

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549FORM S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933VASCO DATA SECURITY INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)DELAWARE  
(State or other jurisdiction of  
incorporation or organization)3577  
(Primary Standard Industrial  
Classification Code No.)36-4169320  
(I.R.S. Employer  
Identification No.)1919 S. HIGHLAND AVE., SUITE 118-C  
LOMBARD, ILLINOIS 60148  
(630) 932-8844  
(Address, including zip code, and telephone number, including area code, of  
registrant's principal executive offices)T. KENDALL HUNT  
CHIEF EXECUTIVE OFFICER  
VASCO DATA SECURITY INTERNATIONAL, INC.  
1919 S. HIGHLAND AVE., SUITE 118-C  
LOMBARD, ILLINOIS 60148  
(630) 932-8844  
(Name, address, including zip code, and telephone number, including area code,  
of agent for service)Copies to:  
CHARLES J. MCCARTHY  
STEPHEN J. CAMPO  
TIMOTHY R. DONOVAN  
JENNER & BLOCK  
ONE IBM PLAZA  
CHICAGO, ILLINOIS 60611  
(312) 222-9350Approximate date of commencement of proposed sale to the public: As soon as  
practicable after the effectiveness of this Registration Statement.If the securities being registered on this Form are being offered in  
connection with the formation of a holding company and there is compliance with  
General Instruction G, check the following box. [ ]If any of the securities being registered on this Form are to be offered on  
a delayed or contingent basis pursuant to Rule 415 under the Securities Act of  
1933, as amended, other than securities offered only in connection with dividend  
or interest reinvestment plans, check the following box. [X]

## CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Common Stock, par value \$.001 per share.....	32,503,111 shares(1)	\$2.5775(2)	\$83,776,768(2)	\$25,387
Series B Preferred Stock, par value \$.01 per share.....	9,000 shares	N/A(3)	\$30(3)	\$1
Options to Purchase Common Stock.....	11,418,775 options(4)	N/A(5)	N/A(5)	N/A(5)
Warrants to Purchase Common Stock.....	1,056,922 warrants(6)	N/A(5)	N/A(5)	N/A(5)

- (1) Includes up to 19,422,979 shares that may be issued pursuant to the Exchange Offer for shares of common stock of VASCO CORP. described in the Prospectus contained in the Registration Statement, 10,053,264 shares that may be issued upon the exercise or conversion of preferred stock, options (including options under stock option plans and options under convertible notes) and warrants that may be issued pursuant to the Exchange Offer, and 3,026,868 additional shares that may be issued pursuant to the Registrant's 1997 Stock Option Plan, as amended. Pursuant to Rule 416 under the Securities Act of 1933, as amended (the "Securities Act"), there is also being registered such number of additional shares of common stock which may be issued to prevent dilution resulting from stock splits, stock dividends or similar transactions, or other readjustment provisions of options, warrants or convertible preferred stock being registered.
- (2) Based on the average of the bid and asked price of Common Stock of VASCO CORP. as quoted on the Over-the-Counter Bulletin Board on September 8, 1997, estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(f)(1) under the Securities Act.
- (3) Pursuant to Rule 457(f)(2) under the Securities Act, the registration fee was calculated based on the aggregate par value of the shares of Current VASCO Series B Preferred Stock to be received (cancelled) by the Registrant

in the Exchange Offer. VASCO CORP. has an accumulated capital deficit, and, in accordance with Rule 457(f)(2), the proposed maximum aggregate offering price was calculated by dividing the aggregate par value of the Current VASCO Series B Preferred Stock by 3.

- (4) Based upon the maximum number of options (including options under stock option plans and options under convertible notes) that may be issued pursuant to the Exchange Offer in exchange for currently outstanding options to acquire shares of common stock of VASCO CORP. and 3,026,868 additional options that may be issued pursuant to the Registrant's 1997 Stock Option Plan, as amended; the shares of common stock of the Registrant underlying the options hereby registered are included in the number of shares of common stock of the Registrant set forth in footnote (1) above.
- (5) In accordance with Rule 457(g) under the Securities Act, no separate registration fee is paid with respect to the options or warrants being registered as the registration fee is being paid on the underlying common stock that may be issued on exercise of the options or warrants.
- (6) Based upon the maximum number of warrants that may be issued pursuant to the Exchange Offer in exchange for currently outstanding warrants to purchase shares of common stock of VASCO CORP.; the shares of common stock of the Registrant underlying the warrants hereby registered are included in the number of shares of common stock of the Registrant set forth in footnote (1) above.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

PRELIMINARY PROSPECTUS  
SUBJECT TO COMPLETION DATED SEPTEMBER 12, 1997

VASCO DATA SECURITY INTERNATIONAL, INC.  
OFFER TO EXCHANGE SHARES, OPTIONS AND WARRANTS  
FOR  
VASCO CORP.  
SHARES, OPTIONS AND WARRANTS  
(AND ASSOCIATED CORPORATE MATTER CLAIMS)

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M. CHICAGO, ILLINOIS TIME, ON  
, 1997, UNLESS EXTENDED (THE "EXPIRATION DATE"). SHARES, OPTIONS,  
AND WARRANTS NOT PREVIOUSLY ACCEPTED FOR EXCHANGE MAY BE WITHDRAWN AT ANY TIME  
PRIOR TO THE EXPIRATION DATE.

VASCO Data Security International, Inc. ("New VASCO") is a Delaware corporation newly formed by representatives of VASCO CORP., a Delaware corporation ("Current VASCO"), to effect a reorganization (the "Reorganization") of Current VASCO through an exchange of securities.

Certain historical corporate actions taken by Current VASCO and its predecessor entities were not in compliance with applicable corporate law or are not reflected in proper documentation (collectively these actions are referred to in this document as "Corporate Matters"). The Board of Directors of Current VASCO believes that the Corporate Matters may hinder or preclude Current VASCO in its future efforts to raise capital. For a more complete description of the Corporate Matters, see "REORGANIZATION OF CURRENT VASCO -- Reasons for the Reorganization."

The Board of Directors of Current VASCO believes that through an exchange of outstanding Current VASCO securities for securities of New VASCO (the "Exchange Offer"), efforts to raise capital in the future by New VASCO will be facilitated. See "SUMMARY -- Benefits and Disadvantages of Participating in the Exchange Offer."

New VASCO hereby offers to exchange:

(a) Its Common Stock (par value \$0.001 per share) and Series B Preferred Stock (par value \$0.01 per share) for (i) shares of Current VASCO Common Stock (par value \$0.001 per share) and Current VASCO Series B Preferred Stock (par value \$0.01 per share) on a one-for-one basis of the same class or series, and (ii) a release by each exchanging holder of any and all potential claims against Current VASCO and its predecessor entities arising out of or relating to the Corporate Matters (collectively these potential claims are referred to in this document as the "Associated Corporate Matters Claims");

(b) Its options (collectively such options are referred to in this document as "New VASCO Stock Options") to purchase its Common Stock in exchange for (i) the cancellation of outstanding options to purchase Current VASCO Common Stock granted under Current VASCO stock option programs (collectively such options are referred to in this document as "Current VASCO Stock Options"), and (ii) a release by each exchanging holder of any and all Associated Corporate Matter Claims. The New VASCO Stock Options will be for the same number of shares and have the same exercise price, vesting terms, termination provisions and expiration dates as the Current VASCO Stock Options and will be issued under New VASCO's 1997 Stock Option Plan, as amended, as nonqualified options for federal income tax purposes;

(continued on next page)

SEE "RISK FACTORS" HEREIN, BEGINNING AT PAGE 13, FOR MATTERS THAT SHOULD BE CONSIDERED WITH RESPECT TO THE EXCHANGE OFFER.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATORS HAVE APPROVED THE EXCHANGE OFFER DESCRIBED IN THIS PROSPECTUS OR THE NEW VASCO SHARES, OPTIONS OR WARRANTS TO BE ISSUED IN THE EXCHANGE OFFER, AND THEY HAVE NOT DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. FURTHERMORE, NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATOR HAS DETERMINED THE FAIRNESS OR MERITS OF THE EXCHANGE OFFER. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Prospectus is dated , 1997.

(c) Its options (collectively such options are referred to in this document as "New VASCO Conversion Options") to acquire its Common Stock in exchange for (i) the cancellation of outstanding options to acquire Current VASCO Common Stock pursuant to conversion of Current VASCO convertible notes (collectively such options are referred to in this document as "Current VASCO Conversion Options"), and (ii) a release by each exchanging holder of any and all Associated Corporate Matter Claims. The New VASCO Conversion Options will be for the same number of shares and will have the same conversion price, conversion period and other terms of conversion as the Current VASCO Conversion Options;

(d) Its warrants (collectively such warrants are referred to in this document as "New VASCO Warrants") to purchase its Common Stock in exchange for (i) the cancellation of outstanding warrants to purchase Current VASCO Common Stock (collectively such warrants are referred to in this document as "Current VASCO Warrants"), and (ii) a release by each exchanging holder of any and all Associated Corporate Matter Claims. The New VASCO Warrants will be for the same number of shares and have the same exercise price and expiration dates as the Current VASCO Warrants.

The release to be executed in connection with an exchange of Current VASCO securities will release and waive any and all Associated Corporate Matter Claims the exchanging holder (or, if the Current VASCO securities are held in a nominee name, the beneficial owner of the Current VASCO securities) may have even if less than all of the exchanging holder's (beneficial owner's) Current VASCO securities are exchanged; provided that if a nominee holds Current VASCO securities on behalf of more than one beneficial owner, any release executed by the nominee will be effective only with respect to any Associated Corporate Matter Claims of beneficial owners directing such nominee to exchange all or any part of the Current VASCO securities in which such beneficial owner has an interest. For a more complete description of the Associated Corporate Matter Claims, see "THE EXCHANGE OFFER -- Terms of the Exchange Offer."

The Exchange Offer is subject to the terms and conditions set forth in this Prospectus, including the condition that there must as of the Expiration Date be tendered for exchange (i) at least 80% of the outstanding shares of Current VASCO Common Stock, and (ii) at least 80% of the outstanding shares of Current VASCO Series B Preferred Stock (collectively, the conditions set forth in clauses (i) and (ii) are referred to in this document as the "Minimum Condition"). Based on the number of shares of Current VASCO outstanding on August 31, 1997, if (i) an aggregate of 15,538,383 shares of Current VASCO Common Stock and (ii) 7,200 shares of Current VASCO Series B Preferred Stock are tendered for exchange, the Minimum Condition will be satisfied.

The Exchange Offer is intended for federal income tax purposes to be a tax-free transaction with respect to the exchange of the Current VASCO Common Stock, the Current VASCO Series B Preferred Stock, the Current VASCO Stock Options and those Current VASCO Warrants which were originally issued for services. The exchange of the Current VASCO Conversion Options and of Current VASCO Warrants (other than Current VASCO Warrants originally issued for services) are expected to be taxable events for federal income tax purposes. See "REORGANIZATION OF CURRENT VASCO -- Federal Income Tax Consequences."

The Exchange Agent for the exchange of Current VASCO Common Stock and Current VASCO Series B Preferred Stock is Illinois Stock Transfer Company, 223 West Jackson Boulevard, Suite 1210, Chicago, Illinois 60606; telephone (312) 427-2953.

Exchanges of Current VASCO Stock Options, Current VASCO Conversion Options and Current VASCO Warrants are to be made through Gregory T. Apple, Vice President and Treasurer, VASCO Data Security International, Inc., 1919 South Highland Avenue, Suite 118-C, Lombard, Illinois 60148; telephone (630) 932-8844.

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## SUMMARY

This summary highlights selected information from this document and may not contain all of the information that is important to you. To understand the Exchange Offer and the reorganization of VASCO CORP., you should read carefully this entire document and, as applicable, the Letter of Transmittal and Release, the New VASCO Option Agreement, the New VASCO Convertible Note Agreement or the New VASCO Warrant Agreement that accompanies this document. We also refer you to certain exhibits and other information not included in this document. See "WHERE YOU CAN FIND MORE INFORMATION."

## THE COMPANIES

VASCO CORP., a Delaware corporation incorporated on August 16, 1990 (referred to herein as "Current VASCO"). VASCO Data Security International, Inc., a Delaware corporation incorporated on July 15, 1997 (referred to herein as "New VASCO"), 1919 South Highland Avenue, Suite 118-C, Lombard, Illinois 60148, (630) 932-8844.

Current VASCO, 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. Current VASCO's hardware products include time-synchronous response only, challenge/response and time-synchronous challenge/response user authentication devices, some of which incorporate an electronic signature feature to guarantee the integrity of data transmissions. These devices are commonly referred to as security tokens. Current VASCO's security tokens are based upon Current VASCO's core encryption technology, which utilizes two widely known and accepted algorithms, Data Encryption Standard ("DES") and Rivest, Shamir, Adelman ("RSA"). Current VASCO's Cryptech division produces high speed hardware and software encryption products used both internally for Current VASCO's security tokens and for original equipment manufacturer ("OEM") vendors requiring real time encryption services. In addition, Current VASCO recently has introduced a smartcard security token that uses the challenge/response mode and the X.509 certificate authentication standard. Current VASCO's security tokens are designed to be used with the VASCO Access Control Manager server software or to be integrated directly into applications.

New VASCO is a newly organized corporation. It was formed by representatives of Current VASCO for purposes of the Reorganization and will be dissolved if the Exchange Offer is not consummated.

