# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 8-K

**CURRENT REPORT**
**PURSUANT TO SECTION 13 OR 15(d) OF**
**THE SECURITIES EXCHANGE ACT OF 1934**

**Date of Report (Date of earliest event reported): October 27, 2009**

# VASCO Data Security International, Inc.

**(Exact name of registrant as specified in charter)**

| Delaware | 000-24389 | 36-4169320 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

**1901 South Meyers Road, Suite 210**
**Oakbrook Terrace, Illinois 60181**
**(Address of principal executive offices) (Zip Code)**

**Registrant's telephone number, including area code: (630) 932-8844**

**N/A**
**(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**ITEM 2.02 Results of Operations and Financial Condition**

The information contained in this Form 8-K shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

On October 27, 2009, VASCO Data Security International, Inc. ("VASCO") issued a press release providing a financial update for the third quarter and nine months ended September 30, 2009. The full text of the press release is attached as Exhibit 99.1 to this Current Report on Form 8-K. On October 27, 2009, VASCO held a conference call with investors to discuss VASCO's earnings and results of operations for the third quarter and nine months ended September 30, 2009. A prepared script of the conference call is furnished as Exhibit 99.2 to this Current Report on Form 8-K. A transcript of the conference call is furnished as Exhibit 99.3 to this Current Report on Form 8-K.

The press release and the comments by VASCO during the conference call contained a non-GAAP financial measure within the meaning of the Securities and Exchange Commission's Regulation G. For purposes of Regulation G, a non-GAAP financial measure is a numerical measure of a registrant's historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of income, balance sheet or statement of cash flows (or equivalent statements) of the issuer; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

The press release contained a reference to EBITDA and provided a reconciliation of EBITDA to net income. EBITDA, which is earnings before interest, taxes, depreciation and amortization, is computed by adding back net interest expense, income tax expense, depreciation expense, and amortization expense to net income as reported.

**ITEM 9.01 Financial Statements and Exhibits**

(d) Exhibits. The following Exhibits are furnished herewith:

| Exhibit Number | Description |
|---|---|
| 99.1 | Press release, dated October 27, 2009. |
| 99.2 | Prepared script of October 27, 2009 Earnings Conference Call. |
| 99.3 | Transcript of October 27, 2009 Earnings Conference Call. |

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

| | |
|---|---|
| Date: October 29, 2009 | VASCO Data Security International, Inc. |
| | /S/ CLIFFORD K. BOWN |
| | **Clifford K. Bown** |
| | **Chief Financial Officer** |

## EXHIBIT INDEX

The following Exhibits are furnished herewith:

| Exhibit No. | Description |
|---|---|
| 99.1 | Press release, dated October 27, 2009 |
| 99.2 | Prepared script of October 27, 2009 Earnings Conference Call. |
| 99.3 | Transcript of October 27, 2009 Earnings Conference Call. |

**EXHIBIT 99.1**

VASCO Reports Results for Third Quarter and First Nine Months of 2009

**Revenue for the third quarter 2009 was $22.1 million, a decrease of 44% compared to the third quarter 2008; Operating income for the third quarter 2009 was $2.0 million, a decrease of 83% compared to the third quarter 2008. Financial results for the period ended September 30, 2009 to be discussed on conference call today at 10:00 a.m. E.D.T.**

OAKBROOK TERRACE, IL, and ZURICH, Switzerland, October 27, 2009 - VASCO Data Security International, Inc. (Nasdaq: VDSI) (www.vasco.com), today reported financial results for the third quarter and nine months ended September 30, 2009.

Revenue for the third quarter of 2009 decreased 44% to $22.1 million from $39.7 million in the third quarter of 2008, and for the first nine months of 2009, decreased 33% to $69.8 from $104.0 million for the first nine months of 2008.

Net income for the third quarter of 2009 was $1.5 million, or $0.04 per diluted share, a decrease of $7.6 million, or 83%, from $9.1 million, or $0.24 per diluted share, for the third quarter of 2008. Net income for the first nine months of 2009 was $7.0 million, or $0.18 per diluted share, a decrease of $14.5 million, or 67%, from $21.5 million, or $0.56 per diluted share, for the comparable period in 2008.

**Other Financial Highlights:**

- Gross profit was $15.4 million and $48.8 million for the third quarter and first nine months of 2009, respectively, both 70% of revenue, for their respective periods. Gross profit was $27.8 million or 70% of revenue for the third quarter of 2008 and $73.3 million, or 70% of revenue, for the first nine months of 2008.
- Operating expenses for the third quarter and first nine months of 2009 were $13.4 million and $40.8 million, respectively, a decrease of 18% from $16.4 million reported for the third quarter of 2008 and a decrease of 13% from $47.0 million reported for the first nine months of 2008.

  Operating expenses for the third quarter of 2009 included $0.5 million of expenses related to stock-based incentives. For the first nine months of 2009, operating expenses reflected a benefit of $0.8 million related to stock-based incentives, including the reversal in the first quarter of 2009 of $2.0 million of long-term performance-based incentive award reserves that had been accrued at 12/31/08. Operating expenses for the third quarter and first nine months of 2008 included $0.8 million and $2.3 million, respectively, of expense related to stock-based incentives.
- Operating income for the third quarter and first nine months of 2009 was $2.0 million and $8.0 million, respectively, a decrease of $9.5 million, or 83%, from $11.4 million reported for the third quarter of 2008 and a decrease of $18.3 million, or 70%, from $26.3 million reported for the first nine months of 2008. Operating income, as a percentage of revenue, for the third quarter and first nine months of 2009 was 9% and 12%, respectively, compared to 29% and 25% for the comparable periods in 2008.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) was $3.3 million and $11.9 million for the third quarter and first nine months of 2009, respectively, a decrease of 71% from $11.5 million reported for the third quarter of 2008 and a decrease of 58% from $28.4 million reported for the first nine months of 2008.
- Net cash balances, cash balances less borrowing under VASCO’s line of credit, at September 30, 2009 totaled $71.2 million compared to $67.6 million and $57.7 million at June 30, 2009 and December 31, 2008, respectively.

**Operational and Other Highlights:**

- VASCO won 350 new customers in Q3 2009 (56 new banks and 294 new enterprise security customers). For the first nine months of 2009, VASCO won 1,057 new customers (151 banks and 906 enterprise security customers). Although management considers the number of new customers as an indicator of the momentum of our business and effectiveness of our distribution channel, the number of new customers is not indicative of future revenue.
- VASCO's PKI-based DIGIPASS CertiID and DIGIPASS Key 1 become IdenTrust compliant.
- VASCO launches a new version of aXsGUARD Identifier with LAPD synchronization allowing the aXsGUARD Identifier user database to be synchronized with multiple LDAP directories.
- VASCO expands its consulting services offering to support a growing demand for expertise and sharing of best practices in implementing strong authentication in e-banking and beyond.

"The results for the third quarter of 2009 reflected the current challenging economic environment and the lower levels of activity that are due to the normal seasonal trends, including the holiday schedules in Europe," stated T. Kendall Hunt, Chairman & CEO. "As expected, our revenues from both the banking and enterprise and application security markets were lower than in the third quarter of 2008, which incidentally, was the best quarter in our history. Also, as expected, we were able to remain profitable while maintaining our previous investments in infrastructure that are needed to support future growth. Looking forward, we believe that the financial, economic and regulatory environments that have had a large negative affect on our banking customers is improving. As always, we will continue to focus on our most productive markets, be selective in making new investments and maintain our focus on containing our costs and, as a result, expect to be profitable throughout 2009."

'The results for the third quarter continued the trends that we have seen since the middle of the fourth quarter of 2008 with our banking customers continuing to order small quantities to meet their short-term needs. We are, however, seeing an increase in activity from customers in the banking market and expect the volume of orders to increase in the fourth quarter," said Jan Valcke, VASCO's President and COO. "While the banks are still not placing large, twelve-month purchase orders, it does appear that they are developing and implementing longer-term plans. We also continue to be encouraged by the progress being made in the enterprise and application security markets and, with the expected improvement in the banking market, we are planning to increase our investment in sales and marketing to ensure that prospective customers are aware of our strong product offering."

Cliff Bown, Executive Vice President and CFO added, "During the third quarter of 2009, our cash and working capital balances increased 5% and 4%, respectively, from our balances at June 30, 2009. At September 30, 2009 our net cash balance was $71.2 million and we had $83.3 million of working capital. Days sales outstanding in net accounts receivable at September 30, 2009 increased to 85 days from 65 days at June 30, 2009 and 79 days at December 31, 2008.

