UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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 (State or Other Jurisdiction of Incorporation or Organization)	36-4169320 (IRS Employer Identification No.)
1901 SOUTH MEYERS ROAD, SUITE 210 OAKBROOK TERRACE, ILLINOIS (Address of Principal Executive Offices)	60181 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(630) 932-8844

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, PAR VALUE $.001 PER SHARE

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of March 13, 2002, 28,263,058 shares of the Company's Common Stock, $.001 par value per share ("Common Stock"), were outstanding. On that date, the aggregate market value of voting and non-voting common equity (based upon the last sale price of the Common Stock as reported on Nasdaq on March 13, 2002) held by non-affiliates of the registrant was $34,087,818 at $2.99 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the Annual Meeting of Stockholders to be held on July 16, 2002 are to be incorporated by reference into Part III of this Form 10-K.

PART I

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K, including "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 (as defined) 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.

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

VASCO Data Security International, Inc. was incorporated in Delaware in 1997 and is the successor to VASCO Corp., a Delaware corporation. Our principal executive offices are located at 1901 South Meyers Road, Suite 210, Oakbrook Terrace, Illinois 60181 and the telephone number at that address is (630) 932-8844. Our principal offices in Europe are located at Koningin Astridlaan 164, B-1780 Wemmel (Belgium) and the telephone number at that address is 32(0)2/456.98.10. Unless otherwise noted, specifically in the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, references in this prospectus to "VASCO," "company," "we," "our," and "us" refer to VASCO Data Security International, Inc., its predecessor, VASCO Corp., and its subsidiaries.

On March 29, 2001, the Company acquired Identikey Ltd., ("Identikey"), a privately held international security software company headquartered in Brisbane, Australia, with operations in the United States, Europe and Australia. Under the terms of the purchase agreement, more than 90 percent of the outstanding capital stock of Identikey was exchanged for 366,913 shares of Company common stock, with potential additional earn-out payments made in the form of additional shares which are based on defined performance incentives as specified in the purchase agreement.

The Company, through its operating subsidiaries, designs, develops, markets and supports open standards-based hardware and software security systems which manage and secure access to information assets.

FINANCIAL INFORMATION RELATING TO FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

See Note 10 to VASCO Notes to Consolidated Financial Statements for certain information about foreign and domestic operations and export sales.

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

NARRATIVE DESCRIPTION OF THE BUSINESS

General

We design, develop, market and support security products and services which manage and secure access to computer systems of corporate and governmental clients. Additionally, we enable secure financial transactions made over private enterprise networks and public networks, such as the Internet. We believe that our software and hardware products provide organizations with strong, flexible, and effective Internet and enterprise security solutions and they compete favorably against those of our competitors. Our Digipass product line provides greater flexibility and a more affordable means than competing products of authenticating to any network, including the Internet. The Digipass family of user authentication devices, all of which incorporate an electronic digital signature capability to guarantee the integrity of electronic transactions and data transmissions, are commonly referred to as security tokens. The VACMAN product line incorporates a range of strong authentication utilities and solutions designed to allow organizations to add Digipass strong authentication into their existing networks and applications.

Our security solutions are sold worldwide through our direct sales force, as well as through distributors, resellers and systems integrators. We currently have approximately 500 customers in more than 50 countries. Representative customers of our products include Rabobank Nederland, ABN AMRO Bank, Eterra Norway, ING Bank, John Hancock, Fortis Bank, Liberty Mutual, Allmerica Financial Services and the U.S. Government.

Industry Background

The growth in electronic banking and electronic commerce, and the increasing use and reliance upon proprietary or confidential information by businesses, government and educational institutions that is remotely accessible by many users, has made information security a paramount concern. We believe that enterprises are seeking solutions which will continue to allow them to expand access to data and financial assets while maintaining network security.

According to International Data Corporation (IDC), the global market for security products is growing from $4.0 billion in 1999 to over $11.3 billion in 2004, a compound annual growth rate of 23%.

Internet and Enterprise Security. With the advent of personal computers and distributed information systems in the form of wide area networks, intranets, local area networks and the Internet, as well as other direct electronic links, many organizations have implemented applications to enable their work force and third parties, including vendors, suppliers and customers, to access and exchange data and perform electronic transactions. As a result of the increased number of users having direct and remote access to such enterprise applications, data and financial assets have become increasingly vulnerable to unauthorized access and misuse.

Individual User Security. In addition to the need for enterprise-wide security, the proliferation of personal computers, personal digital assistants and mobile telephones in both the home and office settings, combined with widespread access to the Internet, have created significant opportunities for electronic commerce by individual users such as electronic bill payment, home banking and home shopping.

Fueled by recent and well-publicized incidents including misappropriation of credit card information and denial of service attacks, there is a growing perception among many consumers that there is a risk involved in transmitting information via the Internet. These incidents and this perception may hamper the development of consumer-based electronic commerce. Accordingly, we believe that electronic commerce will benefit from the implementation of improved security measures that accurately identify users and reliably encrypt data transmissions over the Internet.

Components of Security. Data and financial asset security, and secured access to and participation in on-line commerce, generally consist of the following components:

- Encryption: Maintains data privacy by converting information into an unreadable pattern and allowing only authorized parties to decrypt the data. Encryption can also maintain data integrity by creating digital signatures for transmitted data, enabling the recipient to check whether the data has been changed since or during transmission.

- Identification and Authentication: Serves as the foundation for other security mechanisms by verifying that a user is who he or she claims to be. Identification and authentication mechanisms are often employed with encryption tools to authenticate users, to determine the proper encryption key for encrypting/decrypting data, or to enable users to digitally "sign" or verify the integrity of transmitted data.

- Access Control: Software that provides authentication, authorization, and accounting functions, controlling a user's access to only that data or the financial assets which he or she is authorized to access, and which keep track of a user's activities after access has been granted.

- Administration and Management Tools: Software which sets, implements, and monitors security policies, the access to which is typically regulated by access control systems. These tools are extremely important to the overall effectiveness of a security system.

The most effective security policies employ most, if not all, of the above components. Most companies, however, only implement a patchwork of these components, which can result in their security systems being compromised.

The VASCO Solution

To date, most approaches to network security, including Internet security, have been limited in scope and have failed to address all of the critical aspects of data security. We believe that an effective enterprise-wide solution must address and assimilate issues relating to the following:

- speed and ease of implementation, use, and administration;

- reliability;

- interoperability with diverse enterprise environments, existing customer applications, and the security infrastructure;

- scalability; and

- overall cost of ownership.

Accordingly, we have adopted the following approach to data security:

- In designing our products, we have sought to incorporate all industry-accepted, open, and non-proprietary protocols. This permits interoperability between our products and the multiple platforms, products, and applications widely in use.

- We have designed our products and services to minimize their integration effort with, and disruption of, existing legacy applications and the security infrastructure, such as public key infrastructure, known as PKI. We provide customers with easier implementations and a more rapid means of implementing security across the enterprise, including the Internet. With security being a critical enabling technology for on-line business initiatives, speed and ease of security implementation has become crucial to an organization's success.

- We design our products and services to have a lower total cost of security ownership than competing products and services. We have found that product improvements and tools that lower a customer's total cost of ownership create differentiating sales and marketing tools, and also help in the development of a highly loyal customer base that is open to new solutions that we offer.

As a result of this approach, we believe that we are positioned to be a leading provider of our open standards-based software and hardware security solutions.

VASCO'S STRATEGY

We believe we have one of the most complete lines of security products and services available in the market today and we intend to become a leading worldwide provider of these products and services. A key element of our growth strategy is to demonstrate to an increasing number of distributors, resellers and systems integrators that, by incorporating our security products into their own products, they can more effectively differentiate themselves in their marketplaces and increase the value of their products. In addition, we demonstrate to our corporate users that our products provide mission critical security to their internal and external security infrastructures. Following this aggressive marketing and promotion effort, we work with these resellers and integrators to support their sales of solutions which include our products. Also, we plan to expand our direct sales marketing program to new and existing blue chip customers. Further, we intend to:

Increase Sales and Marketing Efforts Worldwide. We intend to increase sales of our security products and services in our firmly established European markets and to aggressively increase our sales and support presence and marketing efforts in North America, South America, Asia/Pacific, Australia and the Middle East. We plan to:

- market new services and products to our existing customers by providing testimonial evidence of user experiences from other customers;

- launch a worldwide marketing campaign to raise awareness of our solutions among the decision makers in the security products industry;

- form additional strategic relationships with resellers and vendors of complementary, innovative security products and systems; and

- develop a marketing and sales infrastructure in new markets.

Continue Innovation. We intend to continue to enhance and broaden our line of security products to meet the changing needs of our existing and potential customers by:

- building on our core software and hardware security expertise, such as expanding our technology for use on different platforms (like mobile phones and personal digital assistants) and incorporating biometrics into our products;

- acquiring complementary technologies or businesses; and

- developing additional applications for our products in areas which may include securing the exchange of data in the healthcare field and providing security for Internet gambling and lottery transactions, among others.

VASCO'S PRODUCTS

Digipass Product Line

Our Digipass product line, which exists as a family of authentication devices as well as extensive software libraries, provides a flexible and affordable means of authenticating users to any network, including the Internet.

Security can be broken into three factors:

- What you have (the Digipass device itself);

- What you know (the PIN code to activate the Digipass); and

- Who you are (biometrics).

The Digipass family is currently based on the first two factors. We are developing new technology to incorporate the third factor into the Digipass. Using the Digipass system, in order to enter a remote system or to digitally sign data one needs:

- the hardware device (the token) itself so that if you do not physically have the token, you will not be able to log on to the system; and

- the PIN code for the token so if you do not know the appropriate code the user will not be able to use the applications stored inside.

Both of these factors help to make sure that a natural person is authenticating (or signing), instead of a computer or another device. These factors also enable extremely high portability for security anytime, anywhere and anyhow.

Digipasses calculate dynamic passwords, also known as one-time passwords to authenticate users on a computer network and for a variety of other applications. There are several versions of the Digipass, the DP Desk 3000, DP Pro 200, DP Go 1, 250, 300, 550, 600, 700, 800 and 850, each of which has its own distinct characteristics depending on the platform that they use and the functions they perform. However, the Digipass family is designed to work together and customers can switch their users' devices without requiring any changes to the customers' existing infrastructure. In addition, these devices can be used to calculate digital signatures, also known as electronic signatures or message authentication codes, to protect electronic transactions and guarantee the integrity of the contents of these transactions.

In addition, Digipass Desk 3000 is designed to operate on non-VASCO platforms such as a desktop PC or laptop. With the DP Pro 200, Digipass technology is brought to personal digital assistants (PDA) while the DP Go 1 does the same for the mobile phones.

Digipass 800 and 850 combine the benefits of both traditional password tokens (authentication and digital signatures) like Digipass 300 with smartcard readers. They both bring portability to smart cards and allow secure time-based algorithms.

A VASCO-secured system has the features needed to secure both today and tomorrow's IT resources.

[GRAPHIC: DIGIPASS INITIALIZATION PROCESS]

The above illustration shows the various steps in the Digipass initialization process. In the first step, the devices are initialized with their unique set of secrets and keys per device. These secrets are stored in an encrypted way on a diskette that is sent to the application owner (for example, the information technology manager in a company or the security department of a bank). These floppy disks are one way of safely transporting the Digipass secrets to the host computer.

The files on the floppy disks will be used to read all the necessary secrets and other data from the delivered Digipasses into a database. Then the application owner will assign those Digipass secrets to the end-users. This assignment is based on the serial number of the Digipass and the identity of the end-user. The Digipass is then shipped to the end-user together with a manual and the protected PIN-code on a secure PIN-mailer is sent by a separate shipment.

Using a Digipass requires a connection to the host (server) computer that knows the parameters of the end-user's Digipass. Every time the user sends a dynamic password or digital signature to the host computer, the computer will retrieve all the necessary information from the database and will check the validity of the password or signature. After the host has checked the validity of the dynamic password or signature, it will notify the end-user of the correctness or incorrectness of the validity check.

Digipass security devices are not terminal dependent and do not require any specific software platform since they only interact with a person.

