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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

or

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

Commission file number 000-24389

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

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

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

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

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

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

As of October 31, 2004, 32,829,176 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 AND NINE MONTHS ENDED SEPTEMBER 30, 2004

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

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT SHARE DATA)

	SEPTEMBER 30, 2004 (UNAUDITED)	DECEMBER 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash	$ 8,800	$ 4,817
Restricted cash	148	-
Accounts receivable, net of allowance for doubtful accounts	3,534	2,523
Inventories, net	1,180	1,075
Prepaid expenses	668	476
Deferred income taxes	70	70
Foreign sales tax receivable	403	362
Other current assets	368	335
Total current assets	15,171	9,658
Property and equipment:		
Furniture and fixtures	1,716	1,940
Office equipment	2,272	2,222
	3,988	4,162
Accumulated depreciation	(3,245)	(3,280)
Property and equipment, net	743	882
Intangible assets, net of accumulated amortization	1,134	1,378
Goodwill	250	250
Note receivable and investment in SSI	879	1,132
Other assets	77	83
TOTAL ASSETS	$ 18,254	$ 13,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,124	$ 1,698
Deferred revenue	549	386
Accrued wages and payroll taxes	1,428	1,515
Income taxes payable	1,246	(197)
Other accrued expenses	1,139	1,038
Total current liabilities	6,486	4,440
Deferred warranty revenues	103	-
STOCKHOLDERS' EQUITY :		
Series D 5% cumulative convertible voting preferred stock, $10,000 par value - 500,000 shares authorized - 388 shares issued and outstanding in 2004, 800 shares issued and outstanding in 2003	2,806	5,786
Common stock, $.001 par value - 75,000,000 shares authorized; 32,625,050 shares issued and outstanding in 2004, 30,425,284 shares issued and outstanding in 2003	33	30
Additional paid-in capital	50,360	47,167
Accumulated deficit	(41,153)	(43,693)
Accumulated other comprehensive income (loss) - Cumulative translation adjustment	(381)	(347)
Total stockholders' equity	11,665	8,943
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 18,254	$ 13,383

See accompanying notes to consolidated financial statements.

VASCO DATA SECURITY INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
Net revenues	$ 7,400	$ 5,599	$ 20,595	$ 16,670
Cost of goods sold	2,244	2,146	5,918	6,727
Gross profit	5,156	3,453	14,677	9,943
Operating costs:				
Sales and marketing	1,975	1,713	6,218	4,921
Research and development	677	613	2,048	1,732
General and administrative	855	1,037	2,384	2,492
Restructuring costs	(32)	-	(32)	-
Non-cash compensation	-	32	-	40
Total operating costs	3,475	3,395	10,618	9,185
Operating income from continuing operations	1,681	58	4,059	758
Interest income (expense), net	34	(22)	88	(120)
Other income (expense), net	(45)	(5)	-	376
Income before income taxes	1,670	31	4,147	1,014
Provision for income taxes	469	225	1,410	489
Net income (loss) from continuing operations	1,201	(194)	2,737	525
Discontinued operations:				
Income (loss) from discontinued operations, net of tax	-	(7)	-	597
Gain on sale of discontinued operations	-	1,488	-	1,368
Net income	1,201	1,287	2,737	2,490
Preferred stock beneficial conversion option	-	(3,720)	-	(3,720)
Preferred stock accretion and dividends	(51)	(67)	(197)	(649)
Net income (loss) available to common shareholders	$ 1,150	$ (2,500)	$ 2,540	$ (1,879)
Basic net income (loss) per common share:				
Income (loss) from continuing operations	$ 0.04	$ (0.13)	0.08	(0.13)
Income from discontinued operations	-	0.05	-	0.07
	$ 0.04	$ (0.08)	$ 0.08	$ (0.06)
Diluted net income (loss) per common share:				
Income (loss) from continuing operations	$ 0.03	$ (0.13)	$ 0.08	$ (0.13)
Income from discontinued operations	-	0.05	-	0.07
	$ 0.03	$ (0.08)	$ 0.08	$ (0.06)
Weighted average common shares outstanding:				
Basic	32,578	30,392	31,897	29,211
Dilutive	35,172	31,222	35,217	29,510