Conference Call Details

In conjunction with this announcement, VASCO Data Security International, Inc. will host a conference call today, October 27, 2009, at 10:00 a.m. EDT - 15:00h CET. During the Conference Call, Mr. Ken Hunt, CEO, Mr. Jan Valcke, President and COO, and Mr. Cliff Bown, CFO, will discuss VASCO's Results for the Third Quarter and First Nine Months Ended September 30, 2009.

To participate in this Conference Call, please dial one of the following numbers:

USA/Canada: +1 800-734-8507
International: +1 212-231-2903

And mention VASCO to be connected to the Conference Call.

The Conference Call is also available in listen-only mode on www.vasco.com. Please log on 15 minutes before the start of the Conference Call in order to download and install any necessary software. The recorded version of the Conference Call will be available on the VASCO website 24 hours a day.

**VASCO Data Security International, Inc.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(in thousands, except per share data)**
**(unaudited)**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Net revenue | $22,126 | $39,705 | $69,759 | $104,042 |
| Cost of goods sold | 6,736 | 11,866 | 20,959 | 30,761 |
| Gross profit | 15,390 | 27,839 | 48,800 | 73,281 |
| Operating costs: | | | | |
| Sales and marketing | 6,767 | 8,878 | 21,860 | 25,615 |
| Research and development | 2,820 | 3,056 | 8,281 | 8,712 |
| General and administrative | 3,734 | 4,344 | 10,299 | 12,109 |
| Amortization of purchased intangible assets | 115 | 122 | 332 | 518 |
| Total operating costs | 13,436 | 16,400 | 40,772 | 46,954 |
| Operating income | 1,954 | 11,439 | 8,028 | 26,327 |
| Interest income, net | 73 | 227 | 381 | 761 |
| Other income (expense), net | 530 | (789) | 1,488 | (571) |
| Income before income taxes | 2,557 | 10,877 | 9,897 | 26,517 |
| Provision for income taxes | 1,035 | 1,754 | 2,870 | 5,038 |
| Net income | $ 1,522 | $ 9,123 | $ 7,027 | $ 21,479 |
| Net income per share: | | | | |
| Basic | $ 0.04 | $ 0.25 | $ 0.19 | $ 0.58 |
| Diluted | $ 0.04 | $ 0.24 | $ 0.18 | $ 0.56 |
| Weighted average common shares outstanding: | | | | |
| Basic | 37,322 | 37,173 | 37,318 | 37,138 |
| Diluted | 38,154 | 38,204 | 38,085 | 38,236 |

**VASCO Data Security International, Inc.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(in thousands, except per share data)**

| | September 30, 2009 (unaudited) | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and equivalents | $ 71,230 | $ 57,714 |
| Accounts receivable, net of allowance for doubtful accounts | 20,404 | 24,951 |
| Inventories | 10,222 | 13,376 |
| Prepaid expenses | 1,652 | 1,926 |
| Foreign sales tax receivable | 838 | 7,452 |
| Deferred income taxes | 460 | 284 |
| Other current assets | 730 | 199 |
| Total current assets | 105,536 | 105,902 |
| Property and equipment, net | 5,287 | 4,176 |
| Goodwill, net of accumulated amortization | 14,044 | 13,584 |
| Intangible assets, net of accumulated amortization | 1,873 | 1,997 |
| Other assets, net of accumulated amortization | 1,132 | 2,291 |
| **Total assets** | $ 127,872 | $ 127,950 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | 3,885 | 10,349 |
| Deferred revenue | 5,719 | 5,881 |
| Accrued wages and payroll taxes | 5,177 | 5,780 |
| Income taxes payable | 4,088 | 3,114 |
| Other accrued expenses | 3,346 | 4,848 |
| Total current liabilities | 22,215 | 29,972 |
| Accrued compensation | 313 | 1,352 |
| Deferred revenue | 410 | 888 |
| Deferred tax liability | 235 | 454 |
| **Total liabilities** | 23,173 | 32,666 |
| **Stockholders' equity :** | | |
| Common stock | 37 | 37 |
| Additional paid-in capital | 67,072 | 66,700 |
| Accumulated income | 31,883 | 24,856 |
| Accumulated other comprehensive income | 5,707 | 3,691 |
| **Total stockholders' equity** | 104,699 | 95,284 |
| **Total liabilities and stockholders' equity** | $ 127,872 | $ 127,950 |

**Reconciliation of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) to net income (in thousands):**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands, unaudited) | | (in thousands, unaudited) | |
| EBITDA | $ 3,332 | $ 11,474 | $ 11,869 | $ 28,392 |
| Interest income, net | 73 | 227 | 381 | 761 |
| Provision for income taxes | (1,035) | (1,754) | (2,870) | (5,038) |
| Depreciation and amortization | (848) | (824) | (2,353) | (2,636) |
| Net income | $ 1,522 | $ 9,123 | $ 7,027 | $ 21,479 |

EBITDA is a non-GAAP financial measure within the meaning of applicable U.S. Securities and Exchange Commission rules and regulations. We use EBITDA as a measure of performance, a simplified tool for use in communicating our performance to investors and analysts and for comparisons to other companies within our industry. As a performance measure, we believe that EBITDA presents a view of our operating results that is most closely related to serving our customers. By excluding interest, taxes, depreciation and amortization we are able to evaluate performance without considering decisions that, in most cases, are not directly related to meeting our customers' requirements and were either made in prior periods (e.g., depreciation and amortization), or deal with the structure or financing of the business (e.g., interest) or reflect the application of regulations that are outside of the control of our management team (e.g., taxes). Similarly, we find that the comparison of our results to those of our competitors is facilitated when we do not need to consider the impact of those items on our competitors' results.

EBITDA should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States. While we believe that EBITDA, as defined above, is useful within the context described above, it is in fact incomplete and not a measure that should be used to evaluate our full performance or our prospects. Such an evaluation needs to consider all of the complexities associated with our business including, but not limited to, how past actions are affecting current results and how they may affect future results, how we have chosen to finance the business and how regulations and the other aforementioned items affect the final amounts that are or will be available to shareholders as a return on their investment. Net income determined in accordance with U.S. GAAP is the most complete measure available today to evaluate all elements of our performance. Similarly, our Consolidated Statement of Cash Flows, which will be filed as part of our annual report on Form 10-K, provides the full accounting for how we have decided to use resources provided to us from our customers, lenders and shareholders.

**About VASCO**: VASCO is a leading supplier of strong authentication and e-signature solutions and services specializing in Internet Security applications and transactions. VASCO has positioned itself as global software company for Internet Security serving a customer base of approximately 9,000 companies in more than 100 countries, including almost 1,300 international financial institutions. VASCO's prime markets are the financial sector, enterprise security, e-commerce and e-government.

**Forward Looking Statements**

Statements made in this news release that relate to future plans, events or performances are forward-looking statements. Any statement containing words such as "believes," "anticipates," "plans," "expects," "intend," "mean," and similar words, is forward-looking, and these statements involve risks and uncertainties and are based on current expectations. Consequently, actual results could differ materially from the expectations expressed in these forward-looking statements.

Reference is made to the VASCO's public filings with the U.S. Securities and Exchange Commission for further information regarding VASCO and its operations.

This document may contain trademarks of VASCO Data Security International, Inc. and its subsidiaries, including VASCO, the VASCO "V" design, DIGIPASS, VACMAN, aXs GUARD and IDENTIKEY.

For more information contact:

Jochem Binst, +32 2 609 97 00, jbinst@vasco.com

**EXHIBIT 99.2**

Earnings Conference Call October 27, 2009

**Comments by Ken Hunt:**

Good morning everyone. For those listening in from Europe, good afternoon, and from Asia, good evening.

My name is Ken Hunt, and I am the Chairman, Founder & CEO of VASCO Data Security International, Inc. On the call with me today are Jan Valcke, our President & Chief Operating Officer, and Cliff Bown our EVP and Chief Financial Officer.

Before we begin the conference call, I need to brief all of you on "Forward Looking Statements."

