminated pursuant to this Agreement, Executive hereby agrees that he shall not, directly or indirectly, as employee, agent, consultant, stockholder, director, co-partner or in any other individual or representative capacity, own, operate, manage, control, invest in or participate in any manner in, act as a consultant or advisor to, render services for (alone or in association with any person, firm, corporation or entity), or otherwise assist any firm, corporation or entity which is in direct competition with the Company ("Competitor") for the term of six (6) months provided, however, that nothing contained herein shall be construed to prevent Executive from investing in the stock of a Competitor, but only if Executive is not involved in the business of said Competitor and if Executive and his associates (as such term is defined in Regulation 14(A) promulgated under the Securities Exchange Act of 1934, as in effect on the date hereof), collectively, do not own more than an aggregate of two (2%) percent of the stock of such Competitor. Executive also agrees that for a period of twelve (12) months from his termination of employment that he will not solicit any clients of the Company, nor will he solicit for employment any Company employees.

8. Miscellaneous.

(a) Notice. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed given when delivered in person or other forms of delivery, including certified mail, fax, etc., to the following addresses:

(i) if to the Company, to:

VASCO Data Security International, Inc.  
1901 South Meyers Road, Suite 210  
Oakbrook Terrace, IL 60181  
Attn: Compensation Committee Chairman  
with a copy to:

Forrest D. Laidley, Esq  
339 N. Milwaukee Ave.  
Suite 200  
Libertyville, Illinois 60048

(ii) If to Executive to:

To the address set forth in Exhibit A.

Any party may change its address for notice hereunder by notice to the other party hereto.

(b) Governing Law. The parties agree that this Agreement shall be construed and governed in accordance with the laws of the State of Illinois, USA, applicable to agreements made and to be performed entirely within such state.

(c) Binding Effect. This Agreement shall be binding upon and incur to the benefit of the parties hereto and their respective heirs, legal representatives, executors, administrators, successors and assigns.

(d) Counterparts. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

(e) Entire Agreement. This Agreement represents the entire agreement and understanding of the parties hereto with respect to the matters set forth herein. This Agreement supersedes all prior negotiations, discussions correspondence, communications, understandings and agreements between the parties, including all subsidiaries of the Company, written or oral, relating to the subject matter of this Agreement. This specifically includes the Agreement signed between the Executive and VASCO Data Security NV, a wholly owned subsidiary of VASCO Data Security Europe which, in turn, is a wholly owned subsidiary of the Parent Company, VASCO Data Security International, Inc., effective November 1, 1999, which is hereby



rendered null and void. This Agreement may be amended, superseded, canceled, renewed, or extended and the terms hereof may be waived, only by a written instrument signed by the parties hereto or, in the case of a waiver, by the party waiving compliance.

(f) Waivers. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof. Nor shall any waiver on the part of any party of any such right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

(g) Arbitration. Except for any claim or dispute which gives rise or could give rise to equitable relief under this Agreement, at the request of the Executive any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the breach hereof shall be settled exclusively and finally by arbitration. The arbitration shall be conducted in accordance with such rules and before such arbitrator as the parties shall agree and if they fail to so agree within 15 days after demand for arbitration, such arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association (hereinafter referred to as "AAA Rules"). Such arbitration shall be conducted in Chicago, Illinois, or in such other city as the parties to the dispute may designate by mutual consent. The arbitral tribunal shall consist of three arbitrators (or such lesser number as may be agreed upon by the parties) selected according to the procedure set forth in the AAA Rules in effect on the date hereof and the arbitrators shall be empowered to order any remedy which is appropriate to the proceedings and issues presented to them. The chairman of the arbitral tribunal shall be appointed by the American Arbitration Association from among the three arbitrators so selected. Any party to a decision rendered in such arbitration proceedings may seek an order enforcing the same by any court having jurisdiction.

(h) No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the Executive and the Company to express their mutual intent, and no rule of strict construction will be applied against the Executive or Company.

IN WITNESS WHEREOF, the Company and Executive have signed this Agreement as of the day and year written above.

VASCO Data Security International, Inc.

