

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): July 24, 2003

VASCO DATA SECURITY INTERNATIONAL, INC.

(Exact name of registrant as specified in charter)

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

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

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

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits.

Exhibit Number	Description
99.1	Press release, dated July 24, 2003, updating previously released financial update of VASCO Data Security International, Inc. for the second quarter ended June 30, 2003.
99.2	Text of script for July 24, 2003 Earnings Conference Call.

ITEM 9. REGULATION FD DISCLOSURE.

This Current Report on Form 8-K is being furnished pursuant to Item 12. See "ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION" below.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On July 24, 2003, VASCO Data Security International, Inc. ("VASCO") issued a press release updating the previously released financial update for the second quarter ended June 30, 2003. The full text of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

On July 24, 2003, VASCO held a conference call with investors to discuss VASCO's second quarter earnings and results of operations for the first six months of 2003. A script read by officers of VASCO during the conference call is furnished as Exhibit 99.2 to this Current Report on Form 8-K.

The press release contains a reference to EBITDA and provides a reconciliation of EBITDA to net income (loss) on the face of the Consolidated Statement of Operations. EBITDA is used by management for comparisons to other companies within our industry as an alternative to GAAP measures and is used by investors and analysts in evaluating performance. EBITDA, which is earnings before interest, taxes, depreciation and amortization, is computed by adding back net interest expense, income tax expense, depreciation expense, and amortization expense to net income as reported. EBITDA should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States. EBITDA, as defined above, may not be comparable to similarly titled measures reported by other companies.

SIGNATURE

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

Date: July 25, 2003

VASCO Data Security International, Inc.  
-----  
(Registrant)

By: /s/Clifford K. Bown  
-----  
Clifford K. Bown  
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.  
Description -  
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-----  
99.1 Press  
release,  
dated July  
24, 2003,  
updating  
previously  
released  
financial  
update of  
VASC0 Data  
Security  
International,  
Inc. for the  
second  
quarter ended  
June 30,  
2003. 99.2  
Text of  
script for  
July 24, 2003  
Earnings  
Conference  
Call.

VASCO Reports Second Quarter and First Six Months 2003 Results - Reflects Record Income for the Quarter and Six Month Period

Q2 2003 revenues of \$6,449,000 increase 55% compared to Q2 2002; Q2 2003 net income of \$721,000 compared to net losses of \$1,670,000 in Q2 2002. Cash balances of \$3,983,000 increase \$91,000 from March 31, 2003. Backlog for firm orders to be shipped in Q3 2003 at \$5.4 million.

OAKBROOK TERRACE, Ill., and BRUSSELS, Belgium, July 24, 2003 - VASCO Data Security International, Inc. (Nasdaq: VDSI) ( [www.vasco.com](http://www.vasco.com)), a global provider of security products that enable e-business and e-commerce, today announced financial results for the second quarter and six months ended June 30, 2003. Revenues for the second quarter and first six months were \$6,449,000 and \$12,060,000, respectively, and were 55% and 18% higher than the second quarter and first six months of 2002, respectively. Revenues were also 15% higher than first quarter 2003.

Operating income for the second quarter of 2003 was \$853,000 compared with an operating loss of \$1,283,000 for the second quarter of 2002. Operating income for the six months ended June 30, 2003 was \$1,183,000 compared to an operating loss of \$1,452,000 for the comparable period of 2002. Operating expenses for the second quarter and first six months of 2003 were \$3,096,000 and \$6,214,000, respectively, a decrease of 18% from \$3,787,000 in the second quarter 2002 and a decrease of 20% from \$7,760,000 in the first six months of 2002.

The Company reported net income for the second quarter of 2003 of \$721,000 compared with a net loss of \$1,670,000 for the comparable period of 2002. Net income for the first six months of 2003 was \$1,202,000 compared with a net loss of \$1,830,000 for the first six months of 2002. Income per basic and diluted common share was \$0.01 and \$0.02 for the second quarter and first six months of 2003, respectively. The Company reported a net loss per basic and diluted common share of \$0.07 and \$0.09 for the second quarter and first six months of 2002, respectively.

