

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2000

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
-----		-----

As of June 30, 2000, 27,341,222 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 JUNE 30, 2000

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	PAGE NO.
Item 1. Consolidated Financial Statements:	
Consolidated Balance Sheets as of December 31, 1999 and June 30, 2000 (Unaudited).....	3
Consolidated Statements of Operations (Unaudited) for the three and six months ended June 30, 1999 and 2000.....	4
Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the three and six months ended June 30, 1999 and 2000.....	5
Consolidated Statements of Cash Flows (Unaudited) for the three and six months ended June 30, 1999 and 2000.....	6
Notes to Consolidated Financial Statements.....	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	7
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	11
PART II. OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K.....	12
SIGNATURES.....	13

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 1999 ----	June 30, 2000 ---- (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,576,494	\$ 1,684,167
Accounts receivable, net of allowance for doubtful accounts of \$120,216 and \$150,480 in 1999 and 2000, respectively	2,871,367	3,857,825
Inventories, net	805,382	937,781
Prepaid expenses	157,620	153,686
Deferred income taxes	83,000	83,000
Other current assets	925,334	701,757
	-----	-----
Total current assets	7,419,197	7,418,216
Property and equipment		
Furniture and fixtures	1,246,555	1,352,002
Office equipment	1,013,870	1,167,310
	-----	-----
Accumulated depreciation	2,260,425 (1,070,046)	2,519,312 (1,151,665)
	-----	-----
Goodwill and other intangibles, net of accumulated amortization of \$3,134,000 and \$3,428,555 in 1999 and 2000, respectively	1,190,379 1,989,960	1,367,647 1,628,169
Prepaid royalties and other assets	1,718,493	1,728,256
	-----	-----
TOTAL ASSETS	\$ 12,318,029 =====	\$ 12,142,288 =====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 639,322	\$ 261,542
Accounts payable	2,020,465	1,831,399
Unearned income	667,501	1,162,731
Accrued expenses	1,618,739	2,083,057
	-----	-----
Total current liabilities	4,946,027	5,338,729
Long-term debt, including stockholder note of \$5,000,000 and \$0 in 1999 and 2000, respectively	8,408,862	3,839,451
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock, \$.01 par value; 500,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.001 par value - 75,000,000 shares authorized; 26,462,083 and 27,341,222 shares issued and outstanding in 1999 and 2000, respectively	26,462	27,341
Additional paid-in capital	20,702,387	26,966,738
Accumulated deficit	(21,873,340)	(23,938,126)
Accumulated other comprehensive income- Cumulative translation adjustment	107,631	(91,845)
	-----	-----
Total stockholders' equity (deficit)	(1,036,860)	2,964,108
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 12,318,029 =====	\$ 12,142,288 =====

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	1999 ----	2000 ----	1999 ----	2000 ----
Net revenues	\$ 5,333,953	\$ 6,460,677	\$10,152,207	\$12,056,127
Cost of goods sold	1,807,037	2,373,368	3,696,838	4,279,846
Gross profit	3,526,916	4,087,309	6,455,369	7,776,281
Operating costs:				
Sales and marketing	1,397,459	2,045,317	2,800,119	4,207,896
Research and development	742,230	926,483	1,718,728	1,868,089
General and administrative	817,456	1,273,563	1,756,182	2,435,146
Total operating costs	2,957,145	4,245,363	6,275,029	8,511,131
Operating income (loss)	569,771	(158,054)	180,340	(734,850)
Interest expense	(196,461)	(49,822)	(424,361)	(212,734)
Other expense, net	(349,308)	(1,024,474)	(409,987)	(1,079,944)
Income (loss) before income taxes	24,002	(1,232,350)	(654,008)	(2,027,528)
Provision (benefit) for income taxes	56,862	17,718	361,043	37,258
Net loss	(32,860)	(1,250,068)	\$(1,015,051)	(2,064,786)
Basic and diluted net loss per common Share	\$ (0.00)	(0.05)	(0.05)	(0.08)
Weighted average common shares Outstanding	26,049,770	27,268,903	22,538,597	27,030,247

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	1999	2000	1999	2000
	----	----	----	----
Net loss	\$(32,860)	\$(1,250,068)	\$(1,015,051)	\$(2,064,786)
Other comprehensive income (loss) - cumulative translation adjustment	233,934	(93,728)	99,965	(199,476)
	-----	-----	-----	-----
Comprehensive income (loss)	\$201,074	\$(1,343,806)	\$ (915,086)	\$(2,264,262)
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30, 1999	2000
	----	----
Cash flows from operating activities:		
Net loss	\$ (1,015,051)	\$(2,064,786)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	523,375	504,760
Interest paid in shares of common stock	78,750	78,750
Gain on sale of fixed assets	(16,096)	-
Offering costs	-	1,208,731
Changes in assets and liabilities:		
Accounts receivable, net	824,619	(986,458)
Inventories, net	(65,282)	(132,399)
Other current assets	(468,700)	217,748
Accounts payable	(306,906)	(1,181,927)
Unearned income	(303,931)	495,230
Other accrued expenses	(180,033)	464,318
Prepayment of royalty	(1,100,000)	-
Net cash used in operating activities	(2,029,255)	(1,396,033)
Cash flows from investing activities:		
Acquisition of SecureWare/DMIC	(370,000)	-
Additions to property and equipment	(482,388)	(320,185)
Net cash used in investing activities	(482,388)	(320,185)
Cash flows from financing activities:		
Proceeds from exercise of stock options/warrants	93,625	221,319
Net proceeds from sales of common stock	10,787,978	965,109
Proceeds from issuance of debt	-	430,589
Repayment of debt	(6,107,571)	(377,780)
Payment of offering costs	-	(215,870)
Net cash provided by financing activities	4,774,032	1,023,367
Effect of exchange rate changes on cash	99,695	(199,476)
Net increase (decrease) in cash	2,362,084	(892,327)
Cash, beginning of period	1,662,084	2,576,494
Cash, end of period	\$ 4,024,168	\$ 1,684,167
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$ 491,867	\$ 55,105
Income taxes paid	\$ 266,170	\$ 12,660
Supplemental disclosure of non-cash investing and financing activities:		
Stock issued for acquisition	\$ 698,300	\$ -
Debt converted to common stock	\$ -	\$ 5,000,000
Offering costs included in accounts payable	\$ -	\$ 922,861

See accompanying notes to consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of VASCO Data Security International, Inc. and its subsidiaries (collectively, the "Company" or "VASCO") and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

During the fourth quarter of 1999, the Company acquired IntelliSoft Corp. in a transaction which has been accounted for under the pooling-of-interests method. Accordingly, the consolidated financial statements for the three and six months ended June 30, 1999 have been restated as if IntelliSoft had been combined for that period.

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

NOTE 2- BUSINESS SEGMENTS

Information about the company's business segments is as follows:

THREE MONTHS ENDED JUNE 30, 1999	IDENTISOFT -----	INTELLISOFT -----	TOTAL -----
Net revenues	\$4,451,000	\$ 883,000	\$ 5,334,000
Cost of goods sold	1,714,000	93,000	1,807,000
Gross profit	2,737,000	790,000	3,527,000
Six months ended June 30, 1999			
Net revenues	8,759,000	1,393,000	10,152,000
Cost of goods sold	3,549,000	148,000	3,697,000
Gross profit	5,210,000	1,245,000	6,455,000
THREE MONTHS ENDED JUNE 30, 2000			
Net revenues	\$4,846,000	\$1,615,000	\$ 6,461,000
Cost of goods sold	2,208,000	166,000	2,374,000
Gross profit	2,638,000	1,449,000	4,087,000
Six months ended June 30, 2000			
Net revenues	8,402,000	3,654,000	12,056,000
Cost of goods sold	3,869,000	411,000	4,280,000
Gross profit	4,533,000	3,243,000	7,776,000

NOTE 3- LONG-TERM DEBT

In April 2000, long-term debt held by a stockholder of the Company in the amount of \$5,000,000 was converted into 416,666 shares of common stock.

NOTE 4- STOCKHOLDERS' EQUITY

During the first quarter of 2000 the Company filed a registration statement in connection with an offering of its common stock to the public. On April 13, 2000, the Company terminated this offering due to the volatility of market conditions. Costs related to this offering of \$1,208,731 were written-off and included in other expense in the consolidated statement of operations.

NOTE 5- SUBSEQUENT EVENT

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 over the next 48 months. In conjunction with this financing, the company issued warrants to purchase 789,474 common shares at \$15 per share with an estimated imputed value using the Black-Scholes pricing model of approximately \$4.9 million and warrants to purchase 480,000 shares at \$4.25 per share with an estimated imputed value using the Black-Scholes pricing model of approximately \$5.2 million. The warrants issued at \$15 per share are immediately exercisable and will be recognized as a deemed dividend to preferred shareholders reducing income available to common stockholders. The warrants issued at \$4.25 become exercisable over 48 months and the related imputed value will be accreted reducing earnings available to common stockholders beginning in the third quarter of 2000.

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

VASCO secures the enterprise from the mainframe to the Internet with infrastructure solutions that enable and secure e-business and e-commerce, protect sensitive information, and safeguard the identity of users. The Company's family of DigipassT, VACMAN(R), and SnareWorksT products offers end-to-end security through true Single Sign-On, access control and advanced entitlements, web portal security, strong user authentication, and PKI enablement, while sharply reducing the time and effort required to deploy and manage security. VASCO's customers include hundreds of financial institutions, blue-chip corporations, and government agencies in more than 50 countries, among them John Hancock, ABN AMRO Bank, Shell, 3M, Ericsson, Rabobank, SEB, First Union, Liberty Mutual, Cable and Wireless, Nokia, DaimlerChrysler, Volvo, European Commission, US Coast Guard, University of Groningen, and Duke University. VASCO's partners include Ubizen, Intel, Computer Associates, Lernout & Hauspie, Check Point Software Technologies, and Novell.

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

This Quarterly Report on Form 10-Q, including the "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 concerning, among other things, the prospects, developments and business strategies for the Company and its operations, including the development and marketing of certain new products and the anticipated future growth in certain markets in which the Company currently markets and sells its products or anticipates selling and marketing its products in the future. These forward-looking statements (i) are identified by their use of such terms and phrases as "expected," "expects," "believe," "believes," "will," "anticipated," "emerging," "intends," "plans," "could," "may," "estimates," "should," "objective," and "goals" and (ii) are subject to risks and uncertainties and represent the Company's present expectations or beliefs concerning future events. The Company cautions that the forward-looking statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, including (a) risks of general market conditions, including demand for the Company's products and services, competition and price levels and the Company's historical

dependence on relatively few products, certain suppliers and certain key customers, and (b) risks inherent to the computer and network security industry, including rapidly changing technology, evolving industry standards, increasing numbers of patent infringement claims, changes in customer requirements, price competitive bidding, changing government regulations and potential competition from more established firms and others. Therefore, results actually achieved may differ materially from expected results included in, or implied by these statements.

COMPARISON OF THREE AND SIX MONTHS ENDED JUNE 30, 1999 AND JUNE 30, 2000

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements for the three and six months ended June 30, 1999 and 2000.

Revenues

Revenues for the three months ended June 30, 2000 were \$6,461,000, an increase of \$1,127,000, or 21%, as compared to the three months ended June 30, 1999. For the six months ended June 30, 2000, revenues increased 19% to 12,056,000 from \$10,152,000 in 1999. This was the highest quarterly and semi-annual revenues ever achieved by the Company and can be attributed to strong demand in the market place for the Company's security products.

Cost of Goods Sold

Cost of goods sold for the three months ended June 30, 2000 was \$2,373,000, an increase of \$566,000, or 31%, as compared to the three months ended June 30, 1999. For the six months ended June 30, 2000, cost of goods sold increased 16% to \$4,280,000 from \$3,697,000 in 1999. These increases are due primarily to increased revenues for the periods.

Gross Profit

The Company's gross profit for the three months ended June 30, 2000 was \$4,087,000, an increase of \$560,000, or 16%, as compared to the three months ended June 30, 1999. This represents a gross margin of 63%, as compared to 66% for the same period of 1999. This decrease can be attributed to an increase in high volume orders which are sold at a discount versus smaller volume orders.

For the six months ended June 30, 2000, gross profit was \$7,776,000, an increase of \$1,321,000, or 20%, as compared to 1999. This represents a gross margin of 65% as compared to 64% for the same period in 1999.

Sales and Marketing Expenses

Sales and marketing expenses for the three months ended June 30, 2000 were \$2,045,000, an increase of \$648,000, or 46%, over the three months ended June 30, 1999. Selling and marketing expenses also increased 50% in the first six months of 2000 to \$4,208,000 from \$2,800,000 in the first six months of 1999. This increase is due to increased sales efforts in both Europe and the United States, including increased travel costs and an increase in marketing activities. Additionally, the Company continues to invest in its customer support infrastructure, which becomes more and more important as the client base continues to expand.

Research and Development

Research and development costs for the three months ended June 30, 2000 were \$926,000, an increase of \$184,000, or 25%, as compared to the three months ended June 30, 1999. Research and development costs increased

9% in the first six months of 2000 to \$1,868,000 from \$1,719,000 in the first six months of 1999. The Company continues to expand its research and development activities to expand its product offerings and product functionality.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2000 were \$1,274,000, an increase of \$456,000, or 56%, compared to the three months ended June 30, 1999. General and administrative expenses increased 39% in the first six months of 2000 to \$2,435,000 from \$1,756,000 in the first six months of 1999. The Company has added employees to support administrative activities resulting from increased sales growth.

Interest Expense

Interest expense for the three months ended June 30, 2000 was \$50,000, compared to \$196,000, a decrease of 75% from the same period of 1999. Interest expense decreased 50% in the first six months of 2000 to \$213,000 from \$424,000 in the first six months of 1999. This decrease is due to a reduction in the debt base, facilitated by the Private Placement that occurred in April of 1999 and the conversion of \$5,000,000 of debt to common stock which occurred in April of 2000.

Other Expense, net

Other expense, net for the three months ended June 30, 2000 was \$1,024,000, compared to \$349,000 for the same period of 1999. Other expense, net for the six month period ended June 30, 2000 was \$1,080,000 compared to \$410,000 for the same period of 1999. The increase is due primarily to the write-off of costs of \$1,209,000 related to a public offering which was terminated during April of 2000 partially off set by a foreign currency gain.

Income Taxes

Income tax expense of \$18,000 for the three months ended June 30, 2000 and \$37,000 for the six months ended June 30, 2000 relates to foreign operations. This compares with income tax expense of \$57,000 for the three month period ended June 30, 1999 and \$361,000 for the six month period ended June 30, 2000. The reduction in income tax expense is a result of income tax planning strategies implemented by the Company during the fourth quarter of 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were \$1,684,000 at June 30, 2000, which is a decrease of approximately \$892,000 from \$2,576,000 at December 31, 1999. As of June 30, 2000, the Company had working capital of \$2,079,000.

At June 30, 2000 the Company had lines of credit from European banks totaling approximately \$3,400,000 of which approximately \$2,700,000 was unused.

Capital expenditures during the first six months of 2000 were \$320,000 and consisted primarily of computer equipment and office furniture and fixtures.

During April 2000, a convertible note in the amount of \$5,000,000 was converted into 416,666 shares of the Company's common 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 over the next 48 months. In conjunction with this financing, warrants to purchase 789,474 common shares at \$15 per share and warrants to purchase 480,000 shares at \$4.25 per share over the next 48 months were also issued.

The Company generated earnings (loss) before taxes, interest, depreciation and amortization, and offering costs of \$94,000 for the three months ended June 30, 2000 and \$(230,000) for the six month period ended June 30, 2000. The Company believes that its current cash balances, anticipated cash generated from operations, amounts received from the preferred stock issued in July, and amounts available under its credit lines, will be sufficient to meet its anticipated cash needs through the next twelve months.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board Interpretation No. 44 (FIN No. 44), "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of Accounting Principles Board Opinion No. 25, is effective for financial statements beginning after July 1, 2000. The Company is currently evaluating the impact of this pronouncement on its financial statements. The Company has determined that options were granted to two full-time executive officers that are deemed non-employees under FIN No. 44 because their services are rendered under consulting agreements. This will result in compensation expense charges beginning in the third quarter of fiscal 2000. These options will be accounted for using variable plan accounting and the amounts of future compensation expense will be determined based upon the Company's stock price at each reporting date.

During 1998, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities, which is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes a comprehensive standard for the recognition and measurement of derivative instruments and hedging activities. The Company does not expect the adoption of the new standard to have a material impact on consolidated financial position, liquidity, or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements, as amended, which is effective no later than the fourth fiscal quarter of fiscal 2000. The Company does not expect the adoption of this accounting pronouncement to have a significant impact on its results of operations, financial position or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk during the six month period ended June 30, 2000. For additional information, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS, None.

ITEM 2. CHANGES IN SECURITIES. None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES. None.

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

ITEM 5. OTHER INFORMATION. None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a) The following exhibits are filed with this Form 10-Q or incorporated by reference as set forth below:

Exhibit Number	Description
-----	-----
10.48	Securities Purchase Agreement - Series C convertible Preferred Stock and Two Common Stock Warrants dated July 18, 2000
10.49	Common Stock Purchase Warrant for 789,474 Shares of Common Stock
10.50	Common Stock Purchase Warrant for 480,000 shares of Common Stock
10.51	Certificate of Designation for Series C convertible Preferred Stock
27	Financial Data Schedule.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by the Registrant during the quarter ended June 30, 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 1, 2000.

VASCO Data Security International, Inc.

/s/ Mario R. Houthoof

Mario R. Houthoof
Chief Executive Officer and President

/s/ Dennis D. Wilson

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

EXHIBIT INDEX

Exhibit Number	Description
-----	-----
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10.50	Common Stock Purchase Warrant for 480,000 shares of Common Stock
10.51	Certificate of Designation for Series C convertible Preferred Stock
27	Financial Data Schedule.

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

Dated as of July 18, 2000

SECURITIES PURCHASE AGREEMENT

SERIES C
CONVERTIBLE PREFERRED STOCK AND
TWO COMMON STOCK PURCHASE WARRANTS

OF

VASCO DATA SECURITY INTERNATIONAL, INC.

LINKLATERS
1345 Avenue of the Americas
19th Floor
New York, NY 10105

Telephone: (212) 424 9000
Facsimile: (212) 424 9100

Ref: WBH/IYS

LINKLATERS & ALLIANCE
Linklaters is a member
firm of Linklaters & Alliance
a non-partnership association

SECURITIES PURCHASE AGREEMENT

This SECURITIES PURCHASE AGREEMENT ("AGREEMENT"), dated as of July 18, 2000, between VASCO DATA SECURITY INTERNATIONAL, INC., a Delaware corporation (the "COMPANY") and UBIZEN N.V., a Belgian stock corporation (the "PURCHASER").

WITNESSETH:

WHEREAS, the Company desires to raise capital through the sale by the Company of equity securities resulting in gross proceeds of fifteen million U.S. dollars (\$15,000,000) (the "FINANCING");

WHEREAS, on the Closing Date (as defined below), the Company desires to issue and sell to the Purchaser, and the Purchaser desires to purchase from the Company, 150,000 shares of the Company's Series C Convertible Preferred Stock, \$0.01 par value per share (the "SERIES C PREFERRED STOCK"), for a purchase price of fifteen million U.S. dollars (\$15,000,000), on the terms, and subject to the conditions, set forth in this Agreement; and

WHEREAS, on the Closing Date, the Company further desires to issue to the Purchaser a common stock purchase warrant (the "COMMON STOCK PURCHASE WARRANT") entitling the Purchaser to acquire 789,474 shares of the Company's class of common stock, par value \$.001 per share (the "COMMON STOCK") on the terms, and subject to the conditions, set forth therein.