## REORGANIZATION OF CURRENT VASCO

Current VASCO plans to reorganize so that its security holders who, in the Exchange Offer exchange their securities and release Associated Corporate Matter Claims become security holders of New VASCO. If you exchange your Current VASCO Common Stock or Current VASCO Series B Preferred Stock (collectively such shares of common stock and preferred stock are referred to in this document as "Current VASCO Shares") you will become a holder, respectively, of New VASCO Common Stock or New VASCO Series B Preferred Stock (collectively such shares of common stock and preferred stock are referred to in this document as "New VASCO Shares"). Similarly, if you exchange your Current VASCO Stock Options, Current VASCO Conversion Options or Current VASCO Warrants (collectively such stock options, conversion options and warrants are referred to in this document as "Current VASCO Equity Equivalent Securities"), you will become a holder of, as the case may be, New VASCO Stock Options, New VASCO Conversion Options or New VASCO Warrants (collectively such stock options, conversion options and warrants are referred to in this document as "New VASCO Equity Equivalent Securities"). If the Exchange Offer is consummated, Current VASCO will become a majority-owned subsidiary of New VASCO.

For ease of reference, Current VASCO Shares and Current VASCO Equity Equivalent Securities are referred to collectively in this document as "Current VASCO Securities," and New VASCO Shares and New VASCO Equity Equivalent Securities are referred to collectively in this document as "New VASCO Securities."

## THE EXCHANGE OFFER

In the Exchange Offer, New VASCO is offering to exchange New VASCO Securities for (i) Current VASCO Securities, and (ii) a release by each exchanging holder of any and all Associated Corporate Matter Claims. The New VASCO Securities you receive in exchange for Current VASCO Securities will have the same material terms as the Current VASCO Securities you surrender, except that (a) in order to satisfy a federal tax requirement for a tax-free exchange of shares, the New VASCO Series B Preferred Stock will be entitled to vote, together with the holders of New VASCO Common Stock, on all matters submitted for a vote of the holders of New VASCO Common Stock, (b) certain clarifying and conforming changes have been made in the terms of the New VASCO Common Stock and New VASCO Series B Preferred Stock, and (c) the New VASCO Stock Options will be issued under and subject to the terms of the 1997 VASCO Data Security International, Inc. Stock Option Plan, as amended (the "New VASCO 1997 Stock Option Plan"). The New VASCO Stock Options will be for the same number of shares and have the same vesting, exercise price, termination provisions and expiration dates as the Current VASCO Stock Options you exchange. With respect to the Current VASCO Conversion Options, the New VASCO Conversion Options will have the same conversion price, conversion period and other terms of conversion as the Current VASCO Conversion Options you exchange. The New VASCO Warrants will also be for the same number of shares, with the same exercise price and expiration dates, as the Current VASCO Warrants you surrender. In addition, New VASCO's Certificate of Incorporation, as amended, authorizes the issuance of up to 75,000,000 shares of common stock, while the Restated and Amended Certificate of Incorporation of Current VASCO, as amended, authorizes the issuance of 50,000,000 common shares. See "COMPARISON OF STOCKHOLDER RIGHTS."

Your release of any and all Associated Corporate Matter Claims will be effected when the Exchange Offer is consummated if you exchange your Current VASCO Securities and sign and deliver the Letter of Transmittal and Release, the New VASCO Option Agreement, the New VASCO Convertible Note Agreement or the New VASCO Warrant Agreement, as applicable, that accompanies this Prospectus. YOU SHOULD CAREFULLY REVIEW THE PROVISIONS OF ANY OF THESE DOCUMENTS THAT YOU USE TO EFFECT THE EXCHANGE OF YOUR CURRENT VASCO SECURITIES.

## BENEFITS AND DISADVANTAGES OF PARTICIPATING IN THE EXCHANGE OFFER.

Current VASCO's management believes that, subject to all of the factors set forth in this document under the heading "RISK FACTORS," the following are the principal benefits and disadvantages of participating in the Exchange Offer, from the perspective of a holder of Current VASCO Securities:

## Benefits

- Consummation of the Exchange Offer should minimize the effect of the Corporate Matters on Current VASCO's ability to realize its plans for growth, by establishing a new holding company that would not be hindered by the Corporate Matters from raising capital in the public and private markets.
- Current VASCO has executed engagement letters with Banque Paribas S.A. and Generale Bank for a possible future public offering. Any such offering would be conditioned on the completion of the Exchange Offer and would involve New VASCO Common Stock. The possible public offering is subject to a number of additional contingencies and there can be no assurance that it will occur. If the Exchange Offer is consummated and New VASCO's future capital-raising efforts in the public markets are successful, New VASCO intends to apply for quotation of the New VASCO Common Stock on the Nasdaq National Market, and to register to become a reporting company under the Securities Exchange Act of 1934, as amended. If the New VASCO Common Stock is quoted on the Nasdaq National Market, it is likely that the shares of New VASCO Common Stock will be more liquid than the shares of Current VASCO Common Stock presently outstanding, as well as any shares of Current VASCO Common Stock that are not exchanged in the Exchange Offer. There can be no assurance, however, that New VASCO's capital-raising efforts will be successful or that the New VASCO Common Stock will be so quoted or registered under the Securities Exchange Act of 1934, as amended.



## Disadvantages

- Current VASCO's plans to raise capital in the future, to the extent facilitated by consummation of the Exchange Offer, are likely to result in dilution of the interests of the holders of Current VASCO Shares or, after the Exchange Offer, of New VASCO Shares. See "RISK FACTORS -- Risks Relating to Exchange Offer and New VASCO -- Potential Dilution," and "-- Factors Relating to Operations -- Additional Capital Needed."
- The exchange of the Current VASCO Conversion Options, or Current VASCO Warrants that were not originally issued for services, for New VASCO Conversion Options or New VASCO Warrants are expected to be taxable transactions. See "REORGANIZATION OF CURRENT VASCO -- Federal Income Tax Consequences."
- Holders of Current VASCO Securities must relinquish any and all Associated Corporate Matter Claims they may hold in order to receive any New VASCO Securities in the Exchange Offer. See "RISK FACTORS -- Risks Relating to Exchange Offer and New VASCO -- Not all Potential Claims will be Eliminated."

THERE ARE NUMEROUS OTHER SIGNIFICANT FACTORS THAT YOU SHOULD CONSIDER IN EVALUATING THE EXCHANGE OFFER. IN PARTICULAR, YOU SHOULD CAREFULLY REVIEW THE INFORMATION SET FORTH IN THE "RISK FACTORS" SECTION OF THIS PROSPECTUS, AS WELL AS CONSIDER THE TAX CONSEQUENCES OF THE EXCHANGE OFFER, WHICH ARE SET FORTH UNDER THE HEADING "REORGANIZATION OF CURRENT VASCO -- FEDERAL INCOME TAX CONSEQUENCES."

Certain Features of the Exchange Offer. The following are highlights of certain features of the Exchange Offer:

- EXPIRATION DATE: The Exchange Offer expires at 5:00 p.m., Chicago, Illinois time, on \_\_\_\_\_, 1997, unless extended by New VASCO (the "Expiration Date").
- PROCEDURE FOR TENDERING CURRENT VASCO SHARES: To tender your Current VASCO Shares you should deliver your Current VASCO stock certificates and a duly signed Letter of Transmittal and Release so as to be received prior to the Expiration Date by the following exchange agent (the "Exchange Agent"):

Illinois Stock Transfer Company  
223 West Jackson Boulevard, Suite 1210  
Chicago, Illinois 60606  
(312) 427-2953

Under certain circumstances, your signature on the Letter of Transmittal and Release must be guaranteed and there is also a procedure for a guaranteed delivery if you are unable to deliver all your documents prior to the Expiration Date. IF YOUR CURRENT VASCO STOCK CERTIFICATES ARE REGISTERED IN THE NAME OF A NOMINEE, THE LETTER OF TRANSMITTAL AND RELEASE MUST BE SIGNED BY THE NOMINEE AND BY THE BENEFICIAL OWNER(S) OF THE CURRENT VASCO SHARES. The instructions to the Letter of Transmittal and Release and the sections of this document entitled "THE EXCHANGE OFFER -- Procedures for Tendering Current VASCO Shares" and "-- Guaranteed Delivery Procedure for Current VASCO Shares" explain these features.

- PROCEDURE FOR TENDERING CURRENT VASCO EQUITY EQUIVALENT SECURITIES: To exchange your Current VASCO Equity Equivalent Securities you should complete, sign and deliver one or more of the following agreements, as appropriate, which accompany this document: the New VASCO Option Agreement with respect to Current VASCO Stock Options; the New VASCO Convertible Note Agreement with respect to Current VASCO Conversion Options; or the New VASCO Warrant

Agreement with respect to Current VASCO Warrants (and deliver the Current VASCO Warrants). These agreements (and, if applicable, the Current VASCO Warrants) must be delivered to, and received by, the following individual prior to the Expiration Date:

Gregory T. Apple  
 Vice President and Treasurer  
 VASCO Data Security International, Inc.  
 1919 S. Highland Avenue, Suite 118-C  
 Lombard, Illinois 60148  
 (630) 932-8844

- WITHDRAWAL RIGHTS: If you want to withdraw your deposit of Current VASCO Securities, you must deliver written notice of withdrawal to the Exchange Agent in the case of Current VASCO Shares, or to Mr. Apple in the case of Current VASCO Equity Equivalent Securities, prior to 5:00 p.m., Chicago, Illinois time on the Expiration Date, which is \_\_\_\_\_, 1997 (or such later date if extended), or unless the tender has previously been accepted, after [60 days after date of commencement of the offer].
- CONDITIONS TO THE EXCHANGE OFFER. The consummation of the Exchange Offer is conditioned on the following as of the Expiration Date:
  - there must be no Securities and Exchange Commission order threatened or in effect suspending the effectiveness of the Registration Statement of which this document is a part;
  - shares representing at least 80% of the outstanding shares of Current VASCO Common Stock must be tendered;
  - shares representing at least 80% of the outstanding shares of Current VASCO Series B Preferred Stock must be tendered;
  - there must be no pending or threatened action or proceeding which, in the judgment of the Board of Directors of New VASCO, might impair the Exchange Offer or have a material adverse effect on the benefits of the Exchange Offer to New VASCO; and
  - there must be no proposed, adopted or enacted new law, statute, rule or regulation that might materially impair the Exchange Offer or have a material adverse effect on the benefits of the Exchange Offer to New VASCO or make the exchange of Current VASCO Shares in the Exchange Offer taxable for federal income tax purposes.

New VASCO may in its discretion waive or amend any of the foregoing conditions and reserves the right to terminate and abandon the Exchange Offer at any time prior to acceptance of Current VASCO Securities. See "THE EXCHANGE OFFER -- Expiration Date; Extensions; Termination; Amendment" and "-- Conditions to the Exchange Offer."

Exchange by Directors of Current VASCO. As of August 31, 1997, 19,422,979 shares of Current VASCO Common Stock were outstanding of which 11,934,035 were owned by Current VASCO's directors and their spouses ("Current VASCO Affiliates"), and 9,000 shares of Current VASCO Series B Preferred Stock were outstanding of which 1,000 were owned by a Current VASCO Affiliate. In addition, as of August 31, 1997 the Current VASCO Affiliates owned, directly or indirectly, Current VASCO Stock Options for an aggregate of 1,089,507 shares of Current VASCO Common Stock and Current VASCO Warrants for an aggregate of 205,883 shares of Current VASCO Common Stock. The Current VASCO Affiliates have indicated their intent to exchange all of their Current VASCO Securities in the Exchange Offer.

QUESTIONS AND ANSWERS  
ABOUT THE EXCHANGE OFFER

Q. WHY IS CURRENT VASCO PROPOSING THE EXCHANGE OFFER?

- A. Current VASCO plans on expanding and raising additional capital which could include financings and public stock offerings. In this connection, Current VASCO's independent legal counsel reviewed the historical corporate proceedings of Current VASCO and its predecessors and noted the absence of certain corporate documentation and the noncompliance with certain procedural requirements, which matters are referred to in this document as "Corporate Matters" and more fully discussed below under "REORGANIZATION OF CURRENT VASCO -- Reasons for the Reorganization." While these Corporate Matters have not hindered Current VASCO's business operations, they present problems in obtaining legal opinions as to compliance with applicable corporate law governing prior reorganizations and certain prior issuances of Current VASCO capital stock. The inability to obtain a legal opinion does not mean that the transactions were invalid but that a legal opinion as to their compliance with applicable corporate law cannot be given. Opinions as to validity of the issuance of all outstanding shares may be required in future financings, stock offerings or other transactions that could be beneficial to security holders.

Management of Current VASCO believes that the Reorganization will facilitate obtaining legal opinions as to the validity of stock issuances by the new corporation. Consequently, Current VASCO has proposed that you become a stockholder, or the holder of options or warrants to purchase stock, of New VASCO through the Exchange Offer and that New VASCO be the entity in the future that issues shares to future stockholders.