Earnings before interest, taxes, depreciation and amortization (EBITDA) was \$1,343,000 and \$2,181,000 for the second quarter and first six months of 2003, respectively compared with losses before these items of \$1,006,000 in the second quarter and \$781,000 for the first six months of 2002. The company had a cash balance at June 30, 2003 of \$3,983,000 compared to \$3,892,000 and \$2,616,000 at March 31, 2003 and December 31, 2002, respectively.

"The results of the second quarter of 2003, along with our recently announced sale of the VACMAN Enterprise business and the purchase of VASCO's Preferred Stock from Ubizen, demonstrate VASCO's continued execution of our business plan," said Ken Hunt, VASCO's CEO, and Chairman. "VASCO's management team was able to both deliver substantial improvement in operating results compared to prior periods and devote substantial time and effort to completing transactions that are expected to improve shareholder value over the long

run. Through the first six months of 2003, we have achieved or exceeded our plan in revenue, margin, cost control and cash management. In addition, with the current status of our order backlog, which currently includes firm orders for delivery in the third quarter of \$5.4 million, we are well positioned to achieve our plan for the third quarter."

"We are very pleased with the results of the second quarter," stated Jan Valcke, VASCO's President, and COO. "While the market continues to still be very cautious relative to spending on investment technology, we were able to add 160 new customers in the second quarter. For the first six months, we have now added a total of 330 new customers. Even though new customers often start with small orders, they will be an important source of revenue in the future as they learn more about the benefits of strong user authentication and the ease with which our product can be deployed and used. Overall, our order activity also remained strong throughout the second quarter. The backlog of firm orders to be shipped in third quarter, which is traditionally the weakest quarter of the year due to the holidays in Europe, is stronger for our core products than it was at the beginning of the second quarter, for orders to be delivered in the second quarter. While the absolute value of the backlog between the two quarters is comparable, the backlog entering the second quarter included revenues for the VACMAN Enterprise."

Cliff Bown, Executive Vice President and CFO added, "Our balance sheet continued to strengthen during the second quarter as our working capital increased by approximately \$885,000 from the first quarter of 2003. Within the components of working capital, our cash balances continued to benefit from our reduction of Days Sales Outstanding (DSO) in net accounts receivable. During the second quarter, we were able to reduce our DSO to 60 days from 68 days at the end of the first quarter. While the cash balances did not change significantly from the end of the first quarter, we were able to increase our inventory position without a commensurate increase in our payables. Further, our deferred revenue related to monies received in prior quarters under the just-in-time delivery program decreased significantly."

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

THREE MONTHS  
ENDED SIX  
MONTHS ENDED  
JUNE 30 JUNE  
30 -----

-----  
-----  
----- 2002  
2003 2002  
2003 -----

-----  
-----  
---- Net  
revenues \$  
4,150,000 \$  
6,449,000 \$  
10,183,000 \$  
12,060,000

Cost of goods  
sold  
1,646,000  
2,500,000  
3,875,000  
4,663,000 ---  
-----  
-----  
-----

Gross profit  
2,504,000  
3,949,000  
6,308,000  
7,397,000

Operating  
costs: Sales  
and marketing  
2,047,000  
1,420,000  
4,205,000  
3,011,000

Research and  
development  
920,000  
794,000  
1,578,000  
1,529,000

General and  
administrative  
911,000  
876,000  
1,940,000  
1,666,000

Non-cash  
compensation  
(recovery)  
(91,000)

6,000 37,000  
8,000 -----  
-----  
-----

----- Total  
operating  
costs  
3,787,000  
3,096,000  
7,760,000  
6,214,000 ---  
-----  
-----  
-----

Operating

income (loss)  
(1,283,000)  
853,000  
(1,452,000)  
1,183,000  
Interest  
expense, net  
(152,000)  
(48,000)  
(193,000)  
(97,000)  
Other income  
(expense),  
net (95,000)  
180,000  
(45,000)  
380,000 -----  
-----  
-----  
-----

