

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 MARCH 31, 1998

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 333-35563

VASCO Data Security International, Inc.  
(Exact Name of Registrant as Specified in Its Charter)

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

1901 South Meyers Road, Suite 210  
Oakbrook Terrace, Illinois 60181  
(Address of Principal Executive Offices) (Zip Code)

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

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  No

As of May 13, 1998, 20,316,585 shares of the Company's Common Stock, \$.001 par value per share ("Common Stock"), were outstanding.

VASCO Data Security International, Inc.  
Form 10-Q  
For The Three Months Ended March 31, 1998

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

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## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

VASCO Data Security International, Inc.  
Consolidated Balance Sheets

	December 31, 1997	March 31, 1998
ASSETS		(Unaudited)
Current assets:	-----	-----
Cash	\$ 1,897,666	2,195,917
Accounts receivable, net of allowance for doubtful accounts of \$429,000 and \$226,000 in 1997 and 1998	2,458,451	2,041,017
Inventories, net	1,001,294	1,201,460
Prepaid expenses	86,426	69,699
Deferred income taxes	83,000	83,000
Other current assets	221,572	254,682
Total current assets	5,748,409	5,845,775
Property and equipment:		
Furniture and fixtures	488,338	552,970
Office equipment	322,434	383,664
	810,772	936,634
Accumulated depreciation	(497,381)	(542,394)
	313,391	394,240
Goodwill, net of accumulated amortization of \$198,000 and \$230,000 in 1997 and 1998	704,124	671,896
Other assets	1,609,901	1,436,275
Total assets	\$ 8,375,825	\$ 8,348,186
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:

Current maturities of long-term debt	\$ 3,185,400	\$ 3,153,350
Accounts payable	1,083,965	1,873,371
Customer deposits	426,914	399,517
Other accrued expenses	1,606,810	1,630,542
	-----	-----
Total current liabilities	6,303,089	7,056,780
	-----	-----

Long-term debt, including stockholder note of \$5,000,000 in 1997 and 1998

	8,442,946	8,454,610
Common stock subject to redemption	494,668	494,668

Stockholders' equity (deficit):

Common stock, \$.001 par value - 75,000,000 shares authorized; 20,132,968 shares issued and outstanding in 1997; 20,316,585 shares issued and outstanding in 1998	20,133	20,786
Additional paid-in capital	9,186,726	9,301,420
Accumulated deficit	(15,901,575)	(16,639,673)
Accumulated other comprehensive income-cumulative translation adjustment	(170,162)	(340,405)
	-----	-----
Total stockholders' equity (deficit)	(6,864,878)	(7,657,872)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$ 8,375,825	8,348,186
	=====	=====

See accompanying notes to consolidated financial statements.

VASCO Data Security International, Inc.  
Consolidated Statements of Operations  
(Unaudited)

	For the Quarter Ended March 31,	
	1997	1998
	-----	-----
Net revenues	\$ 3,548,210	\$ 2,612,967
	-----	-----
Total revenues	3,548,210	2,612,967
Cost of goods sold	1,922,415	1,221,823
	-----	-----
Gross profit	1,625,795	1,391,144
	-----	-----
Operating costs:		
Sales and marketing	731,455	882,613
Research and development	271,924	437,434
General and administrative	839,275	575,789
	-----	-----
Total operating costs	1,842,654	1,895,836
	-----	-----
Operating loss	(216,859)	(504,692)
Interest expense	(178,318)	(209,570)
Other expense, net	(42,803)	(14,462)
	-----	-----
Loss before income taxes	(437,980)	(728,724)
Provision for income taxes	35	9,374
	-----	-----
Net loss	(438,015)	(738,098)
Preferred stock dividends	(27,000)	-
	-----	-----
Net loss available to common stockholders	\$ (465,015)	\$ (738,098)
	=====	=====
Basic loss per common share	\$ (0.03)	\$ (0.04)
	=====	=====
Shares used to compute basic loss per common share	18,469,302	20,510,308
	=====	=====

See accompanying notes to consolidated financial statements.

