

VASCO DATA SECURITY INTERNATIONAL, INC.
 FORM 10-Q
 FOR THE THREE MONTHS ENDED MARCH 31, 2000

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

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 1999	March 31, 2000
	-----	-----
		(Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,576,494	\$ 3,435,188
Accounts receivable, net of allowance for doubtful accounts of \$120,216 and \$121,582 in 1999 and 2000, respectively	2,871,367	3,409,678
Inventories, net	805,382	796,824
Prepaid expenses	157,620	285,600
Deferred income taxes	83,000	83,000
Other current assets	925,334	830,041
	-----	-----
Total current assets	7,419,197	8,840,331
Property and equipment		
Furniture and fixtures	1,246,555	1,287,957
Office equipment	1,013,870	1,085,323
	-----	-----
Accumulated depreciation	(1,070,046)	(1,053,057)
	-----	-----
	1,190,379	1,320,223
Goodwill and other intangibles, net of accumulated amortization of \$3,134,000 and \$3,287,161 in 1999 and 2000, respectively	1,989,960	1,788,065
Prepaid royalties and other assets	1,718,493	1,717,556
	-----	-----
TOTAL ASSETS	\$ 12,318,029	\$ 13,666,175
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 639,322	\$ 463,287
Accounts payable	2,020,465	875,234
Unearned income	667,501	872,812
Accrued expenses	1,618,739	3,530,598
	-----	-----
Total current liabilities	4,946,027	5,741,931
Long-term debt, including stockholder note of \$5,000,000 in 1999 and 2000, respectively	8,408,862	8,836,837
STOCKHOLDERS' DEFICIT:		
Preferred stock, \$.01 par value; 500,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.001 par value - 75,000,000 shares authorized; 26,462,083 and 26,872,614 shares issued and outstanding in 1999 and 2000, respectively	26,462	26,873
Additional paid-in capital	20,702,387	21,745,836
Accumulated deficit	(21,873,340)	(22,687,195)
Accumulated other comprehensive income- cumulative translation adjustment	107,631	1,893
	-----	-----
Total stockholders' deficit	(1,036,860)	(912,593)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 12,318,029	\$ 13,666,175
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 1999	2000
	-----	-----
Net revenues	\$ 4,818,254	\$ 5,551,927
Cost of goods sold	1,889,801	1,862,954
	-----	-----
Gross profit	2,928,453	3,688,973
	-----	-----
Operating costs:		
Sales and marketing	1,402,660	2,162,637
Research and development	976,498	941,605
General and administrative	938,726	1,160,664
	-----	-----
Total operating costs	3,317,884	4,264,906
	-----	-----
Operating loss	(389,431)	(575,933)
Interest expense, net	(227,900)	(162,911)
Other expense, net	(60,679)	(55,470)
	-----	-----
Loss before income taxes	(678,010)	(794,314)
Provision for income taxes	304,181	19,541
	-----	-----
Net loss	\$ (982,191)	\$ (813,855)
	=====	=====
Basic and diluted net loss per share	\$ (0.04)	\$ (0.03)
	=====	=====
Weighted average shares outstanding	23,010,633	26,786,287
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	1999	2000
	-----	-----
Net loss	\$ (982,191)	\$ (813,855)
Other comprehensive loss - cumulative translation adjustment	(134,239)	(105,738)
	-----	-----
Comprehensive loss	<u>\$ (1,116,430)</u>	<u>\$ (919,593)</u>