Income (loss)  
before income  
taxes  
(1,530,000)  
985,000  
(1,690,000)  
1,466,000  
Provision for  
income taxes  
140,000  
264,000  
140,000  
264,000 -----  
-----  
-----  
-----

----- Net  
income (loss)  
\$ (1,670,000)  
\$ 721,000 \$  
(1,830,000) \$  
1,202,000  
Preferred  
stock  
accretion  
(291,000)  
(291,000)  
(582,000)  
(582,000) ---  
-----  
-----  
-----

----- Net  
income (loss)  
available to  
common  
shareholders  
\$ (1,961,000)  
\$ 430,000 \$  
(2,412,000) \$  
620,000  
=====

=====

Basic and  
diluted net  
income (loss)  
per common  
share \$  
(0.07) \$ 0.01  
\$ (0.09) \$  
0.02  
=====

=====

Weighted  
average  
common shares



outstanding

28,346,000

28,437,000

28,305,000

28,420,000

=====

=====

=====

=====

VASCO DATA SECURITY INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS

December 31,  
June 30,  
2002 2003 --  
-----

(Audited)  
(Unaudited)

ASSETS  
CURRENT

ASSETS: Cash  
\$ 2,616,000  
\$ 3,983,000  
Accounts  
receivable,  
net of  
2,881,000  
4,228,000  
allowance  
for doubtful  
accounts  
Inventories,  
net  
1,579,000  
1,653,000  
Prepaid  
expenses  
407,000  
336,000  
Other  
current  
assets  
120,000  
356,000 ----  
-----

Total  
current  
assets

7,603,000  
10,556,000  
Property and  
equipment  
Furniture  
and fixtures  
1,514,000  
1,877,000  
Office  
equipment  
2,537,000  
2,425,000 --  
-----

4,051,000  
4,302,000  
Accumulated  
depreciation  
(2,763,000)  
(3,300,000)  
-----

1,288,000  
1,002,000  
Intangible  
assets, net  
1,911,000  
1,632,000  
Goodwill,  
net 250,000  
250,000  
Other assets  
81,000  
82,000 -----  
-----

Total assets  
\$ 11,133,000

\$ 13,522,000

=====

=====

LIABILITIES

AND

STOCKHOLDERS'

EQUITY

CURRENT

LIABILITIES:

Current

maturities

of long-term

debt \$

3,590,000 \$

3,472,000

Accounts

payable

1,851,000

2,512,000

Deferred

revenue

720,000

1,298,000

Other

accrued

expenses

2,130,000

2,320,000 --

-----

-----

Total

current

liabilities

8,291,000

9,602,000

Long-term

debt, less

current

maturities

32,000

38,000

STOCKHOLDERS'

EQUITY :

Series C

Convertible

Preferred

Stock

9,108,000

9,690,000

Common stock

28,000

28,000

Additional

paid-in

capital

36,763,000

36,190,000

Accumulated

deficit

(42,608,000)

(41,406,000)

Accumulated

other

comprehensive

income

(loss) -

cumulative

translation

adjustment

(481,000)

(620,000) --

-----

-----

Total

stockholders'

equity

2,810,000

3,882,000 --

-----

-----

TOTAL

LIABILITIES  
AND  
STOCKHOLDERS'  
EQUITY \$  
11,133,000 \$  
13,522,000  
=====  
=====



- - VASCO launches 4 new products:

- Digipass 260
- Digipass 560
- Digipass for Windows 4.0
- VACMAN Server for Radius 6.0.4

Please join us during our upcoming conference call on July 24, 2003, at 10:00 a.m. EST - 16:00h CET. During the Conference Call, Mr. Ken Hunt, CEO, Mr. Jan Valcke, President and COO, and Mr. Cliff Bown, CFO, will discuss VASCO's Results for the Second Quarter and First Six Months of 2003.

