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 JUNE 30, 2003

or

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

Commission file number 000-24389

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

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

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

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

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

Yes X   No
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As of July 31, 2003, 30,389,484 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 SIX MONTHS ENDED JUNE 30, 2003

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2002 (Audited)	June 30, 2003 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,615,935	$ 3,983,028
Accounts receivable, net of allowance for doubtful accounts of $461,129 and $315,464 in 2002 and 2003	2,870,533	3,864,131
Inventories, net	1,579,125	1,653,007
Prepaid expenses	394,867	331,411
Assets of discontinued operations	155,661	434,183
Other current assets	119,687	356,037
Total current assets	7,735,808	10,621,797
Property and equipment:		
Furniture and fixtures	1,485,140	1,847,747
Office equipment	1,926,553	1,813,618
Total property and equipment	3,411,693	3,661,365
Accumulated depreciation	(2,255,693)	(2,725,517)
Net property and equipment	1,156,000	935,848
Intangible assets, net of accumulated amortization of $3,545,104 in 2002 and $3,830,977 in 2003	1,910,504	1,631,973
Goodwill, net of accumulated amortization of $972,931 in 2002 and 2003	249,967	249,967
Other assets	81,161	82,428
TOTAL ASSETS	$ 11,133,440	$ 13,522,013
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 3,589,645	$ 3,472,059
Accounts payable	1,849,572	2,512,470
Liabilities related to assets of discontinued operations	107,643	157,204
Deferred revenue	644,330	1,193,332
Other accrued expenses	2,099,166	2,267,186
Total current liabilities	8,290,356	9,602,251
Long-term debt, less current maturities	32,006	37,798
STOCKHOLDERS' EQUITY:		
Series C Convertible Preferred Stock, $.01 par value - 500,000 shares authorized; 150,000 shares issued and outstanding in 2002 and 2003	9,108,066	9,690,058
Common stock, $.001 par value - 75,000,000 shares authorized; 28,389,484 shares issued and outstanding in 2002 and 2003	28,389	28,389
Additional paid-in capital	36,763,330	36,189,681
Accumulated deficit	(42,608,077)	(41,405,905)
Accumulated other comprehensive income (loss) - cumulative translation adjustment	(480,630)	(620,259)
Total stockholders' equity	2,811,078	3,881,964
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 11,133,440	$ 13,522,013

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2002	2003	2002	2003
Net revenues	$ 3,761,084	$ 5,952,649	$ 9,239,624	$ 11,071,117
Cost of goods sold	1,646,160	2,422,199	3,875,020	4,581,419
Gross profit	2,114,924	3,530,450	5,364,604	6,489,698
Operating costs:				
Sales and marketing (exclusive of $(21,274) and $8,617 for the three and six months ended June 30, 2002, respectively, and $5,840 and $8,343 for the three and six months ended June 30, 2003, respectively, reported below as non-cash compensation (recovery)	1,970,156	1,418,939	3,885,373	3,010,468
Research and development	722,000	708,016	1,392,291	1,316,740
General and administrative (exclusive of $(69,227) and $28,048 for the three and six months ended June 30, 2002, respectively, reported below as non-cash compensation (recovery)	988,750	715,112	2,035,983	1,454,620
Non-cash compensation (recovery)	(90,501)	5,840	36,665	8,343
Total operating costs	3,590,405	2,847,907	7,350,312	5,790,171
Operating income (loss) from continuing operations	(1,475,481)	682,543	(1,985,708)	699,527
Interest expense, net	(152,214)	(47,832)	(193,332)	(97,069)
Other income (expense), net	(94,462)	180,347	(44,666)	380,717
Income (loss) from continuing operations before income taxes	(1,722,157)	815,058	(2,223,706)	983,175
Provision for income taxes	140,313	264,462	140,272	264,462
Income (loss) from continuing operations	(1,862,470)	550,596	(2,363,978)	718,713
Discontinued operations (Note 3):				
Income from discontinued operations	192,041	170,225	533,356	483,459
Net income (loss)	(1,670,429)	720,821	(1,830,622)	1,202,172
Preferred stock accretion	(290,996)	(290,996)	(581,992)	(581,992)
Net income (loss) available to common shareholders	$ (1,961,425)	$ 429,825	$ (2,412,614)	$ 620,180
Basic and diluted income (loss) per common share:				
Income (loss) from continuing operations	$ (0.08)	$ 0.01	$ (0.11)	$ -
Income (loss) from discontinued operations	0.01	-	0.02	0.02
Net income (loss)	$ (0.07)	$ 0.01	$ (0.09)	$ 0.02
Weighted average common shares outstanding:				
Basic	28,346,416	28,389,484	28,304,967	28,389,484
Diluted	28,346,416	28,436,854	28,304,967	28,419,508