**Forward Looking Statements**

**STATEMENTS MADE IN THIS CONFERENCE CALL THAT RELATE TO FUTURE PLANS, EVENTS OR PERFORMANCES ARE FORWARD-LOOKING STATEMENTS. ANY STATEMENT CONTAINING WORDS SUCH AS "BELIEVES," "ANTICIPATES," "PLANS," "EXPECTS," AND SIMILAR WORDS, IS FORWARD-LOOKING, AND THESE STATEMENTS INVOLVE RISKS AND UNCERTAINTIES AND ARE BASED ON CURRENT EXPECTATIONS. CONSEQUENTLY, ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE EXPECTATIONS EXPRESSED IN THESE FORWARD-LOOKING STATEMENTS. I DIRECT YOUR ATTENTION TO THE COMPANY'S FILINGS WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION FOR A DISCUSSION OF SUCH RISKS AND UNCERTAINTIES IN THIS REGARD.**

**General Comments – Ken Hunt**

Today, we are going to review the results for the 3rd quarter of 2009. As always, we will host a question and answer session after the conclusion of management's prepared remarks. If possible, I would like to budget one hour total for this conference call. If you can limit your questions to one or two, it would be appreciated.

Despite today's challenging economic climate, VASCO is pleased to report that the first three quarters of 2009 were all profitable quarters. As previously announced, we expect to be profitable throughout 2009.

Revenues for Q3 were $22.1 million, a decrease of 44% compared to 3rd quarter 2008, which, incidentally, was the best quarter in our Company's history. Q3 2009 was our 27th consecutive positive quarter in terms of operating income. Our gross profit for the quarter was approximately 70% of revenue and our operating income was approximately 9% of revenue.

During the quarter, we sold an additional 350 new accounts, including 56 new banks, and 294 new enterprise security customers. This compares to the third quarter a year ago in which we sold 365 new accounts, including 62 banks and 303 enterprise security customers. We now have over 9,000 customers, including almost 1,350 banks in more than 100 countries. Although management considers the number of new customers as an indicator of the momentum of our business and effectiveness of our distribution channel, the number of new customers is not indicative of future revenue.

The results of the third quarter were in line with our expectations discussed during the Q2 2009 conference call. The 3rd quarter, as expected, was weaker than the 2nd quarter, due to seasonality and the economic headwinds we have been experiencing over the last four quarters.

I am very pleased to report that during the third quarter of 2009, our cash and working capital balances increased 5% and 4%, respectively. At September 30, 2009 our net cash balance was $71.2 million and we had $83.3 million of working capital. This strong cash balance gives us the flexibility to manage our business intelligently and to look for investments that will fuel future growth. This does not mean, however, that we will start spending money without thoughtful consideration. We will look carefully where we need to invest in both short and longer-term opportunities. Accordingly, we are in the process of adding additional sales staff where opportunities for growth are promising. However, we will continue to maintain our general cost containment programs due to these challenging market conditions. With our strong fundamentals, including a healthy cash position, no debt and 27 consecutive profitable quarters, we are better equipped than many to weather this economic storm.

Lately, there have been encouraging words about the economy. On September 16, 2009, after a speech at the Brookings Institution in Washington D. C., Federal Reserve Chairman Ben Bernanke observed that the recession was most likely over. This came just after the Commerce Department reported that retail sales had climbed 2.7% in August. Likewise, there have been many publically reporting companies that have offered a more optimistic view of the economy and its affect on their results.

VASCO also believes that the financial decline abated during Q3, and we expect our volume of orders to increase during the fourth quarter. We continue to see an increase in RFP's (Requests for Proposals) for new projects and an improvement in our weighted forecast for existing customers. These are all signs that the financial crisis has bottomed out and that VASCO's business model is holding up in these difficult times.

Looking forward, we believe that the financial, economic and regulatory environments that have had a large negative effect on our banking customers are improving.

**Introduce Jan Valcke:**

At this time I would like to introduce Jan Valcke, VASCO's President and Chief Operating Officer. Jan.

Thank you, Ken

Ladies and gentlemen,

Q3 was a profitable quarter, despite the economic situation and the seasonality that affected our results due to the July-August holiday period.

This means that we have succeeded in being profitable throughout the first three quarters of the challenging year 2009. Our business strategy works, in good times and in less positive times. Our business mix between Banking, Enterprise Security and Application Security gives us a high margin result, allowing us to be profitable even when our largest revenue source - the financial sector - slowed down.

VASCO keeps investing in its long term success. We are in the process of reinforcing our sales resources in important geographic and vertical areas. The fact that we are profitable, have zero debt and a healthy cash position allows us to invest when other companies are forced to cut.

When we look into our core markets, we see that our banking business has been seriously hit by the financial crisis and its consequences. We expect that crisis has reached its bottom during Q3, and that our banking business will gradually recover over the next quarters. Ken mentioned earlier an increase in the number of RFP's for online banking projects. We have been able to win a number of these projects because of our unique business model, the quality and breadth of our products and solutions, and our industry know-how.

Our enterprise security business is surprisingly stable over the first three quarters, defying the economic recession.

Interest in our products from the application security market is also growing. Application Security includes all consumer facing non-banking online applications. This market could be defined as the combination of b-to-b and b-to-c ecommerce and ebusiness.

In the past, we had one major source of income, the banking sector. After the crisis, we expect to have steady revenue streams from Banking, Enterprise Security and Application Security.

As you may know, VACMAN Controller is the core of our server product line. IDENTIKEY is our robust and comprehensive authentication server, which supports all authentication technologies including VASCO's recently announced PKI product range. Our PKI-range currently consists of the CertiID software solution and the growing DIGIPASS Key product family.

Thanks to these investments in R&D and development we are now competitive in mid and large enterprise opportunities that were previously out of our reach.

The proliferation of VACMAN and the growing popularity of IDENTIKEY are opening up many new opportunities for cross- and up-selling for VASCO. Thanks to IDENTIKEY, we are now competitive in larger enterprise opportunities. In the last few quarters, IDENTIKEY has allowed us to win several competitive deals in mid sized and large enterprises. Enterprise Security authentication includes:

- employee remote access
- network security
- web security

VASCO has evolved into a true end-to-end authentication company, spanning the entire range between employee security and consumer security, based on one and unique VACMAN platform.

Consumer security, including our banking and application security markets, is tackled via our own sales force and our own competence centers. VASCO competence centers bundle all the company's competence in one vertical market, such as online gaming. By creating competence centers, we enhance our dominance in new verticals, building upon our expertise and the skills of our people.

Employee security is covered by our Enterprise Security business. As you know, VASCO tackles the Enterprise Security market via a two-tier network of distributors and resellers. We keep investing in new products for Enterprise Security and we focus strongly on the quality of our channel. Our SEAL training academy does a tremendous job in training and certifying our channel partners' engineers, by creating authorized training centers and much more.

I conclude, ladies and gentlemen, by acknowledging that the three first quarters of 2009 were not the easiest in the company's history. Nevertheless, all three quarters were profitable. I am convinced that, when the economy picks up again, the skills of our people, our investments in best-of-breed products and services, and the right business strategy and execution will make VASCO even stronger than before.

Thank you.

**Introduce Cliff Bown:**

At this time I would like to introduce Cliff Bown, VASCO's EVP and Chief Financial Officer.

**Comments by Cliff Bown:**

Thanks Ken and welcome to everyone on the call.

As noted earlier by Ken, revenues for the third quarter of 2009 were $22.1 million, a decrease of $17.6 million or 44% from the third quarter of 2008. For the first nine months, revenues were $69.8 million, a decrease of $34.2 million or 33% from the comparable period in 2008.

The decrease in revenue for the third quarter reflected significant declines in revenues from both the banking and enterprise and application security markets. The decrease in revenue for the first nine months reflected a significant decline in revenues from the banking market partially offset by increase in revenues from the enterprise and application security market. Revenues from the banking market decreased 49% and 41% for the third quarter and first nine months of 2009, respectively, when compared to the same periods in 2008. Revenues from the enterprise and application security market decreased 20% for the third quarter and increased 2% for first nine months of 2009, respectively, when compared to the same periods in 2008.

It should also be noted that the comparison of revenues was negatively impacted by the stronger U.S. dollar in 2009. We estimate that revenues in the third quarter and first nine months of 2009 were approximately $600 thousand and $4.3 million lower, respectively, than they would have been had the exchange rates in 2009 been the same as in 2008.

The percentage of revenue coming from the enterprise and application security market, whose average gross margin as a percentage of revenue is generally 20 to 30 percentage points higher than the gross margins from the banking market, has increased in 2009 when compared to 2008. The distribution of our revenue in the third quarter of 2009 between our two primary markets was approximately 75% from banking and 25% from enterprise application security. This compares to 83% from banking and 17% from enterprise application security in Q3 2008.

For the first nine months of 2009, 73% of our revenue was from banking and 27% from enterprise and application security and compares to 82% from banking and 18% from enterprise and application security for the first nine months of 2008.

Our revenues continue to come predominately from outside of the U.S. The geographic distribution of our revenue in the third quarter was approximately 77% from Europe, 9% from the U.S., 6% from Asia and the remaining 8% from other countries.