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

USA/Canada: +1 800 475 2151

International: +1 973 582 2710

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

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

ABOUT VASCO: VASCO designs, develops, markets and supports patented "Identity Authentication" products for e-business and e-commerce. VASCO's Identity Authentication software is delivered via its Digipass security products, small "calculator" hardware devices carried by an end user, or in a software format on mobile phones, other portable devices, and PCs. For user access control, VASCO's VACMAN products guarantee that only designated Digipass users get access to the application. VASCO's target markets are the applications and their

several hundred million users that utilize fixed passwords as security. VASCO's time-based system generates a "one-time" password that changes with every use, and is virtually impossible to hack, or break. With 10 million Digipass products sold and ordered, VASCO has established itself as a world-leader for strong Identity Authentication with 200 international financial institutions, approximately 1000 blue-chip corporations, and governments representing more than 50 countries.

#### Forward Looking Statements

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

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

More information is available at [www.vasco.com](http://www.vasco.com).

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Earnings Conference Call July 24, 2003

Tony Schor to introduce the call and read the Forward Looking Statements

TONY SCHOR

THANK YOU OPERATOR, AND THANK YOU EVERYONE FOR PARTICIPATING IN TODAY'S VASCO DATA SECURITY INTERNATIONAL'S 2nd QUARTER EARNINGS CONFERENCE CALL.

MY NAME IS TONY SCHOR, PRESIDENT OF INVESTOR AWARENESS, INC., A FULL-SERVICE INVESTOR RELATIONS AGENCY THAT PROVIDES STRATEGIC INVESTOR RELATIONS COUNSEL FOR VASCO DATA SECURITY.

SHOULD ANYONE LIKE TO REQUEST ADDITIONAL INFORMATION ON VASCO OR BE INCLUDED ON THE VASCO E-MAIL LIST, PLEASE CONTACT INVESTOR AWARENESS AT 847-945-2222.

KEN HUNT, THE CHAIRMAN, FOUNDER & CEO OF VASCO DATA SECURITY INTERNATIONAL WILL FIRST DISCUSS THE COMPANY'S RECENT DEVELOPMENTS. MR HUNT WILL THEN INTRODUCE JAN VALCKE, PRESIDENT & COO, WHO WILL GIVE AN UPDATE ABOUT VASCO'S DAY-TO-DAY OPERATIONS. WE WILL THEN HEAR DIRECTLY FROM CLIFF BOWN, CFO WHO WILL DISCUSS 2nd QUARTER FINANCIAL NUMBERS. AT THE END OF THE PRESENTATION, WE WILL OPEN THE CALL UP TO QUESTIONS AND ANSWERS.

IN THE MEANTIME, I HAVE BEEN ASKED TO READ THE FOLLOWING FORWARD LOOKING STATEMENTS:

FORWARD LOOKING STATEMENTS

STATEMENTS MADE IN THIS CONFERENCE CALL THAT RELATE TO FUTURE PLANS, EVENTS OR PERFORMANCES ARE FORWARD-LOOKING STATEMENTS. ANY STATEMENT CONTAINING WORDS SUCH AS "BELIEVES," "ANTICIPATES," "PLANS," "EXPECTS," AND SIMILAR WORDS, IS FORWARD-LOOKING, AND THESE STATEMENTS INVOLVE RISKS AND



UNCERTAINTIES AND ARE BASED ON CURRENT EXPECTATIONS. CONSEQUENTLY, ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE EXPECTATIONS EXPRESSED IN THESE FORWARD-LOOKING STATEMENTS. I DIRECT YOUR ATTENTION TO THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION FOR A DISCUSSION OF SUCH RISKS AND UNCERTAINTIES IN THIS REGARD.

I would now like to introduce Mr. Ken Hunt, Chairman and CEO of VASCO Data Security International, Inc.

#### GENERAL COMMENTS - KEN HUNT

Good morning everyone. For those listening in from Europe, good afternoon, and Asia, good evening.