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
Net income	$ 1,201	$ 1,287	$ 2,737	$ 2,490
Other comprehensive income (loss) - cumulative translation adjustment	119	8	(34)	(131)
Comprehensive income	$ 1,320	$ 1,295	$ 2,703	$ 2,359

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30, 2004	2003
Cash flows from operating activities:		
Net income from continuing operations	$ 2,737	$ 525
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	503	817
Non-cash compensation expense	-	40
Changes in assets and liabilities:		
Accounts receivable, net	(1,068)	334
Inventories, net	(126)	79
Prepaid expenses	(200)	171
Foreign sales tax receivable	(48)	(201)
Other current assets	(5)	(61)
Accounts payable	464	(180)
Deferred revenue	170	(14)
Accrued wages and payroll taxes	(57)	(158)
Income taxes payable	1,466	400
Accrued expenses	184	146
Deferred warranty revenues	103	-
Net cash provided by discontinued operations	-	437
Net cash provided by operating activities	4,123	2,335
Cash flows from investing activities:		
Acquisition of Identikey, Ltd.	-	(7)
Other assets	4	(4)
Disposal of property and equipment, net	-	132
Additions to property and equipment, net	(132)	(49)
Increase in restricted cash	(148)	-
Payments received on note receivable	225	46
Net cash provided by (used in) investing activities	(51)	118
Cash flows from financing activities:		
Repayment of debt	-	(3,590)
Purchase and retirement of Series C preferred stock and warrants	-	(3,000)
Net proceeds from the sale of Series D preferred stock and warrants	-	7,316
Proceeds from exercise of stock options	79	48
Dividends paid on preferred stock	(132)	-
Net cash provided by (used in) financing activities	(53)	774
Effect of exchange rate changes on cash	(36)	(319)
Net increase in cash	3,983	2,908
Cash, beginning of period	4,817	2,616
Cash, end of period	$ 8,800	$ 5,524

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

RESTRICTED CASH

Restricted cash of $148 at September 30, 2004 supports a bank guarantee issued in favor of a customer relating to a contract prepayment. Under the terms of the contract, the Company will have unrestricted use of this cash when it has fulfilled its commitment to deliver the products. The customer has the right to put a claim on the guarantee if the Company does not perform. The guarantee automatically ceases on January 31, 2012, but can be cancelled earlier upon mutual agreement of both parties or when all of the products have been delivered. It is the Company's intention to materially fulfill the contract during 2004, with remaining deliveries to be completed during the first quarter of 2005.

STOCK-BASED COMPENSATION

At September 30, 2004, the Company had a stock-based employee compensation plan. The Company accounts for the plan using the intrinsic method under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based compensation is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying Common Stock on the date of grant. The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation:

	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Nine months ended September 30, 2003
Net income (loss) available to common stockholders as reported ..	$ 1,150	$ (2,500)	$ 2,540	$ (1,879)
Deduct: Total stock-based employee compensation determined under fair-value-based methods for all awards, net of tax	267	251	800	764
Pro forma net income (loss)	$ 883	$ (2,751)	$ 1,740	$ (2,643)
Net income (loss) per common share-basic				
As reported	$ 0.04	$ (0.08)	$ 0.08	$ (0.06)
Pro forma	$ 0.03	$ (0.09)	$ 0.05	$ (0.09)
Net income (loss) per common share-diluted:				
As reported	$ 0.03	$ (0.08)	$ 0.08	$ (0.06)
Pro forma	$ 0.03	$ (0.09)	$ 0.05	$ (0.09)
Weighted average shares outstanding:				
Basic	32,578	30,392	31,897	29,211
Diluted	35,172	31,222	35,217	29,510

NOTE 2 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable represents sales made to customers on credit. An allowance for doubtful accounts is maintained based upon estimated losses resulting from the inability of customers to make payment for goods and services. Accounts receivable, net of the allowance for doubtful accounts, as of September 30, 2004 and December 31, 2003 are as follows:

	September 30, 2004	December 31, 2003
Accounts receivable	$ 3,830	$ 2,993
Allowance for doubtful accounts	(296)	(470)
Accounts receivable, net	$ 3,534	$ 2,523

NOTE 3- INVENTORIES

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

Inventories, net of valuation allowance of $237 and $252 at September 30, 2004 and December 31, 2003, respectively, are comprised of the following:

	September 30, 2004	December 31, 2003
Component parts	$ 527	$ 277
Work-in-process and finished goods	653	798
Total	$ 1,180	$ 1,075

NOTE 4 - GOODWILL AND OTHER INTANGIBLES

At September 30, 2004 and December 31, 2003, the ending balances of goodwill and capitalized technology are as follows:

	September 30, 2004	December 31, 2003
Goodwill	$ 250	$ 250
Capitalized technology	5,463	5,463
Accumulated amortization	(4,329)	(4,085)
Capitalized technology, net	$ 1,134	$ 1,378

Amortization expense for the three and nine- month periods ended September 30, 2004 was $83 and $244, respectively.

December 31, 2004	$ 326
December 31, 2005	326
December 31, 2006	326
December 31, 2007	326
December 31, 2008	73

NOTE 5 - OTHER ACCRUED EXPENSES

Accrued expenses are comprised of the following:

	September 30, 2004	December 31, 2003
Restructuring reserve	$ 23	$ 134
Other accrued expenses	$ 1,116	$ 904
	$ 1,139	$ 1,038

The restructuring reserve decreased $111 from December 31, 2003 to September 30, 2004 as a result of the monthly reduction in the lease liability related to excess capacity totaling $79, and the elimination of the remaining reserve balance of $32 due to the renegotiation of the US headquarter's office lease.

NOTE 6 - DEFERRED WARRANTY

The Company's standard practice is to provide a warranty on its authenticators for one year after the date of purchase. Customers may purchase extended warranties covering periods from one to three years after the standard warranty period. The Company defers the revenue associated with the extended warranty and recognizes it into income on a straight-line basis over the extended warranty period.

The deferred warranty revenue as of September 30, 2004 will be recognized as income as follows:

Year	Amount
2005	$ 14
2006	34
2007	34
2008	21
	$ 103

NOTE 7 - STOCKHOLDERS' EQUITY

During the first nine months of 2004, the Company issued 79,125 shares of Common Stock as a result of the exercise of options under the Company's stock option plan generating total proceeds of $79. In addition, 412 shares of the Company's Series D 5% Cumulative Convertible Voting Preferred Stock were converted resulting in the issuance of 2,060,000 shares of the Company's Common Stock and 60,641 shares of the Company's Common Stock were issued as dividends to the Series D preferred stockholders in 2004.

NOTE 8 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Nine months ended September 30,	
	2004	2003
Supplemental disclosure of cash flow information:		
Interest paid	$ 11	$ 206
Income taxes paid	-	$ 64
Supplemental disclosure of non-cash investing activities:		
Note receivable and preferred stock received from sale of business unit	-	$ 1,553
Supplemental disclosure of non-cash financing activities:		
Common stock issued to redeem Series C preferred stock and warrants (in shares)	-	2,000,000
Increase in additional paid-in capital related to beneficial conversion of Series D preferred stock	-	$ 3,720
Deemed dividend on preferred stock	-	$ (3,720)
Common stock issued to Series D preferred stockholders upon conversion of 412 shares of preferred stock (2,060,000 shares)	$ 2,980	-
Common stock issued to Series D preferred stockholders as a dividend payment (60,641 shares)	$ 136	-
Accrued dividend payable	$ 50	$ 20

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT HEADCOUNT DATA)

The following discussion is based upon the Company's consolidated results of operations for the three and nine months ended September 30, 2004 and 2003 (percentages in the discussion are rounded to the closest full percentage point) and should be read in conjunction with our consolidated financial statements included elsewhere in this Form 10-Q. Results of prior periods have been restated to report the results from the VACMAN Enterprise business as a discontinued operation.

