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, 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 ___

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, 2003, 30,425,284 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 NINE MONTHS ENDED SEPTEMBER 30, 2003

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31, 2002	September 30, 2003
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,615,935	$ 5,523,655
Accounts receivable, net of allowance for doubtful accounts of $461,129 and $318,798 in 2002 and 2003	2,870,533	2,724,610
Inventories, net	1,579,125	1,654,366
Prepaid expenses	394,867	245,828
Assets of discontinued	155,661	--
Other current assets	119,687	712,052
Total current assets	7,735,808	10,860,511
Property and equipment		
Furniture and fixtures	1,485,140	1,870,294
Office equipment	1,926,553	1,971,706
Total property and equipment	3,411,693	3,842,000
Accumulated depreciation	(2,255,693)	(2,994,430)
Net property and equipment	1,156,000	847,570
Intangible assets, net of accumulated amortization of $3,545,104 in 2002 and $3,958,627 in 2003	1,910,504	1,504,323
Goodwill	249,967	249,967
Note receivable and investment in SSI	--	1,211,966
Other assets	81,161	86,844
TOTAL ASSETS	$ 11,133,440	$ 14,761,181
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 3,589,645	$ --
Accounts payable	1,849,572	1,818,859
Liabilities related to assets of discontinued operations	107,643	42,775
Deferred revenue	644,330	678,708
Payable to Ubizen related to stock purchase	--	1,000,000
Other accrued expenses	2,131,172	2,667,002
Total current liabilities	8,322,362	6,207,344
STOCKHOLDERS' EQUITY :		
Series C Convertible Preferred Stock, $.01 par value - 500,000 shares authorized; 150,000 shares issued and outstanding in 2002	9,108,066	--
Series D Convertible Preferred Stock, $10,000 par value - 500,000 shares authorized; 800 shares issued and outstanding in 2003		5,830,787
Common stock, $.001 par value - 75,000,000 shares authorized; 28,389,484 and 30,415,159 shares issued and outstanding in 2002 and 2003, respectively	28,389	30,415
Additional paid-in capital	36,763,330	47,162,596
Accumulated deficit	(42,608,077)	(43,858,067)
Accumulated other comprehensive income (loss) - cumulative translation adjustment	(480,630)	(611,894)
Total stockholders' equity	2,811,078	8,553,837
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 11,133,440	$ 14,761,181

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMB000R 30		NINE MONTHS ENDED SEPTEMBER 30	
	2002	2003	2002	2003
Net revenues	$ 4,739,854	$ 5,598,872	$ 13,979,478	$ 16,669,989
Cost of goods sold	2,060,751	2,146,119	5,935,771	6,727,538
Gross profit	2,679,103	3,452,753	8,043,707	9,942,451
Operating costs:				
Sales and marketing (exclusive of $(16,310) and $(7,694) for the three and nine months ended September 30, 2002, respectively, and $31,666 and $40,009 for the three and nine months ended September 30, 2003, respectively, reported below as non-cash compensation expense (recovery))	1,825,605	1,578,804	5,740,869	4,589,272
Research and development	650,864	746,944	2,043,155	2,063,684
General and administrative (exclusive of $(53,076) and $(25,028) for the three and nine months ended September 30, 2002, respectively, reported below as non-cash compensation expense (recovery))	1,177,345	1,037,001	3,183,437	2,491,621
Non-cash compensation expense (recovery)	(69,386)	31,666	(32,722)	40,009
Total operating costs	3,584,428	3,394,415	10,934,739	9,184,586
Operating income (loss) from continuing operations	(905,325)	58,338	(2,891,032)	757,865
Interest expense, net	(45,109)	(22,480)	(238,441)	(119,549)
Other income (expense), net	(70,932)	(4,959)	(115,598)	375,758
Income (loss) from continuing operations before income taxes	(1,021,366)	30,899	(3,245,071)	1,014,074
Provision for income taxes	--	224,650	140,272	489,112
Income (loss) from continuing operations	(1,021,366)	(193,751)	(3,385,343)	524,962
Discontinued operations (Note 3):				
Income (loss) from discontinued operations, net of tax	212,484	(6,771)	745,840	596,916
Gain on sale of discontinued operations, net of tax	--	1,488,360	--	1,368,132
Net income (loss)	(808,882)	1,287,838	(2,639,503)	2,490,010
Preferred stock accretion and dividends	(290,996)	(67,445)	(872,988)	(649,347)
Net income (loss) available to common shareholders	$(1,099,878)	$ 1,220,393	$ (3,512,491)	$ 1,840,663
Basic and diluted income (loss) per common share:				
Income (loss) from continuing operations	$ (0.05)	$ (0.01)	$ (0.15)	$ --
Income (loss) from discontinued operations	$ 0.01	0.05	0.03	0.06
Net income (loss)	$ (0.04)	$ 0.04	$ (0.12)	$ 0.06
Weighted average common shares outstanding:				
Basic	28,389,484	30,391,827	28,333,449	29,211,293
Diluted	28,389,484	31,222,297	28,333,449	29,510,033