I would like to take this opportunity to thank all of you for participating in today's call. Today, we would like to review 2nd quarter 2003, and give you some expectations for 3rd quarter 2003. I am happy to report that the plans and programs we implemented in November and December of 2002 continue to produce the results we originally expected. We are here this morning to inform you that our plans are working, that our execution is yielding positive results, and that our people are enthusiastic and productive.

In our April 24th earnings conference call, we reported net income for the first time since the fourth quarter of 2000, positive cash flow from operations and a \$1.3 million increase in our cash balances. We were optimistic about the second quarter with a backlog of \$5.5 million scheduled to ship in the second quarter. Today, we will discuss the details of our second consecutive quarter of net income and our strong backlog for 3rd quarter. This is the first time in VASCO Data Security International Inc.'s history that it has reported net income for two consecutive quarters.

We are delighted to inform you that we closed the second quarter with \$6.4 million in revenue, and we generated a net income of \$721,000. After deducting Preferred Stock Accretion, a non-cash charge, \$430,000 was available to common shareholders, or \$.01 per share. Revenues for

the second quarter and first six months were \$6,449,000 and \$12,060,000, 55% and 18% higher than the second quarter and first six months of 2002, respectively.

We continued to grow our customer base by selling new accounts both directly through our own sales force, but particularly important through our growing reseller channel. During 2nd quarter we sold an additional 160 new accounts, 18 new banks and 142 new Corporate Network Access customers. Over 100 of these Corporate Network Access new accounts were generated through our distributor and reseller partners. Our reseller Channel generates revenue. That's the way it was supposed to work. That's the way it is working.

Year to date, we have sold 330 new accounts of which 32 were banks and 298 were Corporate Network Access customers. We now have approximately 220 banks as customers, plus approximately 1200 network access accounts including corporations, federal, state and local governments, E-commerce, and other organizations located in over 60 countries around the world.

The reseller channel is a continued focus for our business development staff. The reseller channel is extremely important to VASCO because it broadens and stabilizes our customer base, and allows us to leverage our sales through established, productive sales, and support organizations. These organizations are located in key geographic centers around the world, and are representing well-known software and communications products. VASCO's strong authentication solution has been made compatible with over 100 of these popular software and communications products. VASCO's resellers sell and support Digipass Pack, a combination of VACMAN Radius Middleware, which allows our Digipass units to interface with almost all of the popular software packages in the market today, and a choice of one or more of VASCO's 16 Digipass models.

When your new management team devised its new plans and programs in November of last year, we also identified several other objectives. One was to find a home for our VACMAN Enterprise business, and another was to remove the market overhang associated with Ubizen's ownership of VASCO's Series C Convertible Preferred stock.

On July 9, 2003, we announced that the sale of the VACMAN Enterprise business was closed. As we have discussed before, VACMAN Enterprise, which was a single sign-on software solution, was not going to be a core part of VASCO's business going forward. Unlike our continuing line of VACMAN products that allow our Digipass units to interface with most all systems, the VACMAN Enterprise product line was a custom installation of software that allowed companies to manage the security processes within their enterprise systems environment.

By selling VACMAN Enterprise, we have disposed of a product that could have distracted management from its core business opportunities, established a reasonable basis for maintaining the product line's contribution to earnings and cash flow over the next three years, and positioned VASCO to benefit from the growth in the managed security services business. The sale of VACMAN Enterprise also means that the existing customers of VACMAN Enterprise are reassured on-going support and development of the product.

On July 17, 2003, we announced an agreement to purchase the \$15 million Preferred C stock back from Ubizen for \$4 million cash and 2 million shares of VASCO Stock. Had the Series C Preferred reached the mandatory conversion date, which was July 2004, the conversion could have resulted in significant dilution to the existing shareholders of VASCO.

In both cases, your management took action to remove a non-core business issue from its focus on profitability. I would like to thank everyone involved from VASCO and the other parties associated with the transactions for their efforts in concluding the agreements.