Currently, the Digipass is used in many applications, the largest of which is banking. Different banking applications are:

- corporate banking through direct dial-up, as well as over the Internet and

- retail banking to secure transactions made through the use of a dial-up connection with a personal computer, the traditional phone system, the Internet, and wireless phones and other communication devices such as personal digital assistants.

Another significant application for the Digipass is to secure access to corporate networks for home-based, traveling and other remote users. Finally, Digipasses are increasingly being used in a variety of e-commerce applications where the user is part of a pre-defined user group. We intend to expand the use of the Digipass to other groups of users and applications, including electronic commerce transactions directed at the general public.

Cryptech Product Line. The Cryptech product line produces encrypted microprocessor chips. These chips are used to encrypt data for use in ATMs, fax machines, modems and security servers at high speeds using DES and RSA algorithms.

VACMAN Product Line

The VACMAN Product line incorporates a range of strong authentication utilities and solutions designed to allow organizations to add Digipass strong authentication into their existing networks and applications.

Designed to provide the greatest flexibility, while not compromising on functionality or security, VACMAN solutions are able to integrate with most popular hardware and software. Once integrated the VACMAN components become largely transparent to the users minimizing rollout and support issues.

VACMAN Controller

Designed by specialists in "system entry" security, VACMAN Controller makes it easy to administer a high level of access control. You simply add a field to your existing user database, describing the unique Digipass token assigned to the user. VACMAN Controller takes it from there, automatically authenticating the logon request using the security sequence you specify, whether it's a one-time password using either Response-Only or a Challenge/Response authentication scheme or an electronic signature.

VACMAN Controller gives you the freedom to provide secure remote access to virtually any type of application. VACMAN Controller is a library requiring only a couple of days to implement in most systems and supports all Digipass functionality. Once linked to an application, VACMAN Controller automatically handles login requests from any users you've authorized to have a Digipass token.

VACMAN RADIUS Middleware

VACMAN RADIUS Middleware brings strong user authentication to existing RADIUS based environments, while seamlessly integrating with other current infrastructure technology. Many companies already use RADIUS servers and/or firewalls to provide a way to centrally manage all remote connections to the corporate IT infrastructure. VACMAN RADIUS Middleware allows administrators to positively identify remote users before granting remote access to sensitive corporate data and applications.

Logically VACMAN RADIUS Middleware is installed between the RADIUS client (NAS, RAS or firewall) and the existing RADIUS server or servers. Once installed VACMAN RADIUS Middleware functions transparently, adding strong, two factor, authentication without otherwise affecting the operation of the server or other network components.

With a range of automated administration features such as Dynamic User Registration, automatic assignment of Digipass devices and the ability to bulk manage users, VACMAN RADIUS Middleware provides transparent strong authentication without adding significantly to the administration load.

VACMAN Server

VACMAN Server is an integrated, cross platform solution that uses industry and international standards to provide strong two factor authentication, access control and audit for remote, local and web-based users. It includes full support for RADIUS, LAN and Web-based access solutions.

VACMAN Server has three access control modules that are available for individual or integrated use. Strong authentication is achieved for server based access control and management on an anywhere, anyhow, anytime basis. System access can be achieved independently via each module (i.e., specific to a functional task) or in concert with each other, making efficient use of common user authentication administration.

VACMAN Server provides a number of centralized services that are common to all authentication solutions including secure, web-based administration allowing administrators the option to administer either locally or remotely, customizable reporting, delegation of administrative tasks on an organizational basis or by function, full session monitoring and a full redundancy option for the authentication server and database.

[VACMAN SERVER FOR RADIUS GRAPHIC]

RADIUS based solutions have generally relied on static user name and passwords for authentication. Static passwords offer a potential weakness as they can be trapped, guessed or forced to gain access to an otherwise secure network. The VACMAN Server for RADIUS (VSR) removes this potential weakness by adding support for One Time Passwords (OTP) for secure, two factor authentication using Vasco's Digipass technology. OTP's ensure that all users are strongly authenticated with information that cannot be re-used or guessed, eliminating the most common means of defeating security systems.

VACMAN Server for RADIUS compliments an organization's existing security infrastructure by ensuring that only users who have been strongly authenticated are granted access to the network. The ability to support industry standards and run on existing operating systems and hardware platforms provides the flexibility to support any existing security solution adding value to an organization's existing investment in people and equipment.

[VACMAN SERVER FOR NETWORKS GRAPHIC]

Combining strong user authentication and audit for LAN and RADIUS into a single strong authentication solution, VACMAN Server for Networks provides the same authentication solution to users regardless of how they access the network and network resources.

VACMAN Server for Networks has been designed to integrate seamlessly within existing Windows NT and Windows 2000 based LAN solutions and can generally function with existing client side network components. The ability to reuse existing client side network access components provides an organization with the option of implementing a staged rollout where user numbers are high or users are scattered around different geographic locations. This also reduces support and administrative loads as the user only sees minor changes to the logon process.

[VACMAN SERVER FOR WEB GRAPHIC]

Combining user authentication, authorization and audit into a single strong authentication solution, VACMAN Server for Web extends established AAA principles to web based access and also supports the use of One Time Passwords (OTP) for true, Digipass two factor strong authentication. VACMAN Server for Web controls user access to individual resources within the protected web site allowing an organization to finely control what information is accessed, not only by who, but also when.

With VACMAN Server for Web installed, OTP's can be used to provide secure access to remote users, through the organization's existing web servers and firewalls. Once remote access is allowed and corporate processes can be accessed, additional authentication may be required to validate any transactions undertaken. VACMAN Server for Web fully supports Digipass electronic signatures providing non-repudiation for any electronic transaction.

[VACMAN SERVER CORPORATE LOGO]

VACMAN Server Corporate combines all VACMAN Server modules (RADIUS, LAN and Web) into a single strong authentication solution for the entire organization. VACMAN Server Corporate has been designed to integrate seamlessly within existing access solutions to the network and can generally function with existing client side network components. The ability to reuse existing client side network access components provides an organization with the option of implementing a staged rollout where user numbers are high or users are scattered around different geographic locations. This also reduces support and administrative loads as the user only sees minor changes to the logon process. With the ability to support multiple domains and web servers, a single VACMAN Server Corporate implementation can secure access to the entire network regardless of the location of the protected entry points.

VACMAN Server Corporate supports an optional API that allows the administrator to provide authentication services, manage users and their rights and integrate VACMAN Server Corporate into existing security and user management solutions via a consistent, secure programmatic interface, significantly reducing the management overheads.

Public Key Infrastructure

Many corporations are increasingly relying upon digital certificates to authenticate and identify users on a network, including the Internet. In addition, digital certificates are used to transmit data in an encrypted format over a network. The issuance, revocation, management and policies surrounding these digital certificates is commonly referred to as public key infrastructure or PKI. Like any other new comprehensive technology infrastructure, large companies need to integrate PKI into their legacy and new applications. This takes time, money, and specialized, hard-to-find personnel. While there may be significant commercial potential for PKI, the process of integrating PKI into other enterprise-wide applications has proven so difficult that few companies have existing PKI deployments beyond the pilot stage.

We also have patent pending technology that allows for secure storage of a digital certificate's private key on a server that can be accessed from any network using any of our Digipass family of products. The effect of this technology is that it gives digital certificates the portability of PKI deployed on smartcards, without the cost or infrastructure development required for deploying smartcards and their associated smartcard readers.

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS AND LICENSES

We rely on a combination of patent, copyright, trademark and trade secret laws, as well as employee and third-party non-disclosure agreements to protect our proprietary rights. In particular, we hold several patents in the United States and a corresponding patent in certain European countries, which cover certain aspects of our technology. The majority of our patents cover our Digipass family of security tokens. The U.S. patents expire between 2003 and 2010 and the European patent expires in 2008. We believe these patents to be valuable property rights and we rely on the strength of our patents and on trade secret law to protect our intellectual property rights. To the extent that we believe our patents are being infringed upon, we intend to assert vigorously our patent protection rights, including but not limited to, pursuing all available legal remedies.

RESEARCH AND DEVELOPMENT

Our research and development efforts historically have been, and will continue to be, concentrated on product enhancement, new technology development and related new product introductions. We employ 20 full-time engineers and, from time to time also engage independent engineering firms to conduct non-strategic research and development efforts on our behalf. For the fiscal years ended December 31, 1999, 2000 and 2001, we expended $3,587,000, $4,369,000 and $4,981,000, respectively, on research and development, representing approximately 18%, 15% and 19% of consolidated revenues for 1999, 2000 and 2001, respectively.

While management is committed to enhancing our current product offerings, and introducing new products, we cannot be certain that our research and development activities will be successful. Furthermore, we may not have sufficient financial resources to identify and develop new technologies and bring new products to market in a timely and cost effective manner, and we cannot ensure that any such products will be commercially successful if and when they are introduced.

PRODUCTION

Our security hardware products are manufactured by third parties pursuant to purchase orders that we issue. Our hardware products are made primarily from commercially available electronic components which are purchased globally. Our software products are produced either in-house or by several outside sources in North America, Australia and Europe.

The security tokens utilize commercially available programmable microprocessors, or chips. We use two microprocessors, made by Samsung and Epson, for the various hardware products we produce. The Samsung microprocessors are purchased from Samsung Semiconductor in France, and the Epson microprocessors are purchased from Alcom Electronics NV/SA, also located in Belgium. The microprocessors are the only components of our security tokens that are not commodity items readily available on the open market. While there is an inherent risk associated with each supplier of microprocessors, we believe having two sources reduces the overall risk to a commercially acceptable level.

Orders of microprocessors and some other components generally require a lead time of 12-16 weeks. We attempt to maintain a sufficient inventory of all parts to handle short term increases in orders. Large orders that would significantly deplete our inventory are typically required to be placed with more than 12 weeks of lead time, allowing us to attempt to make appropriate arrangements with our suppliers.

We purchase the majority of our product components and arrange for shipment to third parties for assembly and testing in accordance with our design specifications. Our security token products are assembled exclusively by two independent companies, each of which is based in Hong Kong. Purchases from one of the companies are made on a purchase order by purchase order basis. Purchases from the other company are under a contract with automatic one-year renewals and subject to termination on six months notice. Each of these companies assembles our security tokens at facilities in mainland China. One of the companies also maintains manufacturing capacity in Hong Kong. Equipment designed to test product at the point of assembly is supplied by us and periodic visits are made by our personnel for purposes of quality assurance, assembly process review and supplier relations.

There can be no assurance that we will not experience interruptions in the supply of either the component parts that are used in our products or fully-assembled token devices in general. In the event that the flow of components or finished product was interrupted there could be a considerable delay in finding suitable replacement sources for those components, as well as in replacement assembly subcontractors with the result that our business and results of operations could be adversely affected.

COMPETITION

The market for computer and network security solutions is very competitive and, like most technology-driven markets, is subject to rapid change and constantly evolving products and services. For both Digipass and VACMAN products, our main competitor is RSA Security, Inc.. There are many other companies such as Computer Associates International, Inc., Symantec, Inc., ActivCard and Entegrity Solutions, Inc. which offer hardware, software and services that range from simple locking mechanisms to sophisticated encryption technologies. We believe that competition in this market is likely to intensify as a result of increasing demand for security products.

We believe that the principal competitive factors affecting the market for computer and network security products include the strength and effectiveness of the solution, technical features, ease of use, quality/reliability, customer service and support, name recognition, distribution channels and price. Although we believe that our products currently compete favorably with respect to such factors, other than name recognition in certain markets, there can be no assurance that we can maintain our competitive position against current and potential competitors, especially those with significantly greater financial, marketing, service, support, technical and other competitive resources.

Many of our present and potential competitors have significantly greater financial, technical, marketing, purchasing and other resources than we do, and as a result, may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of products, or to deliver competitive products at a lower end user price. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our prospective customers. Accordingly, it is possible that new competitors or alliances may emerge and rapidly acquire significant market share.

Our products are designed to allow authorized users access to a computing environment, in some cases using patented technology as a replacement for the static password. Although certain of our security token technologies are patented, there are other organizations that offer token-type password generators incorporating challenge-response or response-only approaches that employ different technological solutions and compete with us for market share. For additional information regarding our competition, please refer to the section titled "Risk Factors."