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2002	2003	2002	2003
Net income (loss)	$ (808,882)	$ 1,287,838	$ (2,639,504)	$ 2,490,010
Other comprehensive income (loss) - cumulative translation adjustment	85,310	8,365	181,388	(131,264)
Comprehensive income (loss)	$ (723,572)	$ 1,296,203	$ (2,458,116)	$ 2,358,746

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30, 2002	Nine months ended September 30, 2003
Cash flows from operating activities:		
Net income (loss) from continuing operations	$ (3,385,343)	$ 524,962
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	912,880	817,363
Non-cash compensation expense (recovery)	(32,722)	40,009
Changes in assets and liabilities, net of effects of acquisition and discontinued operations:		
Accounts receivable, net	(663,126)	333,667
Inventories, net	997,275	79,332
Prepaid expenses	(22,791)	171,093
Other current assets	332,209	(262,324)
Deferred income taxes	83,000	--
Accounts payable	(1,274,443)	(180,121)
Deferred revenue	(410,613)	(13,617)
Accrued expenses	(499,865)	387,565
Net cash provided by discontinued operations	665,959	437,144
Net cash provided by (used in) operating activities	(3,297,580)	2,335,073
Cash flows from investing activities:		
Acquisition of Identikey, Ltd.	(23,362)	(7,341)
Other assets	(2,869)	(4,034)
Proceeds from the disposition of assets	107,765	132,324
Payments received on note receivable	--	45,859
Additions to property and equipment, net	(415,371)	(48,761)
Net cash used in investing activities	(333,837)	118,047
Cash flows from financing activities:		
Repayment of debt	(154,453)	(3,589,645)
Purchase and retirement of Series C preferred stock and warrants	--	(3,000,000)
Net proceeds from sale of Series D preferred stock and warrants	--	7,315,922
Proceeds from the exercise of common stock options	--	48,082
Net cash provied by (used in) financing activities	(154,453)	774,359
Effect of exchange rate changes on cash	181,388	(319,759)
Net increase (decrease) in cash	(3,604,482)	2,907,720
Cash, beginning of period	6,342,440	2,615,935
Cash, end of period	$ 2,737,958	$ 5,523,655

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 September 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 to employees 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 September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
Net income (loss) available to common shareholders as reported	$(1,099,878)	$1,220,393	$ (3,512,491)	$ 1,840,663
Deduct: Total stock-based employee compensation determined under fair value based method for all awards	253,891	251,854	751,561	763,892
Pro forma net income (loss)	$(1,353,769)	$ 968,539	$ (4,264,052)	$ 1,076,771
Net income (loss) per common share-basic and diluted:				
As reported	$ (0.04)	$ 0.04	$ (0.12)	$ 0.06
Pro forma	$ (0.05)	$ 0.03	$ (0.15)	$ 0.04
Weighted average shares outstanding				
Basic	28,389,484	30,391,827	28,333,449	29,211,293
Diluted	28,389,484	31,222,297	28,333,449	29,510,033

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 September 30, 2003, respectively, are comprised of the following:

	December 31, 2002	September 30, 2003
Component parts	$ 772,523	$ 242,831
Work-in-process and finished goods	806,602	1,411,535
Total	$ 1,579,125	$ 1,654,366

NOTE 3 - DISCONTINUED OPERATIONS

On July 8, 2003, effective as of July 1, 2003, VASCO sold its VACMAN Enterprise ("VME") 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 with a face value of approximately $1.1 million, valued at $1.0 million by an independent valuation firm, and $2 million of Convertible Preferred Stock from SSI, valued at $0.6 million by an independent valuation firm, 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. 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. The results of the operations of VME for the three- and nine- month periods ended September 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	September 30, 2003
Accounts receivable	$ 10,724	$ --
Prepaid expenses	12,612	--
Property and equipment, net	132,325	--
	$ 155,661	$ --
Accounts payable	$ 852	$ --
Deferred revenue	75,721	--
Other accrued expenses	31,070	42,775
	$ 107,643	$ 42,775