#### VASCO'S STRATEGY:

Our strategy is to identify and develop markets whose customers will generate a sustained and recurring revenue stream to VASCO. These are organizations that have large audiences, including employees, customers, partners, suppliers, or other associated parties. As revenue is created from these VASCO customers, the cost of supporting the production of these revenues is expected to decrease as a percentage of the revenues.

One such market is VASCO's strongest vertical market, banking and finance. We typically sign a bank, assist them in a pilot application, then help them roll out their application to thousands or even millions of users over multiple months or years.

A second growth market for VASCO is Corporate Network Access (CNA). Working through a growing reseller network that I mentioned before, VASCO is able to reach hundreds of thousands of end customers. We support and train our resellers' professionals, who, in turn, train others in their respective firms. These resellers sell VASCO's Digipass Pack solutions to long-standing customers and new accounts. They sell to small and medium accounts that VASCO could not feasibly reach directly. They sell first in small pilots then follow up with add-on sales. As VASCO selects, signs, then trains and supports these resellers, our cost for supporting these revenues is also expected to decrease as a percentage of the revenues.

More broadly speaking, our target markets are the applications and the users who currently authenticate themselves with a "static" or fixed password. Industry reports identify over a half a billion users worldwide who rely on fixed passwords. This number will more than double by the end of 2004. VASCO, a market leader in Identity Authentication, had sold and delivered over 8 million Digipass by the end of 4th quarter 2002. We recently announced that a total of 10 million Digipass had been sold and ordered. With only 1200 network access customers, we have just scratched the surface of this enormous market. Additionally, with over 50,000 banks in the world, and our penetration of approximately 220 banks as customers, we have a significant untapped opportunity in the banking and finance market.

INTRODUCE JAN VALCKE:

At this time I would like to introduce Jan Valcke, VASCO's President and Chief Operating Officer. Jan and his team are doing a great job executing our business plan. I know all of you want to hear more from Jan. Jan.

## COMMENTS BY JAN:

Thank you, Ken. It is a pleasure being here today and to be able to communicate such positive results. We'll do our utmost best to have many great quarterly conference calls in the future.

The second quarter was on the operational level very important for VASCO. We were able to see during the second quarter that the focus on our core business, strong user authentication, is a success. Our focus works.

Like every other IT company, VASCO also witnesses a slowdown in the economy. Decision chains get longer and longer. Nevertheless, VASCO has proven for the second quarter in a row to be a profitable company, despite the challenging economy. A great accomplishment indeed.

A technology company typically has great people, top professionals working for it. At VASCO, this is certainly the case. It is quite unique that all these people are working together to accomplish one goal: to make and keep VASCO a profitable, flourishing company. That internal solidarity makes the VASCO employees a dream team.

VASCO is currently implementing the second phase of its business plan. We are optimizing the structures and implementing structures to grow. VASCO gradually starts hiring people again, mainly for its R&D department. VASCO is a small, yet profitable company with offices in the world's most important business centers. This will allow VASCO to grow at minimum costs.

On the business level, we see positive evolutions in our two core markets, the financial sector and the corporate network access market.

We see that banks worldwide start building e-banking applications. They trust on VASCO's Digipass products to secure their customer's transactions. During the second quarter, VASCO won 18 new customers in the banking sector.

In the corporate network access market, our Digipass Pack proves to be a huge success. This off the shelf product combines Digipass and VACMAN Radius Middleware in one box and can be

implemented into security infrastructures of VASCO's solution partners such as CITRIX, Novell, Check Point etc. During Q2, we won 142 new customers in the corporate network access area. In total, VASCO has signed 160 new customers in the second quarter.

A very important accomplishment is the fact that VASCO has launched 4 new products, Digipass 260 & 560 in Q2, Digipass for Windows 4.0 and VACMAN Server for Radius 6.0.4. The first day of the third quarter, VASCO launched Digipass GO 3. This shows VASCO's commitment to R&D. We are convinced that these products will generate substantial revenue for VASCO.

My conclusion is short and simple. VASCO has done well in Q2. With a confirmed backlog of 5.4 million, Q3 looks good too. But there remains a lot of work to be done. My team and I are determined to bring this work to a good end. Thank you.

