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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________TO __________

Commission file number 000-24389

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No
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As of May 12, 2004, 31,756,804 shares of the Company's Common Stock, $.001 par value per share ("Common Stock"), were outstanding.

VASCO DATA SECURITY INTERNATIONAL, INC.
FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2004

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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, AuthentiCard and Digipass.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2004 (Unaudited)	DECEMBER 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,801,893	$ 4,817,114
Restricted cash	365,190	--
Accounts receivable, net of allowance for doubtful accounts	4,393,882	2,522,670
Inventories, net	1,185,408	1,074,647
Prepaid expenses	403,546	476,353
Deferred income taxes	69,881	69,881
Foreign sales tax receivable	557,892	362,372
Other current assets	373,334	334,621
Total current assets	11,151,026	9,657,658
Property and equipment		
Furniture and fixtures	1,903,318	1,940,399
Office equipment	2,191,331	2,221,220
	4,094,649	4,161,619
Accumulated depreciation	(3,295,968)	(3,279,527)
Property and equipment, net	798,681	882,092
Intangible assets, net of accumulated amortization	1,296,784	1,378,362
Goodwill	249,967	249,967
Note receivable and investment in SSI	1,020,623	1,132,499
Other assets	83,454	82,602
TOTAL ASSETS	$ 14,600,535	$ 13,383,180
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,445,736	$ 1,697,950
Deferred revenue	1,169,205	386,446
Accrued wages and payroll taxes	1,398,700	1,514,729
Income taxes payable	219,152	(197,360)
Other accrued expenses	905,656	1,037,840
Total current liabilities	5,138,449	4,439,605
STOCKHOLDERS' EQUITY :		
Series D Convertible Preferred Stock, $10,000 par value - 500,000 shares authorized 559 shares issued and outstanding in 2004, 800 shares issued and outstanding in 2003	4,042,559	5,785,829
Common stock, $.001 par value - 75,000,000 shares authorized; 31,720,204 shares issued and outstanding in 2004, 30,425,284 shares issued and outstanding in 2003	31,720	30,425
Additional paid-in capital	49,066,207	47,167,362
Accumulated deficit	(43,191,668)	(43,693,494)
Accumulated other comprehensive income (loss) - cumulative translation adjustment	(486,732)	(346,547)
Total stockholders' equity	9,462,086	8,943,575
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 14,600,535	$ 13,383,180

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Net revenues	$ 6,021,247	$ 5,118,467
Cost of goods sold	1,575,389	2,159,221
Gross profit	4,445,858	2,959,246
Operating costs:		
Sales and marketing (exclusive of $(63) and $2,503 for the three months ended March 31, 2004 and 2003, respectively, reported below as non-cash compensation (recovery))	2,093,044	1,676,935
Research and development	707,715	523,317
General and administrative	745,978	739,507
Non-cash compensation (recovery)	(63)	2,503
Total operating costs	3,546,674	2,942,262
Operating income from continuing operations	899,184	16,984
Interest income (expense), net	28,769	(49,237)
Other income, net	76,645	200,370
Income before income taxes	1,004,598	168,117
Provision for income	421,931	--
Net income from continuing operations	582,667	168,117
Discontinued operations:		
Income from discontinued operations, net of tax	--	313,234
Net income	582,667	481,351
Preferred stock accretion and dividends	(80,840)	(290,996)
Net income available to common shareholders	$ 501,827	$ 190,355
Basic and diluted net income per common share:		
Income from continuing operations	$ 0.02	$ --
Income from discontinued operations	--	0.01
	$ 0.02	$ 0.01
Weighted average common shares outstanding:		
Basic	31,167,558	28,389,484
Dilutive	31,897,800	28,431,763

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31, 2004	THREE MONTHS ENDED MARCH 31, 2003
Net income	$ 582,667	$ 481,351
Other comprehensive income (loss) - cumulative translation adjustment	(140,185)	(58,718)
Comprehensive income	$ 442,482	$ 422,633