WHEREAS, on the Closing Date, the Company further desires to issue to the Purchaser an additional common stock purchase warrant (the "ADDITIONAL COMMON STOCK PURCHASE WARRANT") granting the Purchaser the rights to acquire up to an additional 480,000 shares of Common Stock, which rights shall vest in the Purchaser in accordance with the vesting schedule appended thereto as Exhibit B, on the terms, and subject to the conditions, set forth therein.

NOW, THEREFORE, in consideration of these premises, the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1 DEFINITIONS

For purposes hereof unless the context otherwise requires, the following terms shall have the meanings indicated. All accounting terms not otherwise defined herein, shall have the respective meanings accorded to them under GAAP (as defined below). Unless the context otherwise requires, (i) references to a "Schedule" or an "EXHIBIT" are to a Schedule or an Exhibit attached to this Agreement, (ii) references to a "SECTION" are to a section of this Agreement and (iii) any of the following terms may be used in the singular or the plural, depending on the reference.

"ADDITIONAL COMMON STOCK PURCHASE WARRANT" has the meaning ascribed thereto in the introduction hereof, substantially in the form of Exhibit C hereto.

"AFFILIATE" means any Person (i) which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with another Person (ii) which beneficially owns or holds 20% or more of any class of the outstanding Voting Stock of such other Person, or (iii) which is a relative or spouse of such person, or any relative of such spouse, who has the same home as such Person. The term "CONTROL" means the possession,

directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of Voting Stock, by Contract or otherwise.

"AGREEMENT" means this Agreement, as amended, modified or supplemented from time to time, in accordance with the terms hereof, together with any exhibits, schedules or other attachments thereto.

"BENEFIT PLANS" has the meaning ascribed thereto in Section 5.7 hereof.

"BUSINESS DAY" means any day that is not a Saturday, a Sunday or a day on which banking institutions in New York, New York or Brussels, Belgium are authorized or obligated by Law, executive order or government decree to be closed.

"CAPITAL STOCK" means, with respect to any Person, any and all shares, interests, participations, rights in or other equivalents (however designated and whether voting or non-voting) of such Person's capital stock, whether outstanding on the Closing Date or issued after the Closing Date and any and all rights, warrants or options exercisable or exchangeable for or convertible into such capital stock.

"CERTIFICATE OF DESIGNATIONS" means the Certificate of Designations of the Series C Preferred Stock, substantially in the form of Exhibit A hereto.

"CHARTER DOCUMENTS" means (i) the certificate of incorporation, (ii) the Certificate of Designations and (iii) the by-laws of the Company, each as amended from time to time.

"CLOSING DATE" has the meaning ascribed thereto in Section 3.1 hereof.

"CODE" means the Internal Revenue Code of 1986, and the rules and regulations promulgated thereunder, as amended from time to time.

"COMMISSION" means the United States Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

"COMMON STOCK" has the meaning ascribed thereto in the introduction hereof.

"COMMON STOCK PURCHASE WARRANT" has the meaning ascribed thereto in the introduction hereof, substantially in the form of Exhibit B hereto.

"COMPANY" has the meaning ascribed thereto in the introduction hereof.

"COMPANY FINANCIAL STATEMENTS" has the meaning ascribed thereto in Section 5.10 hereof.

"COMPANY SEC DOCUMENTS" has the meaning ascribed thereto in Section 5.9 hereof.

"CONTRACTS" has the meaning ascribed thereto in Section 5.15 hereof.

"ENVIRONMENTAL LAW" means (i) any federal, state and local law, statute, ordinance, rule, regulation, code, license, permit, authorization, approval, consent, legal doctrine, order, judgement, decree, injunction, requirement or agreement with any governmental entity, (x) relating to the protection, preservation or restoration of the environment, (including, without limitation, air, water vapor, surface water, groundwater, drinking water supply, surface land, subsurface land, plant and animal life or any other natural resource), or to human health or safety, or (y) the exposure to, or the use, storage, recycling, treatment, generation, transportation, processing, handling, labeling, production, release or disposal of Hazardous

Substances, in each case as amended and as now or hereafter in effect. The term Environmental Law includes, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C.ss.ss.9601 et seq., the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C.ss.ss.11001 et seq., the Resource Conservation and Recovery Act 42 U.S.C.ss.ss.6901 et seq., the Toxic Substance Control Act, 15 U.S.C.ss.ss.2601 et seq., the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C.ss.ss.136 et seq., the Clean Air Act, 42 U.S.C.ss.ss.7401 et seq., the Clean Water Act (Federal Water Pollution Control Act), 33 U.S.C.ss.ss.1251 et seq., the Safe Drinking Water Act, 42 U.S.C.ss.ss.300 et seq., the Occupational Safety and Health Act 29 U.S.C.ss.ss.641 et seq., and the Hazardous Materials Transportation Act 49 U.S.C.ss.ss.1801, et seq., as any of the above statutes have been amended, all rules and regulations promulgated pursuant to any of the above statutes, and (ii) any common law or equitable doctrine (including, without limitation, injunctive relief and tort doctrines such as negligence, nuisance, trespass and strict liability) that may impose liability or obligations for injuries or damages due to, or threatened as a result of, the presence of or exposure to any Hazardous Substance.

"ERISA" means the Employee Retirement Income Security Act of 1974, and the rules and regulations promulgated thereunder, as amended.

"ERISA AFFILIATE" means any trade or business (whether incorporated or unincorporated) which is a member of a group described in Section 414(b), (c), (m) or (o) of the Code, of which the Company also is a member.

"ERISA AFFILIATE TITLE IV PLAN" has the meaning ascribed thereto in Section 5.7 hereof.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, and the rules and regulations of the Commission promulgated thereunder, as amended.

"FINANCING" has the meaning ascribed thereto in the introduction hereof.

"GAAP" means generally accepted accounting principles and practices set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be adopted by a significant segment of the accounting profession that are applicable to the circumstances as of the date of determination.

"GOVERNMENTAL AUTHORITY" means any governmental or quasi-governmental authority including, without limitation, any federal, state, territorial, county, municipal or other governmental or quasi-governmental agency, board, branch, bureau, commission, court, arbitration panel, department, authority, body or other instrumentality or political unit or subdivision or official thereof, whether domestic or foreign.

"HAZARDOUS SUBSTANCE" means any substance presently or hereafter listed, defined, designated or classified as hazardous, toxic, radioactive or dangerous, or otherwise regulated, under any Environmental Law, whether by type or by quantity, including any substance containing any such substances as a component. Hazardous Substance includes, without limitation, any toxic waste, pollutant, contaminant, hazardous substance, toxic substance, hazardous waste, special waste, industrial substance or petroleum or any derivative or by-

product thereof, radon, radioactive material, asbestos, asbestos containing material, urea formaldehyde foam insulation, lead and polychlorinated biphenyl.

"HOLDER" means any Person who acquires and holds the Securities or the Registrable Securities in compliance with this Agreement and applicable Law.

"INDEMNIFIED PARTY" or "INDEMNIFIED PARTIES" has the meaning ascribed thereto in Section 13.1 hereof.

"INSPECTORS" has the meaning ascribed thereto in Section 9.1.8 hereof.

"INTELLECTUAL PROPERTY" means patents, patent applications, patented or unpatented inventions, design rights (including, without limitation, trademarks, trade names, service marks, service names and brand names), copyrights, know-how and trade secrets, and all other intellectual property rights and forms of protection of a similar nature having equivalent or similar effect as any of the foregoing rights, which may subsist anywhere in the world.

"LAW" means any statute, ordinance, code, rule, regulation or order enacted, adopted, promulgated, applied or followed by any Governmental Authority.

"LICENSE" or "LICENSES" has the meaning ascribed thereto in Section 5.17 hereof.

"LIEN" means any security agreement, financing statement (whether or not filed) mortgage, lien (statutory or otherwise), charge, pledge, hypothecation, conditional sales agreement, adverse claim, title retention agreement or other security interest, encumbrance, lien, charge, restrictive agreement, mortgage, deed of trust, indenture, pledge, option, limitation, exception to or other title defect in or on any interest or title of any vendor, lessor, lender or other secured party under any conditional sale, lease, consignment, or bailment given for security purposes, trust receipt or other title retention agreement with respect to any Property or asset of such Person, whether direct, indirect, accrued or contingent.

"LOSSES" has the meaning ascribed thereto in Section 13.1 hereof.

"MATERIAL ADVERSE EFFECT" means with respect to the Company, any significant and substantial adverse effect or change, or any event or condition which would, with the passage of time, constitute a significant and substantial adverse effect or change (a) in the condition (financial or other), business, results of operations, prospects of the Company or the business of the Company, taken as a whole, or (b) on the validity or enforceability of this Agreement or on the ability of the Company to consummate the transactions contemplated hereby.

"NASD" means the National Association of Securities Dealers, Inc.

"NASDAQ" means The Nasdaq Stock Market, Inc.

"PERSON" means any individual, entity or group, including, without limitation, any corporation, limited liability company, limited or general partnership, joint venture, association, joint stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

"PREFERRED STOCK" means the class of preferred stock, par value \$0.01 per share, of the Company.

"PROPERTY" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"PURCHASE PRICE" has the meaning ascribed thereto in Section 2.2 hereof.

"PURCHASER" has the meaning ascribed thereto in the introduction hereof.

"REGISTRABLE SECURITIES" means any Common Stock held or to be received by the Purchaser and any of its direct or indirect assignees or transferees upon conversion or redemption of the Series C Preferred Stock or upon exercise of the Common Stock Purchase Warrant or the Additional Common Stock Purchase Warrant and any Common Stock issued in respect thereof, including (i) by way of stock dividend or stock split, (ii) in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or (iii) otherwise. As to any particular Registrable Securities once issued, such securities shall cease to be Registrable Securities when (i) a Registration Statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been disposed of in accordance with such Registration Statement, (ii) they shall have been distributed to the public pursuant to Rule 144 (or any successor rule) or (iii) they shall have ceased to be outstanding.

"REGISTRATION EXPENSES" means all fees and expenses incident to the performance of or compliance with the provisions of this Agreement, whether or not any Registration Statement is filed or becomes effective, including, without limitation, all (i) registration and filing fees (including, without limitation, (A) fees with respect to filings required to be made with the NASD in connection with an underwritten offering and (B) fees and expenses of compliance with State securities or blue sky laws (including, without limitation, fees and disbursements of counsel for the underwriter or underwriters in connection with blue sky qualifications of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as provided in Section 9.1.4 hereof)), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities in a form eligible for deposit with The Depository Trust Company and of printing prospectuses), (iii) fees and disbursements of all independent certified public accountants relating to the Registration Statement (including, without limitation, the reasonable expenses of any special audit and "comfort" letters required by or incident to such performance), (iv) the fees and expenses of any "qualified independent underwriter" or other independent appraiser participating in an offering pursuant to Rule 2720 of the NASD Rules of Conduct, (v) liability insurance under the Securities Act or any other securities laws, if the Company desires such insurance, (vi) fees and expenses of all attorneys, advisers, appraisers and other persons retained by the Company or any Subsidiary of the Company, (vii) internal expenses of the Company and its Subsidiaries relating to the Registration Statement (including, without limitation, all salaries and expenses of officers and employees of the Company and its Subsidiaries performing legal or accounting duties), (viii) the expense of any annual audit, (ix) the expenses relating to printing, word processing and distributing all registration statements, underwriting agreements, securities sales agreements and any other documents necessary in order to comply with this Agreement, and (x) the reasonable out-of-pocket expenses of the holders of the Registrable Securities being registered in such registration incurred in connection therewith including, without limitation, the reasonable fees and disbursements of not more than one counsel chosen by the holders of a majority of Registrable Securities included in such registration. Registration Expenses shall not include any

underwriting discounts or commissions or any transfer taxes payable in respect of the sale of Registrable Securities by the holders thereof.

"REGISTRATION STATEMENT" means any registration statement under the Securities Act for purposes of effecting a registered public offering of securities of the Company.

"REGULATION D" means Regulation D promulgated under the Securities Act.

"REGULATION S" means Regulation S promulgated under the Securities Act.

"RESTRICTED SECURITY" has the meaning ascribed thereto in Section 12.2 hereof.

"RETURNS" means all returns, declarations, reports, estimates, information returns and settlements of any nature regarding Taxes required to be filed by any Person with a Governmental Authority and relating to the Company or a Subsidiary.

"RULE 144" means Rule 144 as promulgated by the Commission under the Securities Act, and any successor rule or regulation thereto.

"RULE 144A" means Rule 144A as promulgated by the Commission under the Securities Act, and any successor rule or regulation thereto.

"SECURITIES" means the Series C Preferred Stock, the Common Stock Purchase Warrant and the Additional Common Stock Purchase Warrant.

"SECURITIES ACT" means the Securities Act of 1933, and the rules and regulations of the Commission promulgated thereunder, as amended.

"SERIES C PREFERRED STOCK" has the meaning ascribed thereto in the introduction hereof.

"SUBSIDIARY" means with respect to any Person, any corporation, association or other business entity of which securities representing more than 50% of the combined voting power or 50% of the combined value of the total outstanding Capital Stock (or in the case of an association or other business entity which is not a corporation, more than 50% of the equity interest) is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof. When used herein without reference to any Person, "SUBSIDIARY" means a Subsidiary of the Company.

"TAXES" means any federal, state, local, foreign or other taxes, fees and charges of any nature whatsoever imposed by any jurisdiction or governmental or taxing authority thereof or therein (including, without limitation, income (net or gross), gross receipts, profits, alternative or add-on minimum, franchise, license, capital, capital stock, intangible, services, premium, mining, transfer, sales, value-added, use, ad valorem, payroll, wage, severance, windfall profits, import, excise, custom, stamp, withholding or estimated taxes), fees, duties, assessments, withholding or governmental charges of any kind whatsoever (including interest, penalties, additions to tax or additional amounts with respect to such items).

"TRANSACTION DOCUMENTS" means, collectively, this Agreement, the Certificate of Designations, the Common Stock Purchase Warrant, the Additional Common Stock Purchase Warrant and any and all agreements, exhibits, schedules, certificates, instruments and other documents delivered pursuant hereto and thereto.

"VOTING STOCK" means any class or classes of capital stock pursuant to which the holders thereof have the general voting power under ordinary circumstances to vote for the election of directors, managers or trustees of any Persons (irrespective of whether or not at the time, capital stock of any class or classes will have, or might have, voting power by the reason of the happening of any contingency).

2 ISSUANCE, PURCHASE AND SALE OF SECURITIES

2.1 AUTHORIZATION OF THE SECURITIES The Company has authorized the issuance and sale of the Series C Preferred Stock in the aggregate amount of fifteen million U.S. dollars (\$15,000,000) to be acquired by the Purchaser in accordance with the terms of this Agreement. The Series C Preferred Stock shall have the voting powers, dividend rights, liquidation rights, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions thereof, set forth in the Certificate of Designations, which shall be filed with the Secretary of State of the State of Delaware prior to the Closing Date. The Company has further authorized the issue of the Common Stock Purchase Warrant and the Additional Common Stock Purchase Warrant to the Purchaser.

2.2 SALE AND PURCHASE OF THE SECURITIES

2.2.1 Subject to the terms and conditions of this Agreement, on the Closing Date, the Company will issue, sell and deliver to the Purchaser and the Purchaser will purchase from the Company one hundred fifty thousand (150,000) shares of Series C Preferred Stock, each such share convertible into 7.0175466 shares of Common Stock or redeemable in cash by the Company, all as provided in the Certificate of Designations. At the Closing (as defined below), a purchase price (the "PURCHASE PRICE") in the amount of one hundred U.S. dollars (\$100.00) per share or an aggregate of fifteen million U.S. dollars (\$15,000,000) shall be payable by the Purchaser to the Company by certified check or wire transfer of immediately available funds.

2.2.2 In consideration for the Purchaser's participation in the Financing, subject to the terms and conditions of this Agreement, on the Closing Date the Company will issue to the Purchaser the Common Stock Purchase Warrant to purchase an aggregate of seven hundred eighty nine thousand four hundred and seventy four (789,474) shares of Common Stock at an exercise price of \$15.00 per share, pursuant to the terms and conditions set forth in that Common Stock Purchase Warrant, which shall be substantially in the form of Exhibit B hereto.

2.2.3 In consideration for the Purchaser's participation in the Financing, subject to the terms and conditions of this Agreement, on the Closing Date the Company will issue to the Purchaser the Additional Common Stock Purchase Warrant to purchase up to an aggregate of four hundred eighty thousand (480,000) additional shares of Common Stock at an exercise price of \$4.25 per share, pursuant to the terms and conditions set forth in that Additional Common Stock Purchase Warrant, which shall be substantially in the form of Exhibit C hereto.

3 CLOSING OF SALE OF THE SECURITIES

3.1 CLOSING

The closing of the purchase and sale of the Securities pursuant to Section 2.2 hereof (the "CLOSING") shall take place at the offices of Linklaters, 1345 Avenue of the Americas, 19th Floor, New York, New York 10105 on July 20, 2000 or at such other place and date as the parties may agree (such date on which the Closing shall have actually occurred, the "CLOSING DATE").

4 DELIVERIES AT CLOSING

4.1 DELIVERIES BY THE COMPANY TO THE PURCHASER ON THE CLOSING DATE

At the Closing, the Company will deliver or cause to be delivered to the Purchaser, against payment of the Purchase Price as provided herein:

4.1.1 The Series C Preferred Stock as provided in Section 2.2 hereof, and

4.1.2 An opinion of Piper Marbury Rudnick & Wolfe LLP, counsel for the Company, in form and substance acceptable to the Purchaser, addressed to the Purchaser, dated the Closing Date.

4.1.3 The Common Stock Purchase Warrant as provided in Section 2.2 hereof.

4.1.4 The Additional Common Stock Purchase Warrant as provided in Section 2.2 hereof.

4.2 DELIVERIES BY THE PURCHASER TO THE COMPANY ON THE CLOSING DATE

4.2.1 At the Closing, the Purchaser will deliver or cause to be delivered to the Company the Purchase Price.

5 REPRESENTATIONS AND WARRANTIES, ETC. OF THE COMPANY

In order to induce the Purchaser to purchase the Securities, the Company represents and warrants to the Purchaser that, except as set forth on the disclosure schedule hereto:

5.1 ORGANIZATION AND QUALIFICATION; AUTHORITY

The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. All of the Subsidiaries of the Company are listed on Schedule 5.1 hereto. The Company has full corporate power and authority and all necessary government approvals to own and lease its properties and carry on its business as presently conducted or as intended to be conducted, is duly qualified, registered or licensed as a foreign corporation to do business and is in good standing in each jurisdiction in which the ownership or leasing of its properties or the character of its present operations makes such qualification, registration or licensing necessary, except where the failure to so qualify or be in good standing would not have a Material Adverse Effect. The Company has heretofore delivered to the Purchaser complete and correct copies of the Charter Documents as presently in effect.

5.2 CORPORATE AUTHORIZATION

The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents are within the Company's corporate power and authority. The execution and delivery of this Agreement and the other Transaction Documents by the Company and the performance by the Company of its obligations hereunder and thereunder, have been duly authorized by all requisite corporate action and no other corporate proceedings on the part of the Company other than those listed on Schedule 5.2 are necessary to authorize this Agreement and the other Transaction Documents. This Agreement and the other Transaction Documents have been duly executed and delivered by duly authorized officers of the Company and, assuming the due authorization, execution and delivery thereof by all parties thereto other than the Company, constitute legal, valid and binding obligations of the Company, enforceable against it in accordance with its terms, except as may be limited by bankruptcy, reorganization, moratorium, fraudulent conveyance and insolvency laws and by other laws affecting the rights of creditors generally and except as may be limited by the availability of equitable remedies.