Income from discontinued operations is as follows:

	Three months ended September 30		Nine months ended September 30	
	2002	2003	2002	2003
Net revenues	$ 387,547	$ --	$ 1,330,604	$ 989,183
Cost of good sold	6,522	--	6,522	81,904
Gross profit	381,025	--	1,324,082	907,279
Operational costs	168,541	6,771	578,242	310,363
Operating income (loss)	$ 212,484	$ (6,771)	$ 745,840	$ 596,916

Included in the gain on sale of discontinued operations are $29,000 and $149,000 of costs incurred during the three and nine months ended September 30, 2003, respectively, related to the sale of the business unit.

NOTE 4 - STOCKHOLDERS' EQUITY

On July 15, 2003, the Company reached an agreement with Ubizen N.V. ("Ubizen") whereby VASCO purchased and redeemed all of the VASCO Series C Convertible Preferred Stock (the "Series C Preferred Stock") and Common Stock Purchase Warrants owned by Ubizen. Under the terms of the Purchase Agreement, the Company paid $3 million to Ubizen and issued 2 million shares of the Company's Common Stock on July 25, 2003. Using the closing price of the Company's Common Stock on July 25, 2003, the value of the stock issued was $4,000,000. An additional $1 million will be paid to Ubizen on or before November 14, 2003. The Common Stock issued by the Company 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.

On September 11, 2003, the Company sold 800 shares of its Series D 5% Cumulative Convertible Voting Preferred Stock (the "Series D Preferred Stock") and 600,000 warrants to purchase Common Stock. The Series D Preferred Stock carries a 5% dividend, is convertible into 4 million shares of Common Stock at a fixed price of $2.00 per share and will vote with the Common Stock as a class on matters presented to the stockholders. The implied value of the Series D Preferred Stock was $5,714,000, calculated based upon the annual dividend rate divided by a required rate of return. The warrants are exercisable, over a five-year period, at $3.47 per share and were valued at $1,455,000 using the Black-Scholes pricing model. Of the net proceeds from the sale, $5,831,000 was allocated to the Series D Preferred Stock and $1,485,000 was allocated to the warrants based upon their relative fair values. In addition, a beneficial conversion value was calculated for the Series D Preferred Stock as the difference between the price of the Company's Common Stock at the transaction date and the conversion price of the Series D Preferred Stock. The amount of the beneficial conversion, $3,720,000, is analogous to a dividend and was recorded to retained earnings.

During the third quarter of 2003, the Company issued 25,625 shares of Common Stock as a result of the exercise of options under the Company's stock option plan generating total proceeds of $48,082.

NOTE 5 - SUPPLEMENTAL STATEMENTS OF CASH FLOWS INFORMATION

	Nine months ended September 30, 2002	Nine months ended September 30, 2003
Supplemental disclosure of cash flow information:		
Interest paid	$ 12,868	$ 205,753
Supplemental disclosure of non-cash investing activities:		
Common stock issued in connection with acquisition	$ 284,458	$ --
Note receivable and preferred stock received from sale of business unit	$ --	$ 1,553,000
Supplemental disclosure of non-cash financing activities:		
Payable to Ubizen for purchase and retirement of Series C preferred stock and warrants	$ --	$ 1,000,000
Reduction in preferred stock and additional paid-in capital as a result of the redemption of Series C preferred stock and warrants	$ --	$ (11,000,000)
Common stock issued to redeem Series C preferred stock and warrants	$ --	$ 11,000,000
Increase in additional paid-in capital related to benefical conversion of Series D preferred stock	$ --	$ 3,720,000
Deemed dividend on preferred stock	$ --	$ (3,720,000)
Dividends accrued on preferred stock	$ --	$ (20,000)

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 NINE MONTHS ENDED SEPTEMBER 30, 2003 AND SEPTEMBER 30, 2002

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements for the three and nine months ended September 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 September 30, 2003 were $5,599,000, an increase of $859,000, or 18%, as compared to the three months ended September 30, 2002. Revenues for the nine months ended September 30, 2003 were $16,670,000, an increase of $2,691,000, or 19%, as compared to the nine months ended September 30, 2002. The increase in revenues for both the three and nine months periods were attributable to growth in both the Banking and Corporate Network Access markets.

For the nine months ended September 30, 2003, revenues by target market were 75% from Banking and 25% from Corporate Network Access. This compares with 83% of revenues from Banking and 17% from Corporate Network Access in the first nine months of the prior year.