By: -----  
T. Kendall Hunt  
Its: CEO

By:-----  
Jan Valcke  
Managing Director  
E-SECUVISION BVBA

VASCO Data Security International, Inc.  
INDEPENDENT CONTRACTOR EMPLOYMENT AGREEMENT

EXHIBIT A

Address: Jan Valcke

Managing Director  
E-SECUVISION BVBA  
8501 Bissegem, Dumortierlaan 9  
Belgium

ANNUALIZED COMPENSATION: 260,000 EURO

Executive will invoice 14,576.13 Euros to VASCO Data Security NV and \$6,807.00 USD to VASCO Data Security, Inc. There will be no adjustments as a result of changes in the Euro to U. S. Dollar exchange rate.

EFFECTIVE: NOVEMBER 20, 2002

Title: President and Chief Operating Officer

Duties: Executive shall act as President and Chief Operating Officer of the Company and shall report directly to the Company's Chief Executive Officer. His responsibilities shall include overseeing and managing the day-to-day operations of the Company including sales, marketing, R&D, manufacturing, human resources, shipping, and all other operations, with the exception of finance and administration which reports to the Company's Chief Financial Officer. Executive will follow the rules set out by the Sarbanes-Oxley Act of 2002, and will manage the Company in an honest and trustworthy manner. Executive will also be charged with communicating clearly and truthfully with investors, analysts, the press, and other individuals and institutions.

VASCO Data Security International, Inc.  
EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is made and entered into as of January 1, 2003 (the "Effective Date"), by and between VASCO Data Security International, Inc., a Delaware corporation (the "Company"), and CLIFFORD K. BOWN (the "Executive").

WHEREAS, the Company and the Executive desire to enter into this Agreement to establish the rights and obligations of the Executive and the Company in such employment relationship; and

WHEREAS, the terms of this Agreement have been approved by the Board of Directors of the Company,

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Executive and the Company hereby agree as follows:

1. Employment of Executive.

As of the Effective Date, the Company hereby engages and employs Executive in an executive capacity as described in Exhibit A attached hereto, and Executive hereby accepts such employment and agrees to act as an employee of the Company in accordance with the terms of employment hereinafter specified ("Executive Employment").

2. Term of Executive Employment.

The period of Executive Employment shall begin on the Effective Date and continue until terminated as hereinafter provided (the "Employment Period").

3. Duties.

(a) Executive shall be employed by Company as an Officer of the Company in the capacity and with the duties set forth in Exhibit A attached hereto.

(b) Nothing contained herein shall be construed so as to prohibit Executive from performing such other or additional duties or responsibilities, and exercising such other or additional authority in furtherance of the goals of the Company, as the Executive and Chief Executive Officer and/or the Board of Directors of the Company shall from time to time agree upon.

(c) With the exception of your current role as advisor to the Board of Directors of Florstar Sales, Inc., you shall devote your entire time and attention to VASCO's business. During business hours, you shall not engage in any other form of business activity, regardless of whether it is pursued for gain or profit.

(d) During Executive's employment hereunder, Executive shall not be required to relocate his principal residence from his current location as a result of the Company moving its principal executive offices or the Executive's office to an address greater than forty (40) miles away from the Company's principal executive offices (or the Executive's office) at the Effective Date and shall not be required to perform services which could make the continuance of Executive's principal residence in such location unreasonably difficult or inconvenient for Executive except to the extent that the performance of such services (and travel) is commensurate with Executive's duties specified hereunder.

4. Executive Salary and Compensation.

(a) Base Salary. During the Employment Period, the Company shall pay or cause to be paid to Executive an initial base salary ("Base Salary") as set forth in Exhibit A attached hereto and made a part hereof, payable to Executive on a periodic basis in accordance with the Company's then current executive salary payment practice; provided, however, that the installments may not be made less frequently than on a monthly basis. Such Base Salary shall be subject to review in accordance with the Company's normal practice for executive salary review from time to time in effect, and will not be

reduced without the prior written consent of Executive. Any increase in Base Salary shall be in writing and be attached to this Agreement as an amendment to Exhibit A.

(b) Incentive Compensation The Compensation Committee of the Company's Board of Directors (the "Committee") shall determine for each fiscal year of the Company during the Employment Period the amount of incentive compensation, if any, to be awarded to the Executive.