5.3 NO CONFLICT; REQUISITE CONSENTS

The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents do not and will not (i) contravene or conflict with the Charter Documents, (ii) (A) conflict with or result in a violation of or (B) constitute a default under or give rise to a right of termination, cancellation or acceleration of any right or obligation of the Company under any provision of any written agreement or other instrument binding upon the Company or require the consent of any third party under any Law applicable to the Company or any License held by the Company, (iii) conflict with or result in a violation or breach of any term or provision of any Law applicable to the Company, or (iv) result in the creation or imposition of any Lien on any asset of the Company, except, with respect to each of the occurrences or results referred to in clauses (ii) and (iv) of this sentence, the third party consents set forth in Schedule 5.3 and such items which would not have a Material Adverse Effect.

5.4 CAPITALIZATION

5.4.1 As of July 18, 2000, the authorized Capital Stock of the Company consists of 75,000,000 shares of Common Stock and 500,000 shares of Preferred Stock, of which 27,341,222 shares of Common Stock and no shares of Preferred Stock are currently issued and outstanding.

5.4.2 All issued and outstanding shares of the Company's Common Stock are validly issued, fully paid and nonassessable. Except as set forth on Schedule 5.4, there are no (i) outstanding subscriptions, options, warrants or rights (including conversion rights and preemptive rights), agreements, calls, convertible securities, arrangements or commitments of any character to which the Company is a party relating to any unissued Capital Stock or other securities of the Company or otherwise obligating the Company to grant, issue or sell any such options, warrants or rights or (ii) shares of Common Stock reserved for issuance upon the exercise of any warrants, options granted or to be granted

under any stock option plan or any options previously granted outside of any stock option plan.

5.5 LITIGATION; DEFAULTS

There is no action, suit, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, or any properties of the Company, before or by any Governmental Authority or any other Person, which would (i) have a Material Adverse Effect, or (ii) impair the ability of the Company to perform any material obligation which the Company has under any Transaction Document, except as set forth on Schedule 5.5 or Schedule 5.11. Except as set forth on Schedule 5.5, the Company is not in violation of, or in default under (and there does not exist any event or condition which, after notice or lapse of time or both, would constitute such a default under), any term of its Charter Documents, or of any term of any agreement, Contract, instrument, judgement, decree, writ, determination, arbitration award, or Law applicable to the Company or to which the Company is bound, or to any Properties of the Company.

5.6 NO MATERIAL ADVERSE EFFECT

Except as set forth in Schedule 5.6, since March 31, 2000, there has been (i) no event or condition which has had or is reasonably likely to result in a Material Adverse Effect, and (ii) no acquisition or disposition of any material assets by the Company (or any Contract or arrangement therefor), or any other material transaction, otherwise than for fair value in the ordinary course of business, except in any such case as set forth in the Company SEC Documents.

5.7 EMPLOYEE PROGRAMS

5.7.1 Schedule 5.7 lists each material benefit arrangement, including (i) any employment or consulting agreement, (ii) any arrangement providing for insurance coverage or workers' compensation benefits, (iii) any incentive bonus or deferred bonus arrangement, (iv) any arrangement providing termination allowance, severance or similar benefits, (v) any equity compensation plan, (vi) any deferred compensation plan and (vii) any compensation policy and practice. The Company does not provide, and does not have an obligation to provide, or make contributions to provide any compensation or benefits to its current or former employees or directors of the Company, other than any plans, programs or other arrangements which only provide for the payment of cash compensation currently from the general assets of the Company on a payday by payday basis as base salary or hourly wages for current services and other than policies for vacation, sick days and holidays, medical, disability and life insurance and except as set forth on Schedule 5.7 (individually, a "BENEFIT PLAN," and collectively, the "BENEFIT PLANS").

5.7.2 Except as disclosed on Schedule 5.7:

- (i) No ERISA Affiliate (other than the Company) provides, or has an obligation to provide, contributions, compensation or benefits of or

under any plan, program or arrangement which is subject to Title IV of ERISA ("ERISA AFFILIATE TITLE IV PLAN").

- (ii) No assets have been set aside in a trust or other separate account to pay directly or indirectly any benefits under any Benefit Plan or to the extent assets have been set aside, all assets are shown on the books and records of such trust or separate account at their fair market value as of the date of any report last provided with respect to such trust; except in each case any assets with respect to the Company's "401(k) plan", which is disclosed in Schedule 5.7.
- (iii) Each Benefit Plan and each ERISA Affiliate Title IV Plan has been established, maintained and administered in compliance in all material respects with all applicable Laws.
- (iv) The Company has not incurred any material liability for any tax or penalty with respect to any Benefit Plan, ERISA Affiliate Title IV Plan or any group health plan (as described in Section 5000 of the Code) of an ERISA Affiliate including, without limitation, any tax or penalty under ERISA or under the Code.
- (v) The Company has not terminated or withdrawn from, or sought a funding waiver with respect to, any Benefit Plan which is subject to Title IV of ERISA.
- (vi) To the knowledge of the Company, there is no proposed or actual material audit or investigation by any Governmental Authority with respect to any Benefit Plan or ERISA Affiliate Title IV Plan.
- (vii) The Company has no obligation to make, or reimburse another employer, directly or indirectly, for making, contributions to a multi-employer plan as described in Title IV of ERISA.

5.8 PRIVATE OFFERINGS

Neither the Company nor any Person acting on its behalf (other than the Purchaser, as to whom the Company makes no representations) has offered or sold the Securities by means of any general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act. No securities of the same class or series as the Securities have been issued and sold by the Company prior to the date hereof. The Securities shall bear substantially the same legend set forth in Section 12.1 hereof for so long as required by the Securities Act.

5.9 COMPANY SEC DOCUMENTS

The Company has filed with the Commission, and has heretofore made available to the Purchaser, true and complete copies of its Annual Report on Form 10-K for the year ended December 31, 1999, its quarterly report on Form 10-Q for the quarter ended March 31, 2000, and its definitive proxy materials relating to its annual meeting of stockholders held on June 13, 2000 (collectively, the "COMPANY SEC DOCUMENTS"). As of their respective dates, the Company SEC Documents did not contain any untrue

statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

5.10 FINANCIAL STATEMENTS: NO UNDISCLOSED LIABILITIES

The financial statements of the Company included or incorporated by reference in the Company SEC Documents (the "COMPANY FINANCIAL STATEMENTS") have been prepared in accordance with GAAP applied on a consistent basis (except as may be indicated therein or in the notes thereto) and fairly present in all material respects the financial position of the Company as at the dates thereof and the results of operations and cash flows for the periods then ended (subject, in the case of any unaudited interim financial statements, to normal year-end adjustments and any other adjustments described therein). Since March 31, 2000, the Company has not incurred any liabilities or obligations of any nature, whether or not accrued, absolute, contingent or otherwise, that would have a Material Adverse Effect, other than liabilities (i) disclosed on Schedule 5.10, or in the Company SEC Documents, (ii) adequately provided for in the Company Financial Statements or disclosed in any related notes thereto, (iii) not required under GAAP to be reflected in the Company Financial Statements, or disclosed in any related notes thereto or (iv) incurred in connection with this Agreement or the other Transaction Documents.

5.11 ENVIRONMENTAL REGULATION, ETC.

Except as set forth on Schedule 5.11 (i) the business as presently or formerly engaged in by the Company is and has been conducted in compliance with all applicable Environmental Law, including, without limitation, having all permits, licenses and other approvals and authorizations, (ii) the Company has not received notice from any governmental authority or third party of an asserted claim under applicable Environmental Law and, to the best of its knowledge, the Company does not know of any such claim which is pending or threatened and (iii) to the best of its knowledge, the Company will not be required to make any future capital expenditures to comply with applicable Environmental Law.

5.12 PROPERTIES AND ASSETS

The Company has good record and marketable fee title to all real Property and all other Property, whether tangible or intangible, owned by it, except defects in title which would not have a Material Adverse Effect or as otherwise disclosed on Schedule 5.12. The Company has complied with all commitments and obligations on its part to be performed or observed under each of the leases listed on Schedule 5.12, except for such non-compliance as would not have a Material Adverse Effect.

5.13 EMPLOYMENT PRACTICES

The Company is not a party to, or bound by, any collective bargaining agreement, Contract or other agreement or understanding with a labor union organization except as set forth on Schedule 5.13. Except as set forth on Schedule 5.13, there (i) is no unfair labor practice or material labor arbitration proceeding pending or threatened against the Company, (ii) are no organizational efforts with respect to the formation of a collective bargaining unit presently being made or, to the Company's knowledge, threatened

involving employees of the Company, and (iii) is no labor controversy in existence with respect to the Company's business and operations, except as would not in any such case have a Material Adverse Effect.

5.14 INTELLECTUAL PROPERTY

The Company has the right to use all Intellectual Property necessary for the conduct of its business. All registrations with and applications to any Governmental Authority in respect of such Intellectual Property are valid and in full force and effect and are not subject to the payment of any taxes or maintenance fees or the taking of any other actions by the Company (other than the payment of fees not yet due or the taking of actions not yet required) to maintain their validity or effectiveness. The Company has taken reasonable security measures to protect the secrecy, confidentiality and value of its trade secrets in respect of the business of the Company. The Company has not received any notice that it is, and, to the best of its knowledge, the Company is not, in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property, and, to the best of the Company's knowledge, such Intellectual Property is not being infringed by any other Person. No claim is pending or has been made to such effect that has not been resolved and, to the knowledge of the Company, the Company is not infringing any Intellectual Property rights of any other Person in connection with the conduct of the business of the Company.

5.15 MATERIAL CONTRACTS

The Company has previously furnished or made available to the Purchaser all contracts, agreements, commitments, obligations and licenses to which the Company is a party that are material ("CONTRACTS"); provided, however, purchase agreements involving payments in the aggregate of \$50,000 per annum or less shall not be deemed to be material unless such purchase agreement is by and between the Company and any Affiliate. All of the Contracts are valid and binding and are in full force and effect; and, except as set forth on Schedule 5.15 hereto, there are no existing defaults (or events which, with notice or lapse of time or both, would constitute a material default) by the Company or its Subsidiaries, or, to the Company's knowledge, any other party thereunder, except as would not have a Material Adverse Effect.

5.16 TAXES

Except as set forth in Schedule 5.16:

5.16.1 all material Returns have been or will be timely filed when due in accordance with all applicable Laws:

5.16.2 all Taxes shown on the Returns have been timely paid, except those which are being contested (as described on Schedule 5.16);

5.16.3 the Returns completely, accurately and correctly reflect in all material respects the facts regarding the income, properties, operations and status of any entity required to be shown thereon;

- 5.16.4 the Company and each Subsidiary have adequate reserves on their financial statements for Taxes accrued but not yet due, relating to the income, property or operations of the Company or the Subsidiary;
- 5.16.5 there are no legally binding agreements or consents currently in effect for the extension or waiver of the time (A) to file any Return or (B) for assessment or collection of any Taxes relating to the Company or any Subsidiary, and neither the Company nor any Subsidiary has been requested to enter into any such agreement or consent by a Governmental Authority;
- 5.16.6 to the best of the Company's reasonable knowledge and belief, none of the Returns have been examined by any Governmental Authority;
- 5.16.7 all Taxes which the Company and each Subsidiary is required by Law to withhold or collect have been duly withheld or collected, and have been timely paid over to the appropriate Governmental Authority to the extent due and payable;
- 5.16.8 there is no action, suit, proceeding, investigation by a Governmental Authority, audit or claim currently pending, or, to the Company's reasonable best knowledge, threatened by any Governmental Authority, regarding any Taxes relating to the Company, any Subsidiary or any group of which the Company is now or was formerly a member;
- 5.16.9 all Tax deficiencies which have been claimed or asserted against the Company, any Subsidiary or any affiliated group (as defined in Section 1504 of the Code) of which the Company is now or was formerly a member, have been fully paid or finally settled;
- 5.16.10 no Person has executed or entered into a closing agreement pursuant to Section 7121 of the Code (or any comparable provision of State, local or foreign Law) that is currently in force and determines the Tax liabilities of the Company or any Subsidiary;
- 5.16.11 there are no liens for any Tax on the assets of the Company or any Subsidiary other than liens in the ordinary course of business which arise as a matter of law and liens for Taxes not yet due and payable or Taxes that the Company or any Subsidiary is contesting in good faith;
- 5.16.12 there are no Tax allocation or other agreements with or relating to any income or other Taxes with any other person to which the Company or any Subsidiary is now or ever has been a party;
- 5.16.13 neither the Company nor any Subsidiary is a party to any written agreement, contract, arrangement or plan that would result, separately or in the aggregate, in the payment of any "EXCESS PARACHUTE PAYMENTS" within the meaning of Section 280G of the Code (or any comparable provision of state, local or foreign Law);
- 5.16.14 neither the Company nor any Subsidiary has agreed, nor is required, to make any adjustment under Section 481(a) of the Code (or any comparable provision

of state, local, or foreign Law) by reason of a change in accounting method or otherwise;

- 5.16.15 no power of attorney is currently in effect, and no Tax ruling has been requested of any Governmental Authority, with respect to any Tax matter relating to the Company;
- 5.16.16 no indebtedness of the Company consists of "CORPORATE ACQUISITION INDEBTEDNESS" within the meaning of Section 279 of the Code;
- 5.16.17 the Company is not a "UNITED STATES REAL PROPERTY HOLDING CORPORATION" within the meaning of Section 897(c)(2) of the Code; and
- 5.16.18 neither the Company nor any Subsidiary is either a passive foreign investment company (a "PFIC"), as defined in Section 1297 of the Code, or a foreign personal holding company (an "FPHC"), as defined in Section 552 of the Code.

5.17 LICENSES; COMPLIANCE WITH LAWS

The Company holds all licenses, franchises, permits, consents, registrations, certificates and other approvals (individually, a "LICENSE" and collectively, "LICENSES") required for the conduct of its business as now being conducted, and is operating in substantial compliance therewith, except where the failure to hold any such License or to operate in compliance therewith would not have a Material Adverse Effect. Except as set forth on Schedule 5.17, the Company is in substantial compliance with all Laws applicable to it, except in each case where the failure so to comply would not have a Material Adverse Effect taken as a whole.

5.18 TRANSACTIONS WITH AFFILIATES

There are no material transactions, agreements or understandings, existing or presently contemplated, between or among the Company and any of its officers or directors or stockholders or any of their Affiliates or associates except as set forth on Schedule 5.18. Except as set forth on Schedule 5.18, no officer, director or Affiliate of the Company or any Affiliate of any such officer or director provides or causes to be provided any assets (including Intellectual Property), know how, services or facilities used or held for use by the Company in connection with its business and the Company does not provide or cause to be provided any assets (including Intellectual Property), know how, services or facilities to any such officer, director or Affiliate. Except as set forth on Schedule 5.18, each of the transactions listed on such Schedule is engaged in on an arm's-length basis.

5.19 CONFIDENTIAL INFORMATION

The Company has taken and shall take all reasonable steps to protect the confidentiality of the knowhow and trade secrets which the Company presently uses or reasonably expects to use in the future conduct of its business.

5.20 INSURANCE

The Company maintains all liability (including product liability), property (including Intellectual Property), workers' compensation, fire, casualty, officers' and directors' and other insurance policies to the extent and in the manner customary in the industry for

companies in similar businesses similarly situated. Except as set forth on Schedule 5.20, each insurance policy is valid and binding and in full force and effect and all premiums thereunder have been paid. Except as set forth on Schedule 5.20, the Company has not received any notice of cancellation or termination in respect of any such policy and is not in default thereunder. Except as set forth on Schedule 5.20, the Company has not received any notice that any insurer under any policy referred to in such notice is denying, liability with respect to a claim thereunder or defending under a reservation of rights clause.

5.21 SUBSTANTIAL CUSTOMERS AND SUPPLIERS

Except as set forth on Schedule 5.21, no material customer or supplier of the Company has ceased or materially reduced its purchases from or sales or provisions of materials, services or facilities to the Company since March 31, 2000 or has threatened to cease or materially reduce such purchases or sales or provision of materials, services or facilities. Except as set forth on Schedule 5.21, to the best of the Company's knowledge, no material customer or supplier of the Company is threatened with bankruptcy or insolvency.

5.22 REGISTRATION RIGHTS

Except as set forth on Schedule 5.22 and except as contemplated by this Agreement, the Company is not under any contractual obligation to register any of its currently outstanding Capital Stock or any of its securities which may hereafter be issued.

5.23 EXPORT CONTROLS

The Company has complied, is in compliance, and has not received any notice from any governmental or other regulatory authority that it is not in compliance, with all United States laws, rules and regulations regarding the export of technology.

5.24 DIVIDENDS

On or after March 31, 2000, the Company has not declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its Capital Stock.

5.25 YEAR 2000 COMPLIANCE

The software used by the Company: (i) has accurately in all material respects processed date information before, during and after January 1, 2000, including, but not limited to, accepting date input, providing date output and performing calculations on dates or portions of dates; (ii) has functioned accurately in all material respects, and without material interruption immediately before, during and after January 1, 2000 without any material change in operations associated with the advent of the new century; (iii) responds to two (2) digit year date input in a way that resolves the ambiguity as to century in disclosed, defined and predetermined manner; and (iv) stores and provides output of date information in ways that are unambiguous as to century.

5.26 DISCLOSURE

The Company has provided the Purchaser with all the information reasonably available to the Company without undue expense that the Purchaser has requested for deciding

whether to purchase the Securities and all information that the Company believes is reasonably necessary to enable the Purchaser to make such decision. None of the Schedules attached to this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

6 REPRESENTATIONS AND WARRANTIES, ETC. OF THE PURCHASER

In order to induce the Company to sell the Securities, the Purchaser represents and warrants to the Company that:

6.1 REGULATION S

6.1.1 The Securities to be issued and delivered in connection with the transactions contemplated by this Agreement have not been registered under the Securities Act or under the securities laws of any state of the United States or the laws of any other jurisdiction. The Purchaser acknowledges that the Company is relying on the exemption from registration under the Securities Act afforded by Regulation S and that the Securities will be deemed "restricted securities" within the meaning of Rule 144 under the Securities Act. Accordingly, the Securities to be delivered pursuant to this Agreement (together with any other shares in respect thereof received pursuant to conversions, exchanges, stock split, stock dividends or other reclassifications or changes thereof, or consolidations or reorganizations of the Company) may not be offered or sold, and no hedging transactions may be engaged in, within the United States, except in accordance with Regulation S or pursuant to a registration statement filed on an appropriate form under the Securities Act and declared effective by the Commission or pursuant to another viable exemption from registration. All share certificates representing the Securities will have imprinted thereon a legend to such effect. The Company and its transfer agent, if any, will refuse to register any transfer of all or any portion of the Securities unless made in accordance with the registration or exemptive provisions of the Securities Act and Purchaser acknowledges, and each subsequent holder will be deemed to have acknowledged, that the Company and its transfer agent, if any, will not be required to accept for registration or transfer any of the Securities, except upon presentation of evidence satisfactory to the Company and its transfer agent, if any, that the restrictions set forth herein have been complied with. The Purchaser agrees that all subsequent offers and sales by it of the Securities shall be conducted as set forth herein.