The geographic distribution of our revenue for the first nine months of 2009 was approximately 73% from Europe, 6% from the U.S., 9% from Asia and the remaining 12% from other countries.

Gross profit as a percentage of revenue for both the third quarter and first nine months of 2009 was approximately 70%. In 2008, gross profit as a percentage of revenue was also 70% for both the third quarter and first nine months of the year.

As there was no material change in the gross profit as a percentage of revenue, there were no material changes in the underlying components driving our gross margins.

For example, our non-hardware revenues were between 23% and 24% of total revenue for each of the three and nine month periods in 2009 and 2008.

While, the mix of products sold in the third quarter and first nine months of 2009 reflected an increase in card readers sold as a percentage of total revenue when compared to the same periods in 2008, the impact of the increase in readers sold was offset by improved margins in non-reader hardware products sold. Revenues from card readers were approximately 18% of our revenue for both the third quarter and first nine months of 2009 and compare to approximately 13% and 16%, respectively for the comparable periods in 2008. As noted on previous calls, our card reader product line has lower margins due to competitive pricing pressures.

Operating expenses for the third quarter of 2009 were $13.4 million, a decrease of $3.0 million or 18% from the third quarter of 2008. Operating expenses for the first nine months of 2009 were $40.8 million, a decrease of $6.2 million or 13% from the same period in 2008.

The comparison of operating expenses in 2009 to 2008 was positively impacted by the stronger U.S. dollar in 2009. We estimate that expenses were $0.9 million and $4.3 million lower for the third quarter and first nine months, respectively, than they would have been had the exchange rates in 2009 been the same as in 2008.

Operating expenses for the third quarter of 2009 included $484 thousand of expense related to stock-based incentive plans. For the first nine months of 2009, operating expenses included a benefit of $785 thousand related to stock-based incentive plans. As noted in our the first quarter conference call, we reversed of approximately $2.0 million of accruals that had been established in prior years for long-term, incentive-based compensation plans where it is no longer likely that the performance targets will be met.

Stock-based incentive plan expenses in the third quarter and first nine months of 2008 were $811 thousand and $2,284,000, respectively.

For the third quarter, including the benefit of currency, operating expenses decreased by $2.1 million, or 24% in sales and marketing, decreased by $236,000 or 8% in research and development, and decreased by $610,000 or 14% in general and administrative when compared to the third quarter in 2008. The decrease in the sales and marketing expense primarily reflected the benefit of the change in exchange rates, lower compensation expenses, lower marketing expense and lower travel expense. The decrease in research and development expense primarily reflected the benefit of the change in exchange rates partially offset by an increase in average headcount. The decrease in the general and administrative expense primarily reflected the benefit of the change in exchange rates, lower recruiting expenses, lower insurance expense and professional fees partially offset by an increase in depreciation expense and an increase in average headcount. As a result of our investment in new staff throughout 2008, our average total headcount in the third quarter of 2009 was 16 persons, or 6%, higher than the average headcount in the third quarter of 2008. The increase in average headcount included an increase of 12 persons in R&D and 4 persons in general and administrative staff.

For the first nine months of 2009, operating expenses decreased by $3.8 million, or 15% in sales and marketing, $431,000 or 5% in research and development, and $1.8 million or 15% in general and administrative when compared to the same period in 2008. In addition to the reasons noted for the changes in the third quarter, the decreases in expense for the first nine months reflected the benefit from the reduction in stock-based incentive plan compensation expense noted previously. In addition, the reduction in expense was partially offset by an increase in our average headcount in all areas. Our average headcount for the first nine months of 2009 was 15 persons, or 10%, higher in sales, marketing and operations staff; 16 persons, or 21% higher in R&D staff; and 10 persons, or 26% higher in general and administrative staff.

Operating income for the third quarter of 2009 was $2.0 million, a decrease of $9.5 million or 83% from the $11.4 million reported in the third quarter of 2008. For the first nine months, operating income was $8.0 million in 2009, a decrease of $18.3 million or 70% from the $26.3 million reported in 2008.

Operating income as a percent of revenue, or operating margin, was 8.8% for the third quarter and 11.5% for the first nine months of 2009. In 2008, our operating margins were 28.8% for the quarter and 25.3% for the first nine months. While we have benefited from our cost containment actions, the decrease in operating margin reflects the fact that we have continued to maintain the investments we made in our infrastructure in 2008 that will be needed to support future growth.

The Company reported income tax expense of $1.0 million for the third quarter and $2.9 million for the first nine months of 2009. The effective tax rate was 40% and 29% for the third quarter and first nine months of 2009, respectively.

For 2008, the Company reported income tax expense of $1.8 million for the third quarter and $5.0 million for the first nine months. The effective tax rate reported in 2008 was 16% for the third quarter and 19% the nine month period ended September 30th.

The effective rates for both 2009 and 2008 reflect our estimate of our full-year tax rate at the end of the third quarter in each period. In both periods, adjustments were made in the third quarter to reflect the change in estimate for the full-year tax rate. The increase in the tax rate in 2009 compared to 2008 is primarily attributable to reduction in pretax profits. Under our current structure, our effective rate will be very sensitive to the level of pretax income. As pretax income increases, we expect the effective rate to decline. As pretax income decreases, the effective rate will increase.

Earnings before interest, taxes, depreciation, and amortization (EBITDA or operating cash flow if you will) was $3.3 million for the third quarter and $11.9 million for the first nine months of 2009. EBITDA was $8.1 million or 71% lower in the third quarter and $16.5 million or 58% lower than in the first nine months of 2008. The reduction in EBITDA primarily reflects the reduction in earnings.

The makeup of our workforce as of September 30, 2009 was 294 people worldwide with 156 in sales, marketing and customer support, 93 in research and development and 45 in general and administrative. As noted previously, the average headcount for the third quarter of 2009 was 16 persons or 6% higher than the average headcount for the third quarter of 2008. The average headcount for the first nine months of 2009 was 41 persons or 16% higher than the average headcount for the same period in 2008.

Our strong cash and working capital balances continued to increase during the third quarter of 2009. As of September 30, 2009, our net cash balance, which is defined as total cash less bank borrowings, was $71.2 million, an increase of $3.6 million, or 5% from $67.6 million at June 30, 2009 and an increase of $13.5 million, or 23%, from $57.7 million at December 31, 2008. As of September 30, 2009, our working capital balance was $83.3 million, an increase of $3.4 million, or 4% from $79.9 million at June 30, 2009 and an increase of $7.4 million, or 10%, from $75.9 million at December 31, 2008. We had no debt outstanding during the quarter.

During the quarter our Days Sales Outstanding in accounts receivable increased to 85 days as of September 30, 2009 from 65 days at June 30, 2009 and from 79 days at December 31, 2008. The increase in DSO was primarily related to the timing of when sales were made in the quarter.

Thank you for your attention. I would now like to turn the meeting back to Ken.

**Ken Hunt Final Remarks:**

Summing up, we expect to be profitable for the full year 2009 through focus and execution. We will continue to invest in our marketing activities, our people and our infrastructure while containing our costs. In light of the continued uncertainty in the market, VASCO will continue to temporarily discontinue providing annual guidance.

At this time we will open the call for your questions. Operator?

Ladies and gentlemen, thank you for your attendance today. I look forward to your participation in our next Earnings Conference Call for Q4, 2009. As always, you can rely on VASCO's people to do their very best!

EXHIBIT 99.3

## CORPORATE PARTICIPANTS

**Ken Hunt**

*VASCO Data Security International - Chairman, Founder and CEO*

**Jan Valcke**

*VASCO Data Security International - President and COO*

**Cliff Bown**

*VASCO Data Security International - EVP and CFO*

## CONFERENCE CALL PARTICIPANTS

**Brian Freed**

*Morgan Keegan & Co., Inc. - Analyst*

**Joe Maxa**

*Dougherty & Company - Analyst*

**Andrew Abrams**

*Avian Securities - Analyst*

**Daniel Ives**

*FBR Capital Markets - Analyst*

**Scott Zeller**

*Needham & Company - Analyst*

**Ignatius Njoku**

*Jefferies & Company, Inc. - Analyst*

**Martin Yokosawa**

*Tory Asset Management - Analyst*

**Rob Owens**

*Pacific Crest Securities - Analyst*

## PRESENTATION

---

**Operator**

Ladies and gentlemen, thank you very much for standing by and welcome to the Vasco Data Security International, Inc. Q3 earnings conference call. During this presentation, all participants are in a listen-only mode.

