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, 1999

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

As of November 13, 1999, 26,462,083 shares of the Company's Common Stock, $.001 par value per share (_Common Stock_), were outstanding.

VASCO Data Security International, Inc.
Form 10-Q
For The Three Months Ended September 30, 1999

Table of Contents

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

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

VASCO Data Security International, Inc.
Consolidated Balance Sheets

	December 31, 1998	September 30, 1999 (Unaudited)
ASSETS		
Current assets:		
Cash	$ 1,523,075	$ 4,712,263
Accounts receivable, net of allowance for doubtful accounts of $55,000 and $73,000 in 1998 and 1999	3,376,218	2,310,842
Inventories, net	1,272,327	807,468
Prepaid expenses	692,326	1,298,516
Deferred income taxes	83,000	83,000
Other current assets	277,322	331,152
Total current assets	7,224,268	9,543,241
Property and equipment:		
Furniture and fixtures	580,427	691,007
Office equipment	468,975	647,340
	1,049,402	1,338,347
Accumulated depreciation	(691,806)	(835,997)
	357,596	502,350
Goodwill, net of accumulated amortization of $327,000 and $424,000 in 1998 and 1999	575,211	478,526
Other assets	943,821	2,414,986
Total assets	$ 9,100,896	$12,939,103

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current maturities of long-term debt	$ 6,528,867	$ 396,944
Accounts payable	1,144,506	1,341,192
Customer deposits	519,585	135,601
Other accrued expenses	2,117,599	2,019,627
Total current liabilities	10,310,557	3,893,364
Long-term debt, including stockholder		

note of $5,000,000 in 1998 and 1999	8,435,903	8,432,808
Stockholders' equity (deficit):		
Common stock, $.001 par value - 75,000,000 shares authorized; 20,805,697 shares issued and outstanding in 1998; 24,650,005 shares issued and outstanding in 1999	20,806	24,650
Additional paid-in capital	9,797,068	21,360,132
Accumulated deficit	(19,550,419)	(21,057,225)
Accumulated other comprehensive income-cumulative translation adj.	86,981	285,374
Total stockholders' equity (deficit)	(9,645,564)	612,931
Total liabilities and stockholders' equity (deficit)	$ 9,100,896	$12,939,103

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	1998	1999	1998	1999
Net revenues	$ 4,025,326	$ 4,652,793	$10,431,673	$13,412,035
Cost of goods sold	1,877,796	1,870,978	5,023,831	5,420,400
Gross profit	2,147,530	2,781,815	5,407,842	7,991,635
Operating costs:				
Sales and marketing	1,117,710	1,098,201	3,046,850	3,744,438
Research and development	420,815	598,124	1,248,781	1,771,355
General and administrative	765,939	625,414	1,759,879	2,239,407
Total operating costs	2,304,464	2,321,739	6,055,510	7,755,200
Operating income (loss)	(156,934)	460,076	(647,668)	236,435
Interest expense	(223,341)	(229,670)	(1,102,926)	(645,126)
Other income (expense), net	(88,480)	39,019	(189,636)	(370,968)
Income (loss) before income taxes	(468,755)	269,425	(1,940,230)	(779,659)
Provision for income taxes	248,407	383,337	379,750	744,381
Net loss	$ (717,162)	$ (113,912)	$(2,319,980)	$(1,524,040)
Basic and diluted net loss per common share	$ (0.04)	$ 0.00	$ (0.11)	$ (0.07)
Weighted average common shares outstanding	20,331,057	24,648,570	20,352,197	23,249,650

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	1998	1999	1998	1999
Comprehensive income:				
Net loss	$ (717,162)	$ (113,912)	$(2,319,980)	$(1,524,040)

Other comprehensive income-cumulative translation adj	85,788	98,698	190,740	198,393
Comprehensive loss	$ (631,374)	$ (15,214)	$(2,129,240)	$(1,325,647)