THE BOARD OF DIRECTORS OF CURRENT VASCO BELIEVES THAT THE EXCHANGE OFFER IS IN THE BEST INTERESTS OF CURRENT VASCO AND HAS UNANIMOUSLY APPROVED THE EXCHANGE OFFER. THE DIRECTORS OF CURRENT VASCO AND THEIR SPOUSES OWN IN THE AGGREGATE APPROXIMATELY 61% OF THE CURRENT VASCO COMMON STOCK OUTSTANDING AND APPROXIMATELY 11% OF THE CURRENT VASCO SERIES B PREFERRED STOCK OUTSTANDING. THEY HAVE INDICATED THEIR INTENT TO EXCHANGE THEIR CURRENT VASCO SHARES FOR NEW VASCO SHARES PURSUANT TO THE EXCHANGE OFFER.

To review the reasons for the Exchange Offer in greater detail, see "REORGANIZATION OF CURRENT VASCO -- Reasons for the Reorganization." To review a comparison of the principal benefits and disadvantages of the Exchange Offer, see "Benefits and Disadvantages of Participating in the Exchange Offer" above.

Q. WHAT ARE THE CORPORATE MATTERS?

- A. The company's history dates back to 1984 when VASCO CORP., a predecessor, but distinct legal entity, of Current VASCO was incorporated in the State of Delaware. In 1986, VASCO CORP. reorganized with a publicly held Utah company, which later was combined with Current VASCO in 1990. The documentation and procedure surrounding these corporate transactions, as well as other corporate actions taken by Current VASCO and its predecessors, appear to have been irregular and not in full compliance with requisite corporate law. These corporate irregularities are collectively referred to in this document as "Corporate Matters." The principal instances of non-compliance were:

- the absence of formal minutes of certain board of director and stockholder proceedings;
- the issuance of common shares not authorized by corporate charter or in excess of the number authorized by corporate charter;
- the issuance of preferred shares not authorized by corporate charter;
- the administrative dissolution in Utah of Current VASCO's predecessor Utah company prior to the filing in Delaware in 1990 of a Certificate of Merger for merging the Utah company into Current VASCO;

- the absence of a filing in Utah of Articles of Merger for the merger of the Utah predecessor into Current VASCO in 1990;
- no record as to whether Current VASCO's original Delaware corporate predecessor afforded its stockholders preemptive rights provided by its certificate of incorporation in connection with issuances of the entity's capital stock;
- no record that stockholders of the Utah predecessor were afforded statutory Utah appraisal rights in connection with the 1990 merger transaction; and
- the failure to properly design, approve, adopt, administer, or authorize the number of shares subject to, stock option plans or programs, including actions required to allow for options granted to be treated as incentive stock options for federal income tax purposes.

See "REORGANIZATION OF CURRENT VASCO -- Reasons for the Reorganization" for a more complete discussion of the Corporate Matters.

Current VASCO had been operating with the understanding that the 1990 merger was effected in full compliance with the applicable laws of Delaware and Utah. If the 1990 merger was not valid, the succession to the Utah predecessor's assets by Current VASCO may not have been properly effected in 1990. In April 1997, Current VASCO contacted the Division of Corporations of the Utah Department of Commerce and inquired whether the Division would accept for filing Articles of Merger relating to the intended 1990 merger transaction. The Division responded that it would not accept the Articles of Merger for filing. Management of Current VASCO believes that the Utah predecessor's assets, which consisted primarily of furniture, fixtures and office equipment that are no longer in use by Current VASCO, are not material, and are not related to, the business presently conducted by Current VASCO. However, as documentation to further support the intended 1990 merger transaction, which was approved by approximately 90% of the shares of the Utah predecessor entitled to vote on the 1990 merger, the individuals who were members of the Board of Directors of the Utah predecessor in 1990 have recently executed a transfer document assigning all of the Utah predecessor's right, title and interest in its assets to Current VASCO. No assurance can be given as to what effect, if any, this attempt to document retroactively what was intended at the time may have had on Current VASCO's title to the Utah predecessor's assets.

The Corporate Matters uncovered in the review of the historical organization of Current VASCO and its predecessors have not previously caused problems in the business operations of Current VASCO. However, these issues do preclude the obtaining of a legal opinion as to the validity of the issuances of certain shares by predecessors of Current VASCO, of the 1990 merger transaction and of the issuance of shares by Current VASCO pursuant to and subsequent to the 1990 merger transaction.

To review the Corporate Matters in greater detail, see "REORGANIZATION OF CURRENT VASCO -- Organizational History of Current VASCO" and "REORGANIZATION OF CURRENT VASCO -- Reasons for the Reorganization."

Q. IF I AM A CURRENT VASCO STOCKHOLDER, WHAT AM I BEING ASKED TO GIVE UP?

A. You are being asked to exchange for New VASCO Shares, your Current VASCO Shares and the release of any and all Associated Corporate Matter Claims. The release of Associated Corporate Matter Claims will be effected by the accompanying Letter of Transmittal and Release, which you should review carefully. By executing and delivering the Letter of Transmittal and Release, you will release any and all Associated Corporate Matter Claims you may have, even if you do not exchange all of your Current VASCO Shares. Although no claims based on the Corporate Matters have been asserted and the existence and extent of any such rights, interests and claims are uncertain, under certain theories the Associated Corporate Matter Claims could include, among other things, claims for rescission of stock issuances, acquisitions, sales or exchanges, claims of a direct interest in assets of Current VASCO or one of its predecessor entities, claims for rescission of corporate transactions, or claims for monetary damages in connection with, resulting from or relating to the Corporate Matters.

For a more specific description of the Associated Corporate Matter Claims, see "THE EXCHANGE OFFER -- Terms of the Exchange Offer."

Q. WHAT WILL I RECEIVE IN THE EXCHANGE OFFER?

- A. If you exchange a Current VASCO Share (and release any and all Associated Corporate Matter Claims), you will receive one New VASCO Share of the same kind as your Current VASCO Share surrendered. For example, for each share of Current VASCO Common Stock you will receive one share of New VASCO Common Stock. If you exchange Current VASCO Series B Preferred Stock, you will receive New VASCO Series B Preferred Stock, which has the same material terms and provisions as the Current VASCO Series B Preferred Stock except that the New VASCO Series B Preferred Stock will be entitled to vote one vote per share, together with the holders of New VASCO Common Stock, on all matters submitted to a vote of the holders of New VASCO Common Stock. These voting rights are being added to the New VASCO Series B Preferred Stock so that holders of Current VASCO Common Stock and Current VASCO Series B Preferred Stock will not suffer any adverse federal income tax consequences by virtue of the Exchange Offer. See "REORGANIZATION OF CURRENT VASCO -- Federal Income Tax Consequences."

Accordingly, if all shares of Current VASCO Common Stock and of Current VASCO Series B Preferred Stock are exchanged, based on the number of such shares outstanding as of August 31, 1997, an aggregate of 9,000 additional votes will be entitled to be cast together with the 19,422,979 votes entitled to be cast by holders of New VASCO Common Stock.

Current VASCO Common Stock is quoted on the Over-the-Counter Bulletin Board (the "OTC BB"). However, there has been no public market for the New VASCO Common Stock, and there can be no assurance that an active public market for the New VASCO Common Stock will develop or that the New VASCO Common Stock will be quoted or listed on the OTC BB or any other quotation system or stock exchange following the Exchange Offer.

To review in greater detail the terms of the Exchange Offer, see "THE EXCHANGE OFFER -- Terms of the Exchange Offer." To review in greater detail the rights of stockholders of New VASCO, see "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO" and "COMPARISON OF STOCKHOLDER RIGHTS."

Q. WHAT IF I DON'T EXCHANGE MY CURRENT VASCO SHARES?

- A. If the Exchange Offer is consummated and you did not exchange your Current VASCO Shares and release any and all Associated Corporate Matter Claims you may have, you will remain a stockholder of Current VASCO and will continue to be afforded your rights as such, including your rights under Delaware law and the Current VASCO Restated and Amended Certificate of Incorporation, as amended, to participate in dividends, if any, to holders of Current VASCO Common Stock or Current VASCO Series B Preferred Stock, as applicable. However, as the principal stockholder of Current VASCO, New VASCO will have the power to control and direct the affairs of Current VASCO. New VASCO may, without the consent of any other stockholder of Current VASCO, but subject to appraisal rights, if any, and/or other remedies, if any, available under Delaware law, at a later date merge Current VASCO into New VASCO or into or with a subsidiary of New VASCO on a stock or cash basis or undertake some other corporate reorganization of Current VASCO without a meeting of stockholders and, if New VASCO is the owner of at least 90% of the outstanding shares of each class of stock of Current VASCO, the Board of Directors of New VASCO could effect a merger of Current VASCO with and into New VASCO without a vote of the stockholders of Current VASCO (again, subject to appraisal rights or other available remedies, if any, under Delaware law). In addition, it is possible that the Current VASCO Common Stock will not be quoted on the OTC BB if the Exchange Offer is consummated. If you do not exchange any of your Current VASCO Shares or any of your Current VASCO Equity Equivalent Securities, you will retain your ability to assert Associated Corporate Matter Claims, if any, which may be available under applicable law.

See "RISK FACTORS -- Risks Relating to Exchange Offer and New VASCO -- Stockholders Who Do Not Exchange will become Minority Stockholders of Current VASCO," "-- Reduced Liquidity of Current VASCO Common Stock," and "-- Limited or No Liquidity in New VASCO Common Stock and New VASCO Series B Preferred Stock" for more detail on the effects of not participating in the Exchange Offer.

Q. WILL MY RIGHTS AS A STOCKHOLDER OF NEW VASCO BE ANY DIFFERENT THAN MY RIGHTS AS A STOCKHOLDER OF CURRENT VASCO?

A. No, except that you will have released any and all Associated Corporate Matter Claims and, for tax reasons, the New VASCO Series B Preferred Stock will be entitled to vote together with the holders of New VASCO Common Stock on all matters submitted to a vote of the holders of New VASCO Common Stock.

Both Current VASCO and New VASCO are Delaware corporations and are governed by the laws of the State of Delaware. The certificates of incorporation and bylaws of the two companies are substantially the same, except for (i) the authorization to issue up to 75,000,000 shares of New VASCO Common Stock in New VASCO's Certificate of Incorporation, as amended, whereas Current VASCO's Restated and Amended Certificate of Incorporation, as amended, authorizes the issuance of 50,000,000 shares of Current VASCO Common Stock, (ii) changes in the provisions of the New VASCO Series B Preferred Stock to provide general voting rights, (iii) the fact that New VASCO will not designate Series A Preferred Stock since there are no longer any shares of Current VASCO Series A Preferred Stock outstanding, (iv) the deletion from New VASCO's Certificate of Incorporation of a general requirement that all dividends on preferred stock be paid before payment of dividends on common stock, which deletion will permit the creation of a class or series of preferred stock that could participate with common stock in dividend payments, and (v) certain clarifying and conforming changes and certain changes included to reflect current Delaware law.

See "RISK FACTORS -- Risks Relating to Exchange Offer and New VASCO -- Potential Dilution," "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO" and "COMPARISON OF STOCKHOLDER RIGHTS" for further detail on rights of New VASCO stockholders.

Q. WHAT DO I DO TO EXCHANGE MY CURRENT VASCO SHARES (AND ANY AND ALL ASSOCIATED CORPORATE MATTER CLAIMS) FOR NEW VASCO SHARES?

A. You should complete and sign the Letter of Transmittal and Release that accompanied this Prospectus and deliver the Letter of Transmittal and Release with your stock certificates for Current VASCO Shares, and any other documentation or signatures required by the Letter of Transmittal and Release, to the Exchange Agent prior to the Expiration Date:

Illinois Stock Transfer Company  
223 West Jackson Boulevard, Suite 1210  
Chicago, Illinois 60606  
(312) 427-2953

Read carefully the instructions on the Letter of Transmittal and Release. You will bear the risk of loss in delivering the stock certificates to the Exchange Agent. IF YOU MAIL THEM, WE SUGGEST THAT YOU USE PROPERLY INSURED, REGISTERED MAIL, WITH RETURN RECEIPT REQUESTED, AND THAT THE MAILING BE MADE SUFFICIENTLY IN ADVANCE OF THE EXPIRATION DATE TO PERMIT DELIVERY TO THE EXCHANGE AGENT ON OR PRIOR TO THAT TIME.

Q. IF I AM THE HOLDER OF OPTIONS OR WARRANTS EXERCISABLE FOR CURRENT VASCO COMMON STOCK, CAN I EXCHANGE THEM FOR OPTIONS OR WARRANTS OF NEW VASCO?

A. Yes. The Current VASCO Stock Options are exchangeable for New VASCO Stock Options for the same number of shares of New VASCO Common Stock with the same exercise price, same vesting terms, same termination provisions and the same expiration date as presently exist for the corresponding

Current VASCO Stock Options. The New VASCO Stock Options will be issued under the New VASCO 1997 Stock Option Plan and will be nonqualified stock options for tax purposes.

The Current VASCO Conversion Options are exchangeable for New VASCO Conversion Options for the same number of shares of New VASCO Common Stock, with the same conversion price, conversion expiration date and other conversion terms as the Current VASCO Conversion Options surrendered.

New VASCO is also offering to exchange New VASCO Warrants, having the same number of shares, exercise price and exercise terms as corresponding Current VASCO Warrants tendered for exchange.

For further information on New VASCO Stock Options, New VASCO Conversion Options and New VASCO Warrants see "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO -- Stock Options, Warrants and Convertible Notes."