Afterwards, we will conduct a question-and-answer session (Operator Instructions). It is now my pleasure to turn the conference over to Ken Hunt, VASCO Data Security International, Inc. Please go ahead, sir.

---

**Ken Hunt** - ***VASCO Data Security International - Chairman, Founder and CEO***

Good morning, everyone. For those listening in from Europe, good afternoon; and from Asia, good evening. My name is Ken Hunt and I'm the Chairman, Founder and CEO of VASCO Data Security International, Inc. On the call with me today are January Valcke, our President and Chief Operating Officer; and Cliff Bown, our EVP and Chief Financial Officer.

Before we begin the conference call, I need to brief all of you on forward-looking statements. Statements made in this conference call that relate to future plans, events or performances are forward-looking statements.

Any statement containing words such as believes, anticipates, plans, expects, and similar words is forward-looking and these statements involve risks and uncertainties and are based on current expectations. Consequently, actual results could differ materially from the expectations expressed in these forward-looking statements. I direct your attention to the Company's filings with the US Securities and Exchange Commission for a discussion of such risks and uncertainties in this regard.

Today we're going to review the results for the third quarter of 2009. As always, we will host a question-and-answer session after the conclusion of management's prepared remarks. If possible, I would like to budget one hour total for this conference call. If you can limit your questions to one or two, it would be appreciated.

Despite today's challenging economic climate, VASCO is pleased to report that the first three quarters of 2009 were all profitable quarters. As previously announced, we expect to be profitable throughout 2009.

Revenues for Q3 were $22.1 million, a decrease of 44% compared to third quarter 2008 which incidentally was the best quarter in our Company's history. Q3 2009 was our 27th consecutive positive quarter in terms of operating income.

Our gross profit for the quarter was approximately 70% of revenue and our operating income was approximately 9% of revenue. During the quarter, we sold an additional 350 new accounts, including 56 new banks and 294 new enterprise security customers. This compares to the third quarter a year ago in which we sold 365 new accounts, including 62 banks and 303 enterprises security customers.

We now have over 9000 customers, including almost 1350 banks in more than 100 countries. Although management considers the number of new customers as an indicator of the momentum of our business and effectiveness of our distribution channel, the number of new customers is not indicative of future revenue.

The results of third quarter were in line with our expectations discussed during the Q2 2009 conference call. The third quarter as expected was weaker than the second quarter due to seasonality and the economic headwinds we've been experiencing over the last four quarters.

I'm very pleased to report that during the third quarter of 2009, our cash and working capital balances increased 5% and 4%, respectively. At September 30, 2009 our net cash balance was $71.2 million and we had $83.3 million of working capital.

This strong cash balance gives us the flexibility to manage our business intelligently and to look for investments that will fuel future growth. This does not mean, however, that we will start spending money without thoughtful consideration.

We will look carefully where we need to invest in both short and longer-term opportunities. Accordingly, we're in the process of adding additional sales staff where opportunities for growth are promising.

However, we will continue to make maintain our general cost containment programs due to these challenging market conditions. With our strong fundamentals, including a healthy cash position, no debt, and 27 consecutive profitable quarters; we're better equipped than many to weather this economic storm.

Lately there have been encouraging words about the economy. On September 16, 2009 after his speech at the Brookings Institution in Washington, DC; Federal Reserve Chairman, Ben Bernanke, observed that the recession was most likely over.

This came just after the Commerce Department reported that retail sales had climbed 2.7% in August. Likewise there've been many publicly reporting companies that have offered a more optimistic view of the economy and its effect on their results.

VASCO also believes that the financial decline abated during Q3 and we expect our volume of orders to increase during the fourth quarter. We continue to see an increase in RFPs, that's request for proposals, for new projects and an improvement in our own weighted forecast for existing customers. These are all signs that the financial crisis has bottomed out and that VASCO's business model is holding up in these difficult times.

Looking forward, we believe that the financial, economic and regulatory environments that have had a large negative effect on our banking customers are improving. At this time, I would like to introduce Jan Valcke, VASCO's President and Chief Operating Officer.

**Jan Valcke** - ***VASCO Data Security International - President and COO***

Thank you, Ken. Ladies and gentlemen, the third quarter was a profitable quarter despite the economic situation and the seasonality that affected our results due to the July/August holiday period.

This means that we have succeeded in being profitable through the first three quarters of the challenging year 2009. Our business strategy works in good times and in less positive times. Our business mix between banking, enterprise security, and application security gives us a high-margin result, allowing us to be profitable even when our largest revenue source, the financial sector, slowed down.

VASCO keeps investing in its long-term success. We are in the process of reinforcing our sales resources in important geographic and vertical areas. The fact that we are profitable, have zero debt and a healthy cash position allows us to invest when other companies are forced to cut.

When we look into our core markets, we see that our banking business has been seriously hit by the financial crisis and its consequences. We expect that crisis has reached its bottom during the third quarter and that our banking business will gradually recover over the next quarter.

Ken mentioned earlier an increase in the number of RFPs for online banking projects. We have been able to win a number of these projects because of our unique business model, the quality and breadth of our products and solutions and our industry know-how. Our enterprise security business is surprisingly stable over the first three quarters, defying the economic recession.

Interest in our products for the application security market is also growing. Application security includes all customer-facing, non-banking online applications. This market could be defined as the combination of B2B and B2C e-commerce and e-business.

In the past, we had one major source of income, the banking sector. After the crisis, we expect to have steady revenue streams from banking, enterprise security and application security. As you may know, VACMAN Controller is the core of our server product line.

Identikey is our robust and comprehensive authentication server which supports all authentication technologies, including VASCO’s recently announced PKI product range. Our PKI range currently consists of the CertiID software solution and the growing DIGIPASS Key product family.

Thanks to these investments in R&D, we are now competitive in mid and large enterprise opportunities that were previously out of our reach. The proliferation of VACMAN and the growing popularity of Identikey are opening up many opportunities for cross and up-selling for VASCO.

Thanks to Identikey, we are now competitive in large enterprise opportunities. In the last few quarters, Identikey has allowed us to win several competitive deals in mid-sized and large enterprises. Enterprise security authentication includes employee remote access, network security and Web security.

VASCO has evolved into a true end-to-end authentication company, spanning the entire range between employee security and consumer security, based [on one unique] VACMAN platform. Consumer security, including our banking and application security markets, is tackled via our own sales force and our own competence centers.

VASCO competence centers bundle all the Company’s competence in one vertical market such as online gaming. By creating competence centers, we enhance our dominance in new verticals, building upon our expertise and the skills of our people.

Employee security is covered by our enterprise security business. As you know, VASCO tackles the enterprise security market via a two-tier metric of distributors and resellers. We keep investing in new products for enterprise security and we focus [sternly] on the quality of our channel.

Our SEAL training academy does a tremendous job in training and certifying our channel partners’ engineers by creating authorized training centers and much more. I conclude, ladies and gentlemen, by acknowledging that the three first quarters of 2009 were not the easiest in the Company’s history.

Nevertheless all three quarters were profitable and I am convinced that when the economy picks up again; the skills of our people, our investment in best-of-breed products and services and the right business strategy and execution will make VASCO even stronger than before. Thank you.

**Ken Hunt** - ***VASCO Data Security International - Chairman, Founder and CEO***

Thank you, Jan. At this time, I would like to introduce Cliff Bown, VASCO's EVP and Chief Financial Officer. Cliff?

**Cliff Bown** - ***VASCO Data Security International - EVP and CFO***

Thanks, Ken, and welcome to everyone on the call. As noted earlier by Ken, revenues for the third quarter of 2009 were $22.1 million, a decrease of $17.6 million or 44% from the third quarter of 2008.

For the first nine months, revenues were $69.8 million, a decrease of $34.2 million or 33% from the comparable period in 2008. The decrease in revenue for the third quarter reflected significant declines in revenues from both the banking and enterprise and application security markets. The decrease in revenue for the first nine months reflected a significant decline in revenues for the banking market, partially offset by an increase in revenues from enterprise and application securities market.

Revenues for the banking market decreased 49% and 41% for the third quarter and first nine months of 2009 respectively when compared to the same periods in 2008. Revenues from the enterprise and application security market decreased 20% for the third quarter and increased 2% for the first nine months of 2009 respectively when compared to the same periods in 2008.

It should be noted that the comparison of revenues was negatively impacted by the stronger US dollar in 2009. We estimate that revenues in the third quarter and first nine months of 2009 were approximately $600,000 and $4.3 million lower respectively than they would have been had the exchange rates in 2009 been the same as in 2008.

