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, 2002

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 June 30, 2002, 28,389,484 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 THREE MONTHS ENDED JUNE 30, 2002

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, 2001 (AUDITED)	JUNE 30, 2002 (UNAUDITED)
ASSETS		
CURRENT ASSETS:		
Cash	$ 6,342,440	$ 3,059,148
Accounts receivable, net of allowance for doubtful accounts of $206,913 and $222,390 in 2001 and 2002	3,791,916	4,471,363
Inventories, net	2,012,567	1,491,089
Prepaid expenses	405,815	291,401
Deferred income taxes	83,000	--
Other current assets	661,597	448,207
Total current assets	13,297,335	9,761,208
Property and equipment		
Furniture and fixtures	1,733,349	1,785,649
Office equipment	2,070,090	2,457,982
	3,803,439	4,243,631
Accumulated depreciation	(2,088,939)	(2,506,225)
	1,714,500	1,737,406
Intangible assets, net of accumulated amortization of $4,621,160 in 2001 and $4,237,558 in 2002	2,411,888	2,423,471
Other assets	27,273	98,201
Total assets	$ 17,450,996	$ 14,020,286
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 158,990	$ 319,069
Accounts payable	3,326,652	2,403,025
Deferred revenue	869,893	367,532
Other accrued expenses	2,280,491	1,754,143
Total current liabilities	6,636,026	4,843,769
Long-term debt, less current maturities	3,667,882	3,442,849
STOCKHOLDERS' EQUITY:		
Series C Convertible Preferred Stock, $.01 par value - 500,000 shares authorized; 150,000 shares issued and outstanding in 2001 and 2002	7,944,082	8,526,074
Common stock, $.001 par value - 75,000,000 shares authorized; 28,263,058 shares issued and outstanding in 2001 and 28,389,484 issued and outstanding in 2002	28,263	28,389
Additional paid-in capital	37,693,098	37,432,104
Accumulated deficit	(38,069,082)	(39,899,704)
Accumulated other comprehensive income (loss) - cumulative translation adjustment	(449,273)	(353,195)
Total stockholders' equity	7,147,088	5,733,668
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,450,996	$ 14,020,286

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,	
	2001	2002	2001	2002
Net revenues	$ 8,034,877	$ 4,150,253	15,907,602	10,182,681
Cost of goods sold	2,906,178	1,646,160	5,698,903	3,875,020
Gross profit	5,128,699	2,504,093	10,208,699	6,307,661
Operating costs:				
Sales and marketing (exclusive of $(27,387) and $18,617 for the three and six months ended June 30, 2001, respectively, and $(21,274) and $8,617 for the three and six months ended June 30, 2002, respectively , reported below as non-cash compensation)	3,589,002	2,047,154	6,929,275	4,205,083
Research and development	1,614,538	919,475	2,995,159	1,578,326
General and administrative (exclusive of $(62,703) and $42,624 for the three and six months ended June 30, 2001, respectively, and $(69,227) and $28,048 for the three and six months ended June 30, 2002, respectively, as reported below as non-cash compensation)	1,541,036	911,405	2,871,754	1,939,939
Non-cash compensation (recovery)	(90,090)	(90,501)	61,241	36,665
Total operating costs	6,654,486	3,787,533	12,857,429	7,760,013
Operating income (loss)	(1,525,787)	(1,283,440)	(2,648,730)	(1,452,352)
Interest income (expense), net	77,990	(152,214)	207,962	(193,332)
Other income (expense), net	(55,623)	(94,462)	72,550	(44,666)
Income (loss) before income taxes	(1,503,420)	(1,530,116)	(2,368,218)	(1,690,350)
Provision (benefit) for income taxes	19,753	140,313	193,530	140,272
Net loss	$ (1,523,173)	$ (1,670,429)	$ (2,561,748)	$ (1,830,622)
Preferred stock accretion	(290,996)	(290,996)	(581,992)	(581,992)
Net loss available to common shareholders	$ (1,814,169)	$ (1,961,425)	$ (3,143,740)	$ (2,412,614)
Basic and diluted net loss per common share	$ (0.06)	$ (0.07)	$ (0.11)	$ (0.09)
Weighted average common shares outstanding	28,259,387	28,346,416	28,076,257	28,304,967

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
Net loss	(1,523,173)	(1,670,429)	(2,561,748)	(1,830,622)
Other comprehensive income (loss) - cumulative translation adjustment	(158,481)	281,501	(411,979)	96,078
Comprehensive income (loss)	$(1,681,654)	$(1,388,928)	$(2,973,727)	$(1,734,544)

See accompanying notes to consolidated financial statements.