SALES AND MARKETING

Our security solutions are sold through our direct sales force, as well as through distributors, resellers and systems integrators. A sales staff of 52 coordinates our sales through both our sales channels and these strategic partners' sales channels and makes direct sales calls either alone or with sales personnel of vendors of computer systems. Our sales staff also provides product education seminars to sales and technical personnel of vendors and distributors with whom we have working relationships and to potential end-users of our products.

Part of our expanded selling effort includes approaching our existing strategic partners to find additional applications for our security products. In addition, our marketing plan calls for the identification of new business opportunities that may require enhanced security over the transmission of electronic data or transactions where we do not currently market our products. Our efforts also include the preparation and dissemination of white papers prepared by our support engineers which explain how we believe our security products can add value or otherwise be beneficial.

CUSTOMERS AND MARKETS

Customers for our products include some of the world's most recognized names:

BANKING/FINANCIAL
SERVICES
EDUCATION OTHER
- -------------
------------ ---
------ -----
Rabobank
Nederland
University of
Groningen U.S.
Department of
Defense ABN Amro
Bank Duke
University
Telindus Belgium
SNS Bank
Southern
California
Edison ING Bank
Eterra Norway
John Hancock
Allmerica Fortis
Bank

Below is a breakdown of revenues by product line:

	1999	2000	2001
Digipass	$15,927,000	$20,300,000	$21,543,000
VACMAN	3,470,000	7,766,000	5,184,000
Total	$19,397,000	$28,066,000	$26,727,000

For the years 1999, 2000 and 2001, the Company's top 10 customers contributed 70%, 72% and 73%, respectively, of total worldwide revenues.

Long term contracts with the U.S. government accounted for 8% of revenues for the year 2001. Revenues are only recognized from these contracts when receipt of payment is assured. Future amounts due under the contracts are cancelable by the U.S. government and are not recognized as revenue by the Company.

A significant portion of our sales are denominated in various foreign currencies that could impact results of operations. To minimize exposure to risks associated with fluctuations in currency exchange rates, we attempt to match the timing of delivery, amount of product and the currency denomination of purchase orders from vendors with sales orders to customers.

We also experience seasonality in our business. These seasonal trends have included higher revenue in the last quarter of the calendar year and lower revenue in the next succeeding quarter. We believe that revenue has tended to be higher in the last quarter due to the tendency of certain customers to implement or complete changes in computer or network security prior to the end of the calendar year.

See Note 10 to VASCO Notes to Consolidated Financial Statements for a breakdown of revenues and long-lived assets between U.S. and foreign operations.

EMPLOYEES

As of March 13, 2002, we employed 86 full-time employees. Of these, 14 were located in North America, 51 were located in Europe, 17 were located in Australia and 4 assigned in Asia/Pacific. Of the total, 52 were involved in sales, marketing and customer support, 20 in product production, research and development and 14 in administration.

ITEM 2. PROPERTIES

Our corporate office is located in the United States in an office complex in Oakbrook Terrace, Illinois, a suburb of Chicago. This facility is leased through November 30, 2004, and consists of approximately 9,000 square feet.

Our European administrative, sales and marketing, research and development and support facilities are located in a suburb of Brussels, Belgium. These facilities consist of approximately 23,500 square feet of office space which are occupied under a lease expiring in October 30, 2006. We believe that these facilities are adequate for our present growth plans.

Our Australian office is located in a suburb of Brisbane, consisting approximately 4,900 square feet under a lease expiring on December 2006.

Our Asia/Pacific sales office is located in an office complex in Singapore, consisting approximately 377 square feet with a one-year lease, renewable annually.

ITEM 3. LEGAL PROCEEDINGS

The Company is from time to time involved in litigation incidental to the conduct of its business. The Company is currently not a party to any lawsuit or proceeding which, in the opinion of management, is likely to have a material adverse effect on the Company's business, financial condition or results of operations.

On March 13, 2002, a suit was filed against the Company claiming patent infringement, false designation of 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 2001, through solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On March 20, 1998, the Company's Common Stock was approved for trading on the NASD Electronic Bulletin Board system under the symbol "VDSI." On April 7, 2000, the Company's Common Stock was listed on the Nasdaq National Market in the United States under the trading symbol "VDSI".

On March 13, 2002, the closing sale price for the Common Stock on the Nasdaq was $2.99 per share. Such market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent an actual transaction. On February 28, 2002, there were approximately 123 holders of record of the Common Stock.

The following table sets forth the high and low closing bid quotations for the Common Stock for the periods indicated.

	HIGH	LOW
2000		
First Quarter	$25.00	$ 6.63
Second Quarter	19.38	10.00
Third Quarter	15.94	8.50
Fourth Quarter	13.94	4.81
2001		
First Quarter	$ 8.75	$ 5.00
Second Quarter	5.80	2.80
Third Quarter	3.27	1.19
Fourth Quarter	2.98	1.00
2002		
First Quarter (through March 13, 2002)	$ 3.30	$ 2.13

The Company has not paid any dividends on its Common Stock since incorporation. Dividends were paid relating to the Company's Series B Preferred Stock, which was converted to Common Stock in September 1997. Restrictions or limitations on the payment of dividends may be imposed under the terms of credit agreements or other contractual obligations. In the absence of such restrictions or limitations, the declaration and payment of dividends will be at the sole discretion of the Board of Directors of the Company and subject to certain limitations under the General Corporation Law of the State of Delaware. The timing, amount and form of dividends, if any, will depend, among other things, on the Company's results of operations, financial condition, cash requirements, plans for expansion and other factors deemed relevant by the Board of Directors. The Company intends to retain any future earnings for use in its business and therefore does not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,				
	1997	1998	1999	2000	2001
	(IN THOUSANDS, EXCEPT PER SHARE DATA)(1)				
STATEMENTS OF OPERATIONS DATA:					
Total revenues	$13,208	$16,500	$19,397	$28,066	$ 26,727
Operating loss	(4,168)(2)	(1,327)	(893)	(2,601)	(13,106)(3)
Net loss available to common stockholders	(6,242)(2)	(3,782)	(2,212)	(4,162)	(13,198)(3)
Basic and diluted loss per common share	$ (0.30)(2)	$ (0.17)	$ (0.09)	$ (0.17)	$ (0.47)(3)
Shares used in computing per share amounts	21,106	22,431	25,559	27,341	28,169
BALANCE SHEET DATA:					
Cash	$ 2,065	$ 1,662	$ 2,576	$13,833	$ 6,342
Working capital (deficiency)	(291)	(3,734)	2,473	14,307	6,672
Total assets	9,004	9,557	12,318	29,313	17,451
Long term obligations, less current portion	8,618	8,436	8,409	3,764	3,668
Common stock subject to redemption	495	--	--	--	--
Stockholders' equity (deficit)	(6,746)	(9,660)	(1,037)	17,348	7,147

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(1) Represents the financial information of VASCO Corp. prior to March 11, 1998, as the Company had not begun operations until the Exchange Offer.

(2) Includes legal, accounting and printing costs of approximately $1,218 related to preparing for the Exchange Offer that was completed in March 1998.

(3) Includes restructuring expenses of $4,284.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. All forward-looking statements included herein are based on information available to the Company on the date hereof and assumptions which the Company believes are reasonable. The Company does not assume any obligation to update any such forward-looking statements. These forward-looking statements involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth elsewhere in this Form 10-K and the Company's other filings with the Securities and Exchange Commission.

BACKGROUND

Our predecessor company, VASCO Corp., entered into the data security business in 1991 through the acquisition of a controlling interest in ThumbScan, Inc., which we renamed VASCO Data Security, Inc. in 1993. In 1996, we began an expansion of our computer security business by acquiring Lintel Security NV/SA, a Belgian corporation, including assets associated with the development of security tokens and security technologies for personal computers and computer networks. In addition, in 1996, we acquired the stock of Digipass NV/SA, a Belgian corporation, which was also a developer of security tokens and security technologies and whose name we changed to VASCO Data Security NV/SA in 1997. All of these acquisitions were accounted for under the purchase method of accounting.

On March 11, 1998, we completed a registered Exchange Offer with the holders of the outstanding securities of VASCO Corp. In the Exchange Offer, holders of the common stock and warrants, options and other rights to acquire common stock of our predecessor company exchanged their securities for the same number and kind of securities of our present company, and released any potential claims that such holders might have had against our predecessor in connection with the issuances of its securities and other corporate actions which occurred mostly during the 1980's. In the Exchange Offer, almost 98% of our predecessor's securities were tendered and accepted for exchange. In October 1998, we completed the merger of our predecessor with and into the current company and thereby eliminated all remaining outstanding securities of our predecessor and our predecessor thereby ceased to exist.

Since the Exchange Offer, we have engaged in four acquisitions. In May 1999, we acquired the assets of SecureWare SA, a French company for a combination of approximately $1.4 million in our stock and cash.

In October 1999, we acquired Intellisoft Corp. for a combination of approximately $8 million in our stock and cash distributed to dissenting shareholders. This acquisition was accounted for under the pooling-of-interests method of accounting and, therefore, all of our financial information has been restated to include the results of IntelliSoft.

In August 2000, we acquired Invincible Data Systems (IDS) in a transaction which was accounted for under the pooling-of-interests method of accounting. A total of 322,565 shares were issued in the transaction. Our historical financial information was not restated for this transaction, which was deemed immaterial.

Our latest acquisition was on March 29, 2001 when we acquired Identikey Ltd. ("Identikey"), a privately held international security software company headquartered in Brisbane, Australia. Under the terms of the purchase agreement, more than 90 percent of the outstanding capital stock of Identikey was exchanged for 366,913 shares of Company common stock, with potential additional earn-out payments made in the form of additional shares which are based on defined performance incentives as specified in the purchase agreement. This purchase was accounted for under the purchase method of accounting, and accordingly, the acquired assets have been recorded at their estimated fair values at the date of acquisition. Intangible assets related to this transaction were $1,897,000 and are being amortized over a period of 7 years.

OVERVIEW

We design, develop, market and support security products and services which manage and protect against unauthorized access to computer systems of corporate and governmental clients.

Revenue and Earnings. We sell the majority of our products in European countries with significant sales in the United States, although we intend to actively pursue additional markets outside of Europe, particularly South America, Asia/Pacific, Australia and the Middle East.

Revenues from sales from our Digipass family, specifically the Digipass 300 and 500 tokens, continue to represent the majority of our total revenues. During 1999 and 2000, Digipass products accounted for 80% and 70% of revenues, respectively. For 2001, in excess of 80% of the Company's sales were comprised of security token devices. Although we believe it is likely that sales of the Digipass family of tokens, which can be used on various platforms, will continue to account for a majority of our total revenues for the next few years, we also believe that revenues from sales of our other hardware and software data security products, including the VACMAN product line, will increase in the future.

Research and Development. We are devoting substantial capital and other resources to enhancing our existing security products and developing new products to provide enterprise-wide hardware and software security solutions. Costs of research and development, principally the design and development of hardware and software prior to the determination of technological feasibility, are expensed as incurred on a project-by-project basis. Our software capitalization policy currently defines technological feasibility as a functioning beta test prototype with confirmed manufacturability (a working model), within a reasonably predictable range of costs. Additional criteria include receptive customers, or potential customers, as evidenced by interest expressed in a beta test prototype, at some suggested selling price.

Variations in Operating Results. Our quarterly operating results have in the past varied and may in the future vary significantly. Factors affecting operating results include:

- the level of competition;

- the size, timing, cancellation or rescheduling of significant orders; market acceptance of new products and product enhancements;

- new product announcements or introductions by our competitors;

- adoption of new technologies and standards; changes in pricing by us or our competitors;

- our ability to develop, introduce and market new products and product enhancements on a timely basis, if at all;

- component costs and availability;

- our success in expanding our sales and marketing programs;

- technological changes in the market for data security products;

- foreign currency exchange rates;

- and general economic trends and other factors.