Q. WHAT AM I BEING ASKED TO GIVE UP IN EXCHANGE FOR NEW VASCO OPTIONS OR WARRANTS?

A. You are being asked to agree to the cancellation of your Current VASCO Stock Options, Current VASCO Conversion Options or Current VASCO Warrants and to release any and all Associated Corporate Matter Claims. The release of any and all Associated Corporate Matter Claims will be effected by, as appropriate, the New VASCO Option Agreement, the New VASCO Convertible Note Agreement or the New VASCO Warrant Agreement. By executing and delivering one or more of these documents, which you should review carefully, you will release any and all Associated Corporate Matter Claims you may have, even if you do not exchange all of your Current VASCO Equity Equivalent Securities.

Also, you are being asked to exchange your Current VASCO Stock Option for a New VASCO Stock Option which will not be an incentive stock option, as defined in Section 422 of the Internal Revenue Code of 1986, as amended ("ISOs"). There is different tax treatment for ISOs and for nonqualified stock options such as those offered by New VASCO in the Exchange Offer. For example, if the holder of an ISO exercises it and meets certain applicable holding requirements, the holder may avoid current taxability on the gain realized upon exercise. When the holder of a nonqualified option exercises it, the holder is taxable upon the gain realized. Holders of ISOs frequently exercise them and fail to comply with the holding requirements with the result that their tax effects are the same as those that would have applied if the options had been nonqualified in any event.

Q. WHAT IF I DON'T EXCHANGE MY OPTIONS OR WARRANTS?

A. If you do not exchange any of your Current VASCO Equity Equivalent Securities, you will continue to be a holder of options or warrants to purchase shares of Current VASCO Common Stock, and if you also do not exchange any of your Current VASCO Shares, you will retain your ability to assert Associated Corporate Matter Claims, if any, which may be available under applicable law. If the Exchange Offer is consummated and you subsequently exercise your Current VASCO Equity Equivalent Securities and acquire Current VASCO Common Stock you will be a minority stockholder of Current VASCO. In this connection, see the response above to the question: "What if I don't exchange my shares?"

Q. WHAT DO I DO TO EXCHANGE MY OPTIONS OR WARRANTS?

A. To exchange your Current VASCO Stock Options, Current VASCO Conversion Options or Current VASCO Warrants, you will need to deliver a signed New VASCO Option Agreement, New VASCO Convertible Note Agreement or New VASCO Warrant Agreement (with your Current VASCO Warrants), as applicable, to the following individual prior to the Expiration Date:

Gregory T. Apple  
Vice President and Treasurer  
VASCO Data Security International, Inc.  
1919 S. Highland Avenue  
Suite 118-C  
Lombard, Illinois 60148

The exchange of Current VASCO Equity Equivalent Securities won't be effective unless the Exchange Offer is consummated.

Q. WILL THERE BE ANY DIFFERENCES IN THE MANAGEMENT OF CURRENT VASCO AND NEW VASCO?

A. No. The persons who are officers and the persons who are directors of both companies are currently identical. Changes in the persons who are officers and directors of the companies may occur after the completion of the Exchange Offer, however.

See "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Management" and "CERTAIN INFORMATION CONCERNING NEW VASCO -- Management" for further information on directors and officers.

Q. WILL THE EXCHANGE OFFER AFFECT THE BUSINESS OPERATIONS OF CURRENT VASCO?

A. No. Current VASCO presently conducts business through two operating subsidiaries. The subsidiaries will continue business operations without regard to the Exchange Offer and will remain as subsidiaries of Current VASCO. If the Exchange Offer is consummated, the subsidiaries will become indirect subsidiaries of New VASCO. However, if not all of the Current VASCO Shares are exchanged or if not all of the Current VASCO Equity Equivalent Securities are exchanged and after the Exchange Offer are converted or exercised into Current VASCO Common Stock, New VASCO will own less than 100% of Current VASCO and, indirectly, these two subsidiaries.

Q. WHAT IS REQUIRED FOR THE EXCHANGE OFFER TO BE EFFECTED?

A. In order for the Exchange Offer to be consummated, (i) stockholders of Current VASCO who possess at least 80% of the outstanding shares of Current VASCO Common Stock, and (ii) stockholders owning at least 80% of the outstanding shares of Current VASCO Series B Preferred Stock, must tender their shares for exchange and execute and deliver a Letter of Transmittal and Release prior to the Expiration Date. This is called the "Minimum Condition."

Current VASCO's present directors and their spouses owned at August 31, 1997 approximately 61% of the outstanding shares of Current VASCO Common Stock and approximately 11% of the outstanding shares of Current VASCO Series B Preferred Stock, and they have indicated their intention to tender their Current VASCO Shares (and to release any and all Associated Corporate Matter Claims) in exchange for New VASCO Shares.

There are certain other conditions to the Exchange Offer and information on these conditions is set forth under "THE EXCHANGE OFFER -- Conditions to the Exchange Offer."

Q. WHAT IS THE DEADLINE FOR THE EXCHANGE OFFER?

A. The Expiration Date for the Exchange Offer is at 5:00 p.m. Chicago, Illinois time on \_\_\_\_\_, 1997, unless extended by New VASCO.

For greater detail on the Expiration Date, see "THE EXCHANGE OFFER -- Expiration Date; Extensions; Termination; Amendment."

Q. WHAT IF I DEPOSIT MY STOCK CERTIFICATES WITH THE EXCHANGE AGENT OR MY AGREEMENT WITH RESPECT TO OPTIONS OR WARRANTS WITH MR. APPLE AND THEN CHANGE MY MIND? WILL I BE ABLE TO WITHDRAW MY STOCK CERTIFICATES OR AGREEMENT?

A. Stock certificates or agreements may be withdrawn at any time prior to the Expiration Date or, unless the tender has previously been accepted for exchange after \_\_\_\_\_, 1997 [60 days after date of commencement of the offer].

For greater detail on withdrawal rights, see "THE EXCHANGE OFFER -- Withdrawal Rights."



Q. WHAT ARE THE TAX CONSEQUENCES FOR EXCHANGING MY SHARES, OPTIONS AND WARRANTS (AND ANY AND ALL ASSOCIATED CORPORATE MATTER CLAIMS)?

A. The exchange of Current VASCO Shares, Current VASCO Stock Options and those Current VASCO Warrants originally issued for services (and the release of any and all Associated Corporate Matter Claims) for New VASCO Shares, New VASCO Stock Options or New VASCO Warrants will be tax-free for federal income tax purposes. The exchange of the Current VASCO Conversion Options, or Current VASCO Warrants that were not originally issued for services (and the release of any and all Associated Corporate Matter Claims) for New VASCO Conversion Options or New VASCO Warrants are expected to be taxable transactions.

To review the tax consequences in greater detail, see "REORGANIZATION OF CURRENT VASCO -- Federal Income Tax Consequences."

Q. ARE THERE APPRAISAL RIGHTS?

A. Under Delaware law, holders of Current VASCO Securities do not have any right to an appraisal of the value of their securities in connection with the Exchange Offer.

For information regarding the security holdings of Current VASCO's management (who also serve as New VASCO's management), as well as other arrangements concerning Current VASCO and its management, see "CERTAIN INFORMATION CONCERNING CURRENT VASCO" and "CERTAIN INFORMATION CONCERNING NEW VASCO."

Q. ARE ANY STATE OR FEDERAL REGULATORY APPROVALS REQUIRED FOR THE EXCHANGE OFFER?

A. No special state or federal regulatory approvals of the Exchange Offer must be obtained, except for necessary filings under securities laws.

\* \* \* \* \*

WHERE YOU CAN FIND MORE INFORMATION

New VASCO has filed with the Securities and Exchange Commission a Registration Statement on Form S-4 to register the New VASCO Securities to be issued to holders of Current VASCO Securities in the Exchange Offer, as well as to register the New VASCO Common Stock that may be purchased upon the exercise of certain New VASCO Securities. This document is a part of that Registration Statement and constitutes a Prospectus of New VASCO. As allowed by Securities and Exchange Commission rules, this document does not contain all the information you can find in the Registration Statement or the exhibits to the Registration Statement.

You may read and copy the full Registration Statement and the exhibits at the Securities and Exchange Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. The Registration Statement and exhibits are also available to the public from commercial document retrieval services and are available to the public at the web site maintained by the Commission at "<http://www.sec.gov>."

\* \* \* \* \*

SUMMARY FINANCIAL INFORMATION  
(IN THOUSANDS, EXCEPT PER SHARE DATA)(1)

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1992	1993	1994	1995	1996(2)(3)	1996	1997
						(UNAUDITED)	
Statement of Operations							
Data(1):							
Total revenues.....	\$ 2,302	\$ 2,199	\$ 2,693	\$ 3,695	\$10,192	\$ 3,184	\$ 6,592
Operating income							
(loss).....	557	138	192	(534)	(8,658)	(2,916)	(647)
Net income (loss)							
available to common							
stockholders.....	289	50	30	(465)	(9,349)	(2,979)	(1,291)
Net income (loss) per							
common share.....	0.02	0.00	--	(0.03)	(0.53)	(0.19)	(0.07)
Shares used in computing							
per share amounts.....	13,686	13,877	14,260	14,817	17,533	15,614	18,496

AS OF JUNE 30, 1997	
ACTUAL	PRO FORMA(4)
(UNAUDITED)	

Balance Sheet Data(1):		
Cash.....	\$ 2,863	\$ 2,863
Working capital.....	3,022	3,022
Total assets.....	11,914	11,914
Long term obligations, less current portion.....	8,278	8,278
Common stock subject to redemption.....	495	495
Stockholders' equity (deficit).....	(2,418)	(2,418)

For a discussion of factors that affect the comparability of the financial information set forth above, such as significant acquisitions undertaken by Current VASCO and the disposition of Current VASCO's VASCO Performance Systems line of business in 1996, see "REORGANIZATION OF CURRENT VASCO -- Organizational History of Current VASCO," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," and "RISK FACTORS."

- (1) Represents the financial information of Current VASCO. New VASCO has not begun operations.
- (2) Includes the results of operations of Lintel Security NV/SA from March 1996 and Digipass SA from June 1996; see "FINANCIAL STATEMENTS."
- (3) Includes a pretax charge for acquired in-process research and development of \$7,351.
- (4) Represents the pro forma balance sheet data assuming the Exchange Offer was completed as of June 30, 1997, based upon a 100% exchange of equity interests.

## RISK FACTORS

This Prospectus contains forward-looking statements. All forward-looking statements included in this Prospectus are based on information available to New VASCO and Current VASCO on the date hereof and assumptions which New VASCO and Current VASCO believe are reasonable. Neither New VASCO nor Current VASCO assumes any obligation to update any such forward-looking statements. These forward-looking statements involve risks and uncertainties. Current VASCO's (and if the Exchange Offer is consummated, New VASCO's) actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Prospectus.

The following risk factors, as well as the other information set forth elsewhere in this Prospectus, should be considered carefully in evaluating whether to participate in the Exchange Offer.

## RISKS RELATING TO EXCHANGE OFFER AND NEW VASCO

The following factors relate primarily to the Exchange Offer and New VASCO, and will apply if the Exchange Offer is consummated.

**STOCKHOLDERS WHO DO NOT EXCHANGE WILL BECOME MINORITY STOCKHOLDERS OF CURRENT VASCO.** Any holder of Current VASCO Shares who participates in the Exchange Offer will receive an ownership interest in New VASCO which in turn will own a controlling interest in Current VASCO but, if such stockholder has exchanged all of its Current VASCO Shares, will cease to own shares in Current VASCO. Holders of Current VASCO Shares who do not participate in the Exchange Offer with respect to all of their Current VASCO Shares will retain a direct ownership interest in Current VASCO as a holder of a minority interest in a subsidiary of New VASCO. Those holders of Current VASCO Shares who do not participate in the Exchange Offer will retain their ability to assert Associated Corporate Matter Claims, if any, which may be available under applicable law and will continue to be afforded their rights as holders of Current VASCO Shares, including the right under Delaware law and the Current VASCO Restated and Amended Certificate of Incorporation, as amended, to participate in dividends declared and paid, if any, to the holders of Current VASCO Common Stock or Current VASCO Series B Preferred Stock, as applicable.

Upon consummation of the Exchange Offer, New VASCO, as the principal stockholder of Current VASCO, will have the power to control and direct the affairs of Current VASCO by written consent and without the consent of any other stockholder of Current VASCO, and, if New VASCO is the owner of at least 90% of the outstanding shares of each class of stock of Current VASCO, the Board of Directors of New VASCO could, subject to appraisal rights, if any, and other remedies, if any, available under Delaware law, effect a merger of Current VASCO into New VASCO without a vote of the stockholders of Current VASCO.

**REDUCED LIQUIDITY OF CURRENT VASCO COMMON STOCK.** The shares of Current VASCO Common Stock are currently traded in the over-the-counter market and quoted on the OTC BB. There has been only limited trading of the Current VASCO Common Stock and such trading volume is likely to decrease following the Exchange Offer. It is likely that the trading market for, and liquidity of an investment in, Current VASCO, if any, would be reduced or eliminated upon consummation of the Exchange Offer. In addition, it is likely that Current VASCO Common Stock would no longer be quoted on the OTC BB. The consummation of the Exchange Offer may have the further effect of depressing the market value of Current VASCO Common Stock. See "REORGANIZATION OF CURRENT VASCO -- Differences in Capital Stock."