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31, 2004	2003
Cash flows from operating activities:		
Net income from continuing operations	$ 582,667	$ 168,117
Adjustments to reconcile net income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	166,927	273,046
Non-cash compensation expense (recovery)	(63)	2,503
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(1,989,363)	(896,030)
Inventories, net	(146,560)	318,490
Prepaid expenses	66,194	44,665
Foreign sales tax receivable	(212,681)	(287,731)
Other current assets	503	(13,508)
Other assets	(1,417)	--
Accounts payable	(214,775)	726,877
Deferred revenue	813,405	1,035,654
Accrued wages and payroll taxes	(76,201)	(139,979)
Income taxes payable	423,334	(67,344)
Accrued expenses	(72,479)	161,852
Net cash provided by discontinued operations	--	118,060
Net cash provided by (used in) operations	(660,509)	1,444,672
Cash flows from investing activities:		
Acquisition of Identikey, Ltd.	--	(7,341)
Additions to property and equipment, net	(13,796)	(12,362)
Increase in restricted cash	(365,190)	--
Payments received on note receivable	72,660	--
Net cash used in investing activities	(306,326)	(19,703)
Cash flows from financing activities:		
Repayment of debt	--	(62,009)
Proceeds from exercise of stock options	27,677	--
Dividends paid on preferred stock	(2,042)	--
Net cash provided by (used in) financing activities	25,635	(62,009)
Effect of exchange rate changes on cash	(74,021)	(86,401)
Net increase (decrease) in cash	(1,015,221)	1,276,559
Cash, beginning of period	4,817,114	2,615,935
Cash, end of period	$ 3,801,893	$ 3,892,494

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

RESTRICTED CASH

The restricted cash of $365,190 supports a bank guarantee issued in favor of a customer relating to a contract prepayment. Under the terms of the contract, the customer has the right to put a claim on the guarantee if the Company does not perform. The guarantee automatically ceases on January 31, 2012, but can be cancelled earlier upon mutual agreement of both parties. It is the Company's intention to fulfill the contract during 2004 and cancel the guarantee.

RECLASSIFICATION

Certain amounts in the first-quarter 2003 consolidated financial statements have been reclassified to conform to the full-year 2003 and 2004 presentation.

Effective July 1, 2003 the Company sold its VACMAN Enterprise ("VME") business unit, originally known as Intellisoft and/or Snareworks, to SecureD Services, Inc. In accordance with Statement of Financial Accounting Standard ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", the assets and liabilities of VME have been disaggregated from the operational assets and liabilities of the Company and the results of operations of the Company for the three-month period ended March 31, 2003, have been restated to present separately the results of operations of VME as the results of discontinued operations.

Additionally, certain operating expenses incurred by the Company's Australian subsidiary for the three-month period ended March 31, 2003 have been reclassified from Research and Development to Sales and Marketing to conform the first quarter 2003 presentation to the full year 2003 and 2004 presentation and to reflect the Australian subsidiary's increased focus on sales and marketing.

STOCK-BASED COMPENSATION

At March 31, 2004, the Company had a stock-based employee compensation plan. The Company accounts for the plan using the intrinsic method under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based compensation is reflected in net income, as all options granted under the plan 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:

	Three months ended March 31, 2004	Three months ended March 31, 2003
Net income available to common shareholders, as reported ..	$ 501,827	$ 190,355
Deduct: Total stock-based employee compensation determined under fair value-based methods for all awards, net of tax	266,843	252,132
Pro forma net income (loss)	$ 234,984	$ (61,777)
Net income per common share-basic and diluted:		
As reported	$ 0.02	$ 0.01
Pro forma	$ 0.01	$ --

NOTE 2 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

	March 31, 2004	December 31, 2003
Accounts receivable	$ 4,780,071	$ 2,993,141
Allowance for doubtful accounts	(386,189)	(470,471)
Accounts receivable, net	$ 4,393,882	$ 2,522,670

NOTE 3- INVENTORIES

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

Inventories, net of valuation allowance of $256,643 and $252,354 at March 31, 2004 and December 31, 2003, respectively, are comprised of the following:

	March 31, 2004	December 31, 2003
Component parts	$ 377,326	$ 277,065
Work-in-process and finished goods	808,082	797,582
Total	$1,185,408	$1,074,647

NOTE 4 - GOODWILL AND OTHER INTANGIBLE ASSETS

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

	March 31, 2004	December 31, 2003
Goodwill	$ 249,967	$ 249,967
Capitalized technology	$ 5,462,949	$ 5,462,949
Accumulated amortization	(4,166,165)	(4,084,587)
Capitalized technology, net	$ 1,296,784	$ 1,378,362

NOTE 5 - OTHER ACCRUED EXPENSES

Accrued expenses are comprised of the following:

	March 31, 2004	December 31, 2003
Restructuring reserve	$ 99,666	$ 134,368
Other accrued expenses	805,990	903,472
	$ 905,656	$1,037,840

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

NOTE 6 - STOCKHOLDERS' EQUITY

During the first quarter of 2004, the Company issued 32,500 shares of Common Stock as a result of the exercise of options under the Company's stock option plan generating total proceeds of $27,677. In addition, 241 shares of the Company's Series D 5% Cumulative Convertible Voting Preferred Stock were converted resulting in the issuance of 1,205,000 shares of the Company's Common Stock.