In addition, we have experienced, and may experience in the future, long sales cycles due to the size of our contracts and the timing of when our customers take delivery of our products. We also experience seasonality in our business. These seasonal trends have included higher revenue in the last quarter of the calendar year and lower revenue in the next succeeding quarter. We believe that revenue has tended to be higher in the last quarter due to the tendency of certain customers to implement or complete changes in computer or network security prior to the end of the calendar year. In addition, revenue has tended to be lower in the summer months, particularly in Europe, when many businesses defer purchase decisions. Because our operating expenses are based on anticipated revenue levels and a high percentage of our expenses are fixed, a small variation in the timing of recognition of revenue could cause significant variations in operating results from quarter to quarter.

Currency Fluctuations. The majority of our supply and sales transactions are denominated in U.S. dollars, however, a significant portion of those transactions are denominated in various foreign currencies. In order to reduce the risks associated with fluctuations in currency exchange rates, we attempt to match the timing of delivery, amount of product and the currency denomination of purchase orders received from vendors with sales orders to customers.

The financial position and results of operations of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Accordingly, assets and liabilities are translated into U.S. dollars using current exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments arising from differences in exchange rates are included as a separate component of stockholders' equity (deficit). Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations. Foreign exchange transaction gains (losses) aggregating ($272,000), $289,000 and $183,000 are included in other non-operating income (expense) for 1999, 2000, and 2001, respectively.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain consolidated financial data as a percentage of revenues for the years ended December 31, 1999, 2000 and 2001.

PERCENTAGE OF REVENUE	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
Revenues	100.0%	100.0%	100.0%
Cost of goods sold	37.7	35.9	39.6
Gross profit	62.3	64.1	60.4
Operating costs:			
Sales and marketing	30.7	35.5	50.8
Research and development	18.5	15.5	18.6
General and administrative	17.7	20.5	23.8
Non-cash compensation	--	1.8	0.2
Restructuring expenses	--	--	16.0
Total operating costs	66.9	73.3	109.4
Operating loss	(4.6)	(9.2)	(49.0)
Interest income (expense)	(4.2)	0.1	2.9
Other expense, net	(0.9)	(4.3)	1.1
Loss before income taxes	(9.7)	(13.4)	(45.0)
Provisions for income taxes	1.7	1.4	--
Net loss	(11.4)%	(14.8)%	(45.0)%

The following discussion is based upon the Company's consolidated results of operations for the years ended December 31, 2001, 2000 and 1999 (percentages in the discussion are rounded to the closest full percentage point) and should be read in conjunction with our consolidated financial statements included elsewhere in this Form 10-K.

2000 COMPARED TO 2001

Revenues

Our consolidated revenues for the year ended December 31, 2001 were $26,727,000, a decrease of $1,339,000, or 5%, as compared to the year ended December 31, 2000. Although sales of Digipass products increased by $1,242,000 or 6%, revenues from non-token products, specifically VACMAN, decreased by $2,581,000 or 33%.

The European operations contributed $21,242,000 or 79% of total consolidated revenues, with the United States operations contributing the remaining $5,485,000 or 21%.

Cost of Goods Sold

Our consolidated cost of goods sold for the year ended December 31, 2001 was $10,590,000, an increase of $522,000, or 5%, as compared to the year ended December 31, 2000. This increase was primarily due to the sales mix. Digipass products, which carry a slightly lower gross margin, made up 81% and 72% of total sales for 2001 and 2000, respectively.

Gross Profit

Our consolidated gross profit for the year ended December 31, 2001 was $16,136,000, a decrease of $1,860,000, or 10%, over the year ended December 31, 2000. This represents a gross margin of 60%, as compared to 2000's consolidated gross margin of 64%. This decrease was due to stronger sales of products with lower margins. Token products average gross margins of about 50% while non-token products average over 90%.

Sales and Marketing Expenses

Consolidated sales and marketing expenses for the year ended December 31, 2001 were $13,579,000, an increase of $3,626,000, or 36%, over 2000. This increase is mainly due to the increase in average full time employee headcount of 68 in 2001 versus 43 in 2000. Also, increased sales efforts including, in part, increased travel costs, and an increase in marketing activities, including tradeshows, contributed to this expense. Additionally, the acquisition of Identikey in March 2001 and the opening of the sales office in Singapore resulted in additional expenses.

Research and Development Expenses

Consolidated research and development costs for the year ended December 31, 2001 were $4,981,000, an increase of $612,000, or 14%, as compared to the year ended December 31, 2000. This increase was, in part, related to the acquisition of Identikey in March 2001. As Identikey is primarily a development center, the acquisition resulted in increased research and development headcount and expenditures at an additional facility. Average full time employee headcount in 2001 was 38 compared to 32 in 2000.

General and Administrative Expenses

Consolidated general and administrative expenses for the year ended December 31, 2001 were $6,349,000, an increase of $575,000, or 10%, over 2000. This increase can be principally attributed to the acquisition of Identikey. As a result of our fourth quarter restructuring, administrative headcount at the end of 2001 was 13 compared to 19 at the end of 2000.

Interest Income (expense), Net

Consolidated interest income (expense), net in 2001 was $775,000 compared to $29,000 in 2000. This increase was due to a reversal of interest expense accrued in 2000 associated with the restructuring of the Company's long-term debt.

Income Taxes

An income tax recovery of $13,000 was recorded for the year ended December 31, 2001, which relates to one of our European subsidiaries.

At December 31, 2001, the Company has United States net operating loss carryforwards approximating $22,400,000 and foreign net operating loss carryforwards approximating $3,400,000. Such losses are available to offset future taxable income in the respective jurisdictions and expire in varying amounts beginning in 2002 and continuing through 2020. In addition, if certain substantial changes in the Company's ownership are deemed to have occurred, there would be an annual limitation on the amount of the U.S. carryforwards which could be utilized.

1999 COMPARED TO 2000

Revenues

Our consolidated revenues for the year ended December 31, 2000 were $28,066,000, an increase of $8,669,000, or 45%, as compared to the year ended December 31, 1999. This increase is due to a strong performance from international operations, as the demand for Digipass products continues to grow, resulting in increased unit sales, as well as increasing orders with smaller quantities and less volume discounting. Also, sales of VACMAN products in the U.S. more than doubled 1999 revenues. The European operations contributed $17,000,000 or 61% of total consolidated revenues, with the United States operations contributing the remaining $11,065,000 or 39%.

Cost of Goods Sold

Our consolidated cost of goods sold for the year ended December 31, 2000 was $10,069,000, an increase of $2,763,000, or 38%, as compared to the year ended December 31, 1999. Cost of goods sold has not increased at the same rate as our revenues primarily due to product sales mix and also from efficiencies in the manufacturing process, as well as the increasing demand for products with a more favorable cost structure.

Gross Profit

Our consolidated gross profit for the year ended December 31, 2000 was $17,997,000, an increase of $5,905,000, or 49%, over the year ended December 31, 1999. This represents a gross margin of 64% compared to 1999's consolidated gross margin of 62%. The increase in gross margin is due to product sales mix as VACMAN products provide higher gross margins.

Sales and Marketing Expenses

Consolidated sales and marketing expenses for the year ended December 31, 2000 were $9,954,000, an increase of $3,992,000, or 67%, over 1999. This increase can be attributed to increased sales efforts including increased travel costs, headcount, and an increase in marketing activities, including tradeshows and advertising. Sales and marketing headcount increased from 44 at the end of 1999 to 61 at the end of 2000.

Research and Development Expenses

Consolidated research and development costs for the year ended December 31, 2000 were $4,368,000, an increase of $781,000, or 22%, as compared to the year ended December 31, 1999. Most of this increase is due to activities relating to the development of the VACMAN product line.

General and Administrative Expenses

Consolidated general and administrative expenses for the year ended December 31, 2000 were $5,773,000, an increase of $2,339,000, or 68%, over 1999. This increase can be attributed to growth in infrastructure needed to support our growth, increased recruiting expenses and amortization charges related to royalties. Administrative headcount increased from 12 at the end of 1999 to 18 at the end of 2000. In addition, the Company recorded approximately $150,000 of merger costs in 2000 related to the Invincible Data Systems transaction.

Interest Income (Expense)

Consolidated interest income, net in 2000 was $29,000 compared to interest expense, net of $815,000 in 1999. Interest income from the proceeds generated upon the issuance of convertible preferred stock offset interest expense related to borrowings. Additionally, interest expense from debt outstanding decreased as long-term debt was reduced from $8,409,000 at the end of 1999 to $3,764,000 at the end of 2000.

Income Taxes

We recorded tax expense for the year ended December 31, 2000 of $395,000, which relates to one of our European subsidiaries.

RECENT DEVELOPMENTS

During the fourth quarter of 2001, the Company announced a restructuring of its operations to redirect resources to its core business, strong authentication and server software to enable enhanced security for the web, remote access, corporate networks and financial transactions. A reduction in workforce of approximately 60 employees occurred in the fourth quarter, along with the write-off of intangible assets and property and equipment related to non-core activities. A restructuring charge of $4,284,000 was recorded in the fourth quarter. Severance and compensation related expenses represent approximately 21% of the charge, approximately 72% is the write-off of goodwill and 7% is the write-off of other assets and expenses.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2001, our aggregate consolidated indebtedness was $3,827,000. Cash used in operating activities was $6,183,000 for the year ended December 31, 2001. During that period we used $892,000 in investing activities and $266,000 in financing activities. Capital expenditures were $948,000 for the year ended December 31, 2001.

In 1996, we issued a 9% convertible note to Kyoto Securities, Ltd., a Bahamian corporation, in the amount of $5,000,000. The note provided for quarterly interest payments and was payable in full on May 29, 2001. The note was convertible into shares of our Common Stock at a conversion price of $12.00 per share, or 416,667 shares. In April 2000, the note and accrued interest were converted into 435,910 shares of common stock.

In 1997, we entered into a convertible loan agreement with Artesia Bank N.V., formerly Banque Paribas Belgique S.A., in order to refinance the $3,400,000 payment due December 31, 1997 in connection with our acquisition of Digipass. The terms of the agreement provide that the $3,400,000 principal amount is convertible, upon an offering, into shares of our Common Stock. The original interest was at the rate of 3.25%, payable annually, and the original maturity date was on September 30, 2002. On August 9, 2001, the terms of this loan were restructured. Under the revised terms, the loan will now be convertible into shares of VASCO common stock at the fixed conversion rate of $7.50 per share rather than a floating rate based on the market price of VASCO common stock. The maturity date of the convertible loan is September 30, 2003 and the interest rate is 6%.

In April 1999, we completed a private placement of Common Stock in the amount of $11.5 million. The transaction represented a sale of our Common Stock to European institutional investors at a price of $3.50 per share. A total of 3,285,714 shares of Common Stock were issued as a part of this transaction.

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. Costs related to this offering of $1,331,000 were written off and included in other expense in the consolidated statement of operations.

In July 2000, the Company issued 150,000 shares of preferred stock for cash of $15,000,000. The preferred stock is convertible into 1,052,632 shares of Common Stock at any time over the next 48 months.

The net effect of 2001 activity resulted in a decrease in cash of $7,490,000, resulting in a cash balance of $6,342,000 at December 31, 2001, compared to $13,833,000 at the end of 2000. Our working capital at December 31, 2001 was $6,672,000, a decrease of $7,635,000, or 53% from $14,307,000 at December 31, 2000. The majority of the change is attributable to operating activities. Our current ratio was 2.0 to 1.0 at December 31, 2001. We believe that our current cash balances and anticipated cash generated from operations will be sufficient to meet our anticipated cash needs for the foreseeable future.

We intend to seek acquisitions of businesses, products and technologies that are complementary or additive to ours. There can be no assurance that any such acquisitions will be made.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an on-going basis, management evaluates its estimates and judgments, including those related to bad debts and intangible assets. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

ALLOWANCE FOR DOUBTFUL ACCOUNTS: We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payments for services. We analyze accounts receivable, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

VALUATION OF PREPAID LICENSE FEES, GOODWILL AND OTHER INTANGIBLE ASSETS, AND SOFTWARE DEVELOPMENT COSTS: We assess the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, and significant negative industry or economic trends. The Company assesses the recoverability of its software development costs against estimated future revenue for the individual products over the estimated remaining economic life of the software.