6.1.2 The Purchaser is not an "AFFILIATE" (as defined in Rule 144 under the Securities Act) of the Company or acting on behalf of the Company and, at the time of executing this Agreement, was outside the United States and was not a U.S. Person (and was not acquiring the Securities for the account or benefit of a U.S. Person) within the meaning of Regulation S. No offer to purchase or acquire the Securities was made by the Purchaser in the United States.

6.1.3 The Purchaser acknowledges that the Company, the Company's transfer agent, if any, and others will rely upon the truth and accuracy

of the representations and warranties, covenants and agreements made herein and agrees that if any of the acknowledgments, representations, warranties or agreements deemed to have been made by its purchase or acquisition of the Securities are no longer accurate, it shall promptly notify the Company and its transfer agent, if any. If the Purchaser is acquiring the Securities as a fiduciary or agent for another person, the Purchaser represents that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such other person; and that each such other person is eligible to purchase or acquire the Securities as applicable.

6.1.4 The Purchaser agrees that it will give to each person to whom it transfers the Securities notice of any restrictions on transfer of the Securities.

6.1.5 The Purchaser understands that no United States or foreign federal or state agency has passed on or made any recommendation or endorsement of the Securities.

6.1.6 In connection with the issuance of the Securities, the Purchaser agrees to the inclusion of a legend, in substantially the following form, on each certificate representing Securities as set forth in Section 12.1 hereof.

6.2 ORGANIZATION AND STANDING

The Purchaser is a corporation duly incorporated and validly existing under the laws of the jurisdiction of its incorporation and has full corporate power and authority to enter into and perform this Agreement and to carry out the transactions contemplated by this Agreement.

6.3 AUTHORITY

The execution, delivery and performance by the Purchaser of this Agreement and the other Transaction Documents are within the Purchaser's corporate power and authority. The execution and delivery of this Agreement and the other Transaction Documents by the Purchaser and the performance by the Purchaser of its obligations hereunder and thereunder, have been duly authorized by all requisite corporate action and no other corporate proceedings on the part of the Company other than those listed on Schedule 6.3 are necessary to authorize this Agreement and the other Transaction Documents. This Agreement and the other Transaction Documents have been duly executed and delivered by duly authorized officers of the Purchaser and, assuming the due authorization, execution and delivery thereof by all parties thereto other than the Purchaser, constitute legal, valid and binding obligations of the Purchaser, enforceable against it in accordance with its terms, except as may be limited by bankruptcy, reorganization, moratorium, fraudulent conveyance and insolvency laws and by other laws affecting the rights of creditors generally and except as may be limited by the availability of equitable remedies.

6.4 BROKERAGE FEES

The Purchaser has no contract, arrangement or understanding with any broker, finder or similar agent with respect to the transactions contemplated by this Agreement.

7 COVENANTS OF THE COMPANY

The Company covenants and agrees that from the date hereof until the Closing Date, except with respect to Sections 7.2, 7.4, 7.6, 7.7, 7.8, 7.12 and 7.13 of this Agreement and, unless otherwise provided for in this Agreement, or unless the Purchaser shall otherwise consent in writing, it will do or cause the following:

7.1 ORDINARY COURSE

The Company's business shall be conducted only in the ordinary course of business and in a manner consistent with past practice and the business plan(s) approved by the Company's Board of Directors. The Company shall use commercially reasonable efforts, within the limits of its available resources, to preserve substantially intact its business organization, and to maintain or improve its profitability.

7.2 RESERVATION OF COMMON STOCK

The Company shall reserve and set apart and have at all times, free from preemptive rights, the number of authorized but unissued shares of Common Stock to conform to the Company's obligations hereunder, under the Certificate of Designation, under the Common Stock Purchase Warrant and under the Additional Common Stock Purchase Warrant.

7.3 ISSUANCE OF SECURITIES

The Company shall not issue, deliver, sell, redeem, acquire, authorize or propose to issue, deliver, sell, redeem, acquire or authorize, any shares of its Capital Stock of any class or any securities convertible into, or any rights, warrants or options to acquire, any such shares or convertible securities or other ownership interest; provided that the Company shall be permitted to issue shares of Common Stock upon exercise of any warrants or employee share options or conversion of any securities convertible into Common Stock, in each case issued by the Company prior to the date hereof. The Company shall not amend its Charter Documents to increase the number of authorized shares of Common Stock or Preferred Stock thereunder without the consent of the Purchaser.

7.4 NASDAQ LISTING

The Company will use its best efforts to continue the listing of the Common Stock on the Nasdaq National Market and to ensure that the shares of Common Stock to be issued (i) upon conversion or redemption, if any, of the Series C Preferred Stock, (ii) upon exercise of the Common Stock Purchase Warrant, (iii) upon exercise of any rights which have vested pursuant to the Additional Common Stock Purchase Warrants and (iv) in payment of any dividends on the Series C Preferred Stock are listed or authorized to be quoted on the Nasdaq National Market or listed on any national securities exchange on which shares of Common Stock are then listed, to the extent that such listing is permitted at such time.

7.5 DIVIDENDS; CHANGES IN CAPITAL STOCK

While the Series C Preferred Stock is outstanding, the Company shall not, nor shall it propose to: (i) declare, set aside, make or pay any dividend or other distribution,

payable in cash, stock, property or otherwise, with respect to any of its Capital Stock; or (ii) recapitalize or otherwise modify its Capital Stock.

7.6 FINANCIAL INFORMATION

Immediately following the date of execution of this Agreement, the Company shall commence providing the Purchaser with quarterly financial data to the extent that it is otherwise prepared by the Company and that it is reasonably requested by the Purchaser.

7.7 RETURN AND OTHER TAX INFORMATION

Following the Closing Date and for so long as Purchaser shall hold Capital Stock of the Company, and for a reasonable time thereafter, the Company shall provide the Purchaser with such cooperation and information as the Purchaser may reasonably request with respect to (A) the filing of any Return, amended Return, or claim for a refund of Taxes by the Purchaser, (B) determining any potential or asserted Tax liability or a right to a refund of Taxes under any Law, or (C) conducting or defending any audit or other proceeding in respect of Taxes. Any information obtained under this Section 7.7 shall be kept confidential, except as may be otherwise necessary in connection with filing any Return, amended Return, or claim for a refund of Taxes, or in conducting or defending any audit or other proceeding in respect of Taxes as may otherwise be required by any Law, rule, regulation or accounting principal or practice.

7.8 STAMP TAXES

The Company shall be liable for, and shall pay when due, any transfer, gains, documentary, sales, use, registration, stamp, value added or other similar Taxes payable by reason of the transactions contemplated by this Agreement or attributable to the initial sale to the Purchaser of the Securities, and the Company shall, at its own expense, file all necessary Returns and other documentation with respect to all such Taxes.

7.9 FIRPTA

On or prior to the Closing Date, the Company shall provide the Purchaser with a copy of a statement, issued by the Company pursuant to U.S. Treasury Regulation Section 1.897-2(h), certifying that neither the Series C Preferred Stock, the Common Stock Purchase Warrant nor the Additional Common Stock Purchase Warrant is a United States real property interest.

7.10 REGULATORY APPROVAL

The Company shall cooperate with the Purchaser by providing information upon request of the Purchaser to the extent the Purchaser receives any inquiry from any Governmental Authority in connection with the transactions contemplated by this Agreement.

7.11 PUBLIC ANNOUNCEMENTS

Upon the execution of this Agreement, the Company and the Purchaser will consult with each other with respect to the issuance of a joint press release to be released by the Company with respect to this Agreement and the transactions contemplated hereby. Prior to the Closing, except as otherwise agreed to by the parties, the parties shall not

issue any report, statement or press release or otherwise make any public statements with respect to this Agreement, except as in the reasonable judgement of the party may be required by law or in connection with the obligations of a publicly-held company. Upon the Closing, the Company and the Purchaser will consult with each other with respect to the issuance of a joint press release with respect to the consummation of the transactions contemplated by this Agreement.

7.12 NOTICE TO THE PURCHASER OF CERTAIN TRANSACTIONS

In case at any time:

7.12.1 the Company shall pay any dividend upon its outstanding shares of Common Stock or Preferred Stock payable in shares of Common Stock or Preferred Stock or make any distribution (other than cash dividends out of earned surplus) to the holders of its shares of Common Stock or Preferred Stock; or

7.12.2 the Company shall offer for subscription pro rata to the holders of its Common Stock or Preferred Stock any additional shares of Common Stock or Preferred Stock or other rights to acquire such Common Stock or Preferred Stock; or

7.12.3 there shall be effected any recapitalization of the Company or reclassification of the shares of Common Stock or Preferred Stock of the Company, or any merger or consolidation of the Company into or with any other corporation or business entity and as a result of which the Company is not the surviving corporation, or the sale or transfer of all or substantially all of the assets of the Company to any other corporation or business entity; or

7.12.4 there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall give written notice to the Purchaser of the date which is the record date for such dividend, distribution or subscription rights, or on which such recapitalization, reclassification, merger, consolidation, sale, transfer, dissolution, liquidation or winding up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of the Company's classes of Common Stock or Preferred Stock shall participate in such dividend, distribution or subscription rights, or shall be entitled to exchange its Common Stock or Preferred Stock for securities or other property deliverable upon such recapitalization, reclassification, merger, consolidation, sale, transfer, dissolution, liquidation or winding up, as the case may be. Such written notice shall be given at least thirty (30) days prior to the action in question and not less than ten (10) days prior to the record date.

7.13 TAXES OF THE COMPANY

The Company shall timely prepare and file, or cause to be prepared and filed, all material Returns for the Company and each Subsidiary and timely pay, or cause to be paid, when due all Taxes shown on such Returns. The Company and each Subsidiary shall also pay when due all other Taxes for which the Company or Subsidiary is liable, except Taxes which the Company or Subsidiary is contesting in good faith.

7.14 PASSIVE INVESTMENT. Neither the Company nor any Subsidiary will become either a PFIC or a FPHC, unless the Purchaser provides its prior written consent to the Company; provided however, that such consent will not be withheld unless becoming a PFIC or a FPHC could have a material adverse effect on the consolidated Tax liability of the Company or any Subsidiary subject to United States federal income tax on a net basis.

8 REGISTRATION RIGHTS

8.1 MANDATORY REGISTRATION

Within sixty (60) days from the Closing Date, the Company agrees to file a Registration Statement on Form S-3 with the Commission registering the Registrable Securities for sale under the Securities Act. If the Company is unable to use Form S-3 to register the Registrable Securities for resale, another form of Registration Statement for which the Company is eligible shall be used. Any Holder who does not wish to include its pro rata amount of Registrable Securities in the Registration Statement to be filed by the Company pursuant to this Section 8.1 shall provide written notice to the Company prior to the date upon which such filing is made with the Commission.

8.2 ACKNOWLEDGEMENT

By executing this Agreement, each Holder acknowledges that the Company's obligation to register is limited to one Registration Statement which becomes effective under the Securities Act. Subject to Section 8.4 and provided that the Company complies with its obligations under this Agreement, no further Registration Statements (other than required amendments or supplements to the original Registration Statement) will be filed for the benefit of such holders.

8.3 EFFECTIVENESS OF REGISTRATION STATEMENT

The Company shall use best efforts to obtain effectiveness of a Registration Statement as soon as practicable and shall continue to use its best efforts to maintain such effectiveness for the Registration Statement until either (i) there are no longer any Securities or Registrable Securities outstanding or (ii) the Company has provided written notice to all Holders that the Company intends to withdraw or allow the lapse in effectiveness of such Registration Statement and all such Holders have agreed to such withdrawal or lapse in writing. Any Registration Statement filed pursuant to this Agreement shall not be deemed to have been effected unless it has become effective with the Commission. Notwithstanding the foregoing, a Registration Statement will not be deemed to have been effected if, after it has become effective under the Securities Act, the registration is interfered with by any stop order, injunction or other order or requirement of the Commission or other governmental agency or any court proceeding for any reason. The Company shall use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest possible

moment and to notify each Holder (and, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof.

8.4 MODIFICATIONS, AMENDMENTS FOR ADDITIONAL REGISTRABLE SECURITIES; NEW REGISTRATION STATEMENT

The Company agrees and warrants that it will prepare and file with the Commission any amendments in or modifications to such Registration Statement (or any subsequent Registration Statement) from time to time as necessary in order to ensure that all Registrable Securities (including additional Registrable Securities which are issuable as a result of (i) adjustments to the conversion price of the Series C Preferred Stock or the exercise price of the Common Stock Purchase Warrant or the Additional Common Stock Purchase Warrant or (ii) the vesting of rights pursuant to the Additional Common Stock Purchase Warrant) may be resold pursuant to such Registration Statement. Notwithstanding Section 8.2, in the event of any lapse in effectiveness or withdrawal of such Registration Statement (other than as provided for in Section 8.3 due to the fact that there are no longer any Registrable Securities outstanding or pursuant to the written consent of the Holders), the Company will file a new Registration Statement with respect to the Registrable Securities and obtain and maintain the effectiveness of such Registration Statement in accordance with this Section 8.

8.5 REGISTRATION EXPENSES

The Company shall pay all Registration Expenses incurred in connection with the registration of Registrable Securities pursuant to this Section 8.

8.6 ELIGIBILITY FOR FORM S-3

The Company represents and warrants that it meets as of the date hereof the requirements for the use of Form S-3 for the registration of the resale by a Holder of Registrable Securities.

9 REGISTRATION PROCEDURES

9.1 In connection with the Company's obligation to effect the registration of Registrable Securities under the Securities Act as provided in Section 8, the Company, as expeditiously as possible and subject to the terms and conditions herein, shall, as expeditiously as is commercially reasonable:

- 9.1.1 Effect the registration of the Registration Statement prepared and filed with the Commission pursuant to Section 8.1 above and cause such registration to become effective as soon as practicable.
- 9.1.2 Prepare and file with the Commission such amendments and supplements to such Registration Statement and the prospectus used in connection therewith as may be necessary to keep such Registration Statement effective (in accordance with Section 8.2) and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities.
- 9.1.3 Furnish to the Holders such number of conformed copies of such Registration Statement and of each such amendment and supplement thereto (in each case

including all exhibits), such number of copies of the prospectus contained in such Registration Statement (including each preliminary prospectus and any summary prospectus) and any other prospectus filed under the Securities Act, in conformity with the requirements of the Securities Act, and such other documents, in each case, as the Holders may reasonably request.

- 9.1.4 Register or qualify all Registrable Securities covered by such Registration Statement under such other United States state securities or blue sky laws of such jurisdictions as the Holders shall reasonably request, to keep such registration or qualification in effect for so long as such registration remains in effect, and take any other action which may be reasonably necessary or advisable to enable the Holders to consummate the disposition of the Registrable Securities owned by the Holders in such jurisdictions, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it would not but for the requirements of this Section 9.1.4 be obligated to be so qualified, subject itself to taxation in any such jurisdiction, or consent to general service of process in any such jurisdiction.
- 9.1.5 Immediately notify the Holders at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made, and promptly prepare and furnish to the Holders a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made.
- 9.1.6 Comply with all applicable rules and regulations of the Commission, and not file (or withdraw or correct) any amendment or supplement to such Registration Statement or prospectus to which the Holders shall have reasonably objected in writing on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the Securities Act or of the rules or regulations thereunder.
- 9.1.7 In the event of any underwritten public offering enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering.
- 9.1.8 Make available for inspection by any seller of Registrable Securities as to which any registration is being effected, any underwriter participating in any disposition pursuant to the related Registration Statement, and any attorney, accountant or other agent retained by any such seller or any such underwriter

(collectively, the "INSPECTORS"), all financial and other records, pertinent corporate documents and properties of the Company and its Subsidiaries, if any, as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and shall cause the Company's and its Subsidiaries' officers, directors and employees to supply all information and respond to all inquiries reasonably requested by any such Inspector in connection with such Registration Statement.

- 9.1.9 Furnish, at the request of any Holder requesting registration of Registrable Securities, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the Registration Statement with respect to such securities becomes effective, (1) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (2) a "comfort" letter dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.
- 9.1.10 Promptly list all Registrable Securities covered by such Registration Statement on any securities exchange or automated inter-dealer quotation system on which any shares of Common Stock are then listed or traded (including, without limitation, the Nasdaq National Market and EASDAQ).
- 9.1.11 If necessary, appoint a transfer agent with respect to such Registrable Securities.

- 9.2 The Holders agree that upon receipt of any notice from the Company of the happening of any event of the kind described in Section 9.1.5, the Holders will forthwith discontinue their disposition of Registrable Securities pursuant to the Registration Statement relating to such Registrable Securities until the Holders' receipt of the copies of the supplemented or amended prospectus contemplated by Section 9.1.5 and, if so directed by the Company, will deliver to the Company all copies, other than permanent file copies, then in the Holders' possession of the prospectus relating to such Registrable Securities current at the time of receipt of such notice and that they will immediately notify the Company, at any time when a prospectus relating to the registration of such Registrable Securities is required to be delivered under the Securities Act, of the happening of any event as a result of which information previously furnished by the Holders to the Company for inclusion in such prospectus contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or

necessary to make the statements therein not misleading in the light of the circumstances under which they were made.

- 9.3 As a condition of the fulfillment of its obligations under this Agreement, the Company may require the Holders, at their own reasonable expense, to furnish the Company with such information and undertakings regarding such Holders and the distribution of such securities as the Company may from time to time reasonably request in writing to the extent necessary in order to cause the Registration Statement to comply with the Securities Act, and the Holders, by their execution hereof, agree to provide such information and make such undertakings as are requested.
- 9.4 In connection with the preparation and filing of each Registration Statement under the Securities Act, the Company will give the Holders, and their respective counsel and accountants, the reasonable opportunity to participate in the preparation of such Registration Statement, each prospectus included therein or filed with the Commission and each amendment thereof or supplement thereto, and will give each of them such reasonable access to its books and records and such reasonable opportunities to discuss the business of the Company with its officers and the independent public accountants who have certified its financial statements as shall be necessary to conduct a reasonable investigation within the meaning of the Securities Act.
- 9.5 Promptly after a sale of Registrable Securities pursuant to the Registration Statement (assuming that no stop order is in effect with respect to the Registration Statement at the time of such sale), the Company shall cooperate with the Holders and provide the transfer agent for the Common Stock with such instructions and legal opinions as may be required in order to facilitate the issuance to the purchaser (or the Holder's broker) of new unlegended certificates for such Registrable Securities.

10 TRANSFER OF REGISTRATION RIGHTS

The registration rights granted pursuant to this Agreement shall be transferable to a transferee of any Securities or Registrable Securities, provided that (i) the transferring Holder is transferring such Securities or Registrable Securities in compliance with the terms and provisions of this Agreement and the transferring Holder gives the Company prompt written notice of such transfer, identifying the name and address of the transferee and the securities involved and (ii) the transferee agrees in writing to be bound by the terms and provisions of this Agreement.