**LIMITED OR NO LIQUIDITY IN NEW VASCO COMMON STOCK AND NEW VASCO SERIES B PREFERRED STOCK.** Prior to the Exchange Offer there has been no public market for the New VASCO Common Stock, and there can be no assurance that an active public market for the New VASCO Common Stock will develop or that the New VASCO Common Stock will be quoted on the OTC BB or otherwise. Consequently, after the Exchange Offer the holders of Current VASCO Common Stock and New VASCO Common Stock may not be able to sell their shares at any particular time or at a price which would reflect an active public market. In addition, there is currently no public trading market for the shares of Current VASCO Series B Preferred

Stock, and it is not expected that a market will develop for the shares of New VASCO Series B Preferred Stock exchanged in the Exchange Offer.

**POSSIBLE VOLATILITY OF STOCK PRICE.** The market prices for securities of technology-dependent companies have been volatile. Factors such as announcements of variations in quarterly financial results, a reduction in sales, changes in governmental regulations, competitive developments, and sales of substantial blocks of the securities of New VASCO by the holders thereof, among other things, could cause the market price of New VASCO's Common Stock to fluctuate significantly. The sale in the public trading markets of a significant number of shares of New VASCO Common Stock issued in connection with future financing requirements or acquisitions, if any, may also cause substantial fluctuations in, or may adversely affect, the price of the New VASCO Common Stock over short time periods. In addition, the stock market has experienced volatility that has particularly affected the market prices of equity securities of many high technology companies that often has been unrelated or disproportionate to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the New VASCO Common Stock following the Exchange Offer.

**ADVERSE EFFECTS OF EXERCISE OF EXISTING OPTIONS AND CONVERTIBLE SECURITIES.** A substantial number of shares of Current VASCO Common Stock are issuable upon exercise or conversion of outstanding Current VASCO Equity Equivalent Securities, Current VASCO Series B Preferred Stock and pursuant to other contractual arrangements of Current VASCO. Certain of these shares may be issued at below-market prices. In the event these rights are exchanged in the Exchange Offer (or, in the case of the other contractual arrangements, if corresponding contractual arrangements are entered into by New VASCO), the shares of New VASCO Common Stock issued upon exercise of these rights may become available for sale in the future in the public market, which could have an adverse effect on the market price of New VASCO Common Stock. In the event that a significant number of Current VASCO Equity Equivalent Securities are not exchanged pursuant to the Exchange Offer and, subsequent to consummation of the Exchange Offer, are converted or exercised into shares of Current VASCO Common Stock so that New VASCO ceases to be a holder of more than 80% of the outstanding equity of Current VASCO, New VASCO would not be able to account for Current VASCO and its subsidiaries on a consolidated basis for tax purposes, with the possible result that income taxes of the entities reporting on a separate basis may in the aggregate be higher than if the entities reported on a consolidated basis which could, in turn, have an adverse effect on New VASCO's results of operations and financial condition.

**POTENTIAL DILUTION.** New VASCO's Certificate of Incorporation, as amended, authorizes the issuance of seventy-five million (75,000,000) shares of New VASCO Common Stock. As of August 31, 1997, there were 74,999,900 authorized but unissued shares of New VASCO Common Stock available for issuance, and 100 shares of New VASCO Common Stock issued and outstanding, all of which are held of record by Current VASCO. New VASCO's Board of Directors has the power to issue any or all of such authorized but unissued shares without stockholder approval.

In the event the Reorganization is completed, it is anticipated that New VASCO will attempt to meet its future financing needs through the issuance of equity or debt securities in public or private offerings. Current VASCO has executed engagement letters with Banque Paribas S.A. and Generale Bank for a possible future public offering, the completion of which is subject to a number of contingencies. To the extent that any such offering was to involve the sale of New VASCO Common Stock or a derivative thereof at a price lower than that paid by any investors prior thereto, including investors in Current VASCO and its predecessors, such offering would have an immediate and possibly substantial impact on investors who purchased prior thereto at higher prices. In addition, to the extent outstanding options and warrants to purchase New VASCO Common Stock are exercised, there will be further dilution to new investors. See "Factors Relating to Operations -- Additional Capital Needed" below.

**PREFERRED STOCK ISSUANCE.** New VASCO's Certificate of Incorporation, as amended, also authorizes the issuance of five hundred thousand (500,000) shares of preferred stock with such designations, rights, powers and preferences as may be determined from time to time by the New VASCO Board of Directors. The New VASCO Board of Directors is empowered, without stockholder approval, to issue up to 500,000 shares of

preferred stock with such dividend, liquidation, conversion, voting or other rights, powers and preferences as may be determined from time to time by the New VASCO Board of Directors, and pursuant to such authority the Board of Directors has designated 9,500 shares of preferred stock as New VASCO Series B Preferred Stock, and has authorized the issuance of 9,000 shares of the 9,500 shares of New VASCO Series B Preferred Stock that have been designated. The issuance of preferred stock could adversely affect the voting power or other rights of the holders of shares of New VASCO Common Stock. In addition, the authorized preferred stock and shares of New VASCO Common Stock could be utilized, under certain circumstances, as a method of discouraging, delaying, or preventing a change in control of New VASCO, depending upon the determination of the New VASCO Board of Directors as to whether such a change in control would be in the best interests of New VASCO's stockholders.

NOT ALL POTENTIAL CLAIMS WILL BE ELIMINATED. While Current VASCO believes that, following the Reorganization, New VASCO will be in a better position to raise capital through public and private markets, there is no assurance that the Reorganization will eliminate all potential claims based on or arising out of the Corporate Matters. Holders of Current VASCO Securities who do not participate in the Exchange Offer may attempt to assert Associated Corporate Matter Claims against Current VASCO (or its predecessors) after the Exchange Offer is consummated. The assertion of Associated Corporate Matter Claims could have an adverse effect on Current VASCO's or, following the Exchange Offer, New VASCO's ability to raise capital and in turn an adverse effect on its results of operations and financial condition.

LACK OF DIVIDENDS. Current VASCO has not paid any dividends on Current VASCO Common Stock to date. The future payment of dividends on New VASCO Common Stock by New VASCO upon consummation of the Exchange Offer will be contingent upon New VASCO's revenues and earnings, if any, capital requirements and general financial condition. The payment of any future dividends will be subject to the discretion of New VASCO's Board of Directors. It is the present intention of the New VASCO Board of Directors to retain all earnings, if any, for use in New VASCO's consolidated business operations and, accordingly, it is not anticipated that any dividends will be declared on the New VASCO Common Stock in the foreseeable future. See "MARKET PRICE OF CURRENT VASCO COMMON STOCK AND DIVIDEND POLICY" and "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO -- Common Shares."

#### FACTORS RELATING TO OPERATIONS

The following factors are applicable to the operations of Current VASCO and are not dependent on the completion of the Reorganization. However, in the event the Reorganization is completed, the factors will also apply to New VASCO.

HISTORY OF OPERATING LOSSES; ACCUMULATED DEFICIT. Current VASCO has incurred losses from continuing operations before interest and taxes for the years ended December 31, 1995 and December 31, 1996 and the first six months of 1997. As of June 30, 1997, Current VASCO had an accumulated deficit of \$11,194,000, which amount includes a write-off of acquired in-process technology related to the acquisitions of Lintel Security NV and Digipass SA for the year ended December 31, 1996 in the amount of \$7,351,000. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." In view of Current VASCO's loss history, there can be no assurance that Current VASCO will be able to achieve or sustain profitability on an annual or quarterly basis in the future.

POTENTIAL FLUCTUATIONS IN QUARTERLY RESULTS. Current VASCO's 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 Current VASCO's competitors; adoption of new technologies and standards; changes in pricing by Current VASCO or its competitors; the ability of Current VASCO to develop, introduce and market new products and product enhancements on a timely basis, if at all; component costs and availability; Current VASCO's success in expanding its 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, because a high

percentage of Current VASCO's operating expenses are fixed, a small variation in the timing of recognition of revenue can cause significant variations in operating results from quarter to quarter.

**ADDITIONAL CAPITAL NEEDED.** Current VASCO requires additional capital to finance its working capital and other needs, including the repayment of outstanding obligations and the financing of future growth. While Current VASCO intends to raise capital in the near future through, among other potential financing sources, a possible public offering of New VASCO Common Stock, the inability of Current VASCO to obtain additional funds will adversely affect its results of operations and financial condition and its ability to conduct its business. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- Liquidity and Capital Resources." In addition, while the Reorganization of Current VASCO pursuant to the Exchange Offer is intended to enhance New VASCO's ability to raise capital in the public markets, there can be no assurance that the Reorganization will be successful or, if it is successful, that the Reorganization will improve New VASCO's ability to raise capital in the public markets or otherwise.

**RAPID TECHNOLOGICAL CHANGES AND DEPENDENCE ON NEW PRODUCTS.** The market for Current VASCO's products is very dynamic and characterized by rapidly changing technology, evolving industry standards and government policies, changing customer requirements, price-competitive bidding and frequent product enhancements and innovations. The introduction by Current VASCO or its competitors of products embodying new technologies and the emergence of new industry standards could render Current VASCO's existing products obsolete and unmarketable. Therefore, Current VASCO's future success will depend in part upon its ability to enhance its current products and develop innovative products to distinguish itself from the competition and to meet customers' changing needs in the data security industry. Current VASCO is presently expending significant resources to enhance its existing products and develop and introduce the next generation of token and other security products. There can be no assurance that security-related product developments and technology innovations by others will not adversely affect Current VASCO's competitive position or that Current VASCO will be able to successfully anticipate or adapt to changing technology, industry standards or customer requirements on a timely basis. Any failure by Current VASCO to anticipate and respond to such changes could have a material adverse effect on Current VASCO's results of operations and financial condition.

**DEPENDENCE ON MAJOR CUSTOMERS.** Approximately 43% (approximately 21% on a pro forma basis after giving effect to the Digipass SA and Lintel Security NV acquisitions and assuming the acquisitions had occurred on January 1, 1996) of Current VASCO's revenues during 1996 were derived from the sale of Current VASCO's security products to one European distributor, Concord-Eracom Nederland BV. On the same pro forma consolidated basis, taking into account Lintel Security NV and Digipass SA sales for the calendar year 1996, two other European customers each would have accounted for approximately 10% of Current VASCO's total revenues. There can be no assurance that Current VASCO will be able to modify its existing products or develop new products that will continue to meet the specifications of these customers. Absent significant future revenues from alternative sources, the unforeseen loss of one or more of Current VASCO's major customers' business, or the inability to maintain reasonable profit margins on sales to any of these customers, would have a material adverse effect on Current VASCO's results of operations and financial condition. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Business -- Customers and Markets."

**PRODUCT CONCENTRATION.** Sales of Current VASCO's AccessKey II and Digipass security tokens together comprised the majority of Current VASCO's net sales during fiscal 1995 and 1996. Should the demand for or pricing of either of these products decline due to the introduction of superior or lower cost products by competitors, changes in the computer industry or other factors, Current VASCO's results of operations and financial condition would be adversely affected.

**DEPENDENCE ON DEVELOPMENT OF INDUSTRY RELATIONSHIPS.** Current VASCO is party to collaborative arrangements with a number of corporations and evaluates, on an ongoing basis, potential strategic alliances and intends to continue to pursue such relationships. Current VASCO's future success will depend

significantly on the success of its current arrangements and its ability to establish additional arrangements. There can be no assurance that these arrangements will result in commercially successful products. See "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Business -- Current VASCO Security Products -- Strategic Relationships."

**RISKS OF INTERNATIONAL OPERATIONS.** Sales to customers outside the United States accounted for approximately 44%, 61% and 97% of Current VASCO's net revenues in the years ended December 31, 1994, 1995 and 1996, respectively. Because a significant number of Current VASCO's principal customers are located in other countries, management expects that international sales will continue to generate a significant portion of Current VASCO's (and, upon consummation of the Exchange Offer, New VASCO's) total revenue. Current VASCO's international business is subject to a variety of risks, including tariffs and other trade barriers, the establishment and expansion of indirect distribution channels in certain countries or regions, delays in expanding its international distribution channels, difficulties collecting international accounts receivable from distributors or resellers, increased costs associated with maintaining international marketing efforts, the introduction of non-tariff barriers and difficulties in enforcing intellectual property rights. In addition, the majority of the supply and sales transactions of VASCO Data Security, Inc. are denominated in U.S. dollars, whereas many of the supply and sales transactions of VASCO Data Security NV/SA are denominated in various foreign currencies. A decrease in the value of any of these foreign currencies relative to the U.S. dollar could affect the profitability in U.S. dollars of Current VASCO's products sold in these markets. Current VASCO is therefore subject to the risks associated with fluctuations in currency exchange rates. In order to reduce the risk of fluctuations in currency exchange rates, VASCO Data Security NV/SA began in 1997 to buy U.S. dollars based on three to six month estimated future needs for U.S. dollars, has developed price lists denominated in both U.S. dollars and foreign currencies, and endeavors to denominate its new supply and sales transactions in U.S. dollars. VASCO Data Security NV/SA is also beginning to attempt to match as to timing of delivery, amount of product and denomination of currency, some purchase orders from vendors with sales orders to customers. There can be no assurance that these matching efforts will be successful in reducing currency exchange risks or that the risks of international operations will not have a material adverse effect on Current VASCO's financial condition or results of operations. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

**COMPETITION.** The market for computer and network security products is highly competitive and subject to rapid change. Current VASCO believes that the principal competitive factors affecting the market for computer and network security products include name recognition, technical features, ease of use, quality/reliability, level of security, customer service and support, distribution channels and price. Current VASCO's competitors include organizations that provide computer and network security products based upon approaches similar to and different from those employed by Current VASCO. There can be no assurance that the market for computer and network security products will not ultimately be dominated by approaches other than the approach marketed by Current VASCO. See "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Business -- The Data Security Industry -- Industry Background," " -- Current VASCO Security Products" and " -- Competition."