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 1999	2000
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (982,191)	\$ (813,855)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	252,695	255,563
Interest paid in shares of common stock	78,750	78,750
Gain on sale of fixed assets	(14,862)	-
Changes in assets and liabilities:		
Accounts receivable, net	773,521	(538,311)
Inventories, net	(69,510)	8,558
Other current assets	(73,728)	(31,750)
Accounts payable	757,096	(1,145,231)
Unearned income	(228,301)	205,311
Accrued expenses	199,363	1,911,859
Prepayment of royalties	(450,000)	-
	-----	-----
Net cash provided by (used in) operations	242,833	(69,106)
	-----	-----
Cash flows from investing activities:		
Additions to property and equipment, net	(4,059)	(183,511)
	-----	-----
Net cash used in investing activities	(4,059)	(183,511)
	-----	-----
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	93,625	965,109
Proceeds from issuance of debt	-	427,975
Repayment of debt	(254,203)	(176,035)
	-----	-----
Net cash provided by (used in) financing activities	(160,578)	1,217,049
	-----	-----
Effect of exchange rate changes on cash	(134,239)	(105,738)
	-----	-----
Net increase (decrease) in cash	(56,043)	858,694
Cash and cash equivalents, beginning of period	1,662,084	2,576,494
	-----	-----
Cash and cash equivalents, end of period	\$ 1,606,041	\$ 3,435,188
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$ 57,100	\$ 43,999
Income taxes paid	\$ 3,945	\$ 2,632

See accompanying notes to consolidated financial statements.

VASCO DATA SECURITY INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of VASCO Data Security International, Inc. and its subsidiaries (collectively, the "Company" 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, 1999.

During the fourth quarter of 1999, the Company acquired IntelliSoft Corp. in a transaction which has been accounted for under the pooling-of-interests method. Accordingly, the consolidated financial statements for the quarter ended March 31, 1999 have been restated as if IntelliSoft had been combined for that period.

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.

NOTE 2 - BUSINESS SEGMENTS

	IDENTISOFT -----	INTELLISOFT -----	TOTAL -----
Three months ended March 31, 2000			
Net revenues	\$3,513,290	\$2,038,637	\$5,551,927
Cost of goods sold	1,618,318	244,636	1,862,954
Gross profit	1,894,972	1,794,001	3,688,973
Three months ended March 31, 1999			
Net revenues	4,308,543	509,711	4,818,254
Cost of goods sold	1,835,858	53,943	1,889,801
Gross profit	2,472,685	455,768	2,928,453

NOTE 3 - SUBSEQUENT EVENTS

During the first quarter of 2000 the Company filed a registration statement in connection with an offering of its common stock to the public. On April 13, 2000, the Company terminated this offering due to the volatility of market conditions.

In April 2000, long-term debt in the amount of \$5,000,000 was converted into 416,666 shares of common stock of the Company.

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 THREE MONTHS ENDED MARCH 31, 1999 AND MARCH 31, 2000

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements for the three months ended March 31, 1999 and 2000.

Revenues

Revenues for the three months ended March 31, 2000 were \$5,552,000, an increase of \$734,000, or 15%, as compared to the three months ended March 31, 1999. This was the highest quarterly revenues ever achieved by the Company and can be attributed to strong demand in the market place for the Company's security products.

Cost of Goods Sold

Cost of goods sold for the three months ended March 31, 2000 was \$1,863,000, a decrease of \$27,000, or 1.4%, as compared to the three months ended March 31, 1999. This decrease can be attributed to savings being realized through efficiencies in the manufacturing process and redesign of the products.

Gross Profit

The Company's gross profit for the three months ended March 31, 2000 was \$3,689,000, an increase of \$761,000, or 26%, as compared to the three months ended March 31, 1999. This represents a gross margin of 66%, as compared to 61% for the same period of 1999. This increase can be attributed to efficiencies in the design of the products, which resulted in reduced third-party manufacturing costs. Additionally, sales of software licenses of the Company's SnareWorks product increased and provide higher gross margins than the Company's products which ship with a hardware interface.

Sales and Marketing Expenses

Sales and marketing expenses for the three months ended March 31, 2000 were \$2,163,000, an increase of \$760,000, or 54%, over the three months ended March 31, 1999. This increase is due to increased sales efforts including, in part, increased travel costs and an increase in marketing activities, including the development of a company-wide marketing program and other efforts. Additionally, the Company continues to invest in its customer support infrastructure, which becomes more and more important as the client base continues to expand.