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

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

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

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

COMPARISON OF RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (DOLLARS IN THOUSANDS).

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

Currency Fluctuations. In the third quarter of 2004 and 2003, approximately 84% and 94%, respectively, of the Company's revenue was generated outside the United States. For the nine months ended September 30, 2004 and 2003, approximately 88% and 93%, respectively, were generated outside of the United States.

In addition, approximately 78% and 74% of the Company's operating expenses in the third quarter of 2004 and 2003, respectively, were incurred outside of the United States. For the first nine months ended September 30, 2004 and 2003, approximately 79% and 76%, respectively, of its operating expenses were incurred outside of the United States.

As a result, changes in currency, especially the Euro to U.S. Dollar, can have a significant impact on revenue and expenses. To minimize the net impact of currency, the Company attempts to denominate its billings in a currency such that it would provide a hedge against the operating expenses being incurred in that currency. In addition, the Company denominates the majority of its supply contracts in U.S. dollars.

The Euro strengthened approximately 7% and 11% against the U.S. Dollar for the quarter and nine months ended September 30, 2004, respectively, as compared to the same periods in 2003. The Australian Dollar strengthened approximately 6% and 17% against the U.S. Dollar for the quarter and nine months ended September 30, 2004, respectively, as compared to the same periods in 2003. The Company estimates that the strengthening of the two currencies in 2004 compared to 2003 resulted in an increase in revenues of approximately $116 and $765 for the quarter and nine months ended September 30, 2004, respectively, and an increase in operating expenses of approximately $178 and $820 for the quarter and nine months ended September 30, 2004, respectively.

The financial position and results of operations of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Accordingly, assets and liabilities are translated into U.S. dollars using current exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. Translation adjustments arising from differences in exchange rates are included as a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations. Foreign exchange transaction losses aggregating $71 in the third quarter of 2004 compare to losses for the third quarter of 2003 of $29 and for the nine months ended September 30, 2004, transaction losses were $46 and compare to gains of $350 for the first nine months of 2003. The change in transaction gains and losses are primary related to the dollar denominated term-loan to Dexia Bank that was repaid in full in the third quarter of 2003. Transaction gains and losses are included in other non-operating income (expense).

REVENUE

Revenue by Geographic Regions: We sell the majority of our products in European countries with significant sales in the United States and other countries, primarily Australia, as well as countries in Asia and South America. The breakdown of revenue for the quarter and nine months ended September 30, 2004 and 2003 in each of our major geographic areas was as follows:

	Europe	United States	Other Countries	Total
THIRD QUARTER ENDED SEPTEMBER 30:				
Total Revenue:				
2004	$ 5,290	$ 1,220	$ 890	$ 7,400
2003	4,698	315	586	5,599
Percent of Total:				
2004	72%	16%	12%	100%
2003	84%	6%	10%	100%
NINE MONTHS ENDED SEPTEMBER 30:				
Total Revenue:				
2004	15,968	$ 2,461	$ 2,166	$20,595
2003	14,037	1,089	1,544	16,670
Percent of Total:				
2004	78%	12%	10%	100%
2003	84%	7%	9%	100%

Total revenue in the third quarter of 2004 increased $1,801 or 32% over the third quarter of 2003. Geographically, revenue generated in Europe was $592 or 13% higher than 2003, revenue generated in the United States was $905 or 287% higher than 2003 and revenue generated from other countries was $304 or 52% higher than 2003. Approximately $116 of the increase was attributable to the benefit from changes in the currency rate with the balance of the increase being attributable to increased volume and a higher average price per unit. The higher average price per unit in 2004 reflected the increase in the number of customers and a lower average order quantity as compared to 2003.

Total revenue for the nine months ended September 30, 2004 increased $3,925 or 24% over the first nine months of 2003. Geographically, revenue generated in Europe was $1,931 or 14% higher than 2003, revenue generated in United States was $1,372 or 126% higher than 2003 and revenue generated from other countries was $622 or 40% higher than 2003. Approximately $765 of the increase was attributable to the benefit from changes in the currency rate with the balance of the increase being attributable to increased volume and a higher average price per unit. The higher average price per unit in 2004 reflected the increase in the number of customers and a lower average order quantity as compared to 2003. For the first nine months of 2004, the top ten customers accounted for approximately 58% of total revenue as compared to 74% of revenue in 2003.