(c) Withholding of Certain Taxes. All compensation referred to in Section 4(a) and 4(b) of this Agreement is stated in terms of gross amount, it being understood that the Company will be required to withhold from such gross amount deductions for federal, state and local income taxed (if any). F.I.C.A.. unemployment compensation taxes and the like.

5. Expenses. The Company shall pay or reimburse Executive in accordance with the Company's policy for all expenses reasonably incurred by Executive during the period of Executive's employment in connection with the performance of Executive's duties under this Agreement, including, without limitation, travel, entertainment and automobile expenses. As the Company may reasonably request, Executive shall provide to the Company documentation or supporting information relating to the expenses for which Executive seeks reimbursement.

6. (a) Termination of Executive Employment Other than by the Executive. The Company shall have the option to terminate Executive's employment with or without cause, for any reason whatsoever, without any breach of this Agreement under the following circumstances:

- (i) Death or Disability. The Executive's employment hereunder shall terminate upon his death, and may be terminated by the Company in the event of his Disability, which for the purposes of this Agreement shall mean being unable to perform his duties to the Company as set forth herein for a continuous period of at least one hundred and eighty (180) days, provided that the Executive does not return to work on a substantially full-time basis within thirty (30) days after Notice of Termination is given by the Company pursuant to the provisions of this paragraph. A return to work of less than thirty (30) days shall not interrupt a continuous period of Disability. During any period that the Executive fails to perform his duties hereunder as a result of incapacity due to physical or mental illness, the Executive shall continue to receive his Base Salary at the rate then in effect until the date his employment is terminated.
- (ii) Cause. The Company may terminate the Executive's employment for cause. For the purpose of this Agreement, "Cause" shall mean: any act by the Executive that constitutes fraud, dishonesty, bad faith or a felony toward the Company; the conviction of the Executive of a felony or crime involving moral turpitude; the Executive entering into any transaction or contractual relationship causing diversion of business opportunity from the Company (other than on behalf of the Company, or with the prior written consent of the Board of Directors of the Company); or the Executive's willful and continued neglect of his material duties hereunder after thirty (30) days written notice to the Executive by the Board of Directors. The Company will pay to the Executive all compensation owing through the date of termination; however, in no event will any bonus be paid to an Executive terminated for Cause. Executive is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Exhibit A.
- (iii) Without Cause. The Company may terminate the Executive's employment hereunder without cause. If the Executive is terminated without Cause, the Company shall continue to pay the Executive his Base Salary at the rate then in effect for the period set forth in Exhibit A, from the Date of Termination. Executive is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Exhibit A.

(b) Termination of Employment by Executive.

- (i) The Executive may terminate his employment at any time. If the Executive terminates his employment with the Company, the Company shall pay the Executive all compensation owing through the Date of Termination. Executive is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Exhibit A.
- (ii) For Good Reason. If the Executive terminates his employment for Good Reason, the Company shall

continue to pay the Executive his Base Salary at the rate then in effect for the period set forth as Severance in Exhibit A, from the Date of Termination. Executive is bound by the Non-Compete terms contained in this

Agreement for the period of time set forth in Exhibit A. For purposes of this Agreement, "Good Reason" shall mean:

- (1) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;
- (2) any failure by the Company to comply with any provision of any employment agreement entered into between the Executive and the Parent Company (or any direct or indirect subsidiary thereof) other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;
- (3) the Parent Company's (or any direct or indirect subsidiary thereof) requiring the Executive to be based at any office or location other than the office occupied by the Executive as of the date of this Agreement or a reasonably comparable office located within a 40-mile radius of such current office; or
- (4) any failure by the Company to continue at least its customary base compensation payments to the Executive.

Any good faith determination of "Good Reason" made by the Executive shall be conclusive.

(c) Notice of Termination. Any termination of the Executive's employment by the Company hereunder or by the Executive other than termination upon the Executive's death, shall be communicated by written Notice of Termination to the other party. For purposes of this Agreement, a "Notice of Termination" means a notice that shall indicate the specific termination provision in this Agreement relied upon, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

(d) Date of Termination. "Date of Termination" shall mean:

- (i) If Executive's employment is terminated by his death, the date of his death;
- (ii) If the Executive's employment is terminated by the Company as a result of Disability pursuant to this paragraph, the date that is thirty (30) days after Notice of Termination given; provided the Executive shall not have returned to the performance of his duties on a full-time basis during such thirty (30) day period.
- (iii) If the Executive terminates his employment at his election pursuant to this paragraph, the date that is ten (10) days after Notice of Termination is given.
- (iv) If the Executive's employment is terminated by the Company without Cause pursuant to this paragraph, the date that is ten (10) days after Notice of Termination is given.
- (v) If the Executive's employment is terminated by the Company for Cause pursuant to this paragraph, the date on which Notice of Termination is given.