VASCO Data Security International, Inc.  
Consolidated Statements of Comprehensive Income  
(Unaudited)

For the Quarter ended March 31,

	1997	1998
	----	----
Comprehensive income:		
Net loss	\$ (465,015)	\$ (738,098)
Other comprehensive income - cumulative translation adjustment	60,482	(170,243)
	-----	-----
Comprehensive loss	\$ (404,533)	\$ (908,341)
	=====	=====

VASCO Data Security International, Inc.  
Consolidated Statements of Cash Flows  
(Unaudited)

For the Quarter Ended  
March 31,

	1997	1998
	----	----
Cash flows from operating activities:		
Net loss	\$ (438,015)	\$ (738,098)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	240,603	251,486
Interest paid in shares of common stock	112,500	-
Changes in current assets and current liabilities:		
Accounts receivable, net	(462,112)	417,434
Inventories, net	(182,144)	(200,166)
Other current assets	19,099	(16,942)
Accounts payable	(202,244)	789,406
Customer deposits	(587,215)	(27,397)
Other accrued expenses	640,265	23,732
	-----	-----
Net cash provided by (used in) operations	(859,263)	499,455
	-----	-----
Cash flows from investing activities:		
Dispositions of property and equipment	7,633	-
Additions to property and equipment	(5,615)	(125,922)
	-----	-----
Net cash provided by (used in) investing activities	2,018	(125,922)
	-----	-----
Cash flows from financing activities:		
Series B preferred stock dividends	(27,000)	-
Proceeds from exercise of stock options	11,250	115,347
Proceeds from issuance of debt	280,115	-
Repayment of debt	(70,154)	(20,386)
	-----	-----
Net cash provided by financing activities	194,211	94,961
	-----	-----
Effect of exchange rate changes on cash	60,482	(170,243)
	-----	-----
Net increase (decrease) in cash	(602,552)	298,251
Cash, beginning of period	1,813,593	1,897,666
	-----	-----
Cash, end of period	\$ 1,211,041	\$ 2,195,917
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$ 84,065	\$ 20,764
Income taxes paid	\$ -	\$ -

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") 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, 1997.

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. The operating results for the interim periods presented are not necessarily indicative of the results expected for a full year.

Note 2 - Exchange Offer

VASCO Data Security International, Inc. ("VDSI Inc.") was organized in 1997 as a subsidiary of VASCO Corp., a Delaware corporation ("VASCO Corp."). Pursuant to an exchange offer ("Exchange Offer") by VDSI Inc. for securities of VASCO Corp. that was completed March 11, 1998, VDSI Inc. acquired 97.7% of the outstanding common stock of VASCO Corp. Consequently, VASCO Corp. became a subsidiary of VDSI Inc., with certain VASCO Corp. shareholders holding the remaining 2.3% of the VASCO Corp. common stock representing a minority interest. The impact of the minority interest is not material to the Company's consolidated financial statements. The December 31, 1997 financial statements have been restated to account for the Exchange Offer as a transaction between entities under common control in a manner similar to a pooling of interests.

The assets and liabilities of VASCO Corp. were recorded by VDSI Inc. at their historical carrying values.



### Note 3 - Subsequent Events

Loan Agreement/License Agreement. On March 31, 1998, the Company entered into two agreements with Lernout & Hauspie Speech Products N.V. ("L&H"), consisting of a loan agreement and a license agreement. The loan agreement, in the amount of \$3 million, bears interest at the prime rate plus 1%, payable quarterly, and matures on January 4, 1999. This loan is convertible at the option of the holder into shares of the Company's common stock, par value \$.001 per share ("Common Stock"), based upon the average closing price of the Common Stock for the 10 trading days prior to March 11, 1998, the date the Exchange Offer closed. This loan was funded in April 1998.

The license agreement with L&H is for the use of L&H's speech recognition and speech verification technology for data security, telecom and physical access applications. This license agreement includes a prepayment of royalties by the Company in the amount of \$600,000, payable no later than June 30, 1998 and an additional prepayment in the amount of \$200,000, payable no later than March 31, 1999. L&H is an international leader in the development of advanced speech technology for various commercial applications and products.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

VDSI Inc. designs, develops, markets and supports open standards-based hardware and software security systems which manage and secure access to data.