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

	Banking	CNA	Total
THIRD QUARTER ENDED SEPTEMBER 30:			
Total Revenue:			
2004	$ 6,106	$ 1,294	$ 7,400
2003	4,530	1,069	5,599
Percent of Total:			
2004	83%	17%	100%
2003	81%	19%	100%
NINE MONTHS ENDED SEPTEMBER 30:			
Total Revenue:			
2004	$ 16,387	$ 4,208	$ 20,595
2003	12,876	3,794	16,670
Percent of Total:			
2004	80%	20%	100%
2003	77%	23%	100%

Total revenue in the third quarter of 2004 from the Banking market increased $1,576 or 35% over the third quarter of 2003 and revenue from the CNA market increased $225 or 21% in the same period. While the increase in total revenues is attributable, in part, to the development of the indirect sales channel, which includes distributors, resellers, and solution partners, the distribution of the revenues between the segments in large part reflects the sales channel's focus on banking opportunities. The indirect sales channel supplements the Company's direct sales force in the Banking market and is the primary source of revenues in the CNA market.

Total revenue for the first nine months of 2004 from the Banking market increased $3,511 or 27% compared to the first nine months of 2003 and revenue from the CNA market increased $414 or 11% in the same period. The increase in total revenue is primarily attributable to the development of the indirect sales channel noted above.

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

GROSS PROFIT AND OPERATING EXPENSES

The following table sets forth, for the periods indicated, certain consolidated financial data as a percentage of revenues for the quarters and nine months ended September 30, 2004 and 2003:

	Quarter Ended Sept. 30, 2004	Quarter Ended Sept. 30, 2003	Nine Months Ended Sept. 30, 2004	Nine Months Ended Sept. 30, 2003
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	30.3	38.3	28.7	40.4
Gross profit	69.7	61.7	71.3	59.6
Operating costs:				
Sales and marketing	26.7	30.7	30.2	29.5
Research and development	9.1	10.9	9.9	10.4
General and administrative	11.6	18.5	11.6	15.0
Restructuring costs	(0.4)	-	(0.1)	-
Non-cash compensation	-	0.6	-	0.2
Total operating costs	47.0	60.7	51.6	55.1
Operating income from continuing operations	22.7	1.0	19.7	4.5
Interest income (expense)	0.5	(0.4)	0.4	(0.7)
Other income (expense), net	(0.6)	(0.1)	-	2.3
Income before income taxes	22.6	0.5	20.1	6.1
Provision for income taxes	6.4	4.0	6.8	2.9
Net income (loss) from continuing operations	16.2	(3.5)	13.3	3.2

GROSS PROFIT

Consolidated gross profit for the quarter ended September 30, 2004 was $5,156, an increase of $1,703 or 49%, from the quarter ended September 30, 2003. Gross profit as a percentage of revenue was 70% in the third quarter of 2004, as compared to 62% in the third quarter of 2003. The increase in the gross profit as a percentage of revenue was primarily related to three factors; the change of mix of sales within our Banking market, the lower cost of product produced, and the stronger Euro. Sales to new customers, both in Banking and Corporate Network Access markets, are generally for smaller quantities and, therefore, have higher average selling prices and result in higher margins than sales to our larger customers in the Banking market.

Consolidated gross profit for the nine months ended September 30, 2004 was $14,677, an increase of $4,734 or 48%, from the comparable period in 2003. Gross profit as a percentage of revenue was 71% for the first nine months of 2004, as compared to 60% for the comparable period in 2003. The increase in the gross profit as a percentage of revenue was due to the same factors noted for the quarter ended September 30, 2004.

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

The average cost per unit sold declined approximately 9% in the third quarter of 2004 and 16% for the first nine months of 2004 compared to the same periods in 2003. The decline in cost is primarily attributable to a change in the mix of units sold and a reduction in the per-unit cost of most models.