The percentage of revenue coming from the enterprise and application security market whose average gross margin as a percentage of revenue is generally 20 to 30 percentage points higher than the gross margin from the banking market has increased in 2009 when compared to 2008. The distribution of our revenue in the third quarter of 2009 between our two primary markets was approximately 75% from banking and 25% from enterprise application security.

This compares to 83% from banking and 17% from enterprise and application security in Q3 of 2008. For the first nine months of 2009, 73% of our revenue was from banking and 27% was enterprise and application security and compares to 82% from banking and 18% from enterprise and application security for the first nine months of 2008.

Our revenues continued to come predominantly from outside the United States. The geographic distribution of our revenues in the third quarter was approximately 77% from Europe, 9% from the United States, 6% from Asia and the remaining 8% from other countries. The geographic distribution of our revenue for the first nine months of 2009 was approximately 73% from Europe, 6% from the United States, 9% from Asia, and the remaining 12% from other countries.

Gross profit as a percentage of revenue for both the third quarter and first nine months of 2009 was approximately 70%. In 2008, gross profit as a percentage of revenue was also 70% for both the third quarter and first nine months of the year.

As there were no material changes in the gross profit as a percentage of revenue, there were no material changes in the underlying components driving our gross margins. For example, our non-hardware revenues were between 23% and 24% of total revenue for each of the three and nine-month periods in 2009 and 2008.

While the mix of products sold in the third quarter and first nine months of 2009 reflected an increase in card readers sold as a percentage of total revenue when compared to the same periods in 2008, the impact of the increase in readers sold was offset by improved margins and non-reader hardware products sold. Revenues from card readers were approximately 18% of our revenue for both third quarter and first nine months of 2009 and compared to approximately 13% and 16% respectively for the comparable periods in 2008. As noted on previous calls, our card reader product line has lower margins due to competitive pricing pressures.

Operating expenses for the third quarter of 2009 were $13.4 million, a decrease of $3 million or 18% from the third quarter of 2008. Operating expenses for the first nine months of 2009 were $40.8 million, a decrease of $6.2 million or 13% from the same period in 2008.

The comparison of operating expenses in 2009 to 2008 was positively impacted by the stronger US dollar in 2009. We estimate that expenses were $900,000 and $4.3 million lower for the third quarter and first 9 months respectively than they would have been had the exchange rates in 2009 been the same as in 2008.

Operating expenses for the third quarter of 2009 included $484,000 of expense related to stock based incentive plans. For the first nine months of 2009, operating expenses included a benefit of $785,000 related to stock-based incentive plans.

As noted in our first quarter conference call, we reversed approximately $2 million of accruals that had been established in prior years for our long-term incentive-based compensation plan where it is no longer likely that the performance targets will be met. Stock-based incentive plans expenses in the third quarter and first nine months of 2008 were $811,000 and $2,284,000, respectively.

For the third quarter, including the benefit of currency, operating expenses decreased by $2.1 million or 24% in sales and marketing, decreased by $236,000 or 8% in research and development, and decreased by $610,000 or 14% in G&A when compared to the third quarter of 2008.

The decrease in sales and marketing expense primarily reflected the benefit of the change in exchange rates, lower compensation expenses, lower marketing expenses and lower travel expenses. The decrease in research and development expense primarily reflected the benefit of the exchange rates, partially offset by an increase in average headcount. The decrease in general and administrative expenses primarily reflected the benefit in exchange rates, lower recruiting expenses, lower insurance expenses, lower professional fees, partially offset by an increase in depreciation expense and an increase in average headcount.

As a result of our investment in new staff throughout 2008, our average total headcount in the third quarter of 2000 was 16 persons or 6% higher than the average headcount in the third quarter of 2008. The increase in average headcount included an increase of 12 persons in research and development and four persons in general and administrative staff.

For the first nine months of 2009, operating expenses decreased by $3.8 million or 15% in sales and marketing, $431,000 or 5% in research and development and $1.8 million or 15% in general and administrative when compared to the same period in 2008.

In addition (inaudible) the reasons noted for the changes in the third quarter, the decreases in expense for the first nine months reflected the benefit from the reduction in stock-based incentive compensation plan expense as previously noted. In addition, the reduction in expense was partially offset by an increase in our average headcount in all areas.

Our average headcount for the first nine months of 2009 was 15 persons or 10% higher in sales and marketing and operations staff, 16 persons or 21% higher in R&D staff and 10 persons or 26% higher in general and administrative staff. Operating income for the third quarter of 2009 was $2 million, a decrease of $9.5 million or 83% from the $11.4 million reported for the third quarter of 2008.

For the first nine months, operating income was $8 million in 2009, a decrease of $18.3 million or 70% from the $26.3 million reported in 2008. Operating income as a percent of revenue or operating margin was 8.8% in the third quarter and 11.5% for the first nine months of 2009.

In 2008, our operating margins were 28.8% for the quarter and 25.3% for the first nine months. While we have benefited from our cost containment actions, the decrease in operating margin reflects the fact that we have continued to maintain our investments that we made in our infrastructure in 2008 that will be needed to support future growth.

The Company reported income tax expense $1 million for the third quarter and $2.9 million for the first nine months of 2009. The effective tax rate was 40% and 29% for the third quarter and first nine months of 2009 respectively. For 2008, the Company reported income tax expense of $1.8 million for the third quarter and $5 million for the first nine months.

The effective tax rate reported for 2008 was 16% for the third quarter and 19% for the nine-month period ended September 30. The effective tax rates for both 2009 and 2008 reflect our estimate of the full-year tax rate at the end of the third quarter in each period.

In both periods, adjustments were made in the third quarter to reflect the change in estimate for the full-year tax rate. The increase in the tax rate in 2009 compared to 2008 is primarily attributable to a reduction in pre-tax profit. Under our current structure, our effective rate will be very sensitive to the level of pre-tax income. As pre-tax income increases, we expect the effective rate to decline; and as pre-tax income decreases, the effective rate will increase.

Earnings before interest, taxes, depreciation and amortization, EBITDA or operating cash flow if you will, was $3.3 million for the third quarter and $11.9 million for the first nine months of 2009. EBITDA was $8.1 million or 71% lower in the third quarter and $16.5 million or 58% lower for the first nine months than in the first nine months of 2008. The reduction in EBITDA primarily reflects the reduction in earnings.

The makeup of our work force as of September 30, 2009 was 294 people worldwide with 156 in sales, marketing and customer support; 93 in research and development and 45 in general and administrative. As noted previously, the average headcount for the third quarter was 16 persons or 6% higher than the average headcount for the third quarter of 2008 and the average headcount for the first nine months of 2009 was 41 persons or 16% higher than the average headcount in the same period of 2008.

Our strong cash and working capital balances continued to increase during the third quarter of 2009. As of September 30, 2009 our net cash balance which is defined as total cash less bank borrowings was $71.2 million, an increase of $3.6 million or 5% from $67.6 million at June 30, 2009; an increase of $13.5 million or 23% from $57.7 million at December 31, 2008.

As of September 30, 2009 our working capital balance was $83.3 million, an increase of $3.4 million or 4% from $79.9 million at June 30, 2009 and an increase of $7.4 million or 10% from $75.9 million at December 31, 2008. We had no debt outstanding during the quarter.

During the quarter, our day sales outstanding and accounts receivable increased to 85 days as of September 30, 2009 from 65 days at June 30, 2009 and from 79 days at December 31, 2008. The increase in DSO was primarily related to the timing of when sales were made in the quarter.

Thank you very much for your attention. I would now like to turn the meeting back to Ken.

---

**Ken Hunt** - ***VASCO Data Security International* - *Chairman, Founder and CEO***

Thank you, Cliff. Summing up, we expect to be profitable for the full year 2009 through focus and execution. We will continue to invest in our marketing activities, our people and our infrastructure while containing our costs. In light of the continued uncertainty in the market, VASCO will continue to temporarily discontinue providing annual guidance.

At this time, we will open the call for your questions. Operator?

## QUESTION AND ANSWER

**Operator**

(Operator Instructions) Brian Freed, Morgan Keegan.

**Brian Freed** - ***Morgan Keegan & Co., Inc. - Analyst***

Real quick, when you look at your customers, can you talk about where you think in the recovery cycle a stepped-up investment in strong authentication comes? Particularly with your product, do you see them conserving more of an infrastructure function or a marketing function? Just kind of wanting to understand where you guys would play in the recovery cycle.

**Ken Hunt** - ***VASCO Data Security International - Chairman, Founder and CEO***

Jan, would you like to address that question.

**Jan Valcke** - ***VASCO Data Security International - President and COO***

I'm sorry (inaudible) the line was so bad. Could you maybe repeat the question?