The following discussion is based upon VDSI Inc.'s consolidated results of operations for the three months ended March 31, 1998 as compared to VASCO Corp.'s consolidated results of operations for the three months ended March 31, 1997. See "Note 2 - Exchange Offer." References to the "Company" or "VDSI Inc." represent the consolidated entity. References to "VASCO NA" represent the North American operations, including VDSI, Inc., VASCO Corp., and VDS. References to "VASCO Europe" mean the operations of Lintel Security, VASCO Data Security nv/sa and VASCO Data Security Europe.

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 Months Ended March 31, 1997 and March 31, 1998

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements for the three months ended March 31, 1997 and 1998.

Revenues

The Company's consolidated revenues for the three months ended March 31, 1998 were \$2,613,000, a decrease of \$935,000, or 26%, as compared to the three months ended March 31, 1997. VASCO Europe contributed \$2,155,000, or 82%, of total consolidated revenues, and VASCO NA contributed the remaining \$458,000, or 18% during the three months ended March 31, 1998.

VASCO Europe's revenues were \$2,155,000 for the three months ended March 31, 1998, a decrease of \$401,000, or 16%, as compared to the three months ended March 31, 1997. This decrease was due to the introduction of the Digipass 300 during the first quarter 1998. Due to the anticipated release of this product, management believes that many customers held off ordering existing products, thus curtailing revenue until the shipment of Digipass 300, which began mid-way through the first quarter of 1998.

VASCO NA's revenues were \$458,000 for the three months ended March 31, 1998, a decrease of \$534,000, or 54%, as compared to the three months ended March 31, 1997 and accounted for 18% of consolidated revenues for the three months ended March 31, 1998. The decrease can be attributed, in part, to a reduction in shipments to Concord-Eracom Nederland BV during the three months ended March 31, 1998. Concord-Eracom Nederland BV represented approximately \$981,000 in revenue for the three months ended March 31, 1997, as compared to \$278,000 for the three months ended March 31, 1998. In March 1998, however, Concord-Eracom Nederland BV placed an additional order with VASCO NA of approximately \$1,250,000. The entire order is expected to be shipped during 1998.

#### Cost of Goods Sold

The Company's consolidated cost of goods sold for the three months ended March 31, 1998 was \$1,222,000, a decrease of \$700,000, or 36%, as compared to the three months ended March 31, 1997.

VASCO Europe's cost of goods sold was \$994,000 for the three months ended March 31, 1998, representing a decrease of 33%, as compared to the three months ended March 31, 1997. VASCO NA's cost of goods sold was \$228,000 for the three months ended March 31, 1998, representing a decrease of 47%, as compared to the three months ended March 31, 1997. This combined decrease is consistent with the 26% decrease in revenues for the same period and was due in part to a reduction in shipments to Concord-Eracom Nederland BV. The cost of goods sold for security products, however, decreased as a percentage at a quicker pace than revenues for security products. This was due to certain efficiencies in the manufacture of the products.

#### Gross Profit

The Company's consolidated gross profit for the three months ended March 31, 1998 was \$1,391,000, a decrease of \$235,000, or 14%, as compared to the three months ended March 31, 1997. This represents a consolidated gross margin of 53%, as compared to 46% for the same period of 1997. VASCO Europe contributed \$1,161,000 to the consolidated gross profit representing a gross margin of 54% as compared to 42% for the three months ended March 31, 1997. VASCO NA contributed \$230,000 to the consolidated gross profit representing a gross margin of 50% as compared to 57% for the three months ended March 31, 1997. The increase in VASCO Europe's gross margin was due in part to certain efficiencies in the manufacture of the Company's products.

#### Sales and Marketing Expenses

Consolidated sales and marketing expenses for the three months ended March 31, 1998 were \$883,000, an increase of \$151,000, or 21%, over the three months ended March 31, 1997. The increase is attributed to increased sales efforts including, in part, increased travel costs and an increase in marketing activities, including print media campaigns and other efforts.

## Research and Development

Consolidated R&D costs for the three months ended March 31, 1998 were \$437,000, an increase of \$165,000, or 61%, as compared to the three months ended March 31, 1997. R&D costs represented 17% of consolidated revenues for the three months ended March 31, 1998 as compared to 8% for the three months ended March 31, 1997. The increase is due to the addition of R&D personnel, in both the U.S. and Europe.