When we determine that the carrying value of intangibles and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Given the highly competitive environment and technological changes, it is reasonably possible that estimates of anticipated future revenue, the remaining economic life of the Company's software products, or both may be reduced significantly.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") which supersedes APB Opinion No. 17, "Intangible Assets". SFAS 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. SFAS 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of SFAS 142 are required to be applied starting with fiscal years beginning after December 15, 2001. SFAS 142 is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. As of December 31, 2001, the Company has identified $242,000 of goodwill, which was previously amortized over 7 years, which will no longer be amortized.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. SFAS 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.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the

Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" it retains many of the fundamental provisions of that Statement. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. However, it retains the requirement in Opinion 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The Company is in the process of evaluating the impact that adoption of SFAS No. 144 may have on the financial statements; however, such impact, if any, is not known or reasonably estimable at this time.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Approximately 79% of our business is conducted outside the United States, in Europe and Asia/Pacific. A significant portion of our business operations are transacted in foreign currencies. As a result, we have exposure to foreign exchange fluctuations. We are affected by both foreign currency translation and transaction adjustments. 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 our statement of operations. Our foreign subsidiaries' business transactions are spread across approximately 50 different countries and currencies. This geographic diversity reduces the risk to our operating results.

We have minimal interest rate risk. Our $3.4 million long-term debt has a fixed rate of 6%, which is not subject to market fluctuations. This note matures in September 2003.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information in response to this item is included in our consolidated financial statements, together with the report thereon of KPMG LLP, appearing on pages F-1 through F-20 of this Form 10-K, and in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The sections entitled "Election of Directors" and "Section 16(a) Beneficial Ownership Report Compliance" contained in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on July 16, 2002, are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The section entitled "Executive Compensation" contained in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on July 16, 2002, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section entitled "Security Ownership of Certain Beneficial Owners and Management" contained in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on July 16, 2002, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) The following consolidated financial statements and notes thereto, and the related independent auditors' report, are included on pages F-1 through F-20 of this Form 10-K:

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 2000 and 2001

Consolidated Statements of Operations for the Years Ended December 31, 1999, 2000 and 2001

Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 1999, 2000 and 2001

Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 1999, 2000 and 2001

Consolidated Statements of Cash Flows for the Years Ended December 31, 1999, 2000 and 2001

Notes to Consolidated Financial Statements

(2) The following consolidated financial statement schedule of the Company is included on this Form 10-K:

Schedule II -- Valuation and Qualifying Accounts

All other financial statement schedules are omitted because such schedules are not required or the information required has been presented in the aforementioned consolidated financial statements.

(3) The following exhibits are filed with this Form 10-K or incorporated by reference as set forth in the next page:

EXHIBIT INDEX

NUMBER DESCRIPTION - ------ ------ ----- +3.1 Certificate of Incorporation of Registrant, as amended. ++3.2 Bylaws of Registrant, as amended and restated. 4.1 Intentionally Omitted. +4.2 Specimen of Registrant's Common Stock Certificate. 4.3 Intentionally Omitted. +4.4 Form of Letter of Transmittal and Release. +4.5 Form of Registrant's Warrant Agreement. +4.6 Form of Registrant's Option Agreement. +4.7 Form of Registrant's Convertible Note Agreement. +10.1 Netscape Communications Corporation OEM Software Order Form dated March 18, 1997 between VASCO Data Security, Inc. and Netscape Communications Corporation.** +10.2 License Agreement between VASCO Data Security, Inc. and SHIVA Corporation effective June 5, 1997.** +10.3 Heads of Agreement between VASCO Data Security International, Inc., VASCO Data Security Europe S.A., Digiline International Luxembourg, Digiline S.A., Digipass S.A., Dominique Colard and Tops S.A. dated May 13, 1996. +10.4 Agreement relating to additional terms and conditions to the Heads of Agreement dated July 9, 1996, among the parties listed in Exhibit 10.3. +10.5 Agreement between VASCO Data Security International, Inc., VASCO Data Security Europe SA/NV, Mario Houthooft and Guy Denudt dated March 1, 1996. +10.6 Asset Purchase Agreement dated as of March 1996 by and between Lintel Security SA/NV and Lintel SA/NV, Mario Houthooft and Guy Denudt. +10.7 Management Agreement dated January 31, 1997 between LINK BVBA and VASCO Data Security NV/SA (concerning services of Mario Houthooft). +10.8 Sublease Agreement by and between VASCO Data Security International, Inc. and APL Land Transport Services, Inc. dated as of August 29, 1997. +10.9

Office Lease by and between VASCO Data Security International, Inc. and LaSalle National Bank, not personally, but as Trustee under Trust Agreement dated September 1, 1997, and known as Trust Number 53107, dated July 22, 1985. +10.10 Lease Agreement by and between TOPS S.A. and Digipass S.A. effective July 1, 1996. +10.11 Lease Agreement by and between Perkins Commercial Management Company, Inc. and VASCO Data Security, Inc. dated November 21, 1995. +10.12 Asset Purchase Agreement by and between VASCO Data Security International, Inc. and Wizdom Systems, Inc. dated August 20, 1996. +10.13 1997 VASCO Data Security International, Inc. Stock Option Plan, as amended. +10.14 Distributor Agreement between VASCO Data Security, Inc. and Hucom, Inc. dated June 3, 1997.** +10.15 Non-Exclusive Distributor Agreement by and between VASCO Data Security, Inc. and Concord-Eracom

Nederland BV dated May 1, 1994.**

+10.16 Banque Paribas Belgique S. A. Convertible Loan Agreement for $3.4 million.

+10.17 Pledge Agreement dated July 15, 1997 by and between T. Kendall Hunt and Banque Paribas Belgique S.A.

+10.18 Engagement Letter between Banque Paribas S.A. and VASCO Data Security International, Inc. dated June 20, 1997, as amended.

NUMBER DESCRIPTION ------ ----------- +10.19 Financing Agreement between Generale Bank and VASCO Data Security International, Inc. dated as of June 27, 1997. +10.20 Letter Agreement between Generale Bank and VASCO Data Security International, Inc. dated June 26, 1997. +10.21 Form of Warrant dated June 16, 1997 (with Schedule). +10.22 Form of Warrant dated October 31, 1995 (with Schedule). +10.23 Form of Warrant dated March 7, 1997 (with Schedule). +10.24 Form of Warrant dated August 13, 1996 (with Schedule). +10.25 Form of Warrant dated June 27, 1996 (with Schedule). +10.26 Form of Warrant dated June 27, 1996 (with Schedule). +10.27 Convertible Note in the principal amount of $500,000.00, payable to Generale de Banque dated July 1, 1997 (with Schedule). +10.28 Agreement by and between VASCO Data Security NV/SA and S.I. Electronics

Limited effective January 21, 1997.** +10.29 Agreement effective May 1, 1993 by and between Digipass s.a. and Digiline s.a.r.l. +10.30 VASCO Data Security, Inc. purchase order issued to National Electronic & Watch Co. LTD.** +10.31 VASCO Data Security, Inc. purchase order issued to Micronix Integrated Systems.** +10.32 Agreement between Registrant and VASCO Data Security International, Inc. dated as of August 25, 1997. +10.33 Convertible Note dated June 1, 1996 made payable to Mario Houthooft in the principal amount of $373,750.00. +10.34 Convertible Note dated June 1, 1996 made payable to Guy Denudt in the principal amount of $373,750.00. +10.35 Osprey Partners Warrant (and Statement of Rights to Warrant and Form of Exercise) issued June 1, 1992. +10.36 Registration Rights Agreement dated as of October 19, 1995 between certain purchasing shareholders and VASCO Data Security International, Inc. +10.37

First Amendment to Registration Rights Agreement dated July 1, 1996. +10.38 Second Amendment to Registration Rights Agreement dated March 7, 1997. +10.39 Purchase Agreement by and between VASCO Data Security International, Inc. and Kyoto Securities Ltd. +10.40 Convertible Note dated May 28, 1996 payable to Kyoto Securities, Ltd. in principal amount of $5 million. +10.41 Amendment to Purchase Agreement and Convertible Note by and between VASCO Data Security International, Inc. and Kyoto Securities, Ltd. +10.42 Executive Incentive Compensation Plan. +10.43 Letter for Credit granted by Generale de Banque to Digipass SA dated January 27, 1997. ++10.45 Loan Agreement dated as of March 31, 1998 by and between Lernout & Hauspie Speech Products N.V. and VASCO Data Security International, Inc. ++10.46 Convertible Note dated April 1, 1998 payable to Lernout & Hauspie Speech

Products N.V. in the principal amount of $3 million.

#10.47 Amendment I dated as of December 31, 1998 to the License Agreement dated as of March 25, 1998 by and between VASCO Data Security International, Inc., for itself and its subsidiaries, and Lernout & Hauspie Speech Products N.V.

10.48 Acquisition of Identikey, Ltd. (Incorporated by reference -- Form 8-K filed March 29, 2001.)

10.49 Agreement with Artesia Bank to revise the terms of the $3.4 million convertible. (Incorporated by reference -- Form 8-K filed August 9, 2001.)

NUMBER	DESCRIPTION
21	Subsidiaries of Registrant. (Incorporated by reference -- Form 10-K filed April 12, 2001.)
23	Consent of KPMG LLP.

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+ Incorporated by reference to the Registrant's Registration Statement on Form S-4, as amended (Registration No. 333-35563), originally filed with the Securities and Exchange Commission on September 12, 1997.

++ Incorporated by reference to the Registrant's Annual Report on Form 10-K, originally filed with the Securities and Exchange Commission on May 5, 1998.

Incorporated by reference to the Registrant's Annual Report on Form 10-K, originally filed with the Securities and Exchange Commission on April 14, 1999.

** Confidential treatment has been granted for the omitted portions of this document.

VASCO DATA SECURITY INTERNATIONAL, INC. WILL FURNISH ANY OF THE ABOVE EXHIBITS TO ITS STOCKHOLDERS UPON WRITTEN REQUEST ADDRESSED TO THE SECRETARY AT THE ADDRESS GIVEN ON THE COVER PAGE OF THIS FORM 10-K. THE CHARGE FOR FURNISHING COPIES OF THE EXHIBITS IS $.25 PER PAGE, PLUS POSTAGE.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by the Registrant during the quarter ended December 31, 2001.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders VASCO Data Security International, Inc.:

We have audited the accompanying consolidated balance sheets of VASCO Data Security International, Inc. and subsidiaries (the "Company") as of December 31, 2000 and 2001 and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2001. In connection with our audits of the consolidated financial statements, we have also audited the accompanying consolidated financial statement Schedule II - Valuation and Qualifying Accounts. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VASCO Data Security International, Inc. and subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Chicago, Illinois
February 15, 2002, except as to Note 14,
which is as of March 13, 2002

VASCO DATA SECURITY INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2000	DECEMBER 31, 2001
ASSETS		
Current assets:		
Cash	$ 13,832,645	$ 6,342,440
Accounts receivable, net of allowance for doubtful accounts of $286,377 and $206,913 in 2000 and 2001	6,486,397	3,791,916
Inventories, net	1,111,751	2,012,567
Prepaid expenses	463,094	405,815
Deferred income taxes	83,000	83,000
Other current assets	532,081	661,597
Total current assets	22,508,968	13,297,335
Property and equipment		
Furniture and fixtures	1,350,616	1,733,349
Office equipment	4,043,015	2,070,090
	5,393,631	3,803,439
Accumulated depreciation	(1,596,102)	(2,088,939)
	3,797,529	1,714,500
Goodwill and other intangible assets, net of accumulated amortization of $3,697,456 in 2000 and $4,621,160 in 2001	1,438,537	2,411,888
Other assets	1,568,285	27,273
Total assets	$ 29,313,319	$ 17,450,996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 362,250	$ 158,990
Accounts payable	2,790,698	3,326,652
Deferred revenue	1,950,322	869,893
Other accrued expenses	3,098,284	2,269,468
Total current liabilities	8,201,554	6,625,003
Long-term debt, less current maturities	3,763,858	3,667,882
Minority interest	--	11,023
Stockholders' equity:		
Series C Convertible Preferred Stock, $.01 par value -- 500,000 shares authorized; 150,000 shares issued and outstanding in 2000 and 2001	6,780,098	7,944,082
Common stock, $.001 par value -- 75,000,000 shares authorized; 27,866,583 shares issued and outstanding in 2000 28,263,058 shares issued and outstanding in 2001	27,867	28,263
Additional paid-in capital	36,871,200	37,693,098
Accumulated deficit	(26,035,112)	(38,069,082)
Accumulated other comprehensive loss -- cumulative translation adjustment	(296,146)	(449,273)
Total stockholders' equity	17,347,907	7,147,088
Total liabilities and stockholders' equity	$ 29,313,319	$ 17,450,996

See accompanying notes to consolidated financial statements.