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30, 1998	1999
Cash flows from operating activities:		
Net loss	$ (2,319,980)	$ (1,524,040)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	743,770	846,765
Interest paid in shares of common stock	-	78,750
Loss on disposition of fixed assets	5,113	-
Gain on sale of fixed assets	-	(16,096)
Changes in assets and liabilities:		
Accounts receivable, net	(822,065)	1,065,376
Inventories, net	(728,590)	464,859
Other current assets	(500,013)	(660,120)
Accounts payable	(215,270)	196,686
Customer deposits	55,462	(383,984)
Other accrued expenses	337,643	(97,972)
Other assets	-	(1,100,000)
Net cash used in operating activities	(3,443,930)	(1,129,776)
Cash flows from investing activities:		
Acquisition of SecureWare/DMIC	-	(287,023)
Additions to property and equipment	(205,640)	(288,945)
Net cash used in investing activities	(205,640)	(575,968)
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,000	94,225
Net proceeds from sales of common stock	115,347	10,737,332
Proceeds from issuance of debt	2,545,837	-
Repayment of debt	-	(6,135,018)
Net cash provided by financing activities	2,662,184	4,696,539
Effect of exchange rate changes on cash	190,740	198,393
Net increase (decrease) in cash	(796,646)	3,189,188
Cash, beginning of period	1,897,666	1,523,075
Cash, end of period	$ 1,101,020	$ 4,712,263

Supplemental disclosure of cash flow information:		
Interest paid	$ 693,668	$ 719,514
Income taxes paid	$ 227,852	$ 398,655
Supplemental disclosure of non-cash investing activity:	$ -	$ 698,300
Stock issued for acquisition		

See accompanying notes to consolidated financial statements.

VASCO Data Security International, Inc.
Notes to Consolidated Financial Statements

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of VASCO Data Security International, Inc. and its subsidiaries (collectively, the _Company_) and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

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

Note 2 - Exchange Offer

VASCO Data Security International, Inc. ("VDSI Inc.") was organized in 1997 as a subsidiary of VASCO Corp., a Delaware corporation ("VASCO Corp."). Pursuant to an exchange offer ("Exchange Offer") by VDSI Inc. for securities of VASCO Corp. that was completed March 11, 1998, VDSI Inc. acquired 97.7% of the outstanding common stock of VASCO Corp. Consequently, VASCO Corp. became a subsidiary of VDSI Inc., with certain VASCO Corp. shareholders holding the remaining 2.3% of the VASCO Corp. common stock representing a minority interest. On October 28, 1998, VASCO Corp. was merged with and into the Company and VASCO Corp. ceased to exist.

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

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

The following discussion is based upon VDSI Inc.'s consolidated results of operations for the three and nine months ended September 30, 1999 as compared to VASCO Corp.'s consolidated results of operations for the three and nine months ended September 30, 1998. See Note 2 "Exchange Offer." References to the "Company" or "VDSI Inc." represent the consolidated entity. References to "VASCO NA" represent the North American operations, including VDSI, Inc., VASCO Corp., and VDS. References to "VASCO Europe" mean the operations of Lintel Security, VASCO Data Security nv/sa and VASCO Data Security Europe.

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

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

Comparison of Three and Nine Months Ended September 30, 1998 and September 30, 1999

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, 1998 and 1999.

Revenues

Revenues for the three months ended September 30, 1999 were $4,653,000, an increase of $627,000, or 16%, as compared to the three months ended September 30, 1998. This increase can be attributed to new customers and add-on orders for the Company's flagship products, Digipass 300 and Digipass 500, as well as the newly introduced Digipass 100, 600 and 700.

For the nine months ended September 30, 1999, revenues increased 29% to $13,412,000 from $10,432,000 for the same period in 1998. Again, the Company continues to enter new markets and develops new applications for its products, as well as enjoys a loyalty from its current customers in the form of additional orders.