NOTE 7 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Three months ended March 31, 2004	2003
Supplemental disclosure of cash flow information:		
Interest paid	$ 3,330	$ 1,753
Income taxes paid	--	63,764
Supplemental disclosure of non-cash financing activities:		
Common stock issued to Series D preferred stock shareholders upon conversion of 241 shares of preferred stock (1,205,000 shares)	$1,743,270	--
Common stock issued to Series D preferred stock shareholders as a dividend payment (57,420 shares)	$ 126,256	--

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

The following discussion is based upon the Company's consolidated results of operations for the three months ended March 31, 2004 and 2003 (percentages in the discussion are rounded to the closest full percentage point) and should be read in conjunction with our consolidated financial statements included elsewhere in this Form 10-Q. Results of prior periods have been restated to report the results from the VACMAN Enterprise business as a discontinued operation.

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

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

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

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

COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003.

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

Currency Fluctuations. In the first quarter of 2004 and 2003, approximately 90% and 95%, respectively, of the Company's revenue were generated outside the United States. In addition, approximately 79% of its operating expenses in both periods were incurred outside of the United States. As a result, changes in currency, especially the Euro to U.S. Dollar, can have a significant impact on revenue and expenses. To minimize the net impact of currency, the Company attempts to denominate its billings in a currency such that it would provide a hedge against the operating expenses being incurred in that currency. In addition, the Company denominates the majority of our supply contracts in U.S. dollars.

The Euro strengthened approximately 17% and the Australian Dollar strengthened approximately 30% against the U.S. Dollar in the first quarter of 2004 as compared to the first quarter of 2003. The Company estimates that the strengthening of the two currencies in 2004 compared to 2003 resulted in an increase in revenues of approximately $400,000 and an increase in operating expenses of approximately $420,000.

The financial position and results of operations of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Accordingly, assets and liabilities are translated into U.S. dollars using current exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. Translation adjustments arising from differences in exchange rates are included as a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations. Foreign exchange transaction gains aggregating $70,000 in the first quarter of 2004 and $199,000 in the first quarter of 2003 are included in other non-operating income (expense).

REVENUE

Revenues by Geographic Regions: We sell the majority of our products in European countries with significant sales in the United States and other countries, primarily Australia, Asia/Pacific and South America. The breakdown of revenue in each of our major geographic areas was as follows:

First Quarter	Europe	United States	Other Countries	Total
Total Revenue:				
2004	$4,924,000	$ 624,000	$ 473,000	$6,021,000
2003	4,553,000	249,000	316,000	5,118,000
Percent of Total:				
2004	82%	10%	8%	100%
2003	89%	5%	6%	100%

Total revenues in the first quarter of 2004 increased $903,000 or 18% over 2003. Revenue generated in Europe was $371,000, or 8% higher than 2003. The increase was primarily attributable to the benefit from changes in the currency rate. Revenue generated in United States was $375,000 or 150% higher than 2003 and was primarily attributable to new customers in 2004. Revenue generated from other countries was $157,000 or 50% higher and also primarily reflects revenues from new customers in 2004.

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

First Quarter	Banking	CNA	Total
Total Revenue:			
2004	$ 4,527,000	$ 1,494,000	$ 6,021,000
2003	3,926,000	1,192,000	5,118,000
Percent of Total:			
2004	75%	25%	100%
2003	77%	23%	100%

Revenues from the Banking market increased $601,000 or 15% in the first quarter of 2004 over 2003 and revenues from the CNA market increased $302,000 or 25% in the same period. The increase in revenues in both markets is attributable, in part, to the development of the indirect sales channel, which includes distributors, resellers, and solution partners. The indirect sales channel supplements the Company's direct sales force in the Banking market and is the primary source of revenues in the CNA market.