As previously noted, the Company's purchases of inventory are denominated in U.S. dollars. Also, as previously noted, the Company denominates a portion of its sales in Euros in order to offset the affects of currency on operating expenses. As the Euro and Australian Dollar strengthened during the year, revenues from sales made in Euros and Australian Dollars increased, as measured in U.S. Dollars, without the corresponding increase in cost of goods sold. The benefit from changes in currency rates on revenues as noted above was approximately $116 for the quarter and $765 for the nine months ended September 30, 2004. The benefit represents an improvement in the gross profit rate of approximately 0.5 and 1.1 percentage points for the three and nine months ended September 30, 2004, respectively.

OPERATING EXPENSES

Sales and Marketing Expenses

Consolidated sales and marketing expenses for the quarter ended September 30, 2004 were $1,975, an increase of $262 or 15%, from the third quarter of 2003. This increase was primarily due to increased strength of the Euro and Australian Dollar to the U.S. Dollar, increases in compensation-related expenses, including the cost of agents in countries where the Company does not have a direct sales presence, and increased trade show and other marketing expenses associated with providing support to our reseller network.

Consolidated sales and marketing expenses for the nine months ended September 30, 2004 were $6,218, an increase of $1,297 or 26%, from the same period of 2003. The increase in expense was related to the same factors noted for the quarter above. Average full-time sales and marketing employee headcount for continuing operations was 42 in 2004 and in 2003.

Research and Development Expenses

Consolidated research and development costs for the quarter ended September 30, 2004 were $677, an increase of $64 or 10%, from the third quarter of 2003. This increase was primarily due to increased strength of the Euro and Australian Dollar to the U.S. Dollar and increased compensation expenses.

Consolidated research and development costs for the nine months ended September 30, 2004 were $2,048, an increase of $316 or 18%, from the same period of 2003. This increase was primarily due to increased strength of the Euro and Australian Dollar to the U.S. Dollar, compensation expenses and increased costs related to the introduction of new products. Average full-time research and development employee headcount for continuing operations was 21 in 2004 and 23 in 2003.

General and Administrative Expenses

Consolidated general and administrative expenses for the quarter ended September 30, 2004 were $855, a decrease of $182 or 18%, from the third quarter of 2003. This decrease was primarily due to reduced professional fees and lower depreciation partially offset by the increased strength of the Euro and Australian Dollar to the U.S. Dollar and increased compensation expenses.

Consolidated general and administrative expenses for the nine months ended September 30, 2004 were $2,384, a decrease of $108 or 4%, from the same period of 2003. This decrease was due to the same factors as noted for the third quarter partially offset by increased expense in 2004 resulting from a reduction in recoveries of accounts receivable in 2003 for which a reserve had been established in prior periods. Average full-time general and administrative employee headcount for continuing operations was 13 in 2004 and 11 in 2003.

Interest Income (Expense), Net

Consolidated net interest income (expense) was income of $34 in the third quarter and $88 for the first nine months of 2004 compared to expense of $22 and $120 for the comparable periods in 2003. This change in expense was primarily due to the repayment of all debt in 2003 and the collection of amounts due under the installment note from SecureD Services, Inc. (SSI). The Company invested its cash balances in savings accounts earning nominal rates of interest.

Other Income (Expense), Net

Other income (expense) primarily includes exchange gains (losses) on transactions that are denominated in currencies other than the subsidiaries' functional currency. The increase in other expense of $40 for the quarter and decrease in other income of $376 for the first nine months in 2004 from 2003 primarily reflects the strengthening of the Euro compared to the U.S. dollar and the decrease in U.S. Dollar denominated liabilities as a result of the repayment of the term loan to Dexia Bank in the third quarter of 2003.

Income Taxes

Income tax expense in the third quarter and first nine months of 2004 was $469 and $1,410, respectively, and compares to $225 and $489 for the third quarter and first nine months, respectively, in 2003. The expense relates primarily to the Belgian operating subsidiary, whose tax loss carry-forwards were fully utilized in 2003. The rate in 2004 reflects the Company's current estimate of its tax rate for the full year, but may vary in future periods as earnings are realized in different countries with different tax attributes.