Many of Current VASCO's potential competitors have significantly greater financial, marketing, technical and other competitive resources than Current VASCO. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products than can Current VASCO. Competition could increase if new companies enter the market or if existing competitors expand their product lines. Any reduction in gross margins resulting from competitive factors could have a material adverse effect on Current VASCO's financial condition or results of operations.

Although Current VASCO believes it has certain technological and other advantages over its competitors, maintaining such advantages will require continued investment by Current VASCO in research and development and sales and marketing. There can be no assurance that Current VASCO will have sufficient resources to make such investments or that Current VASCO will be able to make the technological advances necessary to maintain such competitive advantages. In addition, current and potential competitors have established or may in the future establish collaborative relationships among themselves or with third parties,

including third parties with whom Current VASCO has strategic relationships, to increase the ability of their products to address the security needs of Current VASCO's prospective customers. Accordingly, it is possible that new competitors or alliances may emerge and rapidly acquire significant market share. If this were to occur, the financial condition and results of operations of Current VASCO would be materially adversely affected. See "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Business -- Competition."

DEPENDENCE ON SINGLE SOURCE SUPPLIERS. The majority of Current VASCO's products are manufactured by two independent vendors headquartered in Hong Kong. One of the vendors is under a contract that extends to January 21, 1999, with automatic one-year renewals subject to termination on six months notices and purchases from the other vendor are on a purchase order by purchase order basis. Each vendor assembles Current VASCO's security tokens at facilities in mainland China. The importation of these products from China exposes Current VASCO to the possibility of product supply disruption and increased costs in the event of changes in the policies of the Chinese government, political unrest or unstable economic conditions in China or developments in the United States that are adverse to trade, including enactment of protectionist legislation. While Current VASCO believes that it could find substitute contractors for the manufacture and assembly of its products, and has had discussions to that effect with a vendor in Belgium, in the event that the supply of components or finished products is interrupted or relations with either of the two principal vendors is terminated, there could be a considerable delay finding suitable replacement sources to manufacture Current VASCO's products which could have a material adverse effect on Current VASCO's results of operations and financial condition. In addition, Current VASCO's AccessKey II product contains a custom-designed microprocessor which is fabricated by a single supplier located in the United States and is procured by purchase orders. Current VASCO expects AccessKey II production to be reduced by the end of 1997 and be replaced by AccessKey III, which will employ a widely available microprocessor. However, any unforeseen interruption in the supply of microprocessors for the AccessKey II from the sole supplier prior to the full phase-in of the AccessKey III product would have a material adverse effect on Current VASCO's results of operations and financial condition. See "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Business -- Production."

PROPRIETARY TECHNOLOGY AND INTELLECTUAL PROPERTY. Current VASCO's success depends significantly upon its proprietary technology. Current VASCO currently relies on a combination of patent, copyright and trademark laws, trade secrets, confidentiality agreements and contractual provisions to protect its proprietary rights. Current VASCO seeks to protect its software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. Current VASCO generally enters into confidentiality and nondisclosure agreements with its employees and with key vendors and suppliers. Current VASCO holds several patents in the United States and a corresponding patent in certain European countries, which cover certain aspects of its technology. The remaining terms of the U.S. patents are between six and nine years. There can be no assurance that Current VASCO will develop proprietary products or technologies that are patentable, that any issued patent will provide Current VASCO with any competitive advantages or will not be challenged by third parties, or that patents of others will not have a material adverse effect on Current VASCO's business.

There has also been substantial litigation in the technology industry regarding intellectual property rights, and litigation may be necessary to protect Current VASCO's proprietary technology. Current VASCO expects that companies in the computer and information security market will increasingly be subject to infringement claims as the number of products and competitors in Current VASCO's target market grows. Any such claims or litigation may be time-consuming and costly, cause product shipment delays, require Current VASCO to redesign its products or require Current VASCO to enter into royalty or licensing agreements, any of which could have a material adverse effect on Current VASCO's results of operations and financial condition.

Despite Current VASCO's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of Current VASCO's products or to obtain and use information and software that Current VASCO regards as proprietary. To the extent Current VASCO believes its proprietary rights are being violated, and regardless of its desire to do so, it may not have adequate financial resources to engage in litigation against the party or parties who may infringe on its proprietary technology. In addition, the laws of



some foreign countries do not protect proprietary and intellectual property rights to as great an extent as do the laws of the United States. There can be no assurance that Current VASCO's means of protecting its proprietary and intellectual property rights will be adequate or that Current VASCO's competitors will not independently develop similar technology, duplicate Current VASCO's products or design around patents issued to Current VASCO or other intellectual property rights of Current VASCO.

**PRODUCT LIABILITY RISKS.** Customers rely on Current VASCO's token-based security products to prevent unauthorized access to their data. A malfunction of or design defect in Current VASCO's products could result in tort or warranty claims. In order to reduce the risk of exposure from such claims, Current VASCO attempts to obtain warranty disclaimers and liability limitation clauses in its agreements with distributors, resellers and end-user clients. However, there can be no assurance that Current VASCO will be successful in obtaining such provisions in its agreements or that such measures will be effective in limiting Current VASCO's liability for any such damages. Any liability for damages resulting from security breaches could be substantial and would have a material adverse effect on Current VASCO's results of operations and financial condition. In addition, a well-publicized actual or perceived security breach involving token-based security systems could adversely affect the market's perception of token-based security products in general, or Current VASCO's products in particular, regardless of whether such breach is attributable to Current VASCO's products. This could result in a decline in demand for Current VASCO's products, which would have a material adverse effect on Current VASCO's results of operations and financial condition.

**GOVERNMENT REGULATION OF TECHNOLOGY EXPORTS.** Current VASCO's international sales and operations are subject to risks such as the imposition of government controls, new or changed export license requirements, restrictions on the export of critical technology, trade restrictions and changes in tariffs. While Current VASCO believes its products are designed to meet the regulatory standards of foreign markets, any inability to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on Current VASCO's financial condition or results of operations.

Certain products of Current VASCO are subject to export controls under U.S. law, and Current VASCO believes it has obtained or will obtain all necessary export approvals as required. There can be no assurance, however, that the list of products and countries for which export approval is required, and the regulatory policies with respect thereto will not be revised from time to time. The inability of Current VASCO to obtain required approvals under these regulations could materially adversely affect the ability of Current VASCO to make international sales. For example, U.S. governmental controls on the exportation of encryption technology prohibit Current VASCO from exporting some of its products with the more sophisticated data security encryption technology. As a result, foreign competitors facing less stringent controls may be able to compete more effectively than Current VASCO in the global data security market. There can be no assurance that these factors will not have a material adverse effect on Current VASCO's financial condition or results of operations.

Similarly, VASCO Data Security NV/SA, the Belgian operating subsidiary of Current VASCO, is subject to export licensing requirements under Belgian law. The inability of VASCO Data Security NV/SA to obtain required approvals or licenses under Belgian law also could have a material adverse effect on Current VASCO's financial condition or operations.

**DEPENDENCE ON KEY PERSONNEL.** Current VASCO now depends, and upon the consummation of the Exchange Offer New VASCO will depend, to a significant degree on the efforts of Current VASCO's President, Chief Executive Officer and the Chairman of its Board of Directors, T. Kendall Hunt, and those of other key personnel employed by or serving as consultants to its subsidiaries, including John Haggard, Mario Houthoof, Frank Hoornaert, Hyon Im, Jan Valcke and Richard Vaden. Neither Mr. Hunt nor Current VASCO's other key personnel have entered into employment agreements with Current VASCO or New VASCO, with the exception of Mr. Houthoof, who has entered into a consulting agreement with VASCO Data Security NV/SA, Current VASCO's European operating subsidiary. As a result, there are no restrictions on competition by these individuals (other than Mr. Houthoof) after termination of employment or consulting services. Key man insurance in the amount of \$1.5 million is currently maintained by Current VASCO on the life of Mr. Hunt but not on any of the other key personnel. The loss of the services of

Mr. Hunt or one or more of its other key personnel could have an adverse effect on Current VASCO's business and operating results.

Current VASCO's continued success is also dependent upon its ability to attract and retain qualified employees to support its future growth. Competition for such personnel is intense, and there can be no assurance that Current VASCO can retain its key employees or that it can attract, assimilate or retain other highly qualified personnel in the future.

**MANAGEMENT AND CONTROL.** Control of Current VASCO presently is, and after the consummation of the Exchange Offer control of New VASCO will be, largely in the hands of its Board of Directors, management and T. Kendall Hunt. Upon consummation of the Exchange Offer, based on the number of shares of Current VASCO Common Stock outstanding on August 31, 1997, the Board of Directors of New VASCO and their spouses will own beneficially and of record approximately 61% (and Mr. Hunt and his family will own beneficially and of record 53.3%) of the outstanding shares of New VASCO Common Stock, assuming all of the shares of Current VASCO Common Stock are exchanged for shares of New VASCO Common Stock. Mr. Hunt will also be Chairman of the New VASCO Board of Directors, Chief Executive Officer and President of New VASCO. As a result, T. Kendall Hunt will have significant control over the direction and operation of New VASCO and with his family will be able to elect the directors of New VASCO and to approve corporate action requiring majority stockholder approval. Such concentration of control may have an adverse effect on the market price of New VASCO Common Stock.

#### CURRENT VASCO AND NEW VASCO

Current VASCO is a Delaware corporation which, through its operating subsidiaries, designs, develops, markets and supports open standards-based hardware and software security systems which manage and secure access to data. Current VASCO's hardware products include time-synchronous response only, challenge/response and time-synchronous challenge/response user authentication devices, some of which incorporate an electronic signature feature to guarantee the integrity of data transmissions. These devices are commonly referred to as security tokens. Current VASCO's security tokens are based upon Current VASCO's core encryption technology, which utilizes two widely known and accepted algorithms, Data Encryption Standard ("DES") and Rivest, Shamir, Adelman ("RSA"). Current VASCO's Cryptech division produces high speed hardware and software encryption products used both internally for Current VASCO's security tokens and for OEM vendors requiring real time encryption services. In addition, Current VASCO recently has introduced a smartcard security token that uses the challenge/response mode and the X.509 certificate authentication standard. Current VASCO's security tokens are designed to be used with the VASCO Access Control Manager server software or to be integrated directly into applications. See "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Business" for further information about the business of Current VASCO.

New VASCO is a newly incorporated Delaware corporation which has been organized by representatives of Current VASCO for the purpose of effecting the Reorganization of Current VASCO through the Exchange Offer. See "REORGANIZATION OF CURRENT VASCO" and "THE EXCHANGE OFFER" for details on the Reorganization of Current VASCO and on the Exchange Offer.

The principal executive offices of Current VASCO and of New VASCO are located at 1919 South Highland Avenue, Suite 118-C, Lombard, Illinois 60148; telephone: (630) 932-8844.

#### REORGANIZATION OF CURRENT VASCO

Current VASCO is essentially a holding company that conducts its business through operating subsidiaries in the United States and Europe.

## ORGANIZATIONAL HISTORY OF CURRENT VASCO

Current VASCO's Present Organizational Structure. Current VASCO presently has two operating subsidiaries. VASCO Data Security, Inc. ("VDSI"), a Delaware corporation headquartered in Lombard, Illinois, is owned directly by Current VASCO. Current VASCO's other operating subsidiary, VASCO Data Security NV/SA ("VDS NV/SA") is a Belgian corporation headquartered in a suburb of Brussels, Belgium. VDS NV/SA is owned by Current VASCO's European holding company subsidiary, VASCO Data Security Europe SA ("VDSE"). VDSI and VDS NV/SA are engaged in the design, development, marketing and support of open standards-based hardware and software based security systems which manage and secure access to data and also provide products that permit their customers to encrypt data.

## Organizational Chart of Companies

\* All shares are held by the parent corporation, except that shares representing less than 1% are held by T. Kendall Hunt.

VDSI. In November 1989, a Utah corporate predecessor of Current VASCO acquired an option to purchase a controlling interest in ThumbScan, Inc. ("ThumbScan"). Current VASCO acquired a controlling interest in ThumbScan in January 1991, and in December 1991 Current VASCO increased its holdings in ThumbScan. Current VASCO subsequently acquired the remaining shares of ThumbScan. In July 1993, ThumbScan was renamed VASCO Data Security, Inc.

VDS NV/SA. VDS NV/SA is a combination of two European companies (Lintel Security NV and Digipass SA) acquired by Current VASCO, through VDSE, in 1996, and accounts for a substantial portion of Current VASCO's consolidated revenues.