VASCO DATA SECURITY INTERNATIONAL, INC

CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDED DECEMBER 31,		
	1999	2000	2001
Net revenues	$19,397,108	$28,065,680	$ 26,726,849
Cost of goods sold	7,305,672	10,068,969	10,590,485
Gross profit	12,091,436	17,996,711	16,136,364
Operating costs:			
Sales and marketing (exclusive of $152,545 and $15,065 for 2000 and 2001, respectively, reported below as non-cash compensation)	5,961,970	9,953,598	13,579,493
Research and development	3,587,483	4,368,501	4,980,544
General and administrative (exclusive of $349,198 and $34,490 for 2000 and 2001, respectively, reported below as non-cash compensation)	3,434,940	5,773,495	6,348,527
Non-cash compensation	--	501,743	49,555
Restructuring expenses	--	--	4,283,752
Total operating costs	12,984,393	20,597,337	29,241,871
Operating loss	(892,957)	(2,600,626)	(13,105,507)
Interest income (expense), net	(814,923)	29,334	774,894
Other income (expense), net	(182,294)	(1,195,234)	283,861
Income (loss) before income taxes	(1,890,174)	(3,766,526)	(12,046,752)
Provision (benefit) for income taxes	322,310	395,246	(12,782)
Net loss	(2,212,484)	(4,161,772)	(12,033,970)
Preferred stock accretion	--	(581,992)	(1,163,984)
Net loss available to common shareholders	$(2,212,484)	$(4,743,764)	$(13,197,954)
Basic and diluted net loss per common share	$ (0.09)	$ (0.17)	$ (0.47)
Weighted average common shares outstanding	25,558,847	27,341,439	28,168,685

See accompanying notes to consolidated financial statements

VASCO DATA SECURITY INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	FOR THE YEARS ENDED DECEMBER 31,		
	1999	2000	2001
Net loss...	$(2,212,484)	$(4,161,772)	$(12,033,970)
Other comprehensive income (loss) -- cumulative translation adjustment..............................	20,650	(403,777)	(153,127)
Comprehensive income (loss)..........................	$(2,191,834)	$(4,565,549)	$(12,187,097)

See accompanying notes to consolidated financial statements.

VASCO DATA SECURITY INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

DESCRIPTION	PREFERRED STOCK SHARES	PREFERRED STOCK AMOUNT	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
BALANCE AT 12/31/98..........	--	$ --	22,805,689	$22,806	$ 9,891,116	$(19,660,856)	$ 86,981
Net loss.....................	--	--	--	--	--	(2,212,484)	--
Foreign currency translation adjustment.................	--	--	--	--	--	--	20,650
Exercise of stock options.....	--	--	158,000	158	44,067	--	--
Exercise of stock warrants....	--	--	200,000	200	49,800	--	--
Issuance of common stock......	--	--	3,486,308	3,486	11,468,791	--	--
Common stock repurchased and retired....................	--	--	(187,914)	(188)	(751,387)	--	--
BALANCE AT 12/31/99..........		$ --	26,462,083	$26,462	$20,702,387	$(21,873,340)	$ 107,631
Net loss.....................	--	--	--	--	--	(4,161,772)	--
Foreign currency translation adjustment.................	--	--	--	--	--	--	(403,777)
Exercise of stock options.....	--	--	342,400	342	556,871	--	--
Exercise of stock warrants....	--	--	303,625	304	1,724,413	--	--
Conversion of note and interest to common stock....	--	--	435,910	436	5,164,618	--	--
Stock issued for acquisition................	--	--	322,565	323	1,266	--	--
Issuance of Series C preferred stock......................	150,000	6,198,106	--	--	8,801,894	--	--
Preferred stock accretion.....	--	581,992	--	--	(581,992)	--	

-- Non-cash
compensation......... -- --
-- -- 501,743 -- -- -------
---------- ---------- -----
-- ----------- ------------
--------- BALANCE AT
12/31/00........... 150,000
$6,780,098 27,866,583
$27,867 $36,871,200
$(26,035,112) (296,146)
======= ==========
========== =======
=========== ============
========= Net
loss......................
-- -- -- -- -- (12,033,970)
-- Foreign currency
translation
adjustment..................
-- -- -- -- -- -- (153,127)
Exercise of stock
options..... -- -- 25,633
26 15,638 -- -- Exercise of
stock warrants.... -- --
3,929 3 17,690 -- -- Stock
issued for
acquisition.................
-- -- 366,913 367 1,902,999
-- -- Preferred stock
accretion..... -- 1,163,984
-- -- (1,163,984) -- --
Non-cash
compensation......... -- --
-- -- 49,555 -- -- -------
---------- ---------- -----
-- ----------- ------------
--------- BALANCE AT
12/31/01........... 150,000
$7,944,082 28,263,058
$28,263 $37,693,098
$(38,069,082) $(449,273)
======= ==========
========== =======
=========== ============
=========
TOTAL STOCKHOLDERS'
DESCRIPTION EQUITY
(DEFICIT) - ----------- ---
------------- BALANCE AT
12/31/98........... $
(9,659,953) ============
Net
loss......................
(2,212,484) Foreign
currency translation
adjustment..................
20,650 Exercise of stock
options..... 44,225
Exercise of stock
warrants.... 50,000
Issuance of common
stock...... 11,472,277
Common stock repurchased
and
retired.....................
(751,575) ------------
BALANCE AT
12/31/99........... $
(1,036,860) ============
Net
loss......................
(4,161,772) Foreign
currency translation
adjustment..................
(403,777) Exercise of stock
options..... 557,213
Exercise of stock
warrants.... 1,724,717
Conversion of note and
interest to common
stock.... 5,165,054 Stock

issued for
acquisition.................
1,589 Issuance of Series C
preferred
stock.......................
15,000,000 Preferred stock
accretion..... -- Non-cash
compensation.........
501,743 ------------
BALANCE AT
12/31/00........... $
17,347,907 ============ Net
loss......................
(12,033,970) Foreign
currency translation
adjustment..................
(153,127) Exercise of stock
options..... 15,664
Exercise of stock
warrants.... 17,693 Stock
issued for
acquisition.................
1,903,366 Preferred stock
accretion..... -- Non-cash
compensation.........
49,555 ------------ BALANCE
AT 12/31/01........... $
7,147,088 ============

See accompanying notes to consolidated financial statements.

VASCO DATA SECURITY INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	1999	2000	2001
Cash flows from operating activities:			
Net loss	$(2,212,484)	$(4,161,772)	$(12,033,970)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,066,144	1,415,763	5,576,096
Common stock issued for interest	--	165,054	--
Loss on disposal of fixed assets	--	2,073	--
Gain on sale of fixed assets	(13,318)	--	(15)
Non-cash compensation expense	--	501,743	49,555
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	715,523	(3,615,030)	2,790,193
Inventories, net	466,945	(306,369)	(943,269)
Prepaid expenses	(65,294)	(305,474)	51,609
Other current assets	(574,569)	393,253	(76,146)
Prepaid royalties and other assets	(1,118,493)	150,208	--
Accounts payable	788,332	770,234	368,334
Deferred revenue	(1,550)	67,569	(1,110,621)
Accrued expenses	(662,790)	2,772,721	(983,397)
Net cash used in operating activities	(1,611,554)	(2,150,027)	(6,311,631)
Cash flows from investing activities:			
Acquisition of SecureWare/DMIC	(587,532)	--	--
Cash acquired in the acquisition of Identikey, Ltd.	--	--	141,156
Additions to property and equipment	(895,144)	(3,473,564)	(948,412)
Net cash used in investing activities	(1,482,676)	(3,473,564)	(807,256)
Cash flows from financing activities:			
Repayment of debt	(6,091,586)	--	(299,236)
Proceeds from exercise of stock options/warrants	94,225	2,281,930	33,357
Net proceeds from sales of common stock	10,736,926	--	--
Issuance of Series C Convertible Preferred Stock	--	15,000,000	--
Repurchase of common stock	(751,575)	--	--
Net cash provided by (used in) financing activities	3,987,990	17,281,930	(265,879)
Adjustment to conform immaterial pooled business	--	1,589	--
Effect of exchange rate changes on cash	20,650	(403,777)	(105,439)
Net increase (decrease) in cash	914,410	11,256,151	(7,490,205)
Cash, beginning of year	1,662,084	2,576,494	13,832,645
Cash, end of year	$ 2,576,494	$13,832,645	$ 6,342,440
Supplemental disclosure of cash flow information:			
Interest paid	$ 893,799	$ 323,341	$ 188,294
Income taxes paid	900,373	293,875	121,359

Supplemental disclosure of non-

cash financing and investing activities:
Conversion of note to common stock.............. -
- 5,000,000 -- Common stock issued in connection
with
acquisition...................................
650,000 -- 1,903,366

See accompanying notes to consolidated financial statements.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

VASCO Data Security International, Inc. and its wholly owned subsidiaries (the Company) designs, develops, markets and supports security products and services which manage and protect against unauthorized access to computer systems of corporate and government customers.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of VASCO Data Security International, Inc. and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

The financial position and results of operations of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Accordingly, assets and liabilities are translated into U.S. dollars using current exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments arising from differences in exchange rates are included as a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations. Foreign exchange transaction gains (losses) aggregating ($272,000), $289,000 and $183,000 are included in other income (expense) for 1999, 2000, and 2001, respectively.

REVENUE RECOGNITION

License Fees. Revenues from the sale of computer security hardware and software are recorded upon shipment or, if an acceptance period is allowed, at the later of shipment or customer acceptance. No significant obligations exist with regard to delivery or customer acceptance at the time of recognizing revenue.

Support Agreements. Support agreements generally call for the Company to provide technical support and software updates to customers. Revenue on technical support and software update rights is recognized ratably over the term of the support agreement.

Consulting and Education Services. The Company provides consulting and education services to its customers. Revenue from such services is generally recognized during the period in which the services are performed.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets ranging from three to seven years. Additions and improvements are capitalized, while expenditures for maintenance and repairs are charged to operations as incurred. Gains or losses resulting from sales or retirements are recorded as incurred, at which time related costs and accumulated depreciation are removed from the accounts.

SOFTWARE COSTS

The Company capitalizes software development costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed". Research and development costs, prior to the establishment of technological feasibility, determined based upon the creation of a working model, are expensed as incurred. The Company's policy is to amortize capitalized costs by the greater of (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product, generally two to five years, including the period being reported on. The Company did not capitalize any software costs during the years ended December 31, 1999, 2000 and 2001.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of SFAS No. 107, "Disclosures and Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. The fair values of the Company's financial instruments were not materially different from their carrying amounts at December 31, 2000 and 2001, except for notes payable and long-term debt, for which the fair values were not determinable.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements have been reclassified to conform to the 2001 presentation.

For the year 2000, amortization of intangible assets amounting to $212,500 was reclassified from research and development costs to general and administrative expenses.

GOODWILL AND OTHER INTANGIBLES

Goodwill is amortized on a straight-line basis over the expected period to be benefited, which is seven years. Other intangibles are amortized on a straight-line basis and consist of software and hardware technology totaling $4,616,000, which is being amortized over a period of four years and workforce and customer lists of approximately $320,000 and $542,000, respectively, which are being amortized over a period of seven years.

The Company assesses the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, and significant negative industry or economic trends. The Company assesses the recoverability of its software development costs against estimated future revenue for the individual products over the estimated remaining economic life of the software.

When the Company determines that the carrying value of intangibles and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Given the highly competitive environment and technological changes, it is reasonably possible that estimates of anticipated future revenue, the remaining economic life of the Company's software products, or both may be reduced significantly.