11 CONDITIONS TO CLOSING

11.1 CONDITIONS TO THE COMPANY'S OBLIGATIONS TO CONSUMMATE THE CLOSING

The obligations of the Company to effect the sale and issuance of the Securities shall be subject to the satisfaction of the conditions set forth below at or before the Closing Date (which conditions may be waived by the Company in writing):

- 11.1.1 The Purchaser shall have delivered to the Company at the Closing the items set forth in Section 4.2., and

- 11.1.2 The representations and warranties of the Purchaser forth in Section 6 of this Agreement shall be true and correct as of the date hereof and as of the Closing Date (except to the extent specified by the Purchaser to be true and correct as of an earlier date).
- 11.2 CONDITIONS TO THE PURCHASER'S OBLIGATIONS TO CONSUMMATE THE CLOSING The obligations of the Purchaser to effect the purchase of the Securities shall be subject to the satisfaction of the conditions set forth below, at or before the Closing Date (which conditions may be waived by the Purchaser in writing).
- 11.2.1 The representations and warranties of the Company set forth in Section 5 of this Agreement shall be true and correct as of the date hereof and as of the Closing Date (except to the extent specified by the Company to be true and correct as of an earlier date) and the Purchaser shall have received a certificate to such effect signed by the Chief Executive Officer of the Company dated as of the Closing Date.
- 11.2.2 The Company shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by this Agreement, and the Purchaser shall have received a certificate to such effect signed by the Chief Executive Officer of the Company dated as of the Closing Date.
- 11.2.3 The Company shall have procured all regulatory approvals and consents required by Law to be procured by it for the transactions contemplated by this Agreement.
- 11.2.4 If required under Nasdaq rules, the Company shall have obtained shareholder approval of the purchase of the Securities by the Purchaser.
- 11.2.5 The Company shall deliver to the Purchaser at the Closing the items set forth in Section 4.1.
- 11.2.6 The Company shall have delivered to the Purchaser a Certificate dated as of a recent date prior to the Closing Date issued by the Secretary of State of the State of Delaware to the effect that the Company is legally and validly existing and in good standing.
- 11.2.7 The Company shall have delivered to the Purchaser a certificate executed by the Secretary of the Company dated as of the Closing Date, certifying as to (a) the directors resolutions authorizing the transactions contemplated by this Agreement, (b) the Charter Documents, (c) the incumbency and specimen signatures of the Chief Executive Officer, President and Secretary of the Company, and (d) such other matters as the Purchaser may reasonably request.
- 11.2.8 As of the Closing Date, there shall not have occurred any event or condition which has had a Material Adverse Effect, and the Purchaser shall have received a certificate to such effect signed by the Chief Executive Officer of the Company dated as of the date of the Closing Date.

11.2.9 The Company shall have filed or caused to be filed the Certificate of Designations relating to the Series C Preferred Stock with the Secretary of State for the State of Delaware on or prior to the Closing Date.

12 RESTRICTIONS ON TRANSFER

12.1 RESTRICTIVE LEGENDS

Except as otherwise permitted by this Section 12, each share certificate constituting the Securities issued and sold pursuant to this Agreement and any share certificate issued upon exchange of the Series C Preferred Stock or exercise of the Common Stock Purchase Warrant or the Additional Common Stock Purchase Warrant for Common Stock shall be stamped or otherwise imprinted with a legend in substantially the following form:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF, AGREES THAT IT WILL NOT OFFER, REOFFER, SELL, ASSIGN, TRANSFER, PLEDGE, ENCUMBER OR OTHERWISE DISPOSE OF OR DISTRIBUTE DIRECTLY OR INDIRECTLY THESE SECURITIES IN THE UNITED STATES, ITS TERRITORIES, POSSESSIONS, OR AREAS SUBJECT TO ITS JURISDICTION, OR TO OR FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, AT ANY TIME PRIOR TO TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THESE SECURITIES, EXCEPT (A) TO THE COMPANY OR A SUBSIDIARY OF THE COMPANY, (B) IN CONJUNCTION WITH AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, (C) IN COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT, OR (D) IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S OF SUCH ACT, INCLUDING RULE 903, RULE 904 AND RULE 905 THEREUNDER, AND AGREES THAT ANY HEDGING TRANSACTIONS INVOLVING THE SECURITIES WILL BE CONDUCTED IN COMPLIANCE WITH REGULATION S UNDER SUCH ACT AND AGREES THAT IT WILL GIVEN TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE COMPANY, THE TRANSFER AGENT, AND THE REGISTRAR SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER, IN EACH OF THE FOREGOING CASES, TO REQUIRE DELIVERY OF A CERTIFICATION OF TRANSFER IN FORM SATISFACTORY TO THEM. AS USED HEREIN, THE TERMS "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

12.2 NOTICE OF THE PROPOSED TRANSFER; OPINION OF COUNSEL

The Purchaser of each share certificate bearing the restrictive legend set forth in Section 12.1 above ("RESTRICTED SECURITY") agrees that prior to any transfer or attempted transfer of such Restricted Security to give to the Company (a) written notice describing the manner or circumstances of such transfer or proposed transfer, and (b) an opinion of counsel, which is knowledgeable in securities law matters, in form and substance reasonably satisfactory to the Company, to the effect that the proposed transfer of such Restricted Security may be effected without registration of such Restricted Security under the Securities Act. If the holder of the Restricted Security delivers to the Company an opinion of counsel in form and substance reasonably satisfactory to the Company that subsequent transfers of such Restricted Security will not require registration under the Securities Act, the Company will after such contemplated transfer deliver new Securities for such Restricted Security which do not bear the Securities Act legend set forth in Section 12.1 above. Except to the extent required by the Company's transfer agent, the requirements for an opinion of counsel imposed by this Section 12.2 upon the transferability of any particular Restricted Security shall not apply (i) when such Restricted Security is sold pursuant to an effective Registration Statement under the Securities Act, (ii) when such Restricted Security is transferred pursuant to Rule 144 or Rule 144A promulgated under the Securities Act or (iii) when such Restricted Security is transferred pursuant to Regulation S promulgated under the Securities Act. The restrictions imposed by this Section 12 shall cease and terminate upon the date which is two (2) years after the original issue date of the Restricted Security. As used in this Section 12.2, the term "transfer" encompasses any sale, transfer or other disposition of any Securities referred to herein.

13 INDEMNIFICATION

13.1 INDEMNIFICATION, EXPENSES, ETC.

13.1.1 Except as otherwise provided in Section 13.2, the Company agrees to indemnify and hold harmless the Purchaser, its Affiliates and each of its and their respective directors, officers, partners, principals, shareholders and attorneys (individually, an "INDEMNIFIED PARTY" and, collectively, the "INDEMNIFIED PARTIES") from and against any and all losses, claims, damages, liabilities, costs (including reasonable attorneys' fees and including any costs of investigation) and expenses (collectively, "LOSSES") to which any Indemnified Party may become subject, insofar as such Losses arise out of or result from (i) any breach of any representation or warranty made by the Company, or the failure of the Company to fulfill any agreement or covenant contained in this Agreement or any other Transaction Document, or (ii) any proceeding against the Company or any Indemnified Party brought by any third party arising out of or in connection with this Agreement or the other Transaction Documents.

13.1.2 If any Indemnified Party is entitled to indemnification hereunder, such Indemnified Party shall give notice to the Company of any claim or of the commencement of any proceeding against the Company or any Indemnified Party brought by any third party with respect to which such Indemnified Party

seeks indemnification pursuant hereto; provided, however, that the delay to so notify the Company shall not relieve the Company from any obligation or liability except to the extent the Company is materially prejudiced by such delay. The Company shall have the right, exercisable by giving written notice to an Indemnified Party within thirty (30) days after the receipt of written notice from such Indemnified Party of such claim or proceeding, to assume, at the expense of the Company, the defense of any such claim or proceeding with counsel reasonably satisfactory to such Indemnified Party. After notice from the Company to the Indemnified Party of its election to assume the defense of such claim or proceeding, the Company shall not be liable to the Indemnified Party for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof other than reasonable costs of investigation; provided that the Indemnified Party shall have the right to employ separate counsel to represent the Indemnified Party which may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Indemnified Party against the Company, but the fees and expenses of such counsel shall be borne by such Indemnified Party unless (i) the Company and the Indemnified Party shall have mutually agreed to the retention of such counsel or (ii) in the reasonable opinion of counsel to such Indemnified Party, representation of both parties by the same counsel would be inappropriate due to actual or potential conflicts of interest between them, it being understood, however, that the Company shall not, in connection with any one such claim or proceeding or separate but substantially similar or related claims or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys (together with appropriate local counsel) at any time for all Indemnified Parties. The Company shall not consent to entry of any judgement or enter into any settlement that does not include as an unconditional term thereof the giving by claimant or plaintiff to such Indemnified Party or Parties of a release from all liability in respect of such claim, litigation or proceeding.

- 13.1.3 If the indemnification provided for in Section 13.1.1 is unavailable or insufficient to hold harmless an Indemnified Party in respect of any loss, claim, damage, liability, cost or expense, then the indemnifying party, in lieu of indemnifying such Indemnified Party thereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, claim, damage, liability, cost or expense (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Purchaser on the other hand from the sale and purchase of the Securities or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above, but also the relative fault of the Company on the one hand and the Purchaser on the other hand in connection with the events or facts which gave rise to such loss, claim, damage, liability, cost or expense, as well as any other equitable considerations. The relative fault shall be determined by

reference to, among other things, whether the events or facts that gave rise to such loss, claim, damage, liability, cost or expense relate to a breach of representations and warranties or other covenants and obligations under this Agreement and the other Transaction Documents by the Company or the Purchaser and the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such events. The amount paid or payable by an Indemnified Party as a result of such loss, claim, damage, liability, cost or expense shall be deemed to include any reasonable and documented legal or other expenses incurred by such Indemnified Party in connection with investigation or defending such claim.

13.2 ADDITIONAL INDEMNIFICATION OBLIGATIONS

13.2.1 The Company will indemnify each Holder, each of its officers, directors and partners, legal counsel, and accountants and each person controlling such Holder within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification, or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls within the meaning of Section 15 of the Securities Act any underwriter, against all expenses, claims, losses, damages, and liabilities (or actions, proceedings, or settlements in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular, or other document (including any related Registration Statement, notification, or the like) incident to any such registration, qualification, or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any rule or regulation thereunder applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification, or compliance, and will reimburse each such Holder, each of its officers, directors, partners, legal counsel, and accountants and each person controlling such Holder, each such underwriter, and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating and defending or settling any such claim, loss, damage, liability, or action; provided, that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability, or expense arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by such Holder or underwriter and stated to be specifically for use therein. It is agreed that the indemnity agreement contained in this Section 13.2.1 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld).

13.2.2 Each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration, qualification, or compliance is being effected, severally and not jointly, indemnify the Company, each of its directors, officers, partners, legal counsel, and accountants and each

underwriter, if any, of the Company's securities covered by such a Registration Statement, each person who controls the Company or such underwriter within the meaning of Section 15 of the Securities Act, each other such Holder, and each of its officers, directors, and partners, and each person controlling such Holder, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such Registration Statement, prospectus, offering circular, or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and such Holders, directors, officers, partners, legal counsel, and accountants, persons, underwriters, or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability, or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such Registration Statement, prospectus, offering circular, or other document in reliance upon and in conformity with written information furnished to the Company by such Holder and stated to be specifically for use therein; provided, however, that the obligations of such Holder hereunder shall not apply to amounts paid in settlement of any such claims, losses, damages, or liabilities (or actions in respect thereof) if such settlement is effected without the consent of such Holder (which consent shall not be unreasonably withheld).

13.2.3 The Indemnified Party shall give notice to the Indemnifying Party promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of such claim or any litigation resulting therefrom; provided, that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense; and provided, further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 13.2, to the extent such failure is not prejudicial. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by claimant or plaintiff to such Indemnified Party or a release from all liability in respect to such claim or litigation. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with defense of such claim and litigation resulting therefrom.

13.2.4 If the indemnification provided for in this Section 13.2 is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to

any loss, liability, claim, damage, or expense referred to therein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement or a material fact or the omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

13.3 CONTROLLING PROVISIONS

Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

13.4 "MARKET STAND-OFF" AGREEMENT

Each Holder hereby agrees that it shall not, to the extent requested by the Company and an underwriter of securities of the Company, sell or otherwise transfer or dispose of any Registrable Securities or other shares of stock of the Company then owned by such Holder (other than to donees or partners of the Holder who agree to be similarly bound) for one hundred eighty (180) days following the effective date of a Registration Statement of the Company filed under the Securities Act or such lesser period as is agreed by the Company and any such underwriter (the so-called "LOCK-UP PERIOD"); provided, however, that all officers and directors of the Company shall be bound by and have entered into similar agreements; and provided, further, that this Section 13.4 shall only apply to Holders of two (2) percent or more of the Company's outstanding voting Capital Stock, and the lock-up period shall be ninety (90) days or such lesser period as is agreed by the Company and any such underwriter. In order to enforce the foregoing covenant, the Company shall have the right to place restrictive legends on the certificates representing the shares subject to this Section 13.4 and to impose stop transfer instructions with respect to the Registrable Securities and such other shares of each Holder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

13.5 RULE 144 REPORTING

With a view to making available to the Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Securities to the public without registration, the Company agrees to use its best efforts to:

13.5.1 Make and keep public information available, as those terms are understood and defined in Rule 144 or any similar or analogous rule promulgated under the Securities Act, at all times;

13.5.2 File with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

13.5.3 So long as a Holder owns any Securities, furnish to such Holder forthwith upon request (i) a written statement by the Company as to its compliance with the reporting requirements of Rule 144 and of the Securities Act and the Exchange Act; (ii) a copy of the most recent annual or quarterly report of the Company; and (iii) such other reports and documents as a Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing it to sell any such securities without registration.

13.6 TREATMENT OF INDEMNIFICATION PAYMENTS.

Any indemnification payment made pursuant to this Section 13 will be treated by the Company and the Purchaser as an adjustment to the Purchase Price for Tax purposes on all Returns and other correspondence with any Governmental Authority.

14 MISCELLANEOUS

14.1 SURVIVAL OF REPRESENTATIONS, WARRANTIES, COVENANTS AND INDEMNIFICATION

All representations and warranties contained in this Agreement or in the other Transaction Documents shall survive for a period of one year from the date hereof, except for representations and warranties relating to compliance with Laws, Taxes and Returns contained in Section 5.16 of this Agreement, and the covenants contained in Sections 7.7, 7.8, 7.9, 7.13 and 7.14 of this Agreement, all of which shall survive until the expiration of any applicable statute of limitations, and the indemnity agreements contained in Section 13.1 and Section 13.2 of this Agreement; provided, however, that such survival of representations and warranties relating to compliance with Laws, Taxes and Returns and of the covenants contained in Sections 7.7, 7.8 and 7.9 of this Agreement, shall only survive beyond one year to the extent there is any third party claim made directly against the Purchaser.

14.2 AMENDMENT AND WAIVER

This Agreement may be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may be given, provided that the same are in writing and signed by the Purchaser and the Company.

14.3 NOTICES, ETC.

Except as otherwise provided in this Agreement, notices and other communications under this Agreement shall be in writing and shall be delivered personally, sent by telecopier (with written confirmation of receipt), mailed by registered or certified mail, return receipt requested, or by a nationally recognized overnight courier, postage prepaid, addressed:

If to Purchaser, to:

Ubizen N.V.
Grensstraat 1B
B-3000
Leuven, Belgium
Facsimile No.: +32 16 31 0012
Attn: Chief Financial Officer

with a copy to:

Linklaters
William B. Hobbs
1345 Avenue of the Americas, 19th Floor
New York, New York 10105
Facsimile No.: (212) 424-9100

If to the Company, to:

VASCO Data Security International, Inc.
1901 South Meyers Road, Suite 210
Oakbrook Terrace, Illinois 60181
Facsimile No: (630) 932-8852

Attn: Chief Executive Officer
Chief Financial Officer

with a copy to:

Robert B. Murphy, Esq.
Piper Marbury Rudnick & Wolfe LLP
1200 19th Street NW
Washington, DC 20036
Facsimile No.: (202) 223-2085

Any such notices which are mailed shall be deemed delivered five (5) Business Days after mailing.

14.4 EXPENSES

Except as otherwise provided in this Agreement, whether or not the transactions contemplated hereby are consummated, each party will pay its own costs and expenses incurred in connection with the negotiation, execution and closing of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby.

14.5 ENTIRE AGREEMENT

This Agreement and the other Transaction Documents embody the entire agreement and understanding between the Purchaser and the Company and supersede all prior agreements and understandings.

14.6 SUCCESSORS AND ASSIGNS

Whenever in this Agreement any of the parties hereto are referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the respective parties which are contained in this Agreement shall bind and inure to the benefit of the successors and assigns of all other parties. The terms and provisions of this Agreement and the other Transaction Documents shall inure to the benefit of and shall be binding upon any assignee or transferee of any Purchaser, and in the event of such transfer or assignment, the rights and privileges herein conferred upon any such Purchaser shall automatically extend to and be vested in, and become an obligation of, such transferee or assignee, all subject to the terms and conditions hereof.

14.7 TERMINATION

14.7.1 This Agreement may be terminated and the transactions contemplated hereby may be abandoned:

- (i) at any time prior to the Closing, by the mutual written consent of the Company and the Purchaser;
- (ii) at any time prior to the Closing, by the Company or Purchaser upon notice given to the other if the Closing shall not have taken place for any reason by August 3, 2000; provided that the failure of the Closing to occur on or before such date (or the inability to satisfy such condition) is not the result of the breach of the covenants, agreements, representations or warranties hereunder of the party seeking such termination; or
- (iii) at any time prior to the Closing, by the Company or the Purchaser upon written notice to the other party if any court or Governmental Authority of competent jurisdiction shall have issued a final permanent order, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and the time for appeal or reconsideration of such order shall have expired.

14.7.2 In the event of the termination of this Agreement as provided in Section 14.7.1, this Agreement shall forthwith become wholly void and of no further force and effect and there shall be no liability on the part of the Company, the Purchaser or their respective officers and directors (except as a set forth in Sections 13.1 and 14.4; provided, however, that nothing contained in this sentence is intended to eliminate the liability of a breaching party to a non-breaching party who terminates this Agreement pursuant to Section 14.7.1(ii) of this Agreement). The obligations of the parties to this Agreement under Sections 13.1, 13.2 and 14.4 shall survive any such termination.

14.8 DESCRIPTIVE HEADINGS

The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

14.9 GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to any choice-of-law principles thereof.

14.10 CONSENT TO JURISDICTION

Each of the Purchaser and the Company hereby irrevocably submits to the non-exclusive jurisdiction of any court of the State of New York or United States federal court sitting in the Borough of Manhattan, New York, New York and any appellate court therefrom in any action or proceeding arising out of or relating to this Agreement, and the Company and the Purchaser hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such court. The Company and the Purchaser hereby irrevocably waive, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding.

14.11 COUNTERPARTS

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

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth above.

VASCO DATA SECURITY INTERNATIONAL, INC.,
a Delaware corporation

By: -----
Name:
Title:

UBIZEN N.V.,
a Belgian stock corporation

By: -----
Name:
Title:

SCHEDULES TO
SECURITIES PURCHASE AGREEMENT

SCHEDULE 5.1
ORGANIZATION AND QUALIFICATION, AUTHORITY.

Vasco Data Security, Inc.
Vasco Data Security Europe NV/SA
Vasco Data Security NV/SA
Lintel Security NV/SA
Vasco Data Security France SA

SCHEDULE 5.2
CORPORATE AUTHORIZATION.

None.

SCHEDULE 5.3
NO CONFLICT; REQUISITE CONSENTS.

None.

SCHEDULE 5.4
CAPITALIZATION.

The Company is a party to an arrangement whereby the Company could potentially issue up to 325,000 shares of its Common Stock in connection with the potential merger and acquisition of a California corporation.

The Company currently has outstanding warrants to purchase up to 680,943 shares of its Common Stock.

The Company currently has outstanding options to purchase up to 2,233,100 shares of its Common Stock.