## 7. Change in Control.

(a) For purposes hereof, a "Section 7 Termination" shall have occurred if Executive's employment is terminated by the Company other than for Cause, at any time following the occurrence of a change in control of VASCO Data Security International, Inc. (the "Parent Company") or the Company.

(b) "Change in Control" shall mean the happening of any of the following events:



- (i) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 25% or more of either (1) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition by the Company; (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (4) any acquisition by any Person pursuant to a transaction which complies with clauses (1), (2) and (3) of subsection (iii) of this Section 7(b); or
- (ii) Within any period of 24 consecutive months, a change in the composition of the Board such that the individuals who, immediately prior to such period, constituted the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 7(b)(ii), that any individual who becomes a member of the Board during such period, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or
- (iii) The approval by the stockholders of the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company ("Corporate Transaction"); excluding, however, such a Corporate Transaction pursuant to which (1) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets, either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no Person (other than the Company; any employee benefit plan (or related trust) sponsored or maintained by the Company, by any corporation controlled by the Company, or by such corporation resulting from such Corporate Transaction) will beneficially own, directly or indirectly, more than 25% of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors, except to the extent that such ownership existed with respect to the Company prior to the Corporate Transaction, and (3) individuals who were members of the Board immediately prior to the approval by the stockholders



of the Corporation of such Corporate Transaction will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

- (iv) The approval by the stockholders of the Company of a complete liquidation or dissolution of the Company, other than to a corporation pursuant to a transaction which would comply with clauses (1), (2) and (3) of subsection (iii) of this Section 7(b), assuming for this purpose that such transaction were a Corporate Transaction.

(c) If a Section 7 Termination occurs, the Company shall continue to pay to Executive, as severance compensation, his Base Salary and Incentive Compensation at the rate then in effect for the period set forth in Exhibit A, from the effective date of Executive's termination. Executive is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Exhibit A. In lieu of regular payments of Base Salary, the Executive shall be entitled to receive, upon Executive's written election, a lump sum payment equal to the present value of the stream of monthly payments due and unpaid. Executive may also similarly elect to receive a lump sum payment equal to the present value of the Incentive Compensation due pursuant to this Agreement. For purposes of this computation, present value shall be calculated on the basis of the prime rate of interest announced by the Company's principal bank, or if it has no such bank, published in the Wall Street Journal, on the date of Executive's election to receive the lump sum payments provided for herein.

(d) In the event of a Change in Control, if the Executive terminates his employment for Good Reason, the Company shall continue to pay the Executive his Base Salary and Incentive Compensation at the rate then in effect for the period set forth as Severance in Exhibit A, from the Date of Termination. In lieu of regular payments of Base Salary, the Executive shall be entitled to receive, upon Executive's written election, a lump sum payment equal to the present value of the stream of monthly payments due and unpaid. Executive may also similarly elect to receive a lump sum payment equal to the present value of the Incentive Compensation due pursuant to this Agreement. Executive is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Exhibit A.

8. Gross Up for Excise Tax Liability. If it shall be determined that any payment or benefit received or to be received by Executive under this Agreement or any other plan, arrangement or agreement of the Company or any person whose actions result in a Change in Control of the Company or any affiliate thereof (all such payments and benefits a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (the "Excise Tax"), then the Company shall pay to Executive an additional payment (a "Gross-Up Payment") in an amount necessary to reimburse Executive, on an after-tax basis, for the Excise Tax and for any federal, state and local income tax and excise tax (including any interest and penalties imposed with respect to such taxes) that may be imposed by reason of the Payment. For purposes of determining the amount of any Gross-Up Payment, Executive shall be deemed to pay federal, state and local income taxes at the highest applicable marginal rate of taxation in the calendar year in which the Gross-Up Payment is to be made. All determinations required to be made under this Section 8, including whether a Gross-Up Payment is required and the amount of such Gross-Up Payment shall be made by the Accounting Firm which shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the request for such determination. Such request may be made by either party. The Company shall pay the fees and expenses of the Accounting Firm in connection with any determinations hereunder. The Gross-Up Payment shall be paid by the Company within 10 days of the Accounting Firm's determination of the amount thereof.