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

	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2002
Cash flows from operating activities:		
Net loss	$ (2,561,748)	$ (1,830,622)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,269,318	716,111
Loss (gain) on sale of fixed assets	(15,256)	--
Non-cash compensation expense	61,241	36,665
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	1,867,172	(679,447)
Inventories, net	(603,166)	521,478
Prepaid expenses	99,300	114,414
Deferred income taxes	--	83,000
Other current assets	183,015	213,390
Accounts payable	(579,484)	(923,627)
Deferred revenue	(741,157)	(502,361)
Accrued expenses	(161,785)	(526,348)
Net cash provided by (used in) operations	(1,182,550)	(2,777,347)
Cash flows from investing activities:		
Acquisition of Identikey, Ltd.	141,156	284,459
Other Assets	--	(70,928)
Additions to intangibles	--	(274,625)
Additions to property and equipment, net	(177,643)	(475,975)
Net cash provided by (used in) investing activities	(36,487)	(537,069)
Cash flows from financing activities:		
Repayment of debt	(159,994)	(64,954)
Proceeds from exercise of stock options/warrants	32,857	--
Net cash provided by (used in) financing activities	(127,137)	(64,954)
Effect of exchange rate changes on cash	(407,311)	96,078
Net increase (decrease) in cash	(1,753,485)	(3,283,292)
Cash, beginning of period	13,832,645	6,342,440
Cash, end of period	$ 12,079,160	$ 3,059,148
Supplemental disclosure of cash flow information:		
Interest paid	$ 97,026	$ 12,868
Income taxes paid	$ 120,535	$ --
Common stock issued in connection with acquisition	$ 1,903,366	$ --

See accompanying 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, 2001.

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- New Accounting Pronouncements Including Intangible Asset Data

During the first quarter of 2002, VASCO implemented SFAS No. 142, "Goodwill and Other Intangible Assets", which replaces the requirements to amortize intangible assets with indefinite lives and goodwill with a requirement for an impairment test. SFAS 142 also establishes requirements for identifiable intangible assets. As a result, during the first quarter VASCO reclassified $1,222,898 of intangible assets into goodwill. Operating income for the first six months of 2001 includes $83,862 of amortization of goodwill and other intangible assets that are not included in 2002 results, because of the implementation of SFAS No. 142.

Intangible asset data as of June 30, 2002 are as follows:

	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets -		
Current technology	$5,438,130	$3,264,628
Unamortized intangible assets - Goodwill	$1,222,898	$ 972,931
Aggregate amortization expense -		
For the six months ended June 30, 2002	$ 262,983	
Estimated amortization expense for the year ended:		
December 31, 2002	$ 525,963	
December 31, 2003	484,176	
December 31, 2004	271,008	
December 31, 2005	271,008	

Net income would have been $41,931 higher for the second quarter and $83,862 higher for the first six months of 2001, and basic and diluted earnings per share would not have changed for the second quarter or the first six months of 2001, if SFAS 142 had been implemented at the beginning of 2001.

In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations". SFAS 143 addresses financial accounting and reporting obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. SFAS 143 must be applied starting with fiscal years beginning after June 15, 2002. Management is currently evaluating the impact that the adoption of SFAS 143 will have on the consolidated financial statements.

Note 3- Acquisition

On March 29, 2001, VASCO acquired approximately 90% percent of the outstanding capital stock of Identikey, Ltd. in exchange for 366,913 shares of Company common stock. In May of 2002, VASCO acquired approximately 9.7% of the outstanding capital stock of Identikey, Ltd. in exchange for 126,426 shares of Company common stock and approximately $40,000 in cash. The value of the stock and cash exchanged for these shares in May 2002 was approximately $324,000.

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 Three and Six Months Ended June 30, 2002 and June 30, 2001

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, 2002 and 2001.

Revenues

Revenues for the three months ended June 30, 2002 were $4,150,000, a decrease of $3,885,000, or 48%, as compared to the three months ended June 30, 2001. Revenues from the Digipass product line represented about 86% of our sales while revenues from the VACMAN product line represented about 14% of our sales. This compares with 77% of revenues from Digipass products versus 23% from VACMAN products in the prior year second quarter. The change in composition of sales is due to the decision to cease active sales and marketing activities for VACMAN Enterprise software. Geographically, 17% of revenues in the second quarter of 2002 were from the U.S. and 83%

from outside the U.S., primarily Europe. In the second quarter of 2001, 23% of revenues were from the U.S. and 77% from outside the U.S., primarily Europe. This change is also due to the reduction in sales from VACMAN Enterprise products.

For the six months ended June 30, 2002, revenues were $10,183,000, a decrease of $5,725,000, or 36%, as compared to the same period last year.

Cost of Goods Sold

Cost of goods sold for the three months ended June 30, 2002 was $1,646,000, a decrease of $1,260,000, or 43%, as compared to the three months ended June 30, 2001. The decrease was due to the decline in sales as previously described.

For the six months ended June 30, 2002, cost of goods sold was $3,875,000, a decrease of $1,824,000, or 32%, as compared to the same period last year.

Gross Profit

The Company's gross profit for the three months ended June 30, 2002 was $2,504,000, a decrease of $2,625,000 or 51%, as compared to the three months ended June 30, 2001. The decrease in gross profit is due to lower revenues for the period. This represents a gross margin of 60%, as compared to 64% for the same period of 2001. The decline in margin is related to the product sales mix, as there were less sales from VACMAN Enterprise products in 2002, which typically have higher gross profit margins.