The Company is a party to a convertible loan agreement in the principal amount of \$3,400,000 whereby the lender has the option to convert the loan into shares of the Company's Common Stock.

SCHEDULE 5.5
LITIGATION; DEFAULTS.

None.

SCHEDULE 5.6
NO MATERIAL ADVERSE EFFECT.

None.

SCHEDULE 5.7
EMPLOYEE PROGRAMS.

The following have entered employment or consulting agreements with the Company:

Xiadong Zhong
Lawrence Yuter
Tim Wilson
Henry B. Wilson, Jr.
Weidong Wang
Steven M. Walker
Yoel Spotts
Howard J. Shear
Tania Roberts
Susan Pepich
Rick Patterson
Christopher Allen Nicewanner
Andrew Marshall
Jim Wenxiong Liu
Nathan Levin
Mike Lange
Aryeh Katz
Scott Grykowski
Sherry Gaskill
Robert Garrant
Elchonon Edelson
Sharon Dougherty
Stuart Cohen
David Bianco
Gerold A. Baumgartner
Jonathan Chinitz
Micah Males
Gregory T. Apple
John Haggard
T. Kendall Hunt
Hyon C. Im
Jonathan C. Chinitz
Steven P. Sonnenberg

The Company has the following arrangements providing insurance coverage or workers' compensation coverage:

Group Term Life Insurance and AD&D
Major Medical and Surgical Coverage

Medical Health Care Coverage
Dental Health Care Coverage
Dependents Health Care Coverage
Dependents Dental Care Coverage
Dependents Life Insurance and AD&D
Prescription Drug Coverage

The Company has the following additional programs in place:

401(k) Plan
Stock Option Plan

SCHEDULE 5.10
FINANCIAL STATEMENTS: NO UNDISCLOSED LIABILITIES.

None.

x

SCHEDULE 5.11
ENVIRONMENTAL REGULATION, ETC.

None.

SCHEDULE 5.12
PROPERTIES AND ASSETS.

The Company or its Subsidiaries lease the following properties:

Koningin astridlaan 164
B-1780 Wemmel, Belgium

481, Bd Alfred Daney
33300 Bordeaux, France

1901 S. Meyers Road
Suite 210
Oakbrook Terrace, Illinois 60181

SCHEDULE 5.13
EMPLOYMENT PRACTICES.

None.

xiii

SCHEDULE 5.15
MATERIAL CONTRACTS.

None.

SCHEDULE 5.16
TAXES.

1. The Company and Vasco Data Security, Inc. filed applications for extensions of time to file their Federal and state income tax returns for the year ended December 31, 1999.

2. The Company's debt includes a term loan in the principal amount of \$3.4 million which matures on September 30, 2002 and bears interest at a rate of 3.25% annually. The note is convertible into common stock of the Company. This debt may constitute "corporate acquisition indebtedness" within the meaning of Section 279 of the Code.

SCHEDULE 5.17
LICENSES; COMPLIANCE WITH LAWS.

None.

SCHEDULE 5.18
TRANSACTIONS WITH AFFILIATES.

See Schedule 5.7

SCHEDULE 5.20
INSURANCE.

None.

SCHEDULE 5.21
SUBSTANTIAL CUSTOMERS AND SUPPLIERS.

None.

SCHEDULE 5.22
REGISTRATION RIGHTS.

In connection with the sale of 3,285,714 shares of Common Stock in February 1999 by the Corporation in an offshore transaction, certain registration rights were granted to the six purchasers. Those registration rights were waived as part of the Corporation's listing on EASDAQ and abandoned contemporaneous repeat public offering. The distribution compliance period of one year has terminated with respect to such shares and they may be resold in the United States pursuant to Rule 144.

xx

COMMON STOCK PURCHASE WARRANT

Void after July 20, 2004

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF, AGREES THAT IT WILL NOT OFFER, REOFFER, SELL, ASSIGN, TRANSFER, PLEDGE, ENCUMBER OR OTHERWISE DISPOSE OF OR DISTRIBUTE DIRECTLY OR INDIRECTLY THESE SECURITIES IN THE UNITED STATES, ITS TERRITORIES, POSSESSIONS, OR AREAS SUBJECT TO ITS JURISDICTION, OR TO OR FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, AT ANY TIME PRIOR TO TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THESE SECURITIES, EXCEPT (A) TO THE COMPANY OR A SUBSIDIARY OF THE COMPANY, (B) IN CONJUNCTION WITH AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, (C) IN COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT, OR (D) IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S OF SUCH ACT, INCLUDING RULE 903, RULE 904 AND RULE 905 THEREUNDER, AND AGREES THAT ANY HEDGING TRANSACTIONS INVOLVING THE SECURITIES WILL BE CONDUCTED IN COMPLIANCE WITH REGULATION S UNDER SUCH ACT AND AGREES THAT IT WILL GIVEN TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE COMPANY, THE TRANSFER AGENT, AND THE REGISTRAR SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER, IN EACH OF THE FOREGOING CASES, TO REQUIRE DELIVERY OF A CERTIFICATION OF TRANSFER IN FORM SATISFACTORY TO THEM. AS USED HEREIN, THE TERMS "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

COMMON STOCK PURCHASE WARRANT

VASCO DATA SECURITY INTERNATIONAL, INC., a Delaware corporation (the "COMPANY"), having its principal office at 1901 South Meyers Road, Suite 210, Oakbrook Terrace, Illinois 60181 hereby certifies that, for value received, UBIZEN N.V., or transferees or assigns (the "HOLDER") is entitled, subject to the terms set forth below, to purchase from the Company at any time on or from time to time after July 20, 2000 and before 5:00 p.m., New York City time, on July 20, 2004, seven hundred eighty nine thousand four hundred and seventy four (789,474) fully paid and non-assessable shares of Common Stock of the Company, par value \$0.001 per share, at the price per share of Fifteen Dollars (U.S.\$15.00) (the "PURCHASE PRICE"), subject to the terms, conditions, adjustments and limitations set forth herein.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

- (a) The term "COMPANY" includes the Company and any corporation which shall succeed to or assume the obligations of the Company hereunder.
- (b) The term "COMMON STOCK" includes all stock of any class or classes (however designated) of the Company, authorized upon the Original Issue Date or thereafter, the holders of which shall have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference, and the holders of which shall ordinarily, in the absence of contingencies, be entitled to vote for the election of a majority of directors of the Company (even though the right so to vote has been suspended by the happening of such a contingency).
- (c) The "ORIGINAL ISSUE DATE" is July 20, 2000.
- (d) The term "OTHER SECURITIES" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the holder of this Warrant at any time shall be entitled to receive, or shall have received, upon the exercise of this Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to section 6 or otherwise.
- (e) The term "PURCHASE PRICE" shall be the then applicable exercise price for one share of Common Stock.
- (f) The terms "REGISTERED" and "REGISTRATION" refer to a registration effected by filing a registration statement in accordance with the Securities Act, to permit the resale of Common Stock (or Other Securities) issued or issuable upon the exercise of this Warrant, and any post-effective amendments and supplements filed or required to be filed to permit any such disposition.
- (g) The term "SECURITIES ACT" means the Securities Act of 1933 as the same shall be in effect at the time.

1 REGISTRATION, ETC.

This Warrant, the shares of Common Stock issuable upon exercise thereof and the Other Securities shall have such registration rights as provided in Section 8 and Section 9 of the Securities Purchase Agreement dated July 18, 2000 between the Company and Ubizen, N.V..

2 SALE OR EXERCISE WITHOUT REGISTRATION

If, at the time of any exercise, transfer or surrender for exchange of this Warrant or of Common Stock (or Other Securities) previously issued upon the exercise of this Warrant, this Warrant or Common Stock (or Other Securities) shall not be registered under the Securities Act, the Company may require, as a condition of allowing such exercise, transfer or exchange, that the record owner or transferee of this Warrant or Common Stock (or Other Securities), as the case may be, furnish to the Company a satisfactory opinion of counsel to the effect that such

exercise, transfer or exchange may be made without registration under the Securities Act, provided that the disposition thereof shall at all times be within the control of such record owner or transferee, as the case may be, and provided further that nothing contained in this section 2 shall relieve the Company from complying with any request for registration pursuant to section 1 hereof. The first holder of this Warrant represents to the Company that it is acquiring this Warrant for investment and not with a view to the distribution thereof.

3 EXERCISE OF WARRANT; PARTIAL EXERCISE; EXERCISE BY SURRENDER

3.1 EXERCISE IN FULL Subject to the provisions hereof, this Warrant may be exercised in full by the record owner hereof by surrender of this Warrant, with the form of subscription at the end hereof duly executed by such record owner, to the Company at its principal office accompanied by payment in the amount obtained by multiplying the number of shares of Common Stock called for on the face of this Warrant by the Purchase Price. Payment of the Purchase Price for the shares of Common Stock purchased pursuant to exercise of this Warrant shall be made (a) in cash or cash equivalents, (b) through the tender to the Company of shares of Common Stock, which shares shall be valued for purposes of determining the extent to which the Purchase Price has been paid, at their Market Price (determined by the Board of Directors of the Company in accordance with section 3.3 hereof) on the date of exercise, (c) by delivering a written direction to the Secretary of the Company that this Warrant is to be exercised pursuant to a "cashless" exercise/sale procedure (pursuant to which funds to pay for exercise of the Warrant are delivered to the Company by a broker upon receipt of stock certificates from the Company) or a "cashless" exercise/loan procedure (pursuant to which the holders would obtain a margin loan from a broker to fund the certificates for the shares of Common Stock for which the Warrant is exercised, such certificates will be delivered to the broker who will deliver to the Company the cash (or cash equivalents acceptable to the Company) equal to the Purchase Price for the shares of Common Stock purchased pursuant to the exercise of the Warrant plus the amount (if any) of federal and other taxes that the Company may, in its judgment after consultation with the record owner hereof, be required to withhold with respect to the exercise of the Warrant, or (d) a combination of the methods described in (a), (b) and (c) above.

3.2 PARTIAL EXERCISE Subject to the provisions hereof, this Warrant may be exercised in part by surrender of this Warrant in the manner and at the place provided in section 3.1 except that the amount payable by the record owner upon any partial exercise shall be the amount obtained by multiplying (a) the number of shares of Common Stock designated by the record owner in the subscription at the end hereof by (b) the Purchase Price. Upon any such partial exercise, the Company at its expense will forthwith issue and deliver to or upon the order of the record owner hereof a new Warrant or Warrants of like tenor, in the name of the record owner hereof or as such record owner (upon payment by such record owner of any applicable transfer taxes) may request, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock equal to the number of such shares called for on the face of this Warrant minus the number of such shares designated by the record owner in the subscription at the end hereof.

3.3 DEFINITION OF MARKET PRICE As used herein, the phrase "Market Price" at any date shall be deemed to be (i) if the principal trading market for such securities is an exchange, the last reported sale price, or, in case no such reported sale takes place on such date, the average of the last reported sale prices for the preceding three (3) trading days, in either case as officially reported on any consolidated tape, (ii) if the principal market for such securities is the over-the-counter market, the high bid price on such date as set forth by NASDAQ or, if the security is not quoted on NASDAQ, the high bid price as set forth in the National Quotation Bureau sheet listing such securities for such day. Notwithstanding the foregoing, if there is no reported closing price or high bid price, as the case may be, on the date next preceding the event requiring an adjustment hereunder, then the Market Price shall be determined as of the latest date prior to such day for which such closing price or high bid price is available, or if the securities are not quoted on NASDAQ, as determined in good faith by resolution of the Board of Directors of the Company, based on the best information available to it.

3.4 COMPANY TO REAFFIRM OBLIGATIONS The Company will, at the time of any exercise of this Warrant, upon the request of the record owner hereof, acknowledge in writing its continuing obligation to afford to such record owner any rights (including, without limitation, any right to registration of the shares of Common Stock or Other Securities issued upon such exercise) to which such record owner shall continue to be entitled after such exercise in accordance with the provisions of this Warrant, provided that if the record owner of this Warrant shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford such record owner any such rights.

4 DELIVERY OF STOCK CERTIFICATES, ETC., ON EXERCISE

As soon as practicable after the exercise of this Warrant in full or in part, and in any event within ten (10) days thereafter, the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the record owner hereof, or as such record owner (upon payment by such record owner of any applicable transfer taxes) may direct, a certificate or certificates for the number of fully paid and non-assessable shares of Common Stock (or Other Securities) to which such record owner shall be entitled upon such exercise, plus, in lieu of any fractional share to which such record owner would otherwise be entitled, cash equal to such fraction multiplied by the then current Market Price of one full share, together with any other stock or other securities and property (including cash, where applicable) to which such record owner is entitled upon such exercise pursuant to section 5 or otherwise.

5 ADJUSTMENT FOR DIVIDENDS IN OTHER STOCK, PROPERTY, ETC.; RECLASSIFICATION, ETC.

In case at any time or from time to time after the Original Issue Date the holders of Common Stock (or Other Securities) shall have received or (on or after the record date fixed for the determination of stockholders eligible to receive) shall have become entitled to receive without payment therefor

(a) other or additional stock or other securities or, property (other than cash) by way of dividend, or

- (b) any cash paid or payable (including, without limitation, by way of dividend other than a dividend payable out of earned surplus of the Company), or
- (c) other or additional (or less) stock or other securities or property (including cash) by way of spin-off, split-up, recapitalization, combination of shares or similar corporate rearrangement,

then, and in each such case the record owner of this Warrant, upon the exercise hereof as provided in section 3, shall be entitled to receive the amount of stock and other securities and property (including cash in the cases referred to in subdivisions (b) and (c) of this section 5) which such record owner would hold on the date of such exercise if on the Original Issue Date such person had been the holder of record of the number of shares of Common Stock called for on the face of this Warrant and had thereafter, during the period from the Original Issue Date to and including the date of such exercise, retained such shares and all such other additional (or less) stock and other securities and property (including cash in the cases referred to in subdivisions (b) and (c) of this section 5) receivable by such person as aforesaid during such period, giving effect to all adjustments called for during such period by sections 6 and 7 hereof.

6 REORGANIZATION, CONSOLIDATION, MERGER, ETC.

In case the Company after the Original Issue Date shall (a) effect a reorganization, (b) consolidate or merge with any other person, or (c) transfer all or substantially all of its properties or assets to any other person under any plan or arrangement contemplating the dissolution of the Company, then, in each such case, the record owner of this Warrant, upon the exercise hereof as provided in section 3 at any time after the consummation of such reorganization, consolidation or merger or the effective date of such dissolution, as the case may be, shall be entitled to receive (and the Company shall be obligated to deliver), in lieu of the Common Stock (or Other Securities) issuable upon such exercise prior to such consummation or such effective date, the stock and other securities and property (including cash) to which such record owner would have been entitled upon such consummation or in connection with such dissolution, as the case may be, if such record owner had so exercised this Warrant immediately prior thereto, all subject to further adjustment thereafter as provided in sections 5 and 7 hereof.

7 OTHER ADJUSTMENTS

7.1 GENERAL In any case to which sections 5 and 6 hereof are not applicable, where the Company shall issue or sell any (i) shares of its Common Stock, (ii) securities convertible into Common Stock ("CONVERTIBLE SECURITIES") or (iii) rights or options to subscribe for, purchase or otherwise acquire Common Stock after the Original Issue Date and prior to the expiration of this Warrant at a per share price less than the Purchase Price, the Purchase Price per share shall be reduced, concurrently with such issue price (calculated to the nearest cent) as determined in accordance with the following: multiplying the Purchase Price by a fraction, (a) the numerator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issue plus (2) the number of shares of Common Stock which the aggregate consideration received by the Company for the total number of additional shares of Common Stock so issued or issuable would purchase at such Purchase Price; and (b) the denominator of which shall be (1) the number of shares of Common Stock

outstanding immediately prior to such issue plus (2) the number of shares of Common Stock so issued or issuable. Such adjustments shall account for the number of shares of Common Stock received by the record owner of this Warrant as a result of any partial exercise hereof. Notwithstanding anything herein to the contrary, no adjustment shall be made for any shares of Common Stock or rights or options to subscribe for or purchase or otherwise acquire Common Stock after the Original Issue Date and prior to the expiration of this Warrant at a per share price less than the Purchase Price if such Common Stock or rights or options to subscribe for, purchase or otherwise acquire Common Stock are sold, issued or subscribed for (a) in connection with the granting of any employee stock options by the Company, or upon the exercise of such options, pursuant to the terms of a plan in effect on the date hereof or a successor to such a plan, (b) in connection with any merger or acquisition in which the shares of Common Stock or rights or options to subscribe for, purchase or otherwise acquire Common Stock are sold, issued or subscribed for value equal to or greater than the then current Market Price or (c) in connection with an investment by a Strategic Partner of the Company in which the shares of Common Stock or rights or options to subscribe for, purchase or otherwise acquire Common Stock are sold, issued or subscribed for value equal to or greater than the then current Market Price; provided that, with respect to any transaction described in (b) and (c), the Company shall provide the Purchaser with a copy of a resolution of its Board of Directors, duly certified by an executive officer of the Company, to the effect that (i) the value of the aggregate consideration received from such Strategic Partner with respect to such securities divided by (ii) the aggregate number of shares of Common Stock so issued or issuable is greater than or equal to the Market Price of the Common Stock on the closing date with respect to such merger, acquisition or investment. As used in the preceding sentence a "STRATEGIC PARTNER" shall mean an investor which, simultaneously with its investment in securities of the Company, is entering into one or more bona fide agreements with the Company relating to the provision of products or services which are central to the Company's business.

- 7.2 MINIMUM ADJUSTMENT No adjustment shall be made under this section 7 if the amount of any such adjustment would be an amount less than one percent (1%) of the Purchase Price then in effect, but any such amount shall be carried forward and an adjustment in respect thereof shall be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate an increase or decrease of one percent (1%) or more.

8 FURTHER ASSURANCES

The Company will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock upon the exercise of all Warrants from time to time outstanding.

9 CERTIFICATE OF CHIEF FINANCIAL OFFICER AS TO ADJUSTMENTS

In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable upon the exercise of this Warrant, the Company at its expense will promptly cause the Company's Chief Financial Officer to compute such adjustment or readjustment in

accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, and the number of shares of Common Stock outstanding or deemed to be outstanding; provided that if any similar certificate is provided by the Company's regularly retained auditor to the holder of any other warrant of the Company, the Company's regularly retained auditor shall provide this certificate to the record owner of this Warrant. The Company will forthwith mail a copy of each such certificate to the record owner of this Warrant.

10 NOTICES OF RECORD DATE, ETC.

In the event of

- (a) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend payable out of earned surplus of the Company) or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or
- (b) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any transfer of all or substantially all the assets of the Company to or consolidation or merger of the Company with or into any other person, or
- (c) any voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then and in each such event the Company will mail or cause to be mailed to the record owner of this Warrant a notice specifying (i) the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right and (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any, as of which the holders of record of Common Stock (or Other Securities) shall be entitled to exchange their shares of Common Stock (or Other Securities) for securities or other property deliverable upon such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be mailed at least twenty (20) days prior to the date therein specified.

11 RESERVATION OF STOCK, ETC., ISSUABLE ON EXERCISE OF WARRANTS

The Company will at all times reserve and keep available, solely for issuance and delivery upon the exercise of this Warrant, all shares of Common Stock (or Other Securities) from time to time issuable upon the exercise of this Warrant.