Cost of Goods Sold

Cost of goods sold for the three months ended September 30, 1999 was $1,871,000, a decrease of $7,000, or .4%, as compared to the three months ended September 30, 1998. As a percentage of sales, cost of goods sold decreased to 40% from 47% for the year earlier period as a result of manufacturing efficiencies and increased volume discounts.

For the nine months ended September 30, 1999, cost of goods sold increased 8% to $5,420,000 from $5,024,000 in 1998. Cost of goods sold for the nine month period ended September 30, 1999 decreased to 40% of sales from 48% for the year earlier period. This is consistent with the decrease experienced for the three month period ended September 30, 1999.

Gross Profit

The Company's gross profit for the three months ended September 30, 1999 was $2,782,000, an increase of $634,000, or 30%, as compared to the three months ended September 30, 1998. This represents a gross margin of 60%, as compared to 53% for the same period of 1998. This increase can be attributed to efficiencies in the design of the products, which resulted in reduced third-party manufacturing costs.

For the nine months ended September 30, 1999, gross profit was $7,992,000, an increase of $2,584,000, or 48%, as compared to 1998. This represents a gross margin of 60% as compared to 52% for the same period in 1998.

Sales and Marketing Expenses

Sales and marketing expenses for the three months ended September 30, 1999 were $1,098,000, a decrease of $20,000, or 2%, over the three months ended September 30, 1998. Selling and marketing expenses increased 23% in the first nine months of 1999 to $3,744,000 from $3,047,000 in the first nine months of 1998. The increase is attributed 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 our client base continues to expand.

Research and Development

Research and development costs for the three months ended September 30, 1999 were $598,000, an increase of $177,000, or 42%, as compared to the three months ended September 30, 1998. Research and development costs increased 42% in the first nine months of 1999 to $1,771,000 from $1,249,000 in the first nine months of 1998. The increase is due to the addition of R&D personnel, mainly in France, due to the acquisition of Secureware in May 1999.

General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 1999 were $625,000, a decrease of $141,000, or 18%, compared to the three months ended September 30, 1998. General and administrative expenses increased 27% in the first nine months of 1999 to $2,239,000 from $1,760,000 in the first nine months of 1998. This increase is due to the addition of administrative support staff and legal fees associated with a lawsuit that was settled earlier in 1999.

Interest Expense

Interest expense for the three months ended September 30, 1999 was $230,000, compared to $223,000, an increase of 3% over the same period of 1998. Interest expense decreased 42% in the first nine months of 1999 to $645,000 from $1,103,000 in the first nine months of 1998. This decrease is due to a reduction in the debt base, facilitated by the private placement of common stock that occurred in April 1999.

Operating Income (Loss)

The Company's operating income for the three months ended September 30, 1999 was $460,000, compared to an operating loss of $157,000 for the three months ended September 30, 1998. The Company had operating income of $236,000 for the first nine months of 1999, as compared to an operating loss of $648,000 for the first nine months of 1998.

Income Taxes

Income tax expense for the three months ended September 30, 1999 was $383,000, compared to $248,000 for the three months ended September 30, 1998. For the nine months ended September 30, 1999, income tax expense totaled $744,000, compared to expense of $380,000 for the same period in 1998. Income taxes are attributable to the Company's European operations.

Liquidity and Capital Resources

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

The Company's cash and cash equivalents were $4,712,000 at September 30, 1999, which is an increase of approximately $3,189,000 from $1,523,000 at December 31, 1998. As of September 30, 1999, the Company had working capital of $5,650,000. During the third quarter of 1999, the Company used the cash provided by operations principally for working capital needs.

Capital expenditures during the first nine months of 1999 were $289,000 and consisted primarily of computer equipment and office furniture and fixtures. The Company acquired a French company, SecureWare, in May 1999 for $1,500,000. Payment was made in both stock and cash, with payments being spread over 1 year.