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2002	2003	2002	2003
Net income (loss)	$(1,670,429)	$ 720,821	$(1,830,622)	$ 1,202,172
Other comprehensive income (loss) - cumulative translation adjustment	281,501	(80,911)	96,078	(139,629)
Comprehensive income (loss)	$(1,388,928)	$ 639,910	$(1,734,544)	$ 1,062,543

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30, 2002	Six months ended June 30, 2003
Cash flows from operating activities:		
Net income (loss)	$(1,830,622)	$ 1,202,172
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	649,484	550,103
Non-cash compensation expense	36,665	8,343
Changes in assets and liabilities, net of effects of acquisitions and discontinued operations:		
Accounts receivable, net	(187,597)	(709,826)
Inventories, net	521,478	57,930
Prepaid expenses	107,824	88,937
Deferred income taxes	83,000	-
Other current assets	213,390	(207,179)
Accounts payable	(923,627)	470,161
Deferred revenue	(367,625)	459,359
Accrued expenses	(516,514)	43,582
Net cash used in discontinued operations	(553,369)	(145,614)
Net cash provided by (used in) operating activities	(2,767,513)	1,817,968
Cash flows from investing activities:		
Acquisition of Identikey, Ltd.	-	(7,341)
Other assets	(70,928)	-
Additions to property and equipment, net	(475,975)	(11,843)
Net cash used in investing activities	(546,903)	(19,184)
Cash flows from financing activities - repayment of debt	(64,954)	(124,048)
Effect of exchange rate changes on cash	96,078	(307,643)
Net increase (decrease) in cash	(3,283,292)	1,367,093
Cash, beginning of period	6,342,440	2,615,935
Cash, end of period	$ 3,059,148	$ 3,983,028
Supplemental disclosure of cash flow information:		
Interest paid	$ 12,868	$ 1,753
Supplemental disclosure of non-cash investing activities:		
Common stock issued in connection with acquisition	$ 284,458	$ -

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, 2002.

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.

STOCK-BASED COMPENSATION

At June 30, 2003, the Company had a stock-based employee compensation plan. The Company accounts for the plan using the intrinsic method under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based compensation is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying Common Stock on the date of grant. The following table illustrates the effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Net income (loss) available to common shareholders as reported	$ (1,961,425)	$ 429,825	$ (2,412,614)	$ 620,180
Deduct: Total stock-based employee compensation determined under fair value based method for all awards net of tax	249,092	260,185	497,670	512,038
Pro forma net income (loss)	$ (2,210,517)	$ 169,640	$ (2,910,284)	$ 108,142
Net income (loss) per common share-basic and diluted:				
As reported	$ (0.07)	$ 0.01	$ (0.09)	$ 0.02
Pro forma	$ (0.08)	$ -	$ (0.10)	$ -

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements have been reclassified to conform to the 2003 presentation.

Overhead allocations ceased in the third quarter of fiscal year 2002 because their basis for allocation was no longer appropriate nor was it representative of the operational activities of the departments affected. For the quarter ended June 30, 2002, net overhead allocations from the Company's General and Administrative and the Research and Development cost centers have been reclassified from Sales and Marketing to their original cost centers.

NOTE 2- 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 $111,566 and $262,251 at December 31, 2002 and June 30, 2003, respectively, are comprised of the following:

	December 31, 2002	June 30, 2003
Component parts	$ 772,523	$ 403,204
Work-in-process and finished goods	806,602	1,249,803
Total	$1,579,125	$1,653,007

NOTE 3 - DISCONTINUED OPERATIONS

During the second quarter of 2003, VASCO entered into negotiations to sell its VACMAN Enterprise (VME) business, originally known as Intellisoft and/or Snareworks. The sale was consummated on July 8, 2003, effective July 1, 2003, see Note 4 - Subsequent Events. In accordance with Statement of Financial Accounting Standard (SFAS) No. 144 " Accounting for the Impairment or Disposal of Long-Lived Assets", the assets and liabilities of this business unit have been disaggregated from the operational assets and liabilities of the Company and are being treated as long-lived assets to be disposed of. The results of the operations of VME for the three and six month periods ended June 30, 2003 have been reported as results of discontinued operations. Prior periods have been restated to conform to this presentation.