**Ken Hunt** - ***VASCO Data Security International - Chairman, Founder and CEO***

Brian, do you mind repeating the question?

**Brian Freed** - ***Morgan Keegan & Co., Inc. - Analyst***

Sure, at what point in an economic recovery scenario do you see authentication coming into play? I'm just trying to understand if you think it is a leading function or somewhat of a lagging function?

**Jan Valcke** - ***VASCO Data Security International - President and COO***

Yes, thank you for repeating that. So basically in the enterprise security, which we could define as security for employees, we see an increasing demand to secure business applications — business applications, the ERP system, Salesforce.com and so on.

So there we have developed a model that with one DIGIPASS, you can secure all your business applications, remote access; again, all those applications that those employees are using. That has been very successful. It's thanks to the Identikey that we can now also tackle very large enterprises with that offering.

So we see in detail an increase. On the other hand, we also saw an increase in all those applications, gaming being one of it. Gaming has certainly not been hurt by the economical crisis but there are also other sources, security, distributors that are securing their transactions with their customers. So in these both areas, we see really an increase in demand and also in execution.

**Ken Hunt** - ***VASCO Data Security International - Chairman, Founder and CEO***

Brian, I think it's also the fact that as the banks are coming out of this economic issue or problem, they're starting to think more about rethinking their online banking projects and it's one of the reasons we are noticing more RFPs. These RFPs are consistent with supporting online banking applications where strong authentication is required.

**Brian Freed** - ***Morgan Keegan & Co., Inc. - Analyst***

Okay, and you know on that same vein, can you talk a little bit more about the increases you're seeing in RFPs, if it's a particular vertical or application? I think you hinted at it on the banking side but could you give a little more color?

**Ken Hunt** - ***VASCO Data Security International* - *Chairman, Founder and CEO***

Sure, Jan?

**Jan Valcke** - ***VASCO Data Security International* - *President and COO***

Well basically the crease in RFPs are in the banking industry. You need to see that a lot of businesses coming in without an RFP just on a purchase order. It’s only the large corporate and banks certainly that more and more are working to RFPs. So it is really in the banking industry.

**Ken Hunt** - ***VASCO Data Security International* - *Chairman, Founder and CEO***

And there’s another issue. There for a while we really weren’t seeing any large contracts, the volume purchase orders we call them, and that has picked up as well.

**Brian Freed** - ***Morgan Keegan & Co., Inc.* - *Analyst***

Did you see the pickup in Q3 or are you seeing it subsequent in Q3?

**Ken Hunt** - ***VASCO Data Security International* - *Chairman, Founder and CEO***

We saw it in Q3. We’re actually starting to build some backlog for 2010.

**Brian Freed** - ***Morgan Keegan & Co., Inc.* - *Analyst***

Good deal. Thanks. I’ll cede the floor.

**Operator**

Joe Maxa, Dougherty.

**Joe Maxa** - ***Dougherty & Company* - *Analyst***

Ken, talking about the increased RFPs — and it sounds like you’re expecting Q4 to be, based on the language, up sequentially. No guidance, but can you give us an idea how Q4 is shaping up so far versus Q3 and then how backend it typically is, how backend loaded the quarter typically is?

**Ken Hunt** - ***VASCO Data Security International* - *Chairman, Founder and CEO***

In terms of the month of October this year compared to the month of October last year, we are up. I won’t give you a percentage but we are up very nicely. Jan, do you have any thing else you would like to add there?

**Jan Valcke** - ***VASCO Data Security International* - *President and COO***

Well you see, without giving the real numbers, we see basically a decrease in order intake during the last months. And since September, the order intake is picking up again very strongly, I should say. And we see also continuation in October.

**Ken Hunt** - *VASCO Data Security International* - *Chairman, Founder and CEO*

And I should add one more thing. You remember when we were giving guidance, we would go into a quarter and we would talk about backlog.

We could always rely on a certain percentage of additional revenue coming in to add to that backlog. And it wasn't a huge number. Because the banks particularly are ordering in smaller quantities and more often, we find that we enter a quarter with not nearly as much firm backlog but is created during the quarter. So in terms of loading, it's probably mid and later in the quarter that the revenues come in and are accounted for.

**Joe Maxa** - *Dougherty & Company* - *Analyst*

All right, let me ask on the operating expense side. Q3 numbers sequentially were down pretty significantly a couple million dollars. Can you just address how you got those to that level from Q2?

**Ken Hunt** - *VASCO Data Security International* - *Chairman, Founder and CEO*

Cliff?

**Cliff Bown** - *VASCO Data Security International* - *EVP and CFO*

Most of those dollars you would see are in the sales and marketing area and we have a very large portion of our staff in sales and marketing in the European region. That being their heavier holiday period, there was a lot more focus on those people taking their vacations during that time period.

So we didn't have their salary expenses. Also with revenues down, there were lower commission expenses, lower sales bonuses paid during the quarter, lower travel expenses and lower marketing expenses, tradeshows and those kinds of things within the sales and marketing group. So Jan and his team really cut back in Q3 on those activities given both the holiday schedule and the economic environment.

**Joe Maxa** - *Dougherty & Company* - *Analyst*

So the Q2 level is more of a normal level to think about?

**Cliff Bown** - *VASCO Data Security International* - *EVP and CFO*

I would expect so, yes.

**Joe Maxa** - *Dougherty & Company* - *Analyst*

Last for me, the gross margins. If you're banking is picking up, we should expect gross margins to tick down?

**Cliff Bown** - *VASCO Data Security International* - *EVP and CFO*

I would expect them to be under pressure, yes, and tick down a little bit if the percentage of revenue coming from the banking versus enterprise security increases again.

**Operator**

Andrew Abrams, Avian Securities.

**Andrew Abrams** - *Avian Securities* - *Analyst*

Can you talk a little bit about the enterprise business and what you are seeing there? That business hasn't been affected I guess to the extent that the banking business has. Are you seeing any signs of life from the enterprise side specifically or is it kind of just dead as it has been for the last couple of quarters?

**Ken Hunt** - *VASCO Data Security International* - *Chairman, Founder and CEO*

Jan, again, address that please.

**Jan Valcke** - ***VASCO Data Security International*** - ***President and COO***

Yes, we see — first of all if you look at the numbers, the percentages, you will see that the US is picking up. Again, the US has a large part of its business coming from enterprise security and application security.

So, we can say that has two reasons. The first of all is the introduction of a new suite of products with the Identikey which gives us openings to larger enterprises. And secondly, it's also that the economic climate is getting better.

I expect that we see that also in the trends, that that trend will continue outside US also. So primarily first of all, our new product range that makes it sure that we can go to larger enterprises and also the economic climate is getting better and better for that market.

**Operator**

Daniel Ives, FBR Capital Markets.

**Daniel Ives** - ***FBR Capital Markets*** - ***Analyst***

Just a quick question. In regard to just deal sizes, when you (inaudible) your RFPs and there's new existing customers, I mean if you think about that trend, is it to continuing to increase sequentially and maybe even year over year?

**Ken Hunt** - ***VASCO Data Security International*** - ***Chairman, Founder and CEO***

In terms of deal size, Daniel?

**Daniel Ives** - ***FBR Capital Markets*** - ***Analyst***

Yes, just in terms of the potential deal sizes on the RFP, the potential revenue implications. Are you starting to see the bigger deals (multiple speakers) on the RFP both within the installed base but also in the new customers if you just think about it sequentially?

**Ken Hunt** - ***VASCO Data Security International*** - ***Chairman, Founder and CEO***

Yes, I would say that in terms of the existing customers, for the most part they're still operating as they have for the last three or four quarters and that's smaller orders but much more often. In terms of the size of the RFPs, Jan, would you like to comment about that?

**Jan Valcke** - ***VASCO Data Security International*** - ***President and COO***

The RFPs are coming from prospects. So not so much from our existing customer base and the deals can be seen as large.

**Operator**

Scott Zeller, Needham & Co.

**Scott Zeller** - ***Needham & Company*** - ***Analyst***

Could you tell us if in the new deal activity you are seeing with RFPs if the makeup of the technology that the larger banks are looking at has changed? For instance, is there movement towards soft key and away from token based authentication?

**Ken Hunt** - ***VASCO Data Security International*** - ***Chairman, Founder and CEO***

Well, we have always had an attitude of offering a wide variety of products and we have had what amounts to the soft token available for three years. So we have been ready for market acceptance or adoption for a long time.