Geographically, 85% of revenues for the nine months ended September 30, 2003 were from Europe, 7% from the U.S. and 8% from other countries, primarily in the Asia/Pacific region. For the nine months ended September 30, 2002, 84% of the revenues were from Europe, 7% from the U.S. and 9% from other countries, primarily in the Asia/Pacific region.

Cost of Goods Sold

Cost of goods sold for the three and nine months ended September 30, 2003 were $2,146,000 and $6,728,000, respectively, an increase of $85,000, or 4% compared to the three months ended September 30, 2002 and an increase of $792,000 or 13% compared to the nine months ended September 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 September 30, 2003 was $3,453,000, an increase of $774,000, or 29%, as compared to the three months ended September 30, 2002. This represents a gross margin of 62%, as compared to 57% 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 revenue from the Corporate Network Access market segment as a percentage of total revenue compared to the prior period. Gross profit as a percentage of revenue is higher in the Corporate Network Access market segment than in the Banking market segment.

The Company's gross profit for the nine months ended September 30, 2003 was $9,942,000, an increase of $1,899,000, or 24%, as compared to the nine months ended September 30, 2002. This represents a gross margin of 60%, 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 the Corporate Network Access market segment as a percentage of total revenue compared to the prior period.

Sales and Marketing Expenses

Sales and Marketing expenses for the three months ended September 30, 2003 were $1,579,000, a decrease of $247,000, or 14% compared to the three months ended September 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 50 to 46 from the third quarter of 2002 to the third quarter of 2003.

Sales and Marketing expenses for the nine months ended September 30, 2003 were $4,589,000, a decrease of $1,152,000, or 20% compared to the nine months ended September 30, 2002. The reduction in expense for the nine-month period compared to the same period in the prior year reflects the same factors as noted above for the third quarter.

Research and Development

Research and Development (R&D) costs for the three months ended September 30, 2003 were $747,000, an increase of $96,000, or 15%, as compared to the three months ended September 30, 2002. The increase in expense reflects an increase in the headcount dedicated to R&D activities and the unfavorable impact of changes in currency partially offset by lower spending on third party contractors. Total headcount dedicated to R&D increased from 15 at September 30, 2002 to 19 at September 30, 2003.

R&D costs for the nine months ended September 30, 2003 were $2,064,000, an increase of $21,000, or 1%, as compared to the nine months ended September 30, 2002. The increase in expense for the nine-month period compared to the same period in prior year reflects the same factors as noted above for the third quarter.

General and Administrative Expenses

General and Administrative expenses for the three months ended September 30, 2003 were $1,037,000, a decrease of $140,000, or 12%, compared to the three months ended September 30, 2002. The reduction in expense reflects reductions in expenses related to 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.

There were 10 persons dedicated to administration at the end of the third quarter in both 2002 and 2003.

General and Administrative expenses for the nine months ended September 30, 2003 were $2,492,000, a decrease of $692,000, or 22%, compared to the nine months ended September 30, 2002. The reduction in expense for the nine-month period compared to the same period in the prior year reflects the same factors as noted above for the third quarter.

Interest Expense, Net

Net interest expense for the three months ended September 30, 2003 was $22,000, compared to $45,000 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 nine months ended September 30, 2003 was $120,000, compared to $238,000 for the same period in 2002. Interest expense for 2002 included interest on the settlement of Value Added Tax returns filed in Belgium for prior years.

Other Income, Net

Net other expense for the three months ended September 30, 2003 was $5,000 compared to net other expense of $70,000 for the same period in 2002. For the nine months ended September 30, 2003, net other income was $376,000 compared to net other expense of $116,000 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 months ended September 30, 2003 was $225,000 compared to no income tax expense for the same period in 2002. Income tax expense for the nine months ended September 30, 2003 was $489,000 compared to $140,000 of income tax expense for the same period in 2002. The increase in both the three- and nine-month periods reflects the increase in taxable income of our Belgian operating entity in the first nine months of 2003.