9. Non-Compete. In the event Executive terminates his employment or is terminated pursuant to this Agreement, Executive hereby agrees that he shall not, directly or indirectly, as employee, agent, consultant, stockholder, director, co-partner or in any other individual or representative capacity, own, operate, manage, control, invest in or participate in any manner in, act as a consultant or advisor to, render services for (alone or in association with any person, firm, corporation or entity), or otherwise assist any firm, corporation or entity which is in direct competition with the Company ("Competitor") upon the terms and conditions and for the term set forth in Exhibit A; provided, however, that nothing contained herein shall be construed to prevent Executive from investing in the stock of a Competitor, but only if Executive is not involved in the business of said Competitor and if Executive and his associates (as such term is defined in Regulation 14(A) promulgated under the Securities Exchange Act of 1934, as in effect on the date hereof), collectively, do not own more than an aggregate of two (2%) percent of the stock of such Competitor.

10. Mitigation of Amounts Payable Under This Agreement. The Executive shall not be required to mitigate the amount of any payment provided for pursuant to this Agreement by seeking other employment or otherwise, and, further, any payment or benefit to be provided to Executive pursuant to this Agreement shall not be reduced by any compensation or other amount earned or collected by Executive at any time before or after the termination of Executive Employment hereunder.

11. Miscellaneous.

(a) Notice. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed given when delivered in person or other forms of delivery including certified mail, fax, etc., to the following addresses:

(i) if to the Company, to:

VASCO Data Security International, Inc.  
1901 South Meyers Road, Suite 210  
Oakbrook Terrace, IL 60181  
Attn: Compensation Committee Chairman  
with a copy to:

Forrest D. Laidley, Esq  
339 N. Milwaukee Ave.  
Suite 200  
Libertyville, Illinois 60048

(ii) If to Executive to:

To the address set forth in Exhibit A.

Any party may change its address for notice hereunder by notice to the other party hereto.

(b) Governing Law. The parties agree that this Agreement shall be construed and governed in accordance with the laws of the State of Illinois applicable to agreements made and to be performed entirely within such state.

(c) Binding Effect. This Agreement shall be binding upon and incur to the benefit of the parties hereto and their respective heirs, legal representatives, executors, administrators, successors and assigns.

(d) Counterparts. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

(e) Entire Agreement. This Agreement represents the entire agreement and understanding of the parties hereto with respect to the matters set forth herein. This Agreement supersedes all prior negotiations, discussions correspondence, communications, understandings and agreements between the parties, written or oral, relating to the subject matter of this Agreement. This Agreement may be amended, superseded, canceled, renewed, or extended and the terms hereof may be waived, only by a written instrument signed by the parties hereto or, in the case of a waiver, by the party waiving compliance.

(f) Waivers. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof. Nor shall any waiver on the part of any party of any such right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

(g) Headings. The headings in this Agreement are inserted for convenience only and are not to be considered in the interpretation or construction of the provisions hereof.

(h) Arbitration. Except for any claim or dispute which gives rise or could give rise to equitable relief under this Agreement, at the request of the Executive any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the breach hereof shall be settled exclusively and finally by arbitration. The arbitration shall be conducted in accordance with such rules and before such arbitrator as the parties shall agree and if they fail to so agree within 15 days after demand for arbitration, such arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association (hereinafter referred to as "AAA Rules"). Such arbitration shall be conducted in Chicago, Illinois, or in such other city as the parties to the dispute may designate by mutual consent. The arbitral tribunal shall consist of three arbitrators (or such lesser number as may be agreed upon by the parties) selected according to the procedure set forth in the AAA Rules in effect on the date hereof and the arbitrators shall be empowered to order any remedy which is appropriate to the proceedings and issues presented to them. The chairman of the arbitral tribunal shall be appointed by the

American Arbitration Association from among the three arbitrators so selected. Any party to a decision rendered in such arbitration proceedings may seek an order enforcing the same by any court having jurisdiction.