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

GROSS PROFIT AND OPERATING EXPENSES

The following table sets forth, for the periods indicated, certain consolidated financial data as a percentage of revenues for the quarters ended March 31, 2004 and 2003.

	Percentage of Revenue Quarter Ended March 31,	
	2004	2003
Revenues	100.0%	100.0%
Cost of goods sold	26.2	42.2
Gross profit	73.8	57.8
Operating costs:		
Sales and marketing	34.7	32.8
Research and development	11.8	10.2
General and administrative	12.4	14.5
Non-cash compensation (recovery)	--	--
Total operating costs	58.9	57.4
Operating income from continuing operations	14.9	0.3
Interest income (expense)	0.5	(0.9)
Other income, net	1.3	3.9
Income before income taxes	16.7	3.3
Provision for income taxes	7.0	--
Net income from continuing operations	9.7	3.3

Gross Profit

Consolidated gross profit for the quarter March 31, 2004 was $4,446,000, an increase of $1,487,000, or 50%, from the quarter ended March 31, 2003. Gross profit as a percentage of revenue was 74% in the first quarter of 2004, as compared to 58% in the first quarter of 2003. The increase in the gross profit as a percentage of revenue was primarily related to four factors; the change of mix of sales within our Banking market, the increase in revenues from Corporate Network Access market as a percentage of total revenues, the lower cost of product produced, and the stronger Euro. Sales to new customers, both in Banking and Corporate Network Access markets, are generally for smaller quantities and, therefore, have higher margins than sales to our larger customers in the Banking market.

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

Consolidated gross profits, as a percentage of revenue, benefited in 2004 as revenues from the CNA market increased from 23% to 25% of total revenue. The average gross profit as a percentage of revenue on sales made to the CNA market is substantially higher than the average gross profit percentage on sales made to the Banking market. The difference in the margin percentages between the two markets reflects the fact that orders from Banking market are substantially larger than orders from the CNA market and that the Company provides volume purchase discounts.

The average cost per unit sold declined approximately 25% in the first quarter of 2004 compared to the first quarter of 2003. The decline in cost is primarily attributable to a change in the mix of units sold and a reduction in the per-unit cost of each model.

As previously noted, the Company's purchases of inventory are denominated in U.S. dollars. Also, as previously noted, the Company denominates a portion of its sales in Euros in order to offset the affects of currency on operating expenses. As the Euro and Australian dollars strengthened during the year, revenues from sales made in Euros and Australian Dollars increased, as measured in U.S. Dollars, without the corresponding increase in cost of goods sold. The benefit from changes in currency rates as noted above was approximately $400,000 and represents an improvement in the gross profit rate of approximately 1.8 percentage points.

Sales and Marketing Expenses

Consolidated sales and marketing expenses for the quarter ended March 31, 2004 were $2,093,000, an increase of $416,000, or 25%, from the first quarter of 2003. This increase was primarily due to increased strength of the Euro and Australian Dollar to the U.S. Dollar and to increases in compensation-related expenses, including the cost of agents in countries where the Company does not have a direct sales presence. The average full-time sales and marketing employee headcount was 46 in the first quarters of both 2004 and 2003.

Research and Development Expenses

Consolidated research and development costs for the quarter ended March 31, 2004 were $708,000, an increase of $184,000, or 35%, from the first quarter of 2003. This increase was primarily due to increased strength of the Euro and Australian Dollar to the U.S. Dollar and to increased costs related to the introduction of new products. Average full-time research and development employee headcount for continuing operations was 17 in both 2004 and 2003.

General and Administrative Expenses

Consolidated general and administrative expenses for the quarter ended March 31, 2004 were $746,000, an increase of $6,000, or 1%, from the first quarter of 2003. This increase was primarily due to increased strength of the Euro and Australian Dollar to the U.S. Dollar partially offset by reductions in expenses related to professional services and collections of accounts receivable that had previously been included in reserves for doubtful accounts. Average full-time general and administrative employee headcount in 2004 was 11 compared to 10 in 2003.

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.

Interest Income (Expense), Net

Consolidated net interest income (expense) was income of $29,000 in 2004 compared to expense of $49,000 in 2003. This change in expense was primarily due to the repayment of all debt in 2003 and the collection of amounts due under the installment note from SecureD Services, Inc. The Company invested its cash balances in savings accounts earning nominal rates of interest.