Assets of and liabilities related to discontinued operations included in the consolidated balance sheet are as follows:

	December 31, 2002	June 30, 2003
Accounts receivable	$ 10,724	$363,535
Prepaid expenses	12,612	4,950
Property and equipment, net	132,325	65,698
	$155,661	$434,183
Accounts payable	$ 852	$ 319
Deferred revenue	75,721	104,546
Other accrued expenses	31,070	52,339
	$107,643	$157,204

Income from discontinued operations is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003
Net revenues	$389,169	$496,616	$943,057	$989,183
Cost of goods sold	-	78,583	-	81,904
Gross profit	389,169	418,033	943,057	907,279
Operational costs	197,128	247,807	409,701	423,821
Income from discontinued operations	$192,041	$170,226	$533,356	$483,458

Included in operational costs are $120,000 of costs incurred during the three and six months ended June 30, 2003 related to the sale of the business unit.

NOTE 4 - SUBSEQUENT EVENTS

On July 8, 2003, effective as of July 1, 2003, VASCO sold its VACMAN Enterprise business, originally known as Intellisoft and/or Snareworks, to SecureD Services, Inc. (SSI). Under the terms of the agreement, VASCO received a senior secured promissory note of approximately $1.1 million and $2 million of Convertible Preferred Stock from SSI in exchange for the VACMAN Enterprise assets. The promissory note bears a 6% interest rate and is payable in 36 equal and consecutive monthly payments. The Preferred Stock includes a 6% cumulative stock dividend, payable quarterly, and can be converted into SSI's common stock at defined intervals beginning July 1, 2005.

On July 15, 2003, VASCO reached an agreement with Ubizen N.V. (Ubizen) whereby VASCO would purchase and redeem all of the VASCO Series C Convertible Preferred Stock and Common Stock Purchase Warrants owned by Ubizen. Under the terms of the Purchase Agreement, VASCO paid $3 million to Ubizen and issued 2 million shares of VASCO Common Stock on July 25, 2003. An additional $1 million will be paid to Ubizen on or before November 14, 2003. The Common Stock issued by VASCO is subject to a lock-up period wherein the lock-up will expire in increments of 500,000 shares each on October 15, 2003, January 15, 2004, April 15, 2004 and July 15, 2004. Once the lock-up expires, the shares will be subject to volume trading restrictions through January 1, 2005.

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

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

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 SIX MONTHS ENDED JUNE 30, 2003 AND JUNE 30, 2002

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements for the three and six months ended June 30, 2003 and 2002. Results of prior periods have been restated to report the results from the VACMAN Enterprise business as a discontinued operation.

Revenues

Revenues for the three months ended June 30, 2003 were $5,953,000, an increase of $2,192,000, or 58%, as compared to the three months ended June 30, 2002. Revenues for the six months ended June 30, 2003 were $11,071,000, an increase of $1,831,000, or 20%, as compared to the six months ended June 30, 2002. The increase in revenues for both the three and six months periods were attributable to growth in both the Banking and Corporate Network Access markets.

For the six months ended June 30, 2003, revenues by target market were 79% from Banking, 19% from Corporate Network Access and 2% from Maintenance. This compares with 82% of revenues from Banking, 17% from Corporate Network Access and 1% from Maintenance in the first six months of the prior year.

Geographically, 81% of revenues for the six months ended June 30, 2003 were from Europe, 9% from the U.S. and 10% from other countries, primarily in the Asia/Pacific region. For the six months ended June 30, 2002, 86% of the revenues were from Europe, 6% from the U.S. and 8% from other countries, primarily in the Asia/Pacific region.

Cost of Goods Sold

Cost of goods sold for the three and six months ended June 30, 2003 were $2,422,000 and $4,581,000, respectively, an increase of $776,000, or 47% compared to the three months ended June 30, 2002 and an increase of $706,000 or 18% compared to the six months ended June 30, 2003. The increase in both periods was due to the increase in sales as described previously.

Gross Profit

The Company's gross profit for the three months ended June 30, 2003 was $3,530,000, an increase of $1,416,000, or 67%, as compared to the three months ended June 30, 2002. This represents a gross margin of 59%, as compared to 56% for the same period of 2002. The increase in gross profit is due to increased revenues for the period as well as an improvement in the gross profit as a percentage of revenue in the quarter. The increase in gross profit as a percentage of revenue primarily reflects an increase in maintenance revenue as a percentage of total revenue compared to the prior period.