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash was $8,948 at September 30, 2004, which is an increase of approximately $4,131 or 86% from $4,817 at December 31, 2003. The increase in cash was primarily related to positive earnings before interest, taxes, depreciation and amortization (EBITDA) partially offset by an increase in days sales outstanding in accounts receivable.

The cash balance noted above includes restricted cash of $148 at September 30, 2004. The Company expects that the restrictions on the cash will be removed as product is shipped throughout the next three months.

Days sales outstanding in net accounts receivable increased from 37 days at December 31, 2003 to 43 days at September 30, 2004. Days sales outstanding in receivables were higher in the third quarter as days sales outstanding in the fourth quarter of 2003 benefited from prepayments for orders that were shipped in the quarter.

EBITDA from continuing operations for the quarter and nine months ended September 30, 2004 and 2003 were $1,806 and $4,562, respectively, and reflect an increase of $1,486 or 464% and $2,611 or 134% over the same periods of the prior year. A reconciliation of EBITDA to net income from continuing operations for the three and nine-month periods ended September 30, 2004 and 2003 follows:

	Three Months Ended,		Nine Months Ended,	
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
	(unaudited)		(unaudited)	
EBITDA from continuing operations	$ 1,806	$ 320	$ 4,562	$ 1,951
Interest expense (income), net	(34)	22	(88)	120
Provision for income taxes	469	225	1,410	489
Depreciaton and amortization	170	267	503	817
Net income (loss) from continuing operations	$ 1,201	$ (194)	$ 2,737	$ 525

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

At September 30, 2004, the Company had an overdraft agreement in place with Fortis Bank, secured by the Company's trade accounts receivable, wherein the Company could borrow up to 2,000 Euros. Based on receivable balances as of September 30, 2004, approximately 1,500 Euros of the overdraft agreement was available to the Company. There were no borrowings outstanding under the overdraft agreement at September 30, 2004.

As of September 30, 2004, the Company had working capital of $8,685, an increase of $3,467 or 66%, compared with $5,218 at December 31, 2003.

The Company believes that its current cash balances, credit available under its existing overdraft agreement, the anticipated cash generated from operations, including the realization of deferred revenue recorded as a current liability, and deposits that will be received in future quarters on orders of the Digipass product will be sufficient to meet its anticipated cash needs over the next twelve months.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk during the nine-month period ended September 30, 2004. For additional information, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

ITEM 4. CONTROLS AND PROCEDURES

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

There have been no changes in internal controls over financial reporting identified in connection with the foregoing evaluation that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

(a) EXHIBITS:

Exhibit 31.1 Statement Under Oath of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 10, 2004.

Exhibit 31.2 Statement Under Oath of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 10, 2004.

Exhibit 32.1 Statement Under Oath of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 10, 2004.

Exhibit 32.2 Statement Under Oath of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 10, 2004.

(b) REPORTS ON FORM 8-K:

(i) On July 23, 2004 we furnished a Current Report on Form 8-K providing a financial update for the second quarter ended June 30, 2004.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 10, 2004.

VASCO Data Security International, Inc.

/s/ T. Kendall Hunt

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

/s/ Clifford K. Bown

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

EXHIBIT 31.1

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

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

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

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

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

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

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

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

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

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

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

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

Dated: November 10, 2004

/s/ T. Kendall Hunt

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

EXHIBIT 31.2

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

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

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

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

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

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

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

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

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

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

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

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

Dated: November 10, 2004

/s/ Clifford K. Bown

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

EXHIBIT 32.1

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

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of VASCO Data Security International, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2004 (the "Report"), I, T. Kendall Hunt, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

/s/ T. Kendall Hunt
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T. Kendall Hunt
Chief Executive Officer and Chairman of the Board of Directors
November 10, 2004

EXHIBIT 32.2

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

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of VASCO Data Security International, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2004 (the "Report"), I, Clifford K. Bown, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

/s/ Clifford K. Bown
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Clifford K. Bown
Chief Financial Officer
November 10, 2004