Other Income (Expense)

Other income (expense) primarily includes exchange gains (losses) on transactions that are denominated in currencies other than the subsidiaries' functional currency. The decrease in other income of $124,000 in 2004 from 2003 primarily reflects the decrease in U.S. Dollar denominated liabilities as a result of the repayment of the term loan in the third quarter of 2003.

Income Taxes

Income tax expense in the first quarter of 2004 was $422,000 and compares to no expense in 2003. The expense relates primarily to the Belgian operating subsidiary, whose tax loss carryforwards were fully utilized in 2003. The rate in 2004 reflects the Company's current estimate of its tax rate for the full year, but may vary in future periods as earnings are realized in different countries with different tax attributes.

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash was $3,802,000 at March 31, 2004, which is a decrease of approximately $1,015,000 or 21% from $4,817,000 at December 31, 2003. The decrease in cash was primarily related to an increase in days sales outstanding in accounts receivable partially offset by positive earnings before interest, taxes, depreciation and amortization (EBITDA).

In addition, the Company has restricted cash of $365,190 at March 31, 2004. The Company expects that the restrictions on the cash will be removed as product is shipped throughout the next twelve months.

Days sales outstanding in net accounts receivable increased from 37 days at December 31, 2003 to 66 days at March 31, 2004. Days sales outstanding in receivables increased in the first quarter as a higher percentage of the revenue in the quarter was realized in the final month of the quarter. In addition, days sales outstanding in the fourth quarter of 2003 benefited from prepayments for orders that were shipped in the quarter.

EBITDA from continuing operations for the quarter ended March 31, 2004 and 2003 were $1,143,000 and $490,000, respectively. A reconciliation of EBITDA to net income (loss) from continuing operations for the three-month periods ended March 31, 2004 and 2003 follows:

	Three Months Ended March 31,	
	2004	2003
	(unaudited)	
EBITDA from continuing operations	$ 1,143,000	$ 490,000
Interest (income) expense, net	(29,000)	49,000
Tax provision	422,000	--
Depreciaton and amortization	167,000	273,000
Net income (loss) from continuing operations	$ 583,000	$ 168,000

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

At March 31, 2004, the Company had an overdraft agreement in place with Fortis Bank, secured by the Company's trade accounts receivable, wherein the Company could borrow up to 2,000,000 Euros. Based on receivable balances as of March 31, 2004, the full amount of the overdraft agreement was available to the Company. There were no borrowings outstanding under the overdraft agreement at March 31, 2004.

As of March 31, 2004, the Company had working capital of $6,013,000, an increase of $795,000, or 15%, compared with $5,218,000 at December 31, 2003.

The Company believes that its 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, and deposits that will be received in future quarters on orders of our Digipass product will be sufficient to meet our anticipated cash needs over the next twelve months.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION

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

(a) EXHIBITS:

Exhibit 31.1 Statement Under Oath of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, May 13, 2004.

Exhibit 31.2 Statement Under Oath of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 13, 2004.

Exhibit 32.1 Statement Under Oath of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 13, 2004.

Exhibit 32.2 Statement Under Oath of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 13, 2004.

(b) REPORTS ON FORM 8-K:

(i) A Form 8-K was furnished on February 13, 2004 in connection with a press release and broadly accessible conference call to discuss the Company's fourth quarter earnings and results of operations for the fiscal year ended 2003.

(ii) On April 23, 2004, we furnished a Current Report on Form 8-K reporting financial results for the first quarter ended March 31, 2004.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 13, 2004.

VASCO Data Security International, Inc.

/s/ T. Kendall Hunt

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

/s/ Clifford K. Bown

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

EXHIBIT 31.1

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

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

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

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

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

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

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

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

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

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

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

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

Dated: May 13, 2004

/s/ T. Kendall Hunt

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

EXHIBIT 31.2

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

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

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

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

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

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

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

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

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

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

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

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

Dated: May 13, 2004

/s/ Clifford K. Bown

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

EXHIBIT 32.1

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

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of VASCO Data Security International, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2004 (the "Report"), I, T. Kendall Hunt, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

/s/ T. Kendall Hunt
- --
T. Kendall Hunt
Chief Executive Officer and Chairman of the Board of Directors
May 13, 2004

EXHIBIT 32.2

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

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of VASCO Data Security International, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2004 (the "Report"), I, Clifford K. Bown, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

/s/ Clifford K. Bown
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Clifford K. Bown
Chief Financial Officer
May 13, 2004