12 LISTING ON SECURITIES EXCHANGES

The Company will, at its expense, to the extent permitted by the rules of any national securities exchange or automated inter-dealer quotation system on which the Common Stock is listed, simultaneously list on such exchange or system, upon official notice of issuance upon the exercise of this Warrant, all shares of Common Stock from time to time issuable upon the exercise of this Warrant, and maintain such listing of all shares of Common Stock from time to time issuable upon the exercise of this Warrant, and the Company will so list on any national

securities exchange, will so register and will maintain such listing of, any Other Securities if and at the time that any securities of like class or similar type shall be listed on such national securities exchange or automated inter-dealer quotation system by the Company.

13 EXCHANGE OF WARRANTS

Subject to the provisions of section 2 hereof, upon surrender for exchange of this Warrant, properly endorsed, to the Company, the Company at its own expense will issue and deliver to or upon the order of the record owner thereof a new Warrant of like tenor, in the name of such record owner or as such record owner (upon payment by such record owner of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face of this Warrant.

14 REPLACEMENT OF WARRANTS

Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

15 WARRANT AGENT

The Company may, by written notice to each record owner of this Warrant, appoint an agent, for the purpose of issuing Common Stock (or Other Securities) upon the exercise of this Warrant pursuant to section 3, exchanging this Warrant pursuant to section 13, and replacing this Warrant pursuant to section 14, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such agent.

16 NEGOTIABILITY, ETC.

Subject to the provisions of section 2 hereof, this Warrant is issued upon the following terms, to all of which each holder or owner hereof by the taking hereof consents and agrees:

- (a) subject to the provisions hereof, title to this Warrant may be transferred, in whole but not in part, by endorsement (by the holder hereof executing the form of assignment at the end hereof) and delivery in the same manner as in the case of a negotiable instrument transferable by endorsement and delivery;
- (b) subject to the foregoing, any person in possession of this Warrant properly endorsed is authorized to represent himself as absolute owner hereof and is empowered to transfer absolute title hereto by endorsement and delivery hereof to a bona fide purchaser hereof for value; each prior taker or owner waives and renounces all of his equities or rights in this Warrant in favor of each such bona fide purchaser and each such bona fide purchaser shall acquire absolute title hereto and to all rights represented hereby; and
- (c) until this Warrant is transferred on the books of the Company, the Company may treat the record owner hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the Company.

17 NOTICES, ETC.

All notices and other communications from the Company to the record owner of this Warrant shall be mailed by first class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company in writing by such record owner, or, until an address is so furnished, to and at the address of the last record owner of this Warrant who has so furnished an address to the Company.

18 MISCELLANEOUS

This Warrant and any term thereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant is being delivered in the State of New York and shall be construed and enforced in accordance with and governed by the internal laws of such state. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof.

19 EXECUTED EXPIRATION

The right to exercise this Warrant shall expire at 5:00 P.M., New York City time, on July 20, 2004.

20 ASSIGNABILITY

This Warrant is fully assignable, in whole but not in part, at any time, subject to applicable securities laws and section 2 hereof.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its authorized officers, and its Corporate Seal, to be hereunto affixed this 20th day of July, 2000.

By:

Name:

Title: Secretary/President

(Apply Corporate Seal)

EXHIBIT A

FORM OF SUBSCRIPTION
(TO BE SIGNED ONLY UPON EXERCISE OF WARRANT)

To: VASCO DATA SECURITY INTERNATIONAL, INC.
[]
[]
Attention: Corporate Secretary

The undersigned, the record owner of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder,* shares of the Common Stock of VASCO DATA SECURITY INTERNATIONAL, INC., and herewith make payment of \$[] therefor, and requests that the certificates for such shares be issued in the name of, and delivered to, [], whose address is [].

Dated: []

- - - - -

(Signature must conform in all respects to name of record owner as specified on the face of the Warrant)

- - - - -

(Address)

- - - - -

* Insert here the number of shares called for on the face of the Warrant [or, in the case of a partial exercise, the portion thereof as to which the Warrant is being exercised], in either case without making any adjustment for additional Common Stock or any other stock or other securities or property or case which, pursuant to the adjustment provisions of the Warrant, may be deliverable upon exercise.

FORM OF ASSIGNMENT

(To be signed only upon transfer of Warrant)

For value received, the undersigned hereby sells, assigns and transfers unto [] [] the right represented by the within Warrant to purchase shares of the Common Stock of VASCO DATA SECURITY INTERNATIONAL, INC. to which the within Warrant relates, and appoints [] as Attorney-in-Fact to transfer such right on the books of [] with full power of substitution in the premises. The Warrant being transferred hereby is the Common Stock Purchase Warrant initially issued by VASCO DATA SECURITY INTERNATIONAL, INC. as of July [], 2000.

Dated: -----

(Signature must conform in all respects to name of record owner as specified on the face of the Warrant)

(Address)

Signature guaranteed by a Bank or Trust Company having its principal office in New York City or by a Member Firm of the New York or American Stock Exchange

COMMON STOCK PURCHASE WARRANT

Void after July 20, 2004

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF, AGREES THAT IT WILL NOT OFFER, REOFFER, SELL, ASSIGN, TRANSFER, PLEDGE, ENCUMBER OR OTHERWISE DISPOSE OF OR DISTRIBUTE DIRECTLY OR INDIRECTLY THESE SECURITIES IN THE UNITED STATES, ITS TERRITORIES, POSSESSIONS, OR AREAS SUBJECT TO ITS JURISDICTION, OR TO OR FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, AT ANY TIME PRIOR TO TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THESE SECURITIES, EXCEPT (A) TO THE COMPANY OR A SUBSIDIARY OF THE COMPANY, (B) IN CONJUNCTION WITH AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, (C) IN COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT, OR (D) IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S OF SUCH ACT, INCLUDING RULE 903, RULE 904 AND RULE 905 THEREUNDER, AND AGREES THAT ANY HEDGING TRANSACTIONS INVOLVING THE SECURITIES WILL BE CONDUCTED IN COMPLIANCE WITH REGULATION S UNDER SUCH ACT AND AGREES THAT IT WILL GIVEN TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE COMPANY, THE TRANSFER AGENT, AND THE REGISTRAR SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER, IN EACH OF THE FOREGOING CASES, TO REQUIRE DELIVERY OF A CERTIFICATION OF TRANSFER IN FORM SATISFACTORY TO THEM. AS USED HEREIN, THE TERMS "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

COMMON STOCK PURCHASE WARRANT

VASCO DATA SECURITY INTERNATIONAL, INC., a Delaware corporation (the "Company") having its principal office at 1901 South Meyers Road, Suite 210, Oakbrook

Terrace, Illinois 60181, hereby certifies that, for value received, UBIZEN, N.V., or transferees or assigns (the "Holder") is entitled, subject to the vesting schedule (attached as Exhibit B hereto) and the terms and conditions set forth below, to purchase from the Company at any time and from time to time on or after July 20, 2000 and before 5:00 p.m. New York City time, on July 20, 2004, four hundred eighty thousand (480,000) fully paid and non-assessable shares of the Common Stock of the Company, par value \$0.001 per share, (the "Shares") at the price per share of Four Dollars and Twenty Five Cents (US \$4.25) (the "Purchase Price"), subject to the terms and conditions, adjustments and limitations set forth herein.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

- (a) The term "COMPANY" has the meaning set forth in the introductory paragraph above, and include any corporation which shall succeed to or assume the obligations of the Company hereunder.
- (b) The term "COMMON STOCK" includes all stock of any class or classes (however designated) of the Company, authorized upon the Original Issue Date or thereafter, the holders of which shall have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference, and the holders of which shall ordinarily, in the absence of contingencies, be entitled to vote for the election of a majority of directors of the Company (even though the right so to vote has been suspended by the happening of such a contingency
- (c) The "ORIGINAL ISSUE DATE" is July 20, 2000.
- (d) The term "OTHER SECURITIES" refers to any capital stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the holder of this Warrant at any time shall be entitled to receive, or shall have received, upon the exercise of this Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to section 6 or otherwise.
- (e) The term "PURCHASE PRICE" shall have the meaning set forth in the introductory paragraph above, as such price may be adjusted pursuant to the terms hereof.
- (f) The term "SECURITIES ACT" means the Securities Act of 1933 as the same shall be in effect at the time.
- (g) The term "SERIES C SHARES" means the shares of the Company's Series C Preferred Stock being sold to Holder pursuant to the Purchase Agreement (as defined in Section 1 below).

1. Term, Vesting. This Warrant is being issued in connection with that certain Securities Purchase Agreement, dated as of July 18, 2000, by and among the Company and Ubizen, N.V. (the "Purchase Agreement"), and is subject to the terms and conditions thereof. In the event of any conflict between the terms hereof and the terms of the Purchase Agreement, the terms of the Purchase Agreement shall control. Commencing with the calendar quarter ended September 30, 2000, for so long as all of the Series C Shares remain outstanding, the Shares shall vest, and become exercisable, in sixteen (16) quarterly installments of 30,000 shares, subject to adjustment as provided below. In the event that any shares of the Series C Shares have been converted or redeemed prior to the expiration of this Warrant, all unvested Shares shall vest from the date of such conversion, or redemption, as the case may be, in quarterly installments in an amount equal to the product of (a) 30,000 multiplied by (b) a fraction, (i) the numerator of which shall be the remainder of (A) the number of Series C Shares held by the Holder immediately prior to such conversion minus (B) the number of Series C Shares so converted or redeemed, and (ii) the denominator of which shall be 150,000, and the Warrant will automatically cease to vest with respect to any additional Shares as of the date of such conversion or redemption.

2. Registration, etc. This Warrant, the shares of Common Stock issuable upon exercise thereof and the Other Securities shall have such registration rights as provided in Section 8 and Section 9 of the Purchase Agreement.

3. Sale or Exercise Without Registration. If, at the time of any exercise, transfer or surrender for exchange of this Warrant or of Common Stock (or Other Securities) previously issued upon the exercise of this Warrant, this Warrant or Common Stock (or Other Securities) shall not be registered under the Securities Act, the Company may require, as a condition of allowing such exercise, transfer or exchange, that the record owner or transferee of this Warrant or Common Stock (or Other Securities), as the case may be, furnish to the Company a satisfactory opinion of counsel to the effect that such exercise, transfer or exchange may be made without registration under the Securities Act, provided that the disposition of thereof shall at all times be within the control of such record owner or transferee, as the case may be, provided further that nothing contained in this section 3 shall relieve the Company from complying with any request for registration pursuant to section 2 hereof. The first Holder of this Warrant represents to the Company that it is acquiring this Warrant for investment and not with a view to the distribution thereof.

4. Method of Exercise; Payment.

(a) Subject to the provisions hereof, this Warrant may be exercised, with respect to vested Shares only, in whole or in part, by the record owner hereof by surrender of this Warrant, with the form of subscription attached hereto as Exhibit A duly executed by such record owner, to the Company at its principal office accompanied by payment in an amount equal to the Purchase Price per share multiplied by the number of Shares then

being purchased. Payment of the Purchase Price for the shares of Common Stock purchased pursuant to exercise of this Warrant shall be made (a) in cash or cash equivalents, (b) through the tender to the Company of shares of Common Stock, which shares shall be valued for purposes of determining the extent to which the Purchase Price has been paid, at their Market Price (determined by the Board of Directors of the Company in accordance with section 3.3 hereof) on the date of exercise, (c) by delivering a written direction to the Secretary of the Company that this Warrant is to be exercised pursuant to a "cashless" exercise/sale procedure (pursuant to which funds to pay for exercise of the Warrant are delivered to the Company by a broker upon receipt of stock certificates from the Company) or a "cashless" exercise/loan procedure (pursuant to which the holders would obtain a margin loan from a broker to fund the certificates for the shares of Common Stock for which the Warrant is exercised, such certificates will be delivered to the broker who will deliver to the Company the cash (or cash equivalents acceptable to the Company) equal to the Purchase Price for the shares of Common Stock purchased pursuant to the exercise of the Warrant plus the amount (if any) of federal and other taxes that the Company may, in its judgment, be required to withhold with respect to the exercise of the Warrant, or (d) a combination of the methods described in (a), (b) and (c) above.

(b) As used herein, the phrase "Market Price" at any date shall be deemed to be (i) if the principal trading market for such securities is an exchange, the last reported sale price, or, in case no such reported sale takes place on such date, the average of the last reported sale prices for the preceding three (3) trading days, in either case as officially reported on any consolidated tape, (ii) if the principal market for such securities is the over-the-counter market, the high bid price on such date as set forth by NASDAQ or, if the security is not quoted on NASDAQ, the high bid price as set forth in the National Quotation Bureau sheet listing such securities for such day. Notwithstanding the foregoing, if there is no reported closing price or high bid price, as the case may be, on the date next preceding the event requiring an adjustment hereunder, then the Market Price shall be determined as of the latest date prior to such day for which such closing price or high bid price is available, or if the securities are not quoted on NASDAQ, as determined in good faith by resolution of the Board of Directors of the Company, based on the best information available to it.

(c) The Company will, at the time of any exercise of this Warrant, upon the request of the record owner hereof, acknowledge in writing its continuing obligation to afford to such record owner any rights (including, without limitation, any right to registration of the shares of Common Stock or Other Securities issued upon such exercise) to which such record owner shall continue to be entitled after such exercise in accordance with the provisions of this Warrant, provided that if the record owner of this Warrant shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford such record owner any such rights.

5. Delivery of Stock Certificates; etc. on Exercise. As soon as practicable after the exercise of this Warrant in full or in part, the Company at its expense (including

the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the record owner hereof, or as such record owner (upon payment by such record owner of any applicable transfer taxes) may direct, a certificate or certificates for the number of fully paid and non-assessable shares of Common Stock (or Other Securities) to which such record owner shall be entitled upon such exercise, plus, in lieu of any fractional share to which such record owner would otherwise be entitled, cash equal to such fraction multiplied by the then current Market Price of one full share, together with any other stock or other securities and property (including cash, where applicable) to which such record owner is entitled upon such exercise pursuant to section 1, section 6 or otherwise.

6. Adjustment for Dividends in Other Stock, Property, etc.; Reclassification, etc. In case at any time or from time to time after the Original Issue Date the holders of Common Stock (or Other Securities) shall have received or (on or after the record date fixed for the determination of stockholders eligible to receive) shall have become entitled to receive without payment therefor

(a) other or additional stock or other securities or, property (other than cash) by way of dividend, or

(b) any cash paid or payable (including, without limitation, by way of dividend other than dividend payable out of earned surplus of the Company), or

(c) other or additional (or less) stock or other securities or property (including cash) by way of spin-off, split-up, recapitalization, combination of shares or similar corporate rearrangement,

then, and in each such case the record owner of this Warrant, upon the exercise hereof as provided in section 4 hereof, shall be entitled to receive the amount of stock and other securities and property (including cash in the cases referred to in subdivisions (b) and (c) of this section 6) which such record owner would hold on the date of such exercise if on the Original Issue Date such person had been the holder of record of the number of shares of Common Stock called for on the face of this Warrant and had thereafter, during the period from the Original Issue Date to and including the date of such exercise, retained such shares and all such other additional (or less) stock and other securities and property (including cash in the cases referred to in subdivisions (b) and (c) of this section 6) receivable by such person as aforesaid during such period, giving effect to all adjustments called for during such period by sections 1, 6 and 7 hereof.

7. Reorganization, Consolidation, Merger, etc. In case the Company after the Original Issue Date shall (a) effect a reorganization, (b) consolidate or merge with any other person, or (c) transfer all or substantially all of its properties or assets to any other person under any plan or arrangement contemplating the dissolution of the Company, then, in each such case, the record owner of this Warrant, upon the exercise hereof as provided in section 4 at any time after the consummation of such reorganization,

consolidation or merger or the effective date of such dissolution, as the case may be, shall be entitled to receive (and the Company shall be obligated to deliver), in lieu of the Common Stock (or Other Securities) issuable upon such exercise prior to such consummation or such effective date, the stock and other securities and property (including cash) to which such record owner would have been entitled upon such consummation or in connection with such dissolution, as the case may be, if such record owner had so exercised this Warrant immediately prior thereto, all subject to further adjustment thereafter as provided in sections 6 and 8 hereof.

8. Further Assurances. The Company will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock upon the exercise of all Warrants from time to time outstanding.

9. Certificate of Chief Financial Officer as to Adjustments In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable upon the exercise of this Warrant, the Company at its expense will promptly cause the Company's Chief Financial Officer to compute such adjustment or readjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, and the number of shares of Common Stock outstanding or deemed to be outstanding; provided that if any similar certificate is provided by the Company's regularly retained auditor to the holder of any other warrant of the Company, the Company's regularly retained auditor shall provide this certificate to the record owner of this Warrant. The Company will forthwith mail a copy of each such certificate to the record owner of this Warrant.

10. Notices of Record Date, etc. In the event of:

(a) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend payable out of earned surplus of the Company) or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or

(b) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any transfer of all or substantially all the assets of the Company to or consolidation or merger of the Company with or into any other person, or

(c) any voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then and in each such event the Company will mail or cause to be mailed to the record owner of this Warrant a notice specifying (i) the date on which any such record is to be

taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right and (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any, as of which the holders of record of Common Stock (or Other Securities) shall be entitled to exchange their shares of Common Stock (or Other Securities) for securities or other property deliverable upon such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be mailed at least twenty (20) days prior to the date therein specified.

11. Reservation of Stock, etc., Issuable on Exercise of Warrants The Company will at all times reserve and keep available, solely for issuance and delivery upon the exercise of this Warrant, all shares of Common Stock (or Other Securities) from time to time issuable upon the exercise of this Warrant.

12. Listing on Securities Exchanges The Company will, at its expense, to the extent permitted by the rules of any national securities exchange or automated inter-dealer quotation system on which the Common Stock is listed, simultaneously list on such exchange or system, upon official notice of issuance upon the exercise of this Warrant, all shares of Common Stock from time to time issuable upon the exercise of this Warrant

13. Replacement of Warrants Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

14. Warrant Agent The Company may, by written notice to each record owner of this Warrant, appoint an agent, for the purpose of issuing Common Stock (or Other Securities) upon the exercise of this Warrant pursuant to Section 4 and replacing this Warrant pursuant to Section 13, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such agent.

15. Notices, etc. All notices and other communications from the Company to the record owner of this Warrant shall be mailed by first class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company in writing by such record owner, or, until an address is so furnished, to and at the address of the last record owner of this Warrant who has so furnished an address to the Company.

16. Miscellaneous This Warrant and any term thereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant is being delivered in the State of New York and shall be construed and enforced in accordance with and governed by the internal laws of such state. The

headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof.

17. Executed Expiration The right to exercise this Warrant shall expire at 5:00 p.m. New York City time, on July 20, 2000.

18. Assignability This Warrant is not transferrable or assignable (a) except pursuant to the terms and conditions of the Purchase Agreement, and (b) in connection with, and only in connection with, a transfer of Series C Preferred Stock, in any event subject to applicable securities laws and section 3 hereof.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its authorized officers, and its Corporate Seal, to be hereunto affixed this 20th day of July, 2000.

By: _____

Name: Mario Houthoof
Title: President and Chief Executive Officer

(Apply Corporate Seal)

EXHIBIT A
FORM OF SUBSCRIPTION
(To be signed only upon exercise of Warrant)

To: _____ VASCO DATA SECURITY INTERNATIONAL, INC.
[]
[]
Attention: Corporate Secretary

The undersigned, the record owner of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, * shares of the Common Stock of VASCO DATA SECURITY INTERNATIONAL, INC., and herewith make payment of \$[] therefor, and requests that the certificates for such shares be issued in the name of, and delivered to, [], whose address is [].