(i) No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the Executive and the Company to express their mutual intent, and no rule of strict construction will be applied against the Executive or Company.

IN WITNESS WHEREOF, the Company and Executive have signed this Agreement as of the day and year written above.

VASCO Data Security International, Inc.

By:

-----

T. Kendall Hunt  
Its: CEO

By:

\_\_\_\_\_

CLIFFORD K. BOWN

VASCO Data Security International, Inc.  
EMPLOYMENT AGREEMENT

EXHIBIT A

Address: Clifford K. Bown  
1035 Sheringham Dr.  
Naperville, IL 60565

Salary: \$150,000 annualized Effective: January 1, 2003

Title: Chief Financial Officer

Executive will direct the financial operations of the Company worldwide, including financial reporting centers in Oakbrook Terrace, Illinois, Brussels, Belgium and operations in Australia and Singapore. He will be responsible for all accounting, treasury, investor relations, SEC reporting and compliance, financial controls, capital creation, Edgar reporting and compliance, IPO and secondary offerings, and other financial matters. He will participate in the senior management team that governs the Company's operations. Executive will follow the rules set out by the Sarbanes-Oxley Act of 2002, and will manage the Company in an honest and trustworthy manner. Executive will also be charged with communicating clearly and truthfully with investors, analysts, the press, and other individuals and institutions.

Executive Leaves Without a Change of Control:

1. Terminated by the Company without Cause:

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Severance Yes 12 months  
Non-compete Yes 12 months

2. Terminated by the Company with Cause:

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Severance No 0 months  
Non-compete Yes 3 months

3. Executive quits without Good Reason:

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Severance Yes 0 months  
Non-compete Yes 3 months

4. Executive quits with Good Reason:

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Severance Yes 12 months  
Non-compete Yes 12 months

Executive Leaves In The Event of a Change of Control:

1. Terminated

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Severance Yes 12 months  
Non-compete Yes 12 months

2. Executive quits for Good Reason:

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Severance Yes 12 months  
Non-compete Yes 12 months

Severance & Non-compete:

Severance is meant to provide the executive with a reasonable period of time in which to find new employment. So long as Severance continues, the executive is expressly prohibited from joining a firm that is competitive to the Company. After the Severance period is complete, and through the last month of the Non-compete period, the executive is prohibited from contacting in any manner, a customer or prospect of the Company that existed at the time of the executive's departure from the Company. If there is no Severance, for the defined Non-compete period from the executive's separation from the Company, the executive is prohibited from contacting in any manner, a customer or Prospect of the Company that existed at the time of the executive's departure from the Company. A Prospect is defined as an organization that is listed on the Company's forecasting reporting system at the time of the executive's separation from the Company.

## INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT ("Agreement") is entered into as of the \_\_\_\_ day of March, 2003, by and among T. Kendall Hunt ("Hunt") and VASCO Data Security International, Inc., a Delaware corporation ("VASCO").

## R E C I T A L S :

A. As required by that certain Convertible Loan Agreement, dated August 4, 1997, by and among VASCO and Banque Paribas Belgique ("Banque Paribas") (as amended and restated as of August 7, 2001, the "Loan Agreement"), Hunt entered into that certain Pledge Agreement, dated July 15, 1997 (the "Pledge Agreement").

B. Pursuant to the Pledge Agreement, Hunt granted to Banque Paribas a first lien on and a first and prior security interest in and right of set off against 1,416,666 shares of VASCO common stock (the "Original Pledged Shares") as security for the payment to Banque Paribas by VASCO of its obligations under the Loan Agreement.

C. The rights granted to Banque Paribas under the Pledge Agreement are only effective in the event of a default by VASCO under its Loan Agreement with Banque Paribas.

D. The Pledge Agreement requires that, throughout the duration of the Loan Agreement, the market value of the shares of VASCO common stock pledged thereunder be equal to at least 125% of \$3,400,000.

E. As successor to Banque Paribas, Dexia Banque Belgique S.A. (the "Lender") has notified Hunt that the current value of the Original Pledged Shares is insufficient to meet the requirements of the Pledge Agreement and that Hunt is required to pledge an additional 5,120,000 shares of VASCO common stock (the "Additional Pledged Shares" and, with the Original Pledged Shares, the "Pledged Shares") under the terms of the Pledge Agreement.