At December 31, 2000 and 2001, ending balances of goodwill and other intangibles, net of amortization, are as follows:

	2000	2001
Goodwill	$ 317,385	$ 188,472
Technology license	532,577	2,048,830
Other intangibles	588,575	174,586
Total	$1,438,537	$2,411,888

STOCK-BASED COMPENSATION

On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize the compensation expense associated with the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 allows entities to continue to apply the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and provide pro forma disclosures as if the fair value method defined in SFAS No. 123 had been applied. The Company has elected to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosures required by SFAS No. 123.

LOSS PER COMMON SHARE

Basic earnings per share is based on the weighted average number of shares outstanding and excludes the dilutive effect of unexercised common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of unexercised common stock equivalents to the extent they are not anti-dilutive.

Shares issuable from securities that could potentially dilute basic earnings per share in the future that were not included in the computation of earnings per share because their effect was anti-dilutive were as follows:

	1999	2000	2001
Stock options	2,377,200	2,342,217	3,280,837
Warrants	804,034	1,764,883	1,377,251
Convertible notes (June 1996)	416,667	--	--
Convertible notes (August 1997)	732,658	532,029	453,333
Total	4,330,559	4,639,129	5,111,421

Additionally, the net loss applicable to common stockholders for the years ended December 31, 1999, 2000 and 2001 would have been decreased by adding back interest expense related to the convertible notes of approximately $704,000, $275,000 and $149,000, respectively.

NOTE 2 -- ACQUISITIONS

Effective May 1, 1999, the Company acquired substantially all of the assets of SecureWare SA and DMIC SA (SecureWare), as well as certain developed software licenses from the founder of SecureWare in exchange for $738,735 in cash (of which $151,203 was recorded in accrued liabilities at December 31, 1999) plus 174,575 shares of the Company's common stock, which had a market value based upon the trading price of the common stock on the NASD Bulletin Board ("Market Value") of approximately $650,000 at the time of the acquisition. SecureWare, located in Bordeaux, France, is a software developer focusing on developing security solutions for a number of operating systems.

The acquisition of SecureWare was accounted for under the purchase method of accounting, and accordingly, the acquired assets have been recorded at their estimated fair values at the date of acquisition. Purchased software related to this transaction was $889,000 and is being amortized over a period of 5 years. Goodwill related to this transaction was $406,000 and is being amortized over a period of 7 years.

On October 6, 1999, the Company acquired all of the outstanding capital stock of IntelliSoft Corporation (IntelliSoft) in exchange for 1,812,078 shares of Common Stock which had a Market Value of approximately $7,250,000 at the time of the acquisition. In addition, the Company paid $751,575 to IntelliSoft dissenters to acquire their capital stock interests, which represented 9.4% of the outstanding capital stock of IntelliSoft at the date of the acquisition. The acquisition of these shares has been treated as the purchase and retirement of common stock. IntelliSoft, located in Acton, MA, specializes in developing true secure single sign-on, Web authorization, PKI, VPN, and enterprise management solutions. This transaction was accounted for under the pooling-of-interests method of accounting. Accordingly, the consolidated financial statements have been restated as if IntelliSoft had been combined for all periods presented.

At the end of August 2000, the Company acquired Invincible Data Systems (IDS) in a transaction which has been accounted for under the pooling-of-interests method. A total of 322,565 shares were issued in this transaction, which is deemed immaterial.

On March 29, 2001, the Company acquired Identikey Ltd., ("Identikey"), a privately held international security software company headquartered in Brisbane, Australia, with operations in the United States, Europe and Australia. Under the terms of the purchase agreement, more than 90 percent of the outstanding capital stock of Identikey was exchanged for 366,913 shares of Company common stock, with potential additional earn-out payments made in the form of additional shares which are based on defined performance incentives as specified in the purchase agreement.

The acquisition of Identikey was accounted for under the purchase method of accounting, and accordingly, the acquired assets have been recorded at their estimated fair values at the date of acquisition. Intangible assets consisting of technology licenses related to this transaction were $1,897,000 and are being amortized over a period of 7 years.

The following summarized unaudited pro forma financial information for the year 2001 assumes the Identikey acquisition occurred as of January 1, 2000.

	2000	2001
Net revenues	$28,490,904	$ 26,726,849
Net loss	(6,136,427)	(13,084,785)
Preferred stock accretion	(581,992)	(1,163,984)
Basic and diluted net loss per common share	$ (0.24)	$ (0.50)
Weighted average common shares outstanding	27,708,352	28,257,387

NOTE 3 -- 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 are comprised of the following:

DECEMBER 31,	2000	2001
Component parts	$ 451,487	$ 412,921
Work-in-process and finished goods	660,264	1,599,646
Total	$1,111,751	$2,012,567

NOTE 4 -- ACCRUED EXPENSES

Accrued expenses are comprised of the following:

DECEMBER 31,	2000	2001
Accrued interest	$ 654,941	$ 82,734
Accrued payroll	709,899	908,814
Accrued royalties	270,480	--
Other accrued expenses	1,462,964	1,277,920
Total	$3,098,284	$2,269,468

NOTE 5 -- INCOME TAXES

At December 31, 2001, the Company has United States net operating loss carryforwards approximating $22,400,000 and foreign net operating loss carryforwards approximating $3,400,000. Such losses are available to offset future taxable income in the respective jurisdictions and expire in varying amounts beginning in 2002 and continuing through 2021. In addition, if certain substantial changes in the Company's ownership are deemed to have occurred, there would be an annual limitation on the amount of the U.S. carryforwards which could be utilized.

Pretax loss was taxed in the following jurisdictions:

FOR THE YEARS ENDED DECEMBER 31,	1999	2000	2001
Domestic	$(1,809,920)	$(4,293,166)	$ (9,195,346)
Foreign	(80,254)	526,640	(2,851,407)
Total	$(1,890,174)	$(3,766,526)	$(12,046,753)

The provision of income taxes consists of the following:

	FOR THE YEAR ENDED DECEMBER 31,		
	1999	2000	2001
CURRENT:			
Federal	$ --	$ --	$ --
State	--	2,632	--
Foreign	322,310	392,614	(12,782)
DEFERRED:			
Federal	--	--	--
State	--	--	--
Foreign	--	--	--
Total	$322,310	$395,246	$(12,782)

The differences between income taxes computed using the statutory federal income tax rate of 34% and the provisions for income taxes reported in the consolidated statements of operations are as follows:

	FOR THE YEARS ENDED DECEMBER 31,		
	1999	2000	2001
Expected tax benefit at the statutory rate	$(642,659)	$(1,231,023)	$(4,095,896)
Increase (decrease) in income taxes resulting from:			
Foreign taxes at rates other than 34%	205,916	(4,243)	60,210
State tax net of federal benefit	(72,885)	(142,908)	(368,546)
Change in valuation allowance primarily related to NOL	676,000	1,739,000	4,380,000
Nondeductible expenses	155,938	34,420	11,450
Total	$ 322,310	$ 395,246	$ (12,782)

The deferred income tax balances are comprised of the following:

	FOR THE YEARS ENDED DECEMBER 31,	
	2000	2001
Deferred tax assets:		
U.S. net operating loss carry forwards	$ 4,832,000	$ 8,749,000
Foreign net operating loss carryforwards	800,000	1,709,000
Accounts receivable	89,000	23,000
Accrued expenses	12,000	28,000
Deferred revenue	257,000	40,000
Total gross deferred tax assets	5,990,000	10,549,000
Less valuation allowance	(5,860,000)	(10,240,000)
	130,000	309,000
Deferred tax liabilities:		
Fixed assets	(47,000)	(226,000)
Net deferred income taxes	$ 83,000	$ 83,000

The net change in the total valuation allowance for the years ended December 31, 1999, 2000 and 2001 was an increase of $676,000, $1,739,000 and $4,380,000, respectively. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which these temporary differences become deductible. The Company has determined that it is more likely than not that $83,000 of deferred tax assets will be realized. This valuation allowance will be reviewed on a regular basis and adjustments made as appropriate.

NOTE 6 -- DEBT

Debt consists of the following:

DECEMBER 31,	2000	2001
Convertible note, interest payable at 3.25% (6% beginning September 2001)	$3,400,000	$3,400,000
Installment notes payable	726,108	426,872
	4,126,108	3,826,872
Less current maturities	(362,250)	(158,990)
Long-term debt	$3,763,858	$3,667,882

In August 1997, the Company renegotiated the guarantee related to the final payment for the 1996 acquisition of Digipass into a term loan in the amount of $3.4 million with a maturity date of September 30, 2002 and an interest rate of 3.25%. In August 2001, the Company had agreed to revise the terms of the loan. Under the new terms, the loan will now be convertible into shares of VASCO common stock at the fixed conversion rate of $7.50 per share rather than a floating rate based on the market price of the VASCO common stock. Also, the maturity date of this convertible loan is September 30, 2003 with a revised interest rate of 6%.

Aggregate maturities of debt at December 31, 2001 are as follows:

2002	$ 158,990
2003	3,667,882
Total	$3,826,872

Interest expense to stockholders was $450,000, $165,000 and $0 for the years ended December 31, 1999, 2000 and 2001, respectively.

NOTE 7 -- STOCKHOLDERS' EQUITY

PREFERRED STOCK

In July 2000, the Company issued 150,000 shares of preferred stock for cash of $15,000,000. The preferred stock is convertible into 1,052,632 shares of common stock at any time over the next 48 months. In conjunction with this financing, the company issued warrants to purchase 789,474 common shares at $15 per share with an estimated imputed value using the Black-Scholes pricing-model of approximately $4.1 million and warrants to purchase 480,000 shares at $4.25 per share with an estimated imputed value using the Black-Scholes pricing-model of approximately $4.7 million. The warrants issued at $15 per share were immediately exercisable. The warrants issued at $4.25 were exercisable over 48 months and the related imputed value is being accreted reducing earnings available to common stockholders. In September 2000, 30,000 warrants at $4.25 per share were exercised.

The value of the warrants which reduces the carrying value of the preferred stock is being accreted and reduces earnings available to common shareholders.

COMMON STOCK

In 2001, the Company issued 25,633 shares of common stock as a result of the exercise of options under the Company's stock compensation plan (see Note 8) generating total proceeds of $15,664; 3,929 shares of common stock were issued as a result of the exercise of warrants, generating total proceeds of $17,693.

In March 2001, the Company issued 366,913 shares of common stock to acquire 90% of the outstanding capital stock of Identikey Ltd.

In 2000, the Company issued 435,910 shares of common stock to convert a $5,000,000 note and related accrued interest. In September 2000, the Company issued 322,565 shares of common stock as part of the acquisition of Invincible Data Systems.

Also in 2000, the Company issued 342,400 shares of common stock as a result of the exercise of options under the Company's stock compensation plan (see Note 8) generating total proceeds of $557,213 and 303,625 shares of common stock were issued as a result of the exercise of the warrants, generating total proceeds of $1,724,717.

WARRANTS

Warrant activity for the years ended December 31, 1999, 2000 and 2001 are summarized below:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISE PRICE
Outstanding at December 31, 1998	1,004,034	$ 4.83	$0.25 - 10.00
Granted	--	--	--
Exercised	(200,000)	0.25	0.25
Canceled	--	--	--
Outstanding at December 31, 1999	804,034	5.97	4.00 - 10.00
Granted	1,269,474	10.94	4.25 - 15.00
Exercised	(303,625)	5.68	4.00 - 10.00
Canceled	(5,000)	5.19	
Outstanding at December 31, 2000	1,764,883	9.59	4.25 - 15.00
Granted	--	--	--
Exercised	(3,929)	4.50	4.50
Canceled	(383,703)	6.61	
Outstanding at December 31, 2001	1,377,251	$10.44	$4.25 - 15.00

NOTE 8 -- STOCK COMPENSATION PLAN

The Company's 1997 Stock Compensation Plan, as amended, ("Compensation Plan") is designed and intended as a performance incentive. The Compensation Plan is administered by the Compensation Committee as appointed by the Board of Directors of the Company (Compensation Committee).

The Compensation Plan permits the grant of options to employees of the Company to purchase shares of common stock and is intended to be a nonqualified plan. All options granted to employees are for a period of ten years, are granted at a price equal to the fair market value of the common stock on the date of the grant and are typically vested 25% on the first anniversary of the grant, with an additional 25% vesting on each subsequent anniversary of the grant. Alternative vesting schedules include either date or event-based vesting.