Thank you, Jan. You and your team are doing a great job.

INTRODUCE CLIFF BOWN:

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

CLIFF:

Thank you Ken.

As many of you may have seen in our press release, revenues were \$6.4 million for the quarter and \$12.1 million for the six months ended June 30, 2003.

The revenues for the quarter were \$2.3 million or 55% higher than the second quarter of 2002 and \$838 thousand or 15% higher than the first quarter of 2003. The increases in revenue compared to both periods reflected significant increases from both the Banking and Corporate Network Access markets.

Revenues for the six months ended June 30, 2003 were 18% higher than the prior year. This increase is also attributable to growth in both markets. Revenues for the six months ended June 30, 2003 from the Banking segment increased approximately 15% year over year and revenues from the Corporate Network Access market increased by more than 40% compared to the prior year.

Revenues by target market for both the second quarter and six months ended June 30, 2003 were approximately 73% from banking, 19% from Corporate Access and 8% from VACMAN Enterprise maintenance.

For the second quarter 2002, revenues by market were approximately 64% from Banking, 26% for Corporate Network Access and 9% from maintenance. For the six months ended 2002, revenues by market were approximately 75% from Banking, 16% from Corporate Network Access and 9% from maintenance.

Our geographic distribution of sales for the second quarter was 75% from Europe, 16% U.S. and 9% other countries, primarily, Asia Pacific and Australia. Our geographic distribution of sales for the first six months of 2003 was 79% from Europe, 15% U.S. and 6% other countries, primarily, Asia Pacific and Australia.

The gross margin rate in each of the periods was comparable with the small differences generally due to changes in the mix of product. The gross margin rate for the second quarter of 2003 was 61.2% compared to 60.3% in 2002 and the rate for the six months ended June 30, 2003 was 61.3% compared to 61.9% for the six months ended June 30, 2002.

With the sale of the VACMAN Enterprise business, which generated high margins on its maintenance revenues, gross margins in future quarters are expected to be lower than those reported for the quarter and six months ended June 30, 2003. The margin rate will also continue to move a few percentage points as the mix of business changes in each of the quarters and as the mix within the banking segment is impacted by revenues from our larger banking customers.

Operating expenses for the second quarter of 2003 were \$3.1 million, a reduction of \$700 thousand or 18% from the second quarter of 2002. Operating expenses for the six months ended June 30, 2003 were \$6.2 million, a reduction of \$1.5 million or 20% from the same period of 2002. The reductions in both periods were primarily related to sales and marketing expenses with significant reductions in compensation related expenses and marketing expenses, which includes trade shows and publicity. Additional significant expense reductions were realized in travel and fees paid to third party contractors.

As noted in previous conference calls, with approximately 60% of our operating expenses in Euros, the strengthening of the Euro compared to the U.S. dollar adversely affects operating expenses. In both the second quarter and the six months ended June 30, 2003, the average exchange rate for the Euro compared to the U.S. dollar was more than 20% higher in than in the comparable periods of the prior year.

Operating expenses in the second quarter of 2003 included a benefit of \$6 thousand from non-cash compensation and included depreciation and amortization expenses of \$310 thousand. For the six months ended June 30, 2003, operating expenses included a benefit of \$8 thousand from non-cash compensation and \$618 thousand for depreciation and amortization expense.

Income tax expense of \$264 thousand is included for the quarter and six months ended June 30, 2003, an increase of \$124 thousand over both of the same periods in 2002. The tax provision in 2003 reflects the strong performance of the Belgium operating subsidiary and the use of all net operating loss carry forwards of that entity.

Our earnings before interest, taxes, depreciation, and amortization (EBITDA or operating cash flow if you will) was \$1.3 million for the second quarter of 2003, an improvement of 2.3 million from the second quarter of 2002. For the six months ended June 30, 2003 our earnings before interest, taxes, depreciation, and amortization was \$2.2 million, an improvement of \$3.0 million from the comparable period in 2002.