ACQUISITION OF LINTEL SECURITY. Effective March 1, 1996, Current VASCO began a significant expansion of its computer security business by acquiring a 15% interest in Lintel Security NV ("Lintel Security"). Lintel Security, a newly formed Belgian corporation, concurrently purchased from Lintel NV, a Brussels, Belgium based company, certain assets associated with the development of security tokens and security technologies for personal computers ("PCs"), computer networks and telecommunications systems using DES and RSA cryptographic algorithms. Current VASCO acquired the remaining 85% of Lintel Security in June 1996. At the time of acquisition of Lintel NV's assets by Lintel Security, Lintel NV was a competitor of Current VASCO in Europe. The purchase price paid for Lintel Security was approximately \$4.4 million, and was paid in cash, shares of Current VASCO Common Stock, Current VASCO Warrants and notes that include Current VASCO Conversion Options.

ACQUISITION OF DIGIPASS. In July 1996, Current VASCO acquired the stock of Digipass SA ("Digipass") for an aggregate purchase price of \$8.2 million. Digipass, based in a suburb of Brussels, was also a developer of

security tokens and security technologies for PCs, computer networks and telecommunications systems using the DES cryptographic algorithm. At the time of acquisition, Digipass was a competitor of Current VASCO in Europe.

Prior to Current VASCO's acquisition of Digipass, certain assets and liabilities of the interactive voice response ("IVR") business of Digiline SA, an integrator of IVR products based in Belgium, were transferred to Digipass. Digipass' IVR products are used primarily in telebanking applications and incorporate authentication and access control technology. In some cases, customers for Digipass' IVR products are the same as those for Digipass' computer security products.

In January 1997, Digipass changed its name to VASCO Data Security NV/SA ("VDS NV/SA"). Concurrent with this event Lintel Security's operations were consolidated with those of VDS NV/SA at a single location near Brussels.

CURRENT VASCO'S HISTORICAL TRANSACTIONS. VASCO CORP. ("Old VASCO") was incorporated as a Delaware corporation on May 22, 1984. Current VASCO's President, T. Kendall Hunt, was an initial director and stockholder of Old VASCO. On September 5, 1986 Old VASCO was combined with Ridge Point Enterprises, Inc. ("Ridge Point"), a non-operating company incorporated in Utah on January 7, 1985. This combination was effected by means of share exchange, resulting in Old VASCO becoming a subsidiary of Ridge Point, which concurrently changed its name to Vasco Corp. ("VASCO Utah"). Old VASCO then filed a certificate of dissolution with the State of Delaware on August 3, 1987. On August 20, 1990, a certificate of merger was filed with the Secretary of State of the State of Delaware for the intended merger of VASCO Utah with a newly formed Delaware corporation and since that date business has been conducted as VASCO CORP., a Delaware corporation (referred to in this document as "Current VASCO"). The organization of, and certain corporate transactions undertaken by, Current VASCO and/or its predecessors were not effected in strict accordance with applicable statutory and procedural requirements. See "Reasons for the Reorganization" below.

Current VASCO's original business was providing consulting, training and software services to companies and government agencies. These services were marketed as VASCO Performance Systems ("VPS"). In 1996, management determined that Current VASCO should focus its energies and resources on the data security industry, where it believes significant growth and profit potential exist and on August 20, 1996 Current VASCO sold the assets of VPS to Wizdom Systems, Inc. and withdrew from the consulting and technical training business.

#### THE REORGANIZATION

The Board of Directors of Current VASCO has concluded that reorganizing Current VASCO's corporate structure is in the best interests of Current VASCO's stockholders. After considering various alternatives, management determined that Current VASCO should effect the Reorganization by means of the Exchange Offer by New VASCO to the holders of all outstanding Current VASCO Securities. In the Exchange Offer, New VASCO is offering to exchange New VASCO Securities for (i) Current VASCO Securities and (ii) a release by each exchanging holder of Current VASCO Securities of any and all Associated Corporate Matter Claims. See "Reasons for the Reorganization" below and "THE EXCHANGE OFFER -- Terms of the Exchange Offer."

Current VASCO has two classes of equity securities outstanding: Current VASCO Common Stock and Current VASCO Series B Preferred Stock. In addition, Current VASCO has issued Current VASCO Equity Equivalent Securities, consisting of Current VASCO Stock Options, Current VASCO Conversion Options and Current VASCO Warrants, all of which are exercisable or convertible into Current VASCO Common Stock.

New VASCO has created two classes of equity securities: New VASCO Common Stock and New VASCO Series B Preferred Stock, the provisions of which are substantially identical with the corresponding Current VASCO Common Stock and Current VASCO Series B Preferred Stock with the exception of the general voting rights conferred upon the New VASCO Series B Preferred Stock for tax reasons and the fact

that New VASCO's Certificate of Incorporation, as amended, authorizes the issuance of 75,000,000 shares of New VASCO Common Stock as compared to 50,000,000 shares of authorized Current VASCO Common Stock. See "Federal Income Tax Consequences" below, "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO" and "COMPARISON OF STOCKHOLDER RIGHTS."

New VASCO has also created New VASCO Stock Options and New VASCO Warrants as substitutes for the Current VASCO Stock Options and Current VASCO Warrants, and is offering to grant New VASCO Conversion Options to those holders of Current VASCO Conversion Options that do not already provide for conversion into New VASCO Common Stock.

New VASCO has entered into an agreement with Current VASCO that provides for New VASCO's assumption, upon consummation of the Exchange Offer, of certain Current VASCO obligations under a financing agreement with Generale Bank for a \$2.5 million loan and with respect to a registration rights agreement with certain holders of Current VASCO Equity Equivalent Securities, as well as for the substitution of New VASCO Common Stock for Current VASCO Common Stock in connection with Current VASCO Equity Equivalent Securities that are exchanged in the Exchange Offer and certain related agreements of Current VASCO. See "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO -- Registration Rights and Other Arrangements."

In order for the Reorganization and the Exchange Offer to become effective, as of the Expiration Date the Minimum Condition must be satisfied, unless waived by New VASCO. Based on the number of Current VASCO Shares outstanding at August 31, 1997, at least 15,538,383 shares of Current VASCO Common Stock and at least 7,200 shares of Current VASCO Series B Preferred Stock must be tendered for exchange to satisfy the Minimum Condition. See "THE EXCHANGE OFFER -- Conditions to the Exchange Offer" for more detail on conditions of the Exchange Offer.

If the Exchange Offer is consummated, New VASCO will initially be a holding company owning at least 80% of the outstanding shares of each class of outstanding capital stock of Current VASCO and possessing the requisite voting power to control the affairs of Current VASCO. Current VASCO stockholders who exchange their Current VASCO Shares and release their Associated Corporate Matter Claims will become stockholders of New VASCO. Holders of Current VASCO Shares who do not exchange such shares and release their Associated Corporate Matter Claims for New VASCO Shares will remain stockholders of Current VASCO. See "RISK FACTORS -- Risks Relating to Exchange Offer and New VASCO."

New VASCO has conducted no operations and has virtually no assets. The Reorganization will not result in any change in the business or the consolidated assets, liabilities or net worth of Current VASCO and will not result in any change in the persons who constitute the Board of Directors and management of Current VASCO or New VASCO (although the officers and directors may change following completion of the Exchange Offer). See "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Management" and "CERTAIN INFORMATION CONCERNING NEW VASCO -- Management."

The Reorganization may be abandoned by the Board of Directors of New VASCO prior to its consummation if circumstances arise which, in the opinion of the New VASCO Board of Directors, make the Reorganization inadvisable. The New VASCO Board of Directors currently has no reason to believe that the Reorganization will be abandoned.

After the Exchange Offer, New VASCO may merge Current VASCO with or into New VASCO or a subsidiary of New VASCO, cause Current VASCO to distribute assets to New VASCO, or make other changes in the corporate structure, assets, liabilities and businesses among New VASCO and its subsidiaries subject to appraisal rights, if any, or any other remedies available under Delaware law. The acquisition of Current VASCO Shares by New VASCO pursuant to the Exchange Offer will be treated by New VASCO for accounting purposes as an "as if" pooling of interest of entities under common control.

See "Reasons for the Reorganization" below; "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO" and "COMPARISON OF STOCKHOLDER RIGHTS."

## REASONS FOR THE REORGANIZATION

Management of Current VASCO consulted with independent legal counsel to explore the possibility of registering the Current VASCO Common Stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and to prepare for registering future capital offerings under the Securities Act of 1933, as amended (the "Securities Act"). After reviewing the organizational history of Current VASCO and its predecessors, legal counsel noted the absence of certain historical corporate documentation and certain other corporate procedural irregularities. These corporate irregularities, collectively referred to in this document as "Corporate Matters," include all acts or omissions occurring on or before the date of this Prospectus which arise from or in connection with the following, whether undertaken by, involving or relating to Current VASCO or any of its predecessor entities:

(i) any prior authorization, designation or issuance of stock, any stock split, reclassification, redesignation, dividend or distribution of or upon stock, any amendment to the certificate or articles of incorporation or bylaws including those affecting the amount, rights, powers or preferences of stock, and any failure to properly authorize, approve or effect any of the foregoing actions, including

(a) the failure by Old VASCO to document whether an amendment to its Certificate of Incorporation was duly authorized or to file a Certificate of Amendment with the Delaware Secretary of State to amend its Certificate of Incorporation in 1984 to effect a three-for-one stock split of its common stock and to provide for 600,000 shares of non-voting common stock prior to purportedly effecting the stock split and issuing such non-voting common shares, (b) the failure by Old VASCO to document whether director and stockholder approval was obtained for an amendment to its Certificate of Incorporation increasing the number of authorized shares of common stock in 1986, (c) the purported issuance of Series A preferred stock in 1989 by VASCO Utah at a time when the issuance of preferred shares was not authorized by VASCO Utah's charter, and (d) the purported issuance of preferred stock by Current VASCO in connection with the 1990 merger when the rights, powers and preferences of such stock were not specified in Current VASCO's Certificate of Incorporation and when its Certificate of Incorporation did not provide its Board of Directors the power to designate such rights, powers and preferences;

(ii) any failure to properly design, approve, adopt, administer, or authorize the number of shares subject to, any stock option plan or program, including actions required to allow for options awarded thereunder to be treated as ISOs under the Internal Revenue Code of 1986, as amended (the "Code"), including the failure by Old VASCO, VASCO Utah and/or Current VASCO to

(a) document approval by the Board of Directors and stockholders of stock option plans, (b) specify and authorize the number of shares of stock to be subject to such plans, (c) reserve the number of shares subject to such plans, (d) document the authorization for the grant of options pursuant to such plans and the issuance of shares upon exercise of such options, and (e) design such plans in a manner that would ensure options granted thereunder would be treated as ISOs;

(iii) any organization or any merger, consolidation, share exchange, reorganization, recapitalization, sale of assets or like event, or any failure properly to authorize, approve, effect or consummate same, including

(a) the failure to document the approval by Old VASCO's stockholders of the 1986 reorganization through the share exchange undertaken by Old VASCO and Ridge Point/VASCO Utah, (b) the failure to document whether all stockholders of Old VASCO voluntarily exchanged their shares for shares of Ridge Point/VASCO Utah, (c) the failure to document the mechanics of the exchange of Old VASCO shares for shares of Ridge Point/VASCO Utah, and (d) the following procedural irregularities which call into question the validity of the intended 1990 merger of VASCO Utah and Current VASCO, as well as Current VASCO's title to the assets of VASCO Utah purportedly succeeded to by Current VASCO by virtue of the merger: (1) the incorporation of Current VASCO after the date of the 1990 merger agreement, (2) Current VASCO's approval of the plan of merger, including approval of the plan of merger prior to the incorporation of Current

VASCO, the lack of documented stockholder approval as called for by the plan of merger and the effectiveness of the approval by Current VASCO's then Board of Directors, (3) the authorization and issuance of stock by Current VASCO pursuant to the merger, (4) the adoption of Current VASCO's initial bylaws, the appointment of Current VASCO's initial directors and the election of its initial officers, (5) the administrative dissolution of VASCO Utah prior to the filing of a Certificate of Merger with the State of Delaware, and (6) the failure to file Articles of Merger with the State of Utah in connection with the intended merger of VASCO Utah and Current VASCO;

(iv) the dissolution, liquidation or winding up of any of Current VASCO's predecessors, or any failure properly to approve or effect said dissolution, liquidation or winding up, including

(a) the failure to properly document any stockholder approval of the dissolution of Old VASCO and to document actions taken to dissolve, liquidate and wind-up Old VASCO in 1987, (b) the failure to vest effectively title and ownership in VASCO Utah of Old VASCO's assets and to document the assumption by VASCO Utah of Old VASCO's liabilities, and (c) the administrative dissolution of VASCO Utah in 1990 prior to the intended merger transaction with Current VASCO and before the filing of a Certificate of Merger with the State of Delaware; and

(v) any failure to afford security holders any appraisal, preemptive or other rights, whether accorded by statute or by the articles of incorporation, certificate of incorporation or bylaws of Current VASCO or any of its predecessors, in connection with any of the matters described in the foregoing clauses (i), (ii), (iii) or (iv), including

(a) the failure of Old VASCO to document whether it afforded its stockholders, in connection with issuances of Old VASCO capital stock, the preemptive rights to purchase, upon the issuance or sale of Old VASCO stock (or securities convertible into Old VASCO stock), shares (or securities) in proportion to the amount of Old VASCO common stock then owned by such holder, subject to conditions and time limitations prescribed (and at a price determined as permitted by law), by Old VASCO's Board of Directors, as provided for in the Old VASCO Certificate of Incorporation and (b) the failure of VASCO Utah to document whether it afforded its stockholders the appraisal rights provided for by Utah law in connection with the intended 1990 merger of VASCO Utah with Current VASCO.