Dated: []

- - - - -
(Signature must conform in all respects to name of record owner as specified on the face of the Warrant)

- - - - -
(Address)

- - - - -
* Insert here the number of shares called for on the face of the Warrant [or, in the case of a partial exercise, the portion thereof as to which the Warrant is being exercised], in either case without making any adjustment for additional Common Stock or any other stock or other securities or property or case which, pursuant to the adjustment provisions of the Warrant, may be deliverable upon exercise.

EXHIBIT B
VESTING SCHEDULE

Set forth below is the date of vesting and the number of shares of Common Stock to vest on such date (such schedule shall automatically be modified in accordance with any adjustment(s) pursuant to the terms of the Warrant):

	DATE	NUMBER OF SHARES
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1.	9/30/00	30,000
2.	12/31/00	30,000
3.	3/31/01	30,000
4.	6/30/01	30,000
5.	9/30/01	30,000
6.	12/31/01	30,000
7.	3/31/02	30,000
8.	6/30/02	30,000
9.	9/30/02	30,000
10.	12/31/02	30,000
11.	3/31/03	30,000
12.	6/30/03	30,000
13.	9/30/03	30,000
14.	12/31/03	30,000
15.	3/31/04	30,000
16.	6/30/04	30,000

EXHIBIT C
FORM OF ASSIGNMENT
(To be signed only upon transfer of Warrant)

For value received, the undersigned hereby sells, assigns and transfers unto [] [] the right represented by the within Warrant to purchase shares of the Common Stock of VASCO DATA SECURITY INTERNATIONAL, INC. to which the within Warrant relates, and appoints [] as Attorney-in-Fact to transfer such right on the books of [] with full power of substitution in the premises. The Warrant being transferred hereby is the Common Stock Purchase Warrant initially issued by VASCO DATA SECURITY INTERNATIONAL, INC. as of July [], 2000.

Dated: _____

(Signature must conform in all respects to name of record owner as specified on the face of the Warrant)

(Address)

Signature guaranteed by a Bank or Trust Company having its principal office in New York City or by a Member Firm of the New York or American Stock Exchange

CERTIFICATE OF DESIGNATIONS

VASCO DATA SECURITY INTERNATIONAL, INC.

Certificate of Designations,
Preferences and Rights of Preferred Stock
by Resolution of the Board of Directors
Providing for an Issue of 150,000 Shares
of Preferred Stock Designated
"SERIES C CONVERTIBLE PREFERRED STOCK"

I, MARIO HOUTHOOFT, President and Chief Executive Officer of VASCO DATA SECURITY INTERNATIONAL, INC. (hereinafter referred to as the "CORPORATION"), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "GENERAL CORPORATION LAW"), in accordance with the provisions of Section 151 thereof, DO HEREBY CERTIFY:

That pursuant to authority conferred upon the Board of Directors of the Corporation by the Certificate of Incorporation of said Corporation (hereinafter referred to as the "CERTIFICATE OF INCORPORATION") the Board of Directors adopted a resolution providing for the issuance of a series of Preferred Stock, par value \$.01 per share, of the Corporation to be designated "SERIES C CONVERTIBLE PREFERRED STOCK", which resolution is as follows:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Corporation by the Certificate of Incorporation, a series of Preferred Stock, par value \$.01 per share, of the Corporation be, and hereby is, created, to be designated "SERIES C CONVERTIBLE PREFERRED STOCK" (hereinafter referred to as the "SERIES C PREFERRED STOCK"), consisting of One Hundred Fifty Thousand (150,000) shares, and, to the extent that the powers, preferences and relative and other special rights, and the qualifications, limitations and restrictions thereof, of the Series C Preferred Stock are not stated and expressed in the Certificate of Incorporation, such powers, preferences and relative and other special rights, and the qualifications, limitations and restrictions thereof, are hereby fixed and stated to be as follows (all terms used herein which are defined in the Certificate of Incorporation shall be deemed to have the meanings provided therein):

The following terms shall have the meanings as set forth below:

"BUSINESS DAY" means any day that is not a Saturday, a Sunday or a day on which banking institutions in New York, New York or Brussels, Belgium or the Nasdaq Stock Market are authorized or obligated by law, executive order or government decree to be closed.

"DOLLARS" or "\$" means the lawful currency of the United States of America.

"OTHER SECURITIES" means any stock (other than Common Stock) and other securities of the Corporation or any other person (corporate or otherwise) which the record holders of the Series C Preferred Stock at any time shall be entitled to receive, or shall have received, upon the conversion of the Series C Preferred Stock, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 5 or otherwise.

1 MANDATORY REDEMPTION OR CONVERSION

- 1.1 Unless previously converted in accordance with the provisions of Section 2 hereof, on July [], 2004 (the "MANDATORY REDEMPTION DATE"), the Corporation shall redeem each outstanding share of Series C Preferred Stock for cash at a redemption price equal to the Liquidation Preference (as hereinafter defined), but only to the extent of funds of the Corporation legally available therefor pursuant to the General Corporation Law ("LEGALLY AVAILABLE FUNDS"). In addition, at the Corporation's option, or otherwise in the event that Legally Available Funds are insufficient to permit the Corporation to redeem some or all of the shares of Series C Preferred Stock for cash, the Corporation shall convert such shares of Series C Preferred Stock into shares of its Common Stock. The number of shares of Common Stock to be issued in connection with such conversion will be determined on the basis of a fraction, the numerator of which will be the Liquidation Preference and the denominator of which will be the lesser of (i) the average of the Market Prices (as defined in the next sentence) of the Common Stock for the period of 30 consecutive Business Days on which the Common Stock was traded ending on the Business Day immediately preceding the Mandatory Redemption Date, subject to a discount of five percent (5%) and (ii) the Liquidation Preference, such fraction multiplied by the number of shares of Series C Preferred Stock outstanding and unredeemed on the Mandatory Redemption Date. The "MARKET PRICE" of the Common Stock for any day means the last reported sales price, regular way, or, in case no sale takes place on such day, the average reported closing bid and asked prices, regular way, in either case as reported on the Nasdaq National Market.
- 1.2 Immediately following such conversion, the rights of the holders of any converted shares of Series C Preferred Stock shall cease and the persons entitled to receive shares of Common Stock upon the conversion of such shares of Series C Preferred Stock shall be treated for all purposes as having been the owners of such shares of Common Stock, subject to Section 1.3 hereof. No payments or adjustments will be made upon the Mandatory Conversion Date on account of accrued and unpaid distributions, if any, on the shares of Series C Preferred Stock subject to such conversion.
- 1.3 Upon conversion of the Series C Preferred Stock pursuant to Section 1.1 hereof, the Corporation shall make such arrangements as it deems appropriate for (i) the issuance of certificates representing shares of Common Stock and (ii) payment of cash in lieu of any fractional shares of Common Stock in exchange for and contingent upon surrender of certificates representing shares of Series C Preferred Stock; provided that the Corporation shall give the holders of shares of Series C Preferred Stock notice of any such actions as the Corporation deems appropriate and, upon such surrender of their certificates representing Series C Preferred Stock, such holders shall be entitled to receive dividends declared and paid, if any, on such shares of Common Stock subsequent to the Mandatory Conversion Date.

2 CONVERSION AT THE OPTION OF HOLDER

- 2.1 GENERAL Subject to and in compliance with the provisions of this Section 2, shares of Series C Preferred Stock may, at the option of any holder, be converted at any time and

from time to time (each, a "CONVERSION Date") into fully paid and nonassessable shares of Common Stock. The number of shares of Common Stock which a holder of shares of Series C Preferred Stock shall be entitled to receive upon conversion pursuant to this Section 2 shall be the product obtained by multiplying (i) the Applicable Conversion Rate (determined as provided in Section 2.2) by (ii) the number of shares of Series C Preferred Stock being converted on the Conversion Date.

2.2 APPLICABLE CONVERSION RATE Subject to Section 5 hereof, the conversion rate in effect at any time for the conversion of the Series C Preferred Stock pursuant to this Section 2 (the "APPLICABLE CONVERSION RATE") shall be the lowest of the following:

2.2.1 in the event that no shares of Common Stock have been issued or sold during the period beginning on the date of issuance of the Series C Preferred Stock and ending on the Conversion Date, the quotient obtained by dividing (i) the Liquidation Preference of the Series C Preferred Stock by (ii) \$14.25;

2.2.2 in the event that any shares of Common Stock were issued or sold during the period beginning on the date of issuance of the Series C Preferred Stock and ending on the Conversion Date at a price per share of Common Stock exceeding \$11.86 (the "UPPER LIMIT"), the quotient obtained by dividing (i) the Liquidation Preference of the Series C Preferred Stock by (ii) \$14.25;

2.2.3 in the event that any shares of Common Stock were issued or sold during the period beginning on the date of issuance of the Series C Preferred Stock and ending on the Conversion Date at a price per share of Common Stock below or equal to the Upper Limit but above \$7.00 (the "LOWER LIMIT"), the quotient obtained by dividing (i) the Liquidation Preference of the Series C Preferred Stock by (ii) the difference between (a) \$14.25 and (b) a fraction (1) the numerator of which will be the product of (A) the difference between \$14.25 and the Upper Limit and (B) the difference between the Upper Limit and the price paid per share of Common Stock and (2) the denominator of which will be the difference between the Upper Limit and the Lower Limit; and

2.2.4 in the event that any shares of Common Stock were issued or sold during the period beginning on the date of issuance of the Series C Preferred Stock and ending on the Conversion Date at a price per share of Common Stock below or equal to the Lower Limit, the quotient obtained by dividing (i) the Liquidation Preference of the Series C Preferred Stock by (ii) \$11.86.

For purposes of this Section 2.2, the issuance or sale of Common Stock shall include the issuance and sale of shares of Common Stock as well as securities convertible into Common Stock ("CONVERTIBLE SECURITIES") and any rights or options to subscribe for, purchase or otherwise acquire Common Stock, and the price per share of Common Stock offered and sold for purposes of any calculations under this Section 2.2 shall be equal to the U.S. dollar equivalent of: (i) in the case of shares of Common Stock, the per share amount received or receivable by the Corporation as consideration for the issue and sale of such Common Stock, (ii) in the case of Convertible Securities, (a) the total amount received or receivable by the Corporation as consideration for the issue and sale of such Convertible Securities, plus the minimum aggregate amount of additional

consideration, if any, payable to the Corporation upon conversion or exchange thereof, divided by (b) the maximum number of shares of Common Stock issuable upon the conversion or exchange of such Convertible Securities and (iii) in the case of any rights or options to subscribe for, purchase or otherwise acquire stock, the total amount, if any, received or receivable by the Corporation as consideration for the granting of such rights or options, plus the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the exercise of such rights or options, divided by (b) the maximum number of shares of Common Stock issuable upon the exercise of such rights or options.

- 2.3 EXERCISE OF CONVERSION PRIVILEGE To exercise its conversion privilege, a holder of shares of Series C Preferred Stock shall surrender the certificate(s) representing the shares being converted to the Corporation at its principal office, and shall give written notice to the Corporation at that office that such holder elects to convert such shares. Such notice shall also state the name or names (with address or addresses) in which the certificate(s) for shares of Common Stock issuable upon such conversion shall be issued. The certificate(s) for shares of Series C Preferred Stock surrendered for conversion shall be accompanied by proper assignment thereof to the Corporation or in blank. A notice hereunder shall be deemed to be given on the date it is dispatched, if by international airmail, domestic mail or overnight courier, or received, if sent by facsimile, telex or otherwise. The date when such written notice is received by the Corporation, together with the certificate(s) representing the shares of Series C Preferred Stock being converted, shall be the "CONVERSION DATE." Any voluntary conversion of shares of Series C Preferred Stock by any holder shall be for at least 100 shares of Common Stock. As promptly as practicable after the Conversion Date, the Corporation shall issue and shall deliver to the holder of the shares of Series C Preferred Stock being converted, or on its written order, such certificate(s) as it may request for the number of whole shares of Common Stock issuable upon the conversion of such shares of Series C Preferred Stock in accordance with the provisions of this Section 2, and cash, as provided in Section 2.4, in respect of any fraction of a share of Common Stock issuable upon such conversion.
- 2.4 CASH IN LIEU OF FRACTIONAL SHARES No fractional shares of Common Stock or scrip representing fractional shares shall be issued upon the conversion of shares of Series C Preferred Stock pursuant to this Section 2. Instead of any fractional shares of Common Stock which would otherwise be issuable upon conversion of Series C Preferred Stock, the Corporation shall pay to the holder of the shares of Series C Preferred Stock which were converted a cash adjustment in respect of such fractional shares in an amount equal to the same fraction of the Market Price per share of the Common Stock at the close of business on the Conversion Date. The determination as to whether or not any fractional shares are issuable shall be based upon the aggregate number of shares of Series C Preferred Stock being converted at any one time by any holder thereof, not upon each share of Series C Preferred Stock being converted.
- 2.5 PARTIAL CONVERSION In the event some but not all of the shares of Series C Preferred Stock represented by a certificate or certificates surrendered by a holder are converted, the Corporation shall execute and deliver to or on the order of the holder, at the expense

of the Corporation, a new certificate representing the number of shares of Series C Preferred Stock which were not converted.

2.6 RESERVATION OF COMMON STOCK The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series C Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series C Preferred Stock, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series C Preferred Stock, the Corporation shall take such action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

3 VOTING RIGHTS

3.1 Each holder of outstanding shares of Series C Preferred Stock shall not be entitled to vote at any meeting of stockholders of the Corporation (or written actions of stockholders in lieu of meetings) with respect to any and all matters presented to the stockholders of the Corporation for their action or consideration, except as may be provided by law.

3.2 Notwithstanding the foregoing, the Corporation shall not amend, alter or repeal preferences, rights, powers or other terms of the Series C Preferred Stock so as to affect adversely the Series C Preferred Stock, and may not create, authorize or issue shares of any class of stock ranking senior to or on parity with the Series C Preferred Stock without the written consent or affirmative vote of the holders of at least Sixty-Six and Two-Thirds percent (66 2/3%) of the then outstanding shares of Series C Preferred Stock, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class.

4 PRIORITY OF SERIES C PREFERRED STOCK IN THE EVENT OF LIQUIDATION OR DISSOLUTION

In the event of any liquidation, dissolution, or winding up of the affairs of the Corporation, whether voluntary or otherwise, after payment or provision for payment of the debts and other liabilities of the Corporation, the holders of the Series C Preferred Stock shall be entitled to receive, out of the remaining net assets of the Corporation, the amount of One Hundred Dollars (\$100.00) in cash for each share of Series C Preferred Stock, (the "LIQUIDATION PREFERENCE"), before any distribution of any kind shall be made to the holders of the Common Stock or any other stock ranking (as to any such distribution) junior to the Series C Preferred Stock. If, upon any liquidation, dissolution or winding up of the Corporation, the assets distributable among the holders of any series of Preferred Stock ranking (as to any such distribution) on a parity with the Series C Preferred Stock shall be insufficient to permit the payment in full to the holders of all such series of Preferred Stock of all preferential amounts payable to all such holders, then the entire assets of the Corporation thus distributable shall be distributed rateably among the holders of shares of Series C Preferred Stock and all series of Preferred Stock ranking (as to any such distribution) on a parity with the Series C Preferred Stock in proportion to the respective amounts that would be payable per share if such assets were sufficient to permit

payment in full. Except as otherwise provided in this Section 4, holders of Series C Preferred Stock shall not be entitled to any distribution in the event of liquidation, dissolution or winding up of the affairs of the Corporation. For the purposes of this Section 4, neither the voluntary sale, lease, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all the property or assets of the Corporation, nor the consolidation or merger of the Corporation with one or more other corporations, shall be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary.

5 ADJUSTMENT FOR DIVIDENDS IN OTHER STOCK, PROPERTY, ETC.; RECLASSIFICATION, ETC.

In case at any time or from time to time after the date of issuance of the Series C Preferred Stock, the holders of Common Stock (or Other Securities) shall have received or (on or after the record date fixed for the determination of stockholders eligible to receive) shall have become entitled to receive without payment therefor

- (a) other or additional stock or property (other than cash) by way of dividend, or
- (b) any cash paid or payable (including, without limitation, by way of dividend other than a dividend payable out of earned surplus of the Corporation), or
- (c) other or additional (or less) stock or property (including cash) by way of spin-off, split-up, recapitalization, combination of shares or similar corporate rearrangement,

then, and in each such case the record holder of a share of Series C Preferred Stock, upon the conversion thereof as provided in Section 1 or 2, shall be entitled to receive the amount of stock and property (including cash in the cases referred to in subdivisions (b) and (c) of this Section 5) which such record holder would hold on the date of such conversion if on the date of issuance of the Series C Preferred Stock such person had been the holder of record of the number of shares of Common Stock called for pursuant to the terms hereof and had thereafter, during the period from the date of issuance of the Series C Preferred Stock to and including the date of such conversion, retained such shares and all such other additional (or less) stock and property (including cash in the cases referred to in subdivisions (b) and (c) of this Section 5) receivable by such person as aforesaid during such period, giving effect to all adjustments called for during such period by Sections 2 and 5 hereof.

In case the Corporation after the date of issuance of the Series C Preferred Stock shall (a) effect a reorganization, (b) consolidate or merge with any other person, or (c) transfer all or substantially all of its properties or assets to any other person under any plan or arrangement contemplating the dissolution of the Corporation, then, in each such case, the record holders of the Series C Preferred Stock, upon the conversion hereof as provided in Section 1 or 2 at any time after the consummation of such reorganization, consolidation or merger or the effective date of such dissolution, as the case may be, shall be entitled to receive (and the Corporation shall be entitled to deliver), in lieu of the Common Stock (or Other Securities) issuable upon such conversion prior to such consummation or such effective date, the stock and property (including cash) to which such record owner would have been entitled upon such consummation or in connection with such dissolution, as the case may be, if such record holder had so exercised such Series C Preferred Stock immediately prior thereto, all subject to further adjustment thereafter as provided in Section 2 hereof.

6 RANKING OF SERIES C PREFERRED STOCK

With regard to rights to receive mandatory redemption payments and distributions upon liquidation, dissolution or winding up of the Corporation, the Series C Preferred Stock shall rank prior to any other equity securities of the Corporation.

7 REPLACEMENT OF SERIES C PREFERRED STOCK

Upon receipt of evidence reasonably satisfactory to the Corporation of the loss, theft, destruction or mutilation of any certificate representing Series C Preferred Stock and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Corporation or, in the case of any such mutilation, upon surrender and cancellation of such certificate, the Corporation at its expense will execute and deliver, in lieu thereof, a new certificate.

IN WITNESS WHEREOF, said VASCO DATA SECURITY INTERNATIONAL, INC. has caused this Certificate to be signed by Mario Houthoof, its President and Chief Executive Officer, this th day of July, 2000.

VASCO DATA SECURITY INTERNATIONAL, INC.

By: -----
Name: Mario Houthoof
Title: President and Chief Executive Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND SIX MONTHS END JUNE 30, 1999 AND 2000 CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 1999 AND JUNE 30, 2000, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

6-MOS	DEC-31-1999	
	JUN-30-2000	
		1,168,167
		0
		4,008,305
		(150,480)
		937,781
		7,418,216
		2,519,312
		(1,151,665)
		12,142,288
5,338,729		0
		0
		0
		27,341
		2,936,767
12,142,288		
		12,056,127
		12,056,127
		4,279,846
		8,511,131
		1,079,944
		0
		212,734
		(2,027,528)
		37,258
(2,064,786)		0
		0
		0
		(2,064,786)
		(0.08)
		(0.08)