Excluding, non-cash compensation, the make-up of our expenses for the quarter were sales and marketing of \$1.4 million, R&D of \$0.8 million, and general administrative expenses of \$0.9 million. The make-up of our expense for the six months ended June 30, 2003, excluding non-cash compensation, were sales and marketing of \$3.0 million, R&D of \$1.5 million, and general administrative expenses of \$1.7 million.

The current makeup of our workforce is 77 people worldwide with 45 in sales and marketing, 22 in research and development and 10 in general and administrative.

Moving to the balance sheet, our cash position at June 30, 2003 was \$3.983 million, a \$91,000 increase from Q1 2003. The increase in cash reflected the strong operating cash flow of the company for the second quarter partially offset by increased investments in inventory of approximately \$400 thousand and the realization of deferred revenue related to deposits received under the just-in-time delivery program of approximately \$600 thousand.

Days Sales Outstanding in receivables continued to show improvement. The DSO in net receivables at the end of the second quarter of 2003 was approximately 60 days compared to 68 days at the end of the first quarter of 2003.

The company continues to maintain its line of credit that is secured by its receivables. There were no borrowings against the line as of June 30, 2003. Based on outstanding receivables at the end of the quarter, the total available credit under the line was 2.0 million Euros.

Working capital, which is defined as current assets less current liabilities, continued to improve in the second quarter of 2003. As of June 30, 2003 the company had net working capital of \$954 thousand, an improvement of \$885 thousand from the end of the first quarter of 2003. Current liabilities continue to reflect the \$3.4 million payable to Dexia Bank on September 30, 2003 under a term loan. Discussions with Dexia regarding repayment and/or restructuring of the loan continue.

Subsequent to the end of the quarter, as Ken noted previously, the company reached an agreement with Ubizen wherein VASCO agreed to repurchase its Series C Preferred Stock from Ubizen for \$4 million in cash and the issuance of 2 million shares of VASCO common stock. That transaction will impact the Company's financial position and reporting in a number of ways in the future, including but not limited to the following:

- o Cash used to repurchase the shares will come from the Company's existing cash balances. The amount paid in cash will reduce stockholders equity. We are investigating various alternatives to provide additional long-term financing and expect to successfully replace the cash used for the purchase. We will disclose the outcome of those investigations at the appropriate time.
- o The preferred stock will be eliminated from the balance sheet. The company will not report any gain or loss on the transaction.
- o The Preferred stock accretion that is currently shown on the face of the income statement and reduces net income available to common shareholders will be eliminated, effective with the date of the transaction. On a full-quarter basis, elimination of the accretion will increase net income available to common shareholders by \$291 thousand or approximately \$0.01 per common share.

NOW, I WOULD LIKE TO TURN THE MEETING BACK TO KEN

Comments on Third Quarter 2003 - Ken Hunt

We would like to comment now on 3rd quarter 2003. With a successful six months behind us, we continue to remain optimistic about 3rd quarter and full year 2003. Our programs and actions that we described earlier are producing the results that we had expected. We continue to take a no guidance posture at this time. However, as we did in our two previous earnings conference calls on February 13 and April 24, we can report that we currently have firm orders with shipments scheduled for the 3rd quarter of approximately \$5.4 million. Any new orders received before quarter's end and shipped during the quarter would be additive to this number. This \$5.4 million backlog compares favorably to the \$5.5 million backlog entering 2nd quarter. The 3rd quarter backlog of \$5.4 million does not include any revenues associated with our VACMAN Enterprise business which we recently announced had been sold.

The question again is at what point can we achieve profitability? The answer continues to be based mainly on two factors; 1) the impact of the Euro's strength against the Dollar; and 2) the mix of revenue and lower margins from large volume customers vs. Corporate Network Access customers with higher margins. Due to the divestiture of VACMAN Enterprise, which was a higher margin business, our break even has increased a bit to between \$5.4 and \$5.9 million. In closing, we are optimistic about the 3rd quarter and full-year 2003.

**Q&A SESSION:**

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

**END OF FILING**