During 2001, the Compensation Committee of the Board of Directors approved a revised vesting schedule. The new vesting schedule for officers is based on a time period of 36 months, with 6/36th of the options vesting at the end of the first 6 months and 1/36th of the options vesting each month thereafter on the last day of each month.

The Compensation Plan further permits the grant of options to directors, consultants and other key persons (non-employees) to purchase shares of common stock. All options granted to non-employees are granted at a price equal to the fair market value of the common stock on the date of the grant, and may contain vesting requirements and/or restrictions as determined by the Compensation Committee at the time of grant. Non-cash compensation expense of $49,555 was recognized in 2001 in accordance with FIN 44, "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of Accounting Principles Board Opinion No. 25. This charge was attributed to stock options issued to officers of the Company who are located outside the U.S. and whose services are rendered under consulting agreements.

As of December 31, 2001, the Compensation Plan was authorized to issue options representing up to 5,652,612 shares of the Company's common stock. The authorized shares under the Compensation Plan represent 20% of the issued and outstanding shares of the Company.

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Compensation Plan. Had compensation cost for the Compensation Plan been determined consistent with SFAS No. 123, the Company's net loss available to common stockholders and net loss per common share would have been the pro forma amounts indicated below:

	FOR THE YEAR ENDED DECEMBER 31,		
	1999	2000	2001
Net loss available to common stockholders:			
As reported	$(2,212,484)	$(4,743,764)	$(13,197,955)
Pro forma	(2,789,233)	(5,261,025)	(13,812,038)
Net loss per common share-basic and diluted:			
As reported	$(0.09)	$(0.17)	$(0.47)
Pro forma	(0.11)	(0.19)	(0.49)

For purposes of calculating the compensation cost consistent with SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1999, 2000 and 2001: dividend yield of 0%; expected volatility of 50%, 50%, 119%; risk free interest rates ranging from 3.91% to 6.80%; and expected lives of five years.

The following is a summary of activity under the Compensation Plan:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE		
	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE PRICE	WEIGHTED-AVERAGE FAIR VALUE OF OPTIONS GRANTED
Outstanding at December 31, 1998...	1,475,500	$3.05	1,088,375	$2.48	
Granted............................	1,174,000	3.13			$1.58
Exercised..........................	(158,000)	0.28			
Forfeited..........................	(114,300)	4.01			
Outstanding at December 31, 1999...	2,377,200	3.23	1,074,138	3.04	
Granted............................	560,000	11.29			5.82
Exercised..........................	(342,400)	1.63			
Forfeited..........................	(252,583)	5.08			
Outstanding at December 31, 2000...	2,342,217	5.30	984,775	3.71	
Granted............................	1,248,000	1.34			0.65
Exercised..........................	(25,633)	2.54			
Forfeited..........................	(283,747)	8.07			
Outstanding at December 31, 2001...	3,280,837	$3.76	1,235,545	$4.49	

The following table summarizes information about stock options outstanding at December 31, 2001:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OF SHARES	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
$ 0.1875 - $ 0.2500.................	30,000	1.51 years	$ 0.20	30,000	$ 0.20
$ 1.2500 - $ 3.1250.................	2,076,700	8.61 years	$ 1.98	444,600	$ 3.02
$ 3.2500 - $ 7.8750.................	723,325	4.50 years	$ 4.59	649,575	$ 4.57
$ 8.8750 - $21.0000.................					

449,687 6.44 years
$10.87 110,245 $10.96
$22.8750 -
$23.0000.................
1,125 0.06 year $22.93
1,125 $22.93 --------- -
-------- 3,280,837
1,235,545 =========
=========

NOTE 9 -- EMPLOYEE BENEFIT PLAN

The Company maintains a contributory profit sharing plan established pursuant to the provisions of Section 401(k) of the Internal Revenue Code, which provides benefits for eligible employees of the Company. The Company made no contributions to the plan during the years ended December 31, 1999 and 2000. In January 2001, the Company amended its benefit plans to allow company-matching. For the year ended December 31, 2001, the Company contributed $106,000 to this plan.

NOTE 10 -- GEOGRAPHIC AND CUSTOMER INFORMATION

The Company allocates revenue based on the location of the country which initiates the sale. Information regarding geographic areas for the years ended December 31, 1999, 2000 and 2001 are as follows:

	UNITED STATES	BELGIUM	FRANCE	TOTAL
1999				
Revenue	$7,188,000	$12,015,000	$194,000	$19,397,000
Gross profit	5,081,000	6,899,000	111,000	12,091,000
Long-lived assets	331,000	810,000	49,000	1,190,000
2000				
Revenue	$11,065,000	$16,831,000	$170,000	$28,066,000
Gross profit	8,846,000	9,060,000	91,000	17,997,000
Long-lived assets	2,906,000	836,000	56,000	3,798,000
2001				
Revenue	$5,485,000	$20,899,000	$343,000	$26,727,000
Gross profit	4,594,000	11,272,000	270,000	16,136,000
Long-lived assets	472,000	1,163,000	80,000	1,715,000

For the years 1999, 2000 and 2001, the Company's top 10 customers contributed 70%, 72% and 73% of total worldwide revenues, respectively.

In 1999, sales to one customer contributed more than 10% of total revenues. In 2000, there were two customers that each accounted for more than 10% of total revenues and in 2001, there was one customer that contributed more that 10% of consolidated revenues.

NOTE 11 -- COMMITMENTS AND CONTINGENCIES

The Company leases office space and equipment under operating lease agreements expiring at various times through 2006.

Future minimum rental payments required under noncancelable leases are as follows:

YEAR	AMOUNT
2002	$1,017,641
2003	834,260
2004	690,767
2005	374,354
2006	304,535
Thereafter	--
Total	$3,221,557

Rent expense under operating leases aggregated approximately $434,000, $693,000 and $714,000 for the years ended December 31, 1999, 2000 and 2001, respectively.

Certain executive officers are entitled to receive bonuses upon the closing of a transaction which results in a change in control of the majority of the outstanding stock of the Company.

From time to time, the Company has been involved in litigation incidental to the conduct of its business. Currently, the Company is not a party to any lawsuit or proceeding which, in management's opinion, is likely to have a material adverse effect on its business, financial condition or results of operations. (See Note 14.)

NOTE 12 -- RESTRUCTURING

During the fourth quarter of 2001, the Company announced a restructuring of its operations to redirect resources to its core business, strong authentication and server software to enable enhanced security for the web, remote access, corporate networks and financial transactions. A reduction in workforce of approximately 60 employees occurred in the fourth quarter, along with the write-off of related intangible assets and property and equipment related to non-core activities.

A restructuring charge of $4,284,000 was recorded in the fourth quarter. A breakdown of this charge is as follows:

Goodwill	$ 266,000
Software licenses	2,772,000
Other intangibles	32,000
Severance and related costs	901,000
Property and equipment	36,000
Other	277,000
Total	$4,284,000

Of the $901,000 in severance pay, $180,000 remained outstanding at the end of 2001. This balance is expected to be paid out by the end of the first quarter of 2002.

Approximately 46 employees were terminated in the United States and 14 in Europe. Research and development activities were consolidated and are now performed primarily outside the United States and sales and marketing activities in the United States were reduced.

NOTE 13 -- QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
2001				
Net sales	$ 7,872,725	$ 8,034,877	$ 4,788,409	$ 6,030,838
Gross profit	5,080,000	5,128,699	2,440,006	3,487,659
Operating expenses	6,202,943	6,654,486	6,463,891	9,920,551
Operating loss	(1,122,943)	(1,525,787)	(4,023,885)	(6,432,892)
Net loss	$(1,038,574)	$(1,523,173)	$(3,579,534)	$(5,892,689)
Basic and diluted net loss per share	$ (0.05)	$ (0.06)	$ (0.14)	$ (0.21)
2000				
Net sales	$ 5,551,927	$ 6,460,677	$ 5,669,766	$10,383,310
Gross profit	3,688,973	4,087,309	3,354,769	6,865,660
Operating expenses	4,264,906	4,245,363	5,699,225	6,387,843
Operating income (loss)	(575,933)	(158,054)	(2,344,456)	477,817
Net income (loss)	$ (813,855)	$(1,250,068)	$(2,302,422)	$ 204,573
Basic and diluted net income (loss) per share	$ (0.03)	$ (0.05)	$ (0.09)	$ 0.01

NOTE 14 -- SUBSEQUENT EVENT

On March 13, 2002, a suit was filed against the Company claiming patent infringement, false designation of 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.

VASCO DATA SECURITY INTERNATIONAL, INC.

SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS

BAD DEBT ALLOWANCE FOR DOUBTFUL ACCOUNTS FOR TRADE ACCOUNTS RECEIVABLE	BEGINNING BALANCE	EXPENSE (RECOVERY)	ACCOUNTS WRITTEN OFF	ENDING BALANCE
Year ended December 31, 1999....................	$ 55,000	$ 65,216	$ --	$120,216
Year ended December 31, 2000....................	120,216	195,161	(29,000)	286,377
Year ended December 31, 2001....................	286,377	259,714	(339,178)	206,913

RESERVE FOR OBSOLETE INVENTORIES	BEGINNING BALANCE	OBSOLESCENCE EXPENSE (RECOVERY)	INVENTORY WRITTEN OFF	ENDING BALANCE
Year ended December 31, 1999....................	$129,000	$(36,000)	$ (93,000)	$ --
Year ended December 31, 2000....................	--	109,000	(109,000)	--
Year ended December 31, 2001....................	--	44,814	(44,814)	--

See accompanying independent auditors' report.

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 March 28, 2002.

VASCO DATA SECURITY INTERNATIONAL, INC.

/s/ MARIO R. HOUTHOOFT

Mario R. Houthooft
Chief Executive Officer and President

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT IN THE CAPACITIES INDICATED ON APRIL 15, 1999.

POWER OF ATTORNEY

Each of the undersigned, in his capacity as an officer or director, or both, as the case may be, of VASCO Data Security International, Inc. does hereby appoint Mario Houthooft, and each of them severally, his true and lawful attorneys or attorney to execute in his name, place and stead, in his capacity as director or officer, or both, as the case may be, this Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and any and all amendments thereto and to file the same with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission. Each of said attorneys shall have power to act hereunder with or without the other attorney and shall have full power and authority to do and perform in the name and on behalf of each of said directors or officers, or both, as the case may be, every act whatsoever requisite or necessary to be done in the premises, as fully and to all intents and purposes as to which each of said officers or directors, or both, as the case may be, might or could do in person, hereby ratifying and confirming all that said attorneys or attorney may lawfully do or cause to be done by virtue hereof.

SIGNATURE TITLE ---- ----- ---- - /s/ MARIO R. HOUTHOOFT Chief Executive Officer and President and Director - ---------- ---------- ---------- ---------- ------ (Principal Executive Officer) Mario R. Houthooft /s/ T. KENDALL HUNT Chairman and Executive Vice-President ---------- ---------- ---------- ---------- ------- T. Kendall Hunt /s/ DENNIS D. WILSON Chief

Financial
Officer
(Principal
Financial

Officer
and
Principal
Accounting
Officer)
Dennis D.
Wilson /s/
CHRISTIAN
DUMOLIN
Director -

Christian
Dumolin
/s/
MICHAEL P.
CULLINANE
Director -

Michael P.
Cullinane
/s/
FORREST D.
LAIDLEY
Director -

Forrest D.
Laidley
/s/ CHRIS
LEBEER
Director -

Chris
Lebeer /s/
MICHAEL A.
MULSHINE
Director -

Michael A.
Mulshine

EXHIBIT 23

CONSENT OF KPMG LLP

The Board of Directors
VASCO Data Security International, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-62829 on Form S-8 and No. 333-46256 on Form S-3) of our report dated February 15, 2002, except as to Note 14, which is as of March 13, 2002, relating to the consolidated balance sheets of VASCO Data Security International, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, comprehensive income, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2001, and related consolidated financial statement schedule, which report appears in the December 31, 2001 annual report on Form 10-K of VASCO Data Security International, Inc.

Chicago, Illinois
March 26, 2002

/s/ KPMG LLP