Discontinued Operations

Operating loss from discontinued operations, the VACMAN Enterprise business unit ("VME"), for the three months ended September 30, 2003 was $7,000 as compared to operating income of $212,000 for the same period in 2002. This reduction in operating income reflects the sale of operations of VME effective July 1, 2003. Operating income from VME was $597,000 and $746,000 for the nine months ended September 30, 2003 and 2002, respectively. The decline in operating income is primarily attributed to a decline in revenues.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were $5,524,000 at September 30, 2003, which is an increase of approximately $2,908,000 or 111% from $2,616,000 at December 31, 2002. The increase in cash was a result of a positive operating cash flow, a reduction in days sales outstanding in net accounts receivable and the sale of Series D Preferred Stock and warrants. The sale of the Series D Preferred Stock resulted in net proceeds of approximately $7,316,000, of which $3,604,000 was used to repay the Dexia Loan, including accrued interest of $204,000.

Earnings, before interest, taxes, depreciation and amortization (EBITDA) from continuing operations were $320,000 and $1,951,000 for the three and nine-month periods ended September 30, 2003, respectively. A reconciliation of EBITDA to net income (loss) from continuing operations for the three and nine-month periods ended September 30, 2002 and 2003 follows:

	Three Months Ended September 30, (unaudited)		Nine Months Ended September 30, (unaudited)	
	2002	2003	2002	2003
EBITDA from continuing operations	$ (698,000)	$ 320,000	$(2,094,000)	$1,951,000
Interest expense, net	45,000	22,000	238,000	120,000
Tax provision	--	225,000	140,000	489,000
Depreciaton and amortization	278,000	267,000	913,000	817,000
Net income (loss) from continuing operations	$(1,021,000)	$(194,000)	$(3,385,000)	$ 525,000

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 (loss) 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.

Days sales outstanding in net accounts receivable declined from 74 days at December 31, 2002 to 45 days at September 30, 2003.

At September 30, 2003, 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 2,000,000 Euros. Based on receivable balances as of September 30, 2003, borrowing under the overdraft agreement was limited to 1,520,000 Euros. There were no borrowings outstanding under the overdraft agreement at September 30, 2003.

As of September 30, 2003, the Company had working capital of $4,653,000 compared with a deficit of $586,000 at December 31, 2002. Working capital at December 31, 2002 included the $3,400,000 term loan due to Dexia Bank, which was repaid on September 30, 2003, as a current liability.

On July 15, 2003, VASCO reached an agreement with Ubizen whereby VASCO purchased and redeemed all of its Series C 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 $1,000,000 will be paid to Ubizen on or before November 14, 2003.

On September 11, 2003, the Company sold $8,000,000 of its Series D Preferred Stock and warrants to purchase Common Stock. The net proceeds were approximately $7,316,000. The proceeds were used to repay the debt to Dexia, including accrued interest, and replenish working capital used to repurchase the Series C Preferred Stock from Ubizen.

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, and deposits that will be received in future quarters on orders of our Digipass product 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 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.

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, 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 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS.

On July 9, 2003 the Shareholders of the Company entitled to vote thereon elected the following individuals as Directors of the Company (total shares eligible to vote were 28,389,484; total shares voted were 21,222,287):

Name	For	Against	Abstain
T. Kendall Hunt	21,009,783	-	212,504
Michale Cullinane	21,180,275	-	42,012
Forrest D. Laidley	20,997,099	-	225,188
Michael A. Mulshine	21,039,775	-	182,512
John R. Walter	21,183,375	-	38,912

There were 2,761,855 broker non-votes for the matter.

On October 15, 2003, the holders of the requisite percentage of shares of the Series D Preferred Stock consented in writing to an amendment of the voting terms of the Series D Preferred Stock to decrease the number of votes to which each such stockholder is entitled prior to conversion of their Series D Preferred Stock. As a result of the amendment, instead of each share of Series D Preferred Stock voting as 5,000 shares of Common Stock (based on the $2.00 conversion rate), each will vote as 3,413 shares (based on the $2.93 closing market price on September 11, 2003) on all matters submitted to the stockholders for approval. No change was made to the conversion price or other terms of the Series D Preferred Stock.

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 13, 2003

Exhibit 31.2 Statement Under Oath of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 13, 2003.

Exhibit 32.1 Statement Under Oath of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 13, 2003.

Exhibit 32.2 Statement Under Oath of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 13, 2003.

(B) REPORTS ON FORM 8-K:

(i) On September 15, 2003, we filed a Current Report on Form 8-K reporting the sale of $8 million of Series D Preferred Stock and warrants to purchase Common Stock.

(ii) On October 24, 2003, we furnished a Current Report on Form 8-K reporting financial results for the third quarter ended September 30, 2003

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 13, 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 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 13, 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 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 13, 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 September 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
November 13, 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 September 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

Clifford K. Bown
Chief Financial Officer
November 13, 2003