Sales and Marketing Expenses

Sales and marketing expenses for the three months ended June 30, 2002 were $2,047,000, a decrease of $1,542,000, or 43%, over the three months ended June 30, 2001. The reduction of expense is as a result of headcount reductions from 66 at June 30, 2001 to 51 at June 30, 2002, as sales and marketing activities related to the VACMAN Enterprise product line were eliminated. Additionally, reductions in advertising, public relations, and trade shows contributed to this decline.

For the six months ended June 30, 2002, sales and marketing expenses were $4,205,000, a decrease of $2,724,000, or 39% compared to 2001, for the same reasons as outlined above.

Research and Development

Research and development costs for the three months ended June 30, 2002 were $919,000, a decrease of $695,000, or 43%, as compared to the three months ended June 30, 2001. The Company has consolidated its research and development centers, reducing headcount from 56 to 21.

For the six months ended June 30, 2002, research and development expenses totaled $1,578,000, a decrease of $1,417,000, or 47%, as compared to the same period last year.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2002 were $911,000, a decrease of $630,000, or 41%, compared to the three months ended June 30, 2001. This decrease was principally due to headcount reduction from 29 to 13. Also contributing to this decrease were reduced depreciation and amortization expenses related to the assets written off at the end of last year, and reduced costs to support a smaller world-wide infrastructure.

For the six months ended June 30, 2002, general and administrative expenses were $1,940,000, a decrease of $932,000, or 32% compared to the same period last year.

Interest Expense, Net

Net interest expense for the three months ended June 30, 2002 was $152,000, compared to net interest income of $78,000 for the same period in 2001. This change was due to a reduction of invested cash balances.

For the six months ended June 30, 2002, net interest expense was $193,000, compared to net interest income of $208,000 for the same period last year.

Income Taxes

Income tax expense of $140,000 for the three and six months ended June 30, 2002 is composed of $57,000 related to foreign operations and $83,000 related to the write-off of a deferred tax asset in the United States. Income tax expense of $20,000 and $194,000 for the three and six months ended June 30, 2001, respectively, relate to foreign operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were $3,059,000 at June 30, 2002, which is a decrease of approximately $3,283,000 from $6,342,000 at December 31, 2001. As of June 30, 2002, the Company had working capital of $4,917,000 compared with $6,661,000 at December 31, 2001. If the Company's operating results for the second half of the year do not improve as compared with the first half of 2002, the Company could have a cash deficit by the end of 2002. Although the Company has credit lines that could be used to finance a cash deficit, there is no assurance that these credit lines would continue to be available, as these credit lines are cancelable by the issuer at any time. Continuing operating losses could result in a need for additional financing, and there is no assurance that such financing would be available.

At June 30, 2002, the Company had lines of credit from European banks totaling approximately $2,000,000, of which approximately $1,800,000 was available for use.

Capital expenditures during the first six months of 2002 were $476,000 and consisted primarily of computer equipment and office furniture and fixtures.

For the three months ended June 30, 2002, the Company recorded an operating loss before non-cash recovery for stock options to certain officers of the Company of $1,374,000 and a net loss before these options of $1,761,000. The Company had a loss before non-cash recovery, interest, taxes depreciation and amortization of $1,096,000.

For the six months ended June 30, 2002, the Company recorded an operating loss before non-cash compensation for stock options to certain officers of the Company of $1,416,000 and a net loss before these options of $1,794,000. The Company had a loss before non-cash compensation, interest, taxes, depreciation and amortization of $744,000.

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, there can be no assurance that any such acquisitions will be made.

Effective November 1, 2002 minimum capitalization requirements for continued listing on the NASDAQ National Market is $10,000,000 of total equity. As of June 30, 2002, the Company did not meet this standard. The Company may be subject to de-listing from the NASDAQ National Market if it does not meet the requirement by November of 2002.

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, 2002. For additional information, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On March 13, 2002, a suit was filed against the Company claiming patent infringement, false designation or origin and tradedress infringement. The case is currently being evaluated by the Company and its legal counsel. The Company believes the suit is without merit. As the suit is in its early stages, management is unable to estimate the effect of this suit at this time.

ITEM 2. CHANGES IN SECURITIES. None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES. None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS.

On July 16, 2002 the Shareholders of the Company, at its Annual Meeting, elected the following individuals as Directors of the Company:

T. Kendall Hunt
Mario Houthooft
Michael Cullinane
Michael Mulshine
Christian Dumolin
Chris LeBeer
F. David Laidley

ITEM 5. OTHER INFORMATION. NONE.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K. None.

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, 2002.

VASCO Data Security International, Inc.

/s/ Mario R. Houthooft

Mario R. Houthooft
Chief Executive Officer and President

/s/ Dennis D. Wilson

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