## General and Administrative Expenses

Consolidated general and administrative expenses for the three months ended March 31, 1998 were \$576,000, a decrease of \$263,000, or 31%, compared to the three months ended March 31, 1997. This decrease was due to economies of scale being realized as a result of the combination of the operations of Lintel Security and VDS during 1997, as well as a favorable experience with regard to bad debt recovery. The consolidated operating loss for the three months ended March 31, 1997 and 1998 included amortization expense relating to intangible assets of \$205,000 and \$206,000, respectively.

## Interest Expense

Consolidated interest expense for the three months ended March 31, 1998 was \$210,000, compared to \$178,000, an increase of 18% over the same period of 1997. This increase can be attributed to an increased borrowing base during 1998.

## Operating Loss

The Company's consolidated operating loss for the three months ended March 31, 1998 was \$505,000, compared to the consolidated operating loss of \$217,000 for the three months ended March 31, 1997. Of the consolidated operating loss for the three months ended March 31, 1998, VASCO NA contributed a loss of \$334,000 and VASCO Europe contributed a loss of \$171,000.

The consolidated operating loss for the three months ended March 31, 1998, excluding the amortization of intangibles, was attributable in part to continued investment in R&D and sales and marketing investments in North America.

## Liquidity and Capital Resources

Since inception, the Company has financed its operations through a combination of the issuance of equity securities, private borrowings, short-term commercial borrowings, cash flow from operations, and loans from Mr. T. Kendall Hunt, its Chief Executive Officer, and one of the stockholders of the Company's original corporate predecessor.

The Company's cash and cash equivalents were \$2,196,000 at March 31, 1998, which is an increase of approximately \$298,000 from \$1,898,000 at December 31, 1997. As of March 31, 1998, the Company had working capital of (\$1,211,000). During the first quarter of 1998, the Company used the cash provided by operations principally for working capital needs.

Capital expenditures during the first three months of 1998 were \$126,000 and consisted primarily of computer equipment and office furniture and fixtures.

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, the Company has no present plans, commitments or agreements with respect to any such acquisitions as of the date of this Form 10-Q and currently does not have excess cash for use in making acquisitions. There can be no assurance that any such acquisitions will be made.

The Company believes that its current cash balances and anticipated cash generated from operations will be sufficient to meet its anticipated cash needs through December 31, 1998. Continuance of the Company's operations beyond December 31, 1998, however, will depend on the Company's ability to obtain adequate financing. To this end, in March 1998, the Company entered into a loan agreement in the amount of \$3 million with Lernout & Hauspie Speech Products N.V. ("L&H"); the funding of this occurred in April 1998. The loan bears interest at the prime rate plus 1%, payable quarterly, and matures on January 4, 1999.

The Company has previously entered into engagement letters with Banque Paribas S.A. and Generale Bank dated June 20, 1997 and June 26, 1997, respectively, for a possible future public offering. Further, the Company has had preliminary discussions regarding other possible debt or equity financing. There can be no assurance, however, that the Company will be successful in effecting a public offering or obtaining other additional financing.

PART II. OTHER INFORMATION

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 Description  
Number

- +3.1 Certificate of Incorporation of Registrant, as amended.
- ++3.2 Bylaws of Registrant, as amended and restated.
- 4.1 Intentionally Omitted.
- +4.2 Specimen of Registrant's Common Stock Certificate.
- 4.3 Intentionally Omitted.
- +4.4 Form of Letter of Transmittal and Release.
- +4.5 Form of Registrant's Warrant Agreement.
- +4.6 Form of Registrant's Option Agreement.
- +4.7 Form of Registrant's Convertible Note Agreement.
- +10.1 Netscape Communications Corporation OEM Software Order Form dated March 18, 1997 between VASCO Data Security, Inc. and Netscape Communications Corporation.\*\*
- +10.2 License Agreement between VASCO Data Security, Inc. and SHIVA Corporation effective June 5, 1997.\*\*
- +10.3 Heads of Agreement between VASCO Corp., VASCO Data Security Europe S.A., Digiline International Luxembourg, Digiline S.A., Digipass S.A., Dominique Colard and Tops S.A. dated May 13, 1996.
- +10.4 Agreement relating to additional terms and conditions to the Heads of Agreement dated July 9, 1996, among the parties listed in Exhibit 10.3.
- +10.5 Agreement between VASCO Corp., VASCO Data Security Europe SA/NV, Mario Houthoof and Guy Denudt dated March 1, 1996.
- +10.6 Asset Purchase Agreement dated as of March 1996 by and between Lintel Security SA/NV and Lintel SA/NV, Mario Houthoof and Guy Denudt.
- +10.7 Management Agreement dated January 31, 1997 between LINK BVBA and VASCO Data Security NV/SA (concerning services of Mario Houthoof).