F. Hunt desires to pledge the Additional Pledged Shares to Lender on the condition that VASCO provide Hunt with certain indemnification obligations as more specifically set forth herein.

G. VASCO acknowledges its responsibility to comply with the terms of the Loan Agreement and desires to provide Hunt with certain indemnification obligations, that would only be effective in the event of a default by VASCO under the terms of the Loan Agreement, as more specifically set forth herein.

NOW, THEREFORE, in consideration of foregoing recitals, which are incorporated herein by this reference, and of the premises and mutual covenants herein contained, and intending to be legally bound, the parties hereto agree as follows:

1. Indemnification.

a. VASCO shall indemnify Hunt from and against any claim, demand, controversy, dispute, cost, loss, damage, expense, judgment and/or liability incurred by or imposed upon Hunt as a result of any action by the Lender with respect to the Pledged Shares, including, without limitation, Lender's sale or other disposition of the Pledged Shares (the "Indemnification").

b. VASCO and Hunt agree that the Indemnification shall be satisfied, if at all, by means of a payment schedule commercially reasonable to VASCO and mutually agreeable to both VASCO and Hunt after good faith negotiation between the parties.

2. Governing Law. THIS AGREEMENT IS INTENDED TO TAKE EFFECT AS A SEALED INSTRUMENT AND SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO CONFLICTS-OF-LAW PRINCIPLES.

3. Notice. Except as otherwise provided herein, all notices, requests and demands to or upon a party hereto, to be effective, shall be in writing and sent in the manner and to the addresses set forth on the signature page of this Agreement.

4. Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts and by means of facsimile, each of which when so executed shall be deemed to be an original and shall be binding upon all parties, their successors and assigns, and all of which taken together shall constitute on and the same agreement.

5. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the successors or assigns of VASCO and Hunt and shall constitute a continuing agreement, applying to all future as well as existing transactions between VASCO and Hunt, or their successors and assigns.

6. Entire Agreement. This Agreement represents the entire agreement between the parties with respect to the subject matter hereof. Any amendment or other modification of this Agreement shall be effective only if in a writing signed by both of the parties hereto.

7. Miscellaneous. The headings of each section of this Agreement are for convenience only and shall not define or limit the provisions thereof. This Agreement and all rights and obligations hereunder shall be binding upon VASCO and its successors and assigns, and shall inure to the benefit of Hunt and his successors and assigns. If any term of this Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby, and this Agreement shall be construed and be enforceable as if such invalid, illegal or unenforceable term had not been included herein. VASCO acknowledges receipt of a copy of this Agreement.



IN WITNESS WHEREOF, the parties have executed this  
Indemnification Agreement as of the date and year first above written.

VASCO DATA SECURITY INTERNATIONAL, INC.

By: \_\_\_\_\_  
Name:  
Title:  
1901 South Meyers Road  
Suite 210  
Oakbrook Terrace, Illinois 60181  
Fax:

\_\_\_\_\_  
T. Kendall Hunt  
[ADDRESS]

CONSENT OF KPMG LLP

The Board of Directors  
VASCO Data Security International, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-62829 on Form S-8 and No. 333-46256 on Form S-3) of our report relating to the consolidated balance sheets of VASCO Data Security International, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2002, and related consolidated financial statement schedule, which report appears in the December 31, 2002 annual report on Form 10-K of VASCO Data Security International, Inc.

Our report refers to a change in the method of accounting for goodwill in 2002.

/s/ KPMG LLP

Chicago, Illinois  
March 28, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
Pursuant to 18 U.S.C.ss.1350, as adopted pursuant to  
ss. 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing with the Securities and Exchange Commission of the Annual Report of VASCO Data Security International, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 (the "Report"), I, T. Kendall Hunt, Chief Executive Officer and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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

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T. Kendall Hunt  
Chief Executive Officer and Director

March 28, 2003

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
Pursuant to 18 U.S.C.ss.1350, as adopted pursuant to  
ss. 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing with the Securities and Exchange Commission of the Annual Report of VASCO Data Security International, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 (the "Report"), I, Clifford K. Bown, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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

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Clifford K. Bown  
Chief Financial Officer

March 28, 2003