The Company's gross profit for the six months ended June 30, 2003 was $6,490,000, an increase of

$1,125,000, or 21%, as compared to the six months ended June 30, 2002. This represents a gross margin of 59%, as compared to 58% for the same period of 2002. The increase in gross profit is due to increased revenues for the period as well as an improvement in the gross profit as a percentage of revenue in the quarter. The increase in gross profit as a percentage of revenue primarily reflects an increase in both Corporate Network Access and maintenance revenue, which provide higher gross margins, as a percentage of total revenue compared to the prior period.

Sales and Marketing Expenses

Sales and Marketing expenses for the three months ended June 30, 2003 were $1,419,000, a decrease of $551,000, or 28% compared to the three months ended June 30, 2002. The reduction in expense reflects reductions in expenses related to personnel and spending in most discretionary areas, including but not limited to trade shows, publicity, recruiting, and travel, partially offset by the unfavorable impact of changes in currency. Average headcount dedicated to sales and marketing declined from 56 to 46 from the second quarter of 2002 to the second quarter of 2003.

Sales and Marketing expenses for the six months ended June 30, 2003 were $3,010,000, a decrease of $875,000, or 23% compared to the six months ended June 30, 2002. The reduction in expense for the six-month period compared to the same period in the prior year reflects the same factors as noted above for the second quarter.

Research and Development

Research and Development (R&D) costs for the three months ended June 30, 2003 were $708,000, a decrease of $14,000, or 2%, as compared to the three months ended June 30, 2002. The reduction in expense reflects reductions in expenses as a result of our consolidation of research activities into our Belgian and Australian locations and a reduction in the use of third-party suppliers of R&D resources, partially offset by the unfavorable impact of changes in currency. Total headcount dedicated to R&D was unchanged.

R&D costs for the six months ended June 30, 2003 were $1,317,000, a decrease of $76,000, or 5%, as compared to the six months ended June 30, 2002. The reduction in expense for the six-month period compared to the same period in prior year reflects the same factors as noted above for the second quarter.

General and Administrative Expenses

General and Administrative expenses for the three months ended June 30, 2003 were $715,000, a decrease of $274,000, or 28%, compared to the three months ended June 30, 2002. The reduction in expense reflects reductions in expenses related to personnel and spending in most discretionary areas, including but not limited to contract services, travel, rent, and telephone, partially offset by the unfavorable impact of changes in currency. Average administrative headcount was reduced from 13 in the second quarter of 2002 to 10 at the end of the second quarter of 2003.

General and Administrative expenses for the six months ended June 30, 2003 were $1,455,000, a decrease of $581,000, or 29%, compared to the six months ended June 30, 2002. The reduction in expense for the six-month period compared to the same period in the prior year reflects the same factors as noted above for the second quarter.

Interest Expense, Net

Net interest expense for the three months ended June 30, 2003 was $48,000, compared to $152,000 for the same period in 2002. This change was due, in part, to an improvement in average net cash balances.

Net interest expense for the six months ended June 30, 2003 was $97,000, compared to $193,000 for the same period in 2002.

Other Income, Net

Net other income for the three months ended June 30, 2003 was $180,000, compared to net expense of $94,000 for the same period in 2002. For the six months ended June 30, 2003, net other income was $381,000 compared to net expense of $45,000 for the same period in 2002. These changes are primarily due to transaction gains reported by our foreign operations as a result of the U.S. dollar weakening against the Euro.

Income Tax Expense

Income tax expense for the three and six months ended June 30, 2003 was $264,000 compared to $140,000 for the same period in 2002. The increase in expense reflects the increase in taxable income of our Belgian operating entity in the second quarter of 2003.

Discontinued Operations

Income from discontinued operations, the VACMAN Enterprise business unit, was $170,000 and $483,000 for the three and six months ended June 30, 2003, respectively. Income from VACMAN Enterprise was $192,000 and $533,000 for the three and six months ended June 30, 2002, respectively. The decline in income is primarily attributed to increased expenses related to the sale of the business.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were $3,983,000 at June 30, 2003, which is an increase of approximately $1,367,000 or 52% from $2,616,000 at December 31, 2002. The increase in cash was a result of a positive operating cash flow, deposits received on orders to be delivered in fiscal year 2003 and a reduction in days sales outstanding in net accounts receivable. Earnings, including earnings from discontinued operations, before interest, taxes, depreciation and amortization (EBITDA) were $1,343,000 and $2,181,000 for the three and six-month periods ended June 30, 2003, respectively. A reconciliation of EBITDA to net income (loss) for the three and six-month periods ended June 30, 2002 and 2003 follows:

	Three Months Ended (unaudited),		Six Months Ended (unaudited),	
	June 30, 2002	June 30, 2003	June 30, 2002	June 30, 2003
EBITDA	$(1,006,000)	$ 1,343,000	$ (781,000)	$ 2,181,000
Interest expense, net	152,000	48,000	193,000	97,000
Tax provision	140,000	264,000	140,000	264,000
Depreciation and amortization	372,000	310,000	716,000	618,000
Net income (loss)	$(1,670,000)	$ 721,000	$(1,830,000)	$ 1,202,000

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, including earnings from discontinued operations, is computed by adding back net interest expense, taxes, depreciation and amortization to net income (loss) 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.