Research and Development

Research and development costs for the three months ended March 31, 2000 were \$942,000, a decrease of \$34,000, or 4%, as compared to the three months ended March 31, 1999. The Company has maintained expenditures for product development at relatively stable levels over the last year.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2000 were \$1,161,000, an increase of \$222,000, or 24%, compared to the three months ended March 31, 1999. The Company has added head count to support administrative activities resulting from increased sales growth.

Interest Expense

Interest expense for the three months ended March 31, 2000 was \$163,000, compared to \$228,000, a decrease of 29% from the same period of 1999. This decrease is a due to a reduction in the debt base, facilitated by the Private Placement that occurred in April 1999.

Income Taxes

Income tax expense of \$20,000 for the three months ended March 31, 2000 and \$304,000 for the three months ended March 31, 1999 relates to foreign operations. The reduction in income tax expense is a result of income tax planning strategies implemented by the Company during the fourth quarter of 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were \$3,435,000 at March 31, 2000, which is an increase of approximately \$859,000 from \$2,576,000 at December 31, 1999. As of March 31, 2000, the Company had working capital of \$3,098,000. During the first quarter of 2000, the Company used the cash provided by operations principally for working capital needs. The Company received \$965,000 during the first quarter of 2000 from the exercise of stock options and warrants.

At March 31, 2000, the Company had lines of credit from European banks totaling approximately \$3,400,000 of which approximately \$2,300,000 was unused.

Capital expenditures during the first three months of 2000 were \$184,000 and consisted primarily of computer equipment and office furniture and fixtures.

During April 2000, a convertible note in the amount of \$5,000,000 was converted into the Company's common stock.

During the first quarter of 2000, the Company filed a registration statement for an offering of 3,000,000 shares of common stock. The offering was withdrawn in April 2000 due to volatile market conditions.

The Company believes that its current cash balances, anticipated cash generated from operations, and amounts available under its credit lines, will be sufficient to meet its anticipated cash needs through the next twelve months.

The Company intends to seek acquisitions of businesses, products and technologies that are complementary or additive to those of the Company. While from time to time the Company engages in discussions with respect to potential acquisitions, the Company has no present plans, commitments or agreements with respect to any such acquisitions as of the date of this Form 10-Q and currently does not have excess cash for use in making acquisitions. There can be no assurance that any such acquisitions will be made.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board Interpretation No. 44 (FIN No. 44), "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of Accounting Principles Board Opinion No. 25, is effective for financial statements beginning after July 1, 2000. The Company is currently evaluating the impact of this pronouncement on its financial statements.

During 1998, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities, which is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes a comprehensive standard for the recognition and measurement of derivative instruments and hedging activities. The Company does not expect the adoption of the new standard to have a material impact on consolidated financial position, liquidity, or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk during the three month period ended March 31, 2000. For additional information, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS, None.

ITEM 2. CHANGES IN SECURITIES. None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES. None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS. None.

ITEM 5. OTHER INFORMATION. None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a) The following exhibits are filed with this Form 10-Q or incorporated by reference as set forth below:

Exhibit Number -----	Description -----
27	Financial Data Schedule.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by the Registrant during the quarter ended March 31, 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 14, 2000.

VASCO Data Security International, Inc.

/s/ Mario R. Houthoof

 Mario R. Houthoof
 Chief Executive Officer and President

/s/ Dennis D. Wilson

 Dennis D. Wilson
 Vice President and Chief Financial Officer
 (Principal Financial Officer and Principal
 Accounting Officer)

EXHIBIT INDEX

Exhibit Number -----	Description -----
27	Financial Data Schedule.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS END MARCH 31, 1999 AND 2000. CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 1999 AND MARCH 31, 2000, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS		
	DEC-31-2000	
	MAR-31-2000	
		3,435,188
		0
		3,531,260
		(121,582)
		796,824
		8,840,331
		2,373,280
		(1,053,057)
		13,666,175
	5,741,931	
		0
	0	
		0
		26,873
		(939,466)
13,666,175		
		5,551,927
	5,551,927	
		1,862,954
		4,264,906
		55,470
		0
	162,911	
	(794,314)	
		19,541
	(813,855)	
		0
		0
		0
		(813,855)
		(0.03)
		(0.03)