Certainly as the phones become more intelligent and you are basically downloading a little application to the phone, it is going to become more popular and we're planning for it and we are seeing it. Our business for soft tokens or tokens that go onto a BlackBerry or an iPhone or any kind of intelligent phone, those revenues are up rather dramatically and we expect them to continue.

I have said this before and I will continue to maintain this position unless I see something dramatically change, we think that in many cases, the customers do like a personalized calculator called the DIGIPASS. And we have always manufactured for our larger customers, banks and now gaming companies, the DIGIPASS model that they choose. We manufacture it in their corporate color and with their logo and they actually use it as a brand for whatever application they are offering.

---

**Andrew Abrams** - ***Avian Securities*** - ***Analyst***

It sounds like you would characterize the typical large customer though as still being hardware focused.

---

**Ken Hunt** - ***VASCO Data Security International*** - ***Chairman, Founder and CEO***

Certainly on the banking side, as an example with the man in the middle attacks, a simple one-time password is not sufficient. And so in many of the banks applications, the banks buy our product that has a keypad on the calculator so that they can generate an electronic signature. That same functionality in terms of software can be made available through a soft token, a DIGIPASS soft token on a cell phone. Again it does one-time password and it also generates a signature based upon the instructions that are being sent to the banks so that if it's intercepted, if those instructions are intercepted in the Internet and modified in any way, the bank on the other end will not be able to generate a signature that matches the user's signature.

---

**Andrew Abrams** - ***Avian Securities*** - ***Analyst***

Okay and two quick ones then. Any 10% customers in the quarter and could you give us some guidance on the tax rate, just rough guidance even?

---

**Cliff Bown** - ***VASCO Data Security International*** - ***EVP and CFO***

Yes, there were no 10% customers in either the quarter or on a year-to-date basis in 2009. The percentage of revenue coming from that top 10 group of customers continues to decline. In Q3 it was 39% this year versus about 53% last year.

On a year-to-date basis, 36% this year versus 46% last year. In terms of the tax rate, the best guidance I can give you is look at the year-to-date full year or year-to-date effective tax rate because that's our best estimate of the full-year effective tax rate.

That tax rate will be sensitive to continued changes in the fourth quarter's earnings. If earnings are higher than we expected in the fourth quarter, we've got the potential for that tax rate to come down a bit. If earnings are lower than we currently expect, the tax rate has the potential to go up a bit. But 29% is our best estimate for the full year as we stand here today.

---

**Operator**

Martin Yokosawa, Tory Asset Management.

---

**Martin Yokosawa** - ***Tory Asset Management*** - ***Analyst***

Glad to see that things are picking up. Could you tell me — people are talking about double dip recession. Would you see would cause a double dip in the banks, the continuation of increasing order size or just the business climate in general? In particular, I'm worried about the Eastern Bloc banks and the effect on the Western banks.

---

**Ken Hunt** - ***VASCO Data Security International*** - ***Chairman, Founder and CEO***

So, Martin, your question is should we expect a temporary uptick with the banks and then a downtick, is that your question?

**Martin Yokosawa** - ***Tory Asset Management*** - ***Analyst***

What would cause it, I guess? What do you see would cause it? Again, one of the worries that I am hearing from this side of the pond is that some Western European banks have some undisclosed holdings in Eastern European banks that are having some difficulties and then I just hope it doesn't slow things down going forward.

**Ken Hunt** - ***VASCO Data Security International*** - ***Chairman, Founder and CEO***

Jan, would you like to comment about that? You are closer to that. I know that I saw last night that ING was being broken up into a smaller bank. I think that's probably longer-term healthy for that bank and maybe other banks will follow suit. As far as issues in Eastern European banking community, I'm not aware of it. Jan, have you heard anything?

**Jan Valcke** - ***VASCO Data Security International*** - ***President and COO***

Okay, well we need to make of course the difference here between the European Community countries, where the European Community has stated that the local states, the local countries could help the local banks and afterwards that the European community would justify that help in the banks. Basically, to what does it come down regarding our business is that European Community is saying bankers, please go back to your core business to banking loans, savings and so on.

And basically I think that's good news for VASCO because that means that their focus is growing. I will not say (inaudible) because it is already there — is going to increase static accounts to more electronic banking accounts. They go back really to their core business.

Now what do we see is that probably there will be some banks becoming largest in niche markets and mainly that's probably the banks that did not receive help from their states. It will not become huge bank, it will just become large banks in a niche market, whatever that may be. And secondly, we see general banks that were large and operating several countries, when they have received help of the European Community that they need to go back to their core business to split insurances with the banking business and so on.

But basically, I don't think that will hurt our business. Contrarily, I think that will help our business because they need to go back to their core business, being a traditional banker and that means for us increasing electronic accounts. In Eastern Europe, there are — traditionally there was an enormous peak in the banking industry the last years.

There has been some seriously downsizing in those Eastern banks. But again, what do we see again? We see again that those banks are investing seriously in electronic banking programs, that they are increasing because it's a matter of cost savings. You may not forget that the crisis is basically good for our business because the bank is going to need to invest in much more automatization. I'm not aware that banks will have financial difficulties that they could not purchase any more our products or that they would go bankrupt.

**Operator**

Ignatius Njoku, Jefferies & Co.

**Ignatius Njoku** - ***Jefferies & Company, Inc.*** - ***Analyst***

First can you talk about what you are seeing from the emerging markets? Are you seeing any strength in any particular country?

**Ken Hunt** - ***VASCO Data Security International*** - ***Chairman, Founder and CEO***

Jan, would you like to address that, please?

**Jan Valcke** - ***VASCO Data Security International*** - ***President and COO***

Yes, we see in this emerging markets, there a lot of emerging markets (inaudible) we have in the traditional term of economical (inaudible) Brazil, Russia India and China. We see that this emerging markets has been the last quarter much more cautious, even in some of those countries who are not really — like China, not hurt by the economical crisis, not hurt by the financial crisis.

We see that they were very cautious, that they delayed. But see also now and that’s one of the things that we see in the increase of our RFPs, that probably those markets will increase their investment in electronic banking in the next quarters and years. Then you have the smaller emerging markets and I believe there again, we will see an increase in investments in electronic banking projects.

---

**Operator**

(Operator Instructions) Rob Owens, Pacific Crest.

---

**Rob Owens** - ***Pacific Crest Securities*** - ***Analyst***

Can you just give us a sense or some color around what the pricing delta is between a soft token and a hard token right now?

---

**Ken Hunt** - ***VASCO Data Security International*** - ***Chairman, Founder and CEO***

Well as you know, Rob, our pricing has always been based upon volumes, volume pricing. And there’s a lot of elasticity even in the physical hard token, the DIGIPASS hard token, in terms of the price per unit if you’re selling 50 versus the price per unit if you are selling 500,000.

The same holds true for the soft token. We price it based upon the volumes. It is less expensive than a hard token and it’s almost all margin. So I would say the best way to think of it is it’s driven by the number of units that a customer will commit to over a period of time.

---

**Rob Owens** - ***Pacific Crest Securities*** - ***Analyst***

I understand but if we took a comparable number of units, is there any 10, 20%, 30% typical discount between a hard token and a soft token?

---

**Ken Hunt** - ***VASCO Data Security International*** - ***Chairman, Founder and CEO***

I don’t know that there is a particular percentage, no.

---

**Jan Valcke** - ***VASCO Data Security International*** - ***President and COO***

Maybe I can give you some answer, if you permit. Basically our price is based on a user license price on the VATMAN controller/Identikey/Identifier. So let’s say that more and more of our margins are at the infrastructure side.

Now at the client side with what we call DIGIPASS, you really need to see DIGIPASS as an e-signature software product, a software product. Once it is embedded in our own hardware platform, then we can call it a token.

Secondly it can be on a mobile telephone, it can be software and so on and so on. So basically on the DIGIPASS side where we have it differentiated between hardware and software, you really need to see margin-wise basically we make more or less the same money on a software-based [divide] as on a hardware-based [divide].

---

**Operator**

Gentleman, it appears that there are no further questions from our audience. Mr. Hunt, I’ll return the presentation to you once again.

---

**Ken Hunt** - ***VASCO Data Security International*** - ***Chairman, Founder and CEO***

All right, well thanks everybody for participating. Thank you for your attendance today. I look forward to your participation in the next earnings conference call for Q4 2009. Thanks to the VASCO people worldwide for their continued hard work and their efforts. We appreciate it very much. Good day, everybody.

**Operator**

Thank you, Mr. Hunt. Ladies and gentlemen, that does conclude the conference call for today. We thank you all for your participation and ask that you please disconnect. Thank you once again. Have a great day.