In April 1999, the Company completed a private placement of common stock in the amount of $11.5 million. The transaction represented a sale of the Company's common stock to European institutional investors at a price of $3.50 per share. The Company believes that its current cash balances and anticipated cash generated from operations will be sufficient to meet its anticipated cash needs through 2000. Continuance of the Company's operations beyond 2000, however, will depend on the Company's ability to obtain adequate financing. The Company has entered into engagement letters with Artesia Bank and Bank DeGroof for a possible future public offering.

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.

Year 2000 Considerations

Many existing computer systems and software products are coded to accept only two digit entries in the date code field with respect to year. The date code field in these systems and products must be adjusted to allow for a four digit year of otherwise modified so that they recognize "00" to indicate the year 2000 rather that the year 1900. Based upon its current assessments, which are based in part on certain representations of third party service and product providers, the Company does not expect that it will experience a significant disruption of its operations as a result of the Year 2000.

The Company plans to continue to identify, assess and to resolve all material Year 2000 issues by the end of 1999. The Company is developing contingency plans to address significant internal and external Year 2000 issues as they are identified. These contingency plans are expected to be complete by the end of 1999. Even with the effort to address the Year 2000 issue made by the Company to date, there can be no assurance that the systems of other entities on which the Company relies, including the Company's internal systems and proprietary software, will be remedied in a timely fashion, or that a failure to remediate by another entity and/or the Company, would not have a material effect on the Company's results of operations.

The Company has incurred approximately $150,000 to date in addressing Year 2000 issues, and believes that no additional material expenses will be incurred related to the Year 2000 issue. The Company has completed its assessment of products and mission critical systems for Year 2000 readiness and believes no material expenses will be incurred in the future.

Additionally, the Company believes that the purchasing patterns of customers and potential customers may be affected by the Year 2000 issues as companies expend significant resources to upgrade their current software systems for Year 2000 compliance. This, in turn, could result in reduced funds available to be spent on other technology applications, such as those offered by the Company, which could have a material adverse effect on the Company's business and results of operations.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings. None.

Item 2. Changes in Securities. None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Approximately 80% of the Company's business is conducted outside the United States in Europe and Asia/Pacific. The majority of business operations are transacted in foreign currencies. As a result, the Company has exposure to foreign exchange fluctuations. The Company is affected by both foreign currency translation and transaction adjustments. The Company does not hold any financial instruments for trading purposes. Translation adjustments result from the conversion of the foreign subsidiaries' balance sheets and income statements to U.S. dollars at year-end exchange rates and weighted average exchange rates, respectively. Translation adjustments resulting from this process are recorded directly into stockholders' equity. Transaction adjustments result from currency exchange movements when a foreign subsidiary transacts business in a currency that differs from its local currency. These transactions are recorded as gains or losses in the Company's statement of operations.

The Company's foreign exchange exposure was minimized in 1999 as the majority of the Company's foreign subsidiaries' business transactions were spread across approximately 40 different countries and currencies. This geographic diversity reduces the risk to the

Company's operating results. Company has not entered into foreign currency exchange forward contracts or other derivative arrangements to manage risks associated with foreign exchange rate fluctuations. Also, the Company performs periodic reviews of outstanding balances and settles intercompany accounts to minimize foreign exchange transaction gains and losses.

The Company has minimal interest rate risk. The Company's $8 million debt is made up of fixed rate notes, ranging from 9.0% to 9.5%, which are not subject to market fluctuations. The maturities of these notes range from 2001 to 2002.

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 September 30, 1999.

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, 1999.

VASCO Data Security International, Inc.

/s/ Mario R. Houthooft

Mario R. Houthooft
Chief Executive Officer and President

/s/ Gregory T. Apple

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

EXHIBIT INDEX

Exhibit Number	Description
27	Financial Data Schedule.

5

9-MOS
DEC-31-1999
SEP-30-1999
4,712,263
0
2,383,842
73,000
807,468
9,543,241
1,338,347
835,997
12,939,103
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24,650
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