Net deposits received, defined as total deposits received less product shipped, were $549,000 during the first six months of 2003 and days sales outstanding in net accounts receivable declined from 74 days at December 31, 2002 to 60 days at June 30, 2003.

At June 30, 2003, the Company had lines of credit from European banks, secured by the Company's trade accounts receivable totaling approximately 2,000,000 Euros, none of which were used.

As of June 30, 2003, the Company had working capital of $1,020,000 compared with a deficit of $554,000 at December 31, 2002. Working capital at both June 30, 2003 and December 31, 2002 included the $3,400,000 term loan due to Dexia Bank on September 30, 2003 as a current liability.

On July 15, 2003, VASCO reached an agreement with Ubizen N.V. (Ubizen) whereby VASCO would purchase and redeem all of the VASCO Series C Convertible Preferred Stock and Common Stock Purchase Warrants owned by Ubizen. Under the terms of this purchase agreement, VASCO paid $3 million to Ubizen and issued 2 million shares of VASCO Common Stock on July 25, 2003. An additional $1 million will be paid to Ubizen on or before November 14, 2003.

After the closing of the repurchase of the Series C Preferred Stock, the Company had cash and cash equivalents of approximately $0.9 million. In addition, the line of credit secured by trade accounts receivable continued to be available and unused. The Company is currently reviewing financing alternatives, including the sale of additional securities and the renegotiation of lines of credit.

The Company believes that its current cash balances, credit available under our existing overdraft agreement, the anticipated cash generated from operations, including the realization of deferred revenue recorded as a current liability, deposits that will be received in future quarters on orders of our Digipass product and the impact of either (a) obtaining additional equity financing, (b) entering into a separate agreement to replace or repay the loan to Dexia, or (c) having Mr. T. Kendall Hunt, the Company's CEO, surrender his shares of Common Stock, which are pledged to Dexia as collateral for the loan, will be sufficient to meet our anticipated cash needs over the next twelve months.

There is substantial risk, however, that the Company may not be able to either obtain additional financing or the growth in its revenue and cash receipts will not be sufficient to generate the funds needed to repay the debt to Dexia within the terms of the existing agreement. If it is unable to meet its revenue and cash goals and is also unable to either renegotiate the terms of the agreement with Dexia or reach a mutually acceptable agreement with Mr. Hunt as an indemnity for his loss as a result of his surrender of shares of VASCO Common Stock to Dexia, it will 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk during the six-month period ended June 30, 2003. For additional information, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

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 are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods required by the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chairman and Chief Executive Officer and the Chief Financial Officer of the Company, as appropriate to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

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

(a) EXHIBITS:

Exhibit 31.1 Statement Under Oath of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 14, 2003

Exhibit 31.2 Statement Under Oath of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 14, 2003

Exhibit 32.1 Statement Under Oath of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 14, 2003

Exhibit 32.2 Statement Under Oath of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 14, 2003

(b) REPORTS ON FORM 8-K:

(i) On July 14, 2003, we furnished a Current Report on Form 8-K reporting financial results for the second quarter ended June 30, 2003.

(ii) On July 23, 2003, we filed a Current Report on form 8-K reporting on the sale of VASCO's VACMAN Enterprise business to SecureD Services, Inc.

(iii) On July 28, 2003, we furnished a Current Report on Form 8-K updating previously released financial results for the second quarter ended June 30, 2003 and the text of the script for the July 24, 2003 Earnings Conference Call.

(iv) On August 12, 2003, we filed a Current Report on Form 8-K reporting on the purchase from Ubizen N.V. of all VASCO Series C Convertible Preferred Stock and Common Stock Purchase Warrants owned by Ubizen N.V.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 14, 2003.

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 we 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 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: August 14, 2003

/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 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; and

Dated: August 14, 2003

/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 June 30, 2003 (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
August 14, 2003

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 June 30, 2003 (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
August 14, 2003