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

- +10.27 Convertible Note in the principal amount of \$500,000.00, payable to Generale de Banque dated July 1, 1997 (with Schedule).
- +10.28 Agreement by and between VASCO Data Security NV/SA and S.I. Electronics Limited effective January 21, 1997.\*\*
- +10.29 Agreement effective May 1, 1993 by and between Digipass s.a. and Digiline s.a.r.l.
- +10.30 VASCO Data Security, Inc. purchase order issued to National Electronic & Watch Co. LTD. \*\*
- +10.31 VASCO Data Security, Inc. purchase order issued to Micronix Integrated Systems.\*\*
- +10.32 Agreement between Registrant and VASCO Corp. dated as of August 25, 1997.
- +10.33 Convertible Note dated June 1, 1996 made payable to Mario Houthoofdt in the principal amount of \$373,750.00.
- +10.34 Convertible Note dated June 1, 1996 made payable to Guy Denudt in the principal amount of \$373,750.00.
- +10.35 Osprey Partners Warrant (and Statement of Rights to Warrant and Form of Exercise) issued June 1, 1992.
- +10.36 Registration Rights Agreement dated as of October 19, 1995 between certain purchasing shareholders and VASCO Corp.
- +10.37 First Amendment to Registration Rights Agreement dated July 1, 1996.
- +10.38 Second Amendment to Registration Rights Agreement dated March 7, 1997.
- +10.39 Purchase Agreement by and between VASCO Corp. and Kyoto Securities Ltd.
- +10.40 Convertible Note dated May 28, 1996 payable to Kyoto Securities, Ltd. in principal amount of \$5 million.
- +10.41 Amendment to Purchase Agreement and Convertible Note by and between VASCO Corp. and Kyoto Securities, Ltd.
- +10.42 Executive Incentive Compensation Plan.
- +10.43 Letter for Credit granted by Generale de Banque to Digipass SA dated January 27, 1997.
- ++10.44 License Agreement dated as of March 25, 1998 by and between VASCO Data Security International, Inc., for itself and its subsidiaries, and Lernout & Hauspie Speech Products N.V.



++10.45 Loan Agreement dated as of March 31, 1998 by and between Lernout & Hauspie Speech Products N.V. and VASCO Data Security International, Inc.

++10.46 Convertible Note dated April 1, 1998 payable to Lernout & Hauspie Speech Products N.V. in the principal amount of \$3 million.

27 Financial Data Schedule.

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

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

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

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by the Registrant during the quarter ended March 31, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 13, 1998.

VASCO Data Security International, Inc.

/s/ T. Kendall Hunt

-----  
T. Kendall Hunt  
Chairman of the Board, Chief Executive  
Officer and President

/s/ Gregory T. Apple

-----  
Gregory T. Apple  
Vice President and Treasurer  
(Principal Financial Officer and  
Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
27	Financial Data Schedule.

3-MOS		
	DEC-31-1998	
	MAR-31-1998	
		2,195,917
		0
		2,267,017
		226,000
		1,201,460
	5,845,775	
		936,634
		542,394
	8,348,186	
7,056,780		0
	0	
		0
		20,786
	(7,678,658)	
8,348,186		
		2,612,967
	2,612,967	
		1,221,823
		1,895,836
		14,462
		0
	209,570	
	(728,724)	
		9,374
(738,098)		
		0
		0
		0
	(738,098)	
	(0.04)	
	(0.03)	