In April 1997, Current VASCO contacted the Division of Corporations of the Utah Department of Commerce and inquired whether the Division would accept for filing Articles of Merger relating to the intended 1990 merger transaction. The Division responded that it would not accept the Articles of Merger for filing. Current VASCO had been operating on the belief that all prior issuances of capital stock, as well as all corporate organizations and reorganizations had been effected in compliance with requisite corporate law. The Corporate Matters have not previously presented any problems to Current VASCO in the conduct of its business operations. However, the Corporate Matters may preclude legal opinions as to the compliance with applicable corporate law with respect to the issuance of certain shares of Current VASCO presently outstanding, and may complicate a future public offering. In the proposed Reorganization, the holders of Current VASCO Securities who exchange their securities for New VASCO Securities will also release any and all Associated Corporate Matter Claims. See "THE EXCHANGE OFFER -- Terms of the Exchange Offer."

If the Exchange Offer is consummated, New VASCO would initially serve as a holding company for Current VASCO and its subsidiaries and be the entity for raising capital in the public market. Management believes that the Reorganization, if consummated, will facilitate plans to raise additional capital to meet financing needs by increasing the likelihood of obtaining an opinion of counsel concerning the validity of to-be-issued New VASCO Shares. However, there can be no assurance that the Reorganization will successfully facilitate the raising of capital by New VASCO.

## FEDERAL INCOME TAX CONSEQUENCES

Introduction. The following discussion is based upon the advice of Jenner & Block as to certain of the material United States federal income tax consequences that may be relevant to a citizen or resident of the United States, a corporation, partnership or other entity created or organized under the laws of the United States and an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source (any of the foregoing a "U.S. Person") who is the beneficial holder of (i) shares of Current VASCO Common Stock or Current VASCO Series B Preferred Stock (each a "U.S. Stockholder"), (ii) Current VASCO Warrants, (iii) Current VASCO Stock Options and (iv) Current VASCO Conversion Options. This summary is based upon U.S. federal income tax laws, regulations, rulings and decisions in effect as of the date of this Registration Statement, all of which are subject to change at any time (possibly with retroactive effect). There can be no assurance that future changes in applicable law or administrative and judicial interpretations thereof, any of which could have a retroactive effect, will not adversely affect the tax consequences discussed herein or that there will not be differences of opinion as to the interpretation of applicable law. Because the law is technical and complex, the discussion below necessarily only represents a summary.

This summary addresses the U.S. federal income tax consequences to U.S. Persons who currently own Current VASCO Securities and who will, with the exception of the compensatory options discussed below, hold those shares, options and/or warrants as capital assets within the meaning of Section 1221 of the Code. This summary does not address all aspects of U.S. federal income taxation that may be relevant to a particular holder in light of his, her or its individual investment circumstances or to certain types of holders subject to special treatment under the U.S. federal income tax laws such as dealers in securities or foreign currency, financial institutions, insurance companies, tax-exempt organizations, and taxpayers holding the Current VASCO Common Stock and/or Current VASCO Series B Preferred Stock as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or other integrated investment. Moreover, the effect of any applicable state, local or foreign laws is not discussed. HOLDERS OF CURRENT VASCO SECURITIES SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE APPLICATION OF THE U. S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL, OR FOREIGN TAXING JURISDICTION.

Current VASCO Common Stock and Current VASCO Series B Preferred Stock Exchange Treated as a "B" Reorganization. In the opinion of Jenner & Block, assuming the consummation of the Exchange Offer meets certain conditions outlined below (including the Minimum Condition), the exchange of Current VASCO Common Stock and Current VASCO Series B Preferred Stock will qualify as a reorganization under Code Section 368(a)(1)(B). In order for the exchange to qualify as a reorganization under Code Section 368(a)(1)(B), New VASCO will have to acquire Current VASCO Shares solely in exchange for New VASCO voting stock, and after the transaction, New VASCO must own Current VASCO Shares possessing at least 80% of Current VASCO's voting power and at least 80% of each class of Current VASCO's nonvoting stock. Thus, in order to qualify, the Exchange Offer will need to result in the acquisition by New VASCO of at least 80% of the Current VASCO Common Stock and at least 80% of the Current VASCO Series B Preferred Stock. In addition to the New VASCO voting stock issued in the Exchange Offer, no other consideration may be paid to the stockholders of Current VASCO for their interests in the capital stock of Current VASCO. Assuming the exchange qualifies as a reorganization under Code Section 368(a)(1)(B), the following will be the U.S. federal income tax consequences to holders of Current VASCO Common Stock and Current VASCO Series B Preferred Stock:

1. The U.S. Stockholders taking part in the Exchange Offer will recognize no gain or loss on the exchange of the New VASCO Common Stock for Current VASCO Common Stock.
2. The U.S. Stockholders taking part in the Exchange Offer will recognize no gain or loss on the exchange of the New VASCO Series B Preferred Stock for Current VASCO Series B Preferred Stock.
3. The holding period of the New VASCO Common Stock received by a U.S. Stockholder taking part in the Exchange Offer will include the holding period of the Current VASCO Common Stock exchanged therefor.



4. The holding period of the New VASCO Series B Preferred Stock received by a U.S. Stockholder taking part in the Exchange Offer will include the holding period of the Current VASCO Series B Preferred Stock exchanged therefor.

5. The tax basis of the New VASCO Common Stock received by a U.S. Stockholder taking part in the Exchange Offer will be the same as the tax basis of the Current VASCO Common Stock exchanged therefor.

6. The tax basis of the New VASCO Series B Preferred Stock received by a U.S. Stockholder taking part in the Exchange Offer will be the same as the tax basis of the Current VASCO Series B Preferred Stock exchanged therefor.

Taxation of Exchange of Certain Current VASCO Warrants. In the opinion of Jenner & Block, the exchange of New VASCO Warrants for Current VASCO Warrants other than with respect to Current VASCO Warrants issued for services ("compensatory warrants") will not be included in the tax-free reorganization transaction described above. As a result, the U.S. federal income tax impact of the exchange upon holders of the Current VASCO Warrants that were not issued for services will be determined under the general rules of the Code applicable to sale or exchange transactions. Those rules provide that gain or loss is realized from the exchange of property for other property which differs materially either in kind or extent. Thus, if the New VASCO Warrants are deemed materially different than such Current VASCO Warrants, the Exchange Offer will result in a taxable transaction to the holders of such Current VASCO Warrants.

Although there is some authority to the contrary, the weight of authority supports the conclusion that the exchange of warrants in conjunction with a reorganization transaction under Code Section 368(a)(1)(B) is a taxable sale or exchange, even in those circumstances in which the only modification to the warrants is to make them convertible into the stock of the acquiring company. As a result, in the opinion of Jenner & Block the Exchange Offer will be a taxable sale or exchange for holders of the Current VASCO Warrants (other than with respect to compensatory warrants). Assuming such a sale or exchange occurs, the following would be the U.S. federal income tax consequences to holders of Current VASCO Warrants (other than with respect to compensatory warrants, the tax treatment of which is discussed under "Cancellation of Current VASCO Stock Options, Issuance of New VASCO Stock Options, and Exchange of Certain Warrants" below).

1. The holders of Current VASCO Warrants taking part in the Exchange Offer will recognize a gain or loss equal to the difference between (a) the fair market value of the New VASCO Warrants over (b) the holder's tax basis in the Current VASCO Warrants. For these purposes, the tax basis of any holder of a Current VASCO Warrant will be equal to the fair market value of the consideration paid by the holder for the Current VASCO Warrant. In those circumstances in which the holder acquired both a Current VASCO Warrant and a share of Current VASCO Common Stock as an integrated investment unit, the holder's tax basis is equal to (a) the fair market value of the consideration paid for the entire unit, multiplied by (b) a fraction the numerator of which is the fair market value of the warrant on the date of the acquisition and the denominator of which is the fair market value of the entire investment unit on the date of acquisition.

2. The holding period of the New VASCO Warrants received by holders of Current VASCO Warrants taking part in the Exchange Offer will begin on the date on which the Exchange Offer is consummated.

3. The tax basis of the New VASCO Warrants received by holders of Current VASCO Warrants taking part in the Exchange Offer will be equal to the fair market value of the New VASCO Warrants on the date on which the Exchange Offer is consummated.

Cancellation of Current VASCO Stock Options, Issuance of New VASCO Stock Options And Exchange of Certain Warrants. Options issued in exchange for the provision of services ("compensatory options") are generally not taxable upon their issuance. An exception to this rule applies if the options have a readily ascertainable fair market value. If an option does have a readily ascertainable fair market it is taxable to the holder upon its issuance. For these purposes if an option is not actively traded on an established market, it does not have a readily ascertainable fair market value unless its fair market value can otherwise be measured with

reasonable accuracy. In particular, if an option is not actively traded on an established market, the option does not have a readily ascertainable fair market value when granted unless the taxpayer can show that all of the following conditions exist: (i) the option is transferable by the optionee; (ii) the option is exercisable immediately in full by the optionee; (iii) the option or the property subject to the option is not subject to any restriction or condition (other than a lien or other condition to secure the payment of the purchase price) which has a significant effect upon the fair market value of the option; and (iv) the fair market value of the option privilege is readily ascertainable. Given the market for the Current VASCO Common Stock it is unlikely that the option privilege of the Current VASCO Stock Options could be said to have a readily ascertainable fair market value.

Because compensatory options which are not qualified as incentive stock options under Code Sections 421 through 424 are not taxed until exercised and incentive stock options are not taxed on exercise but rather upon sale of the underlying stock, the Internal Revenue Service has generally taken the view that they may be canceled and reissued without incidence of taxation. Accordingly, assuming the Current VASCO Stock Options do not have a readily ascertainable fair market value, Jenner & Block is of the opinion that the cancellation of Current VASCO Stock Options and the issuance of the New VASCO Stock Options will not be a taxable event to the holders of the Current VASCO Stock Options.

Warrants issued in exchange for services receive treatment for U.S. federal income tax purposes similar to the tax treatment for compensatory nonqualified options. Accordingly, assuming the compensatory warrants issued by Current VASCO in exchange for services do not have a readily ascertainable fair market value, Jenner & Block is of the opinion that the exchange of such warrants for New VASCO Warrants will not be a taxable event to the holders of such Current VASCO Warrants.

Taxation of Exchange of Current VASCO Conversion Options. In the opinion of Jenner & Block, the exchange of New VASCO Conversion Options for Current VASCO Conversion Options will not be included in the tax-free reorganization transaction described above. As a result, the U.S. federal income tax impact of the exchange upon holders of Current VASCO Conversion Options will be determined under the general rules of the Code applicable to sale or exchange transactions. As described above in respect of those Current VASCO Warrants that are not compensatory warrants, those rules provide that gain or loss is realized from the exchange of property for other property which differs materially either in kind or extent.

The exchange of Current VASCO Conversion Options for New VASCO Conversion Options will be effected pursuant to the New VASCO Convertible Note Agreement, which provides for the amendment (or modification) of debt instruments issued by Current VASCO that contain Current VASCO Conversion Options to provide for New VASCO Conversion Options. As a result, New VASCO may be deemed to be an obligor under these debt instruments upon consummation of the Exchange offer by virtue of New VASCO's commitment to issue shares of New VASCO Common Stock pursuant to the New VASCO Conversion Options. The Internal Revenue Service has promulgated specific regulations to determine when a modification to a debt instrument is sufficiently material to be deemed a sale or exchange of the debt instrument for U.S. federal income tax purposes. Subject to certain exceptions not applicable here, those rules generally provide that any change in the obligor on a debt instrument is deemed a significant modification (even if the change in obligor occurs by operation of the terms of the debt instrument itself). Accordingly, the proposed modifications of the debt instruments pursuant to the New VASCO Convertible Note Agreements will be deemed sales or exchanges of those debt instruments.

The gain or loss on the sale or exchange of one privately held debt instrument for another privately held debt instrument is determined by comparing the adjusted issue price ("AIP") of the old debt instrument and the issue price of the new debt instrument. The AIP of the old debt instrument is its original issue price plus any accrued but unpaid interest plus any original issue discount. In the case of the Current VASCO debt instruments, Current VASCO has represented that there is no original issue discount and no accrued but unpaid interest. The issue price of the new debt instrument is its face amount so long as it bears adequate interest which is equal to or less than the applicable federal rate. Current VASCO has represented that the interest rate on the new debt will equal or exceed the applicable federal rate, since the debt instruments with Current VASCO Conversion Options will be amended only to provide for New VASCO Conversion Options

and no change in the interest rate payable under such instruments will be made by virtue of the New VASCO Convertible Note Agreements.

#### DIFFERENCES IN CAPITAL STOCK

With the exception of the authorization of an additional 25,000,000 shares of common stock from the number authorized in Current VASCO's Restated and Amended Certificate of Incorporation, as amended, the lack of a class of New VASCO preferred stock comparable to the Series A Preferred Stock designated in Current VASCO's Restated and Amended Certificate of Incorporation, as amended (no shares of which are presently outstanding), and the general voting rights to which the holders of New VASCO Series B Preferred Stock will be entitled, there are no material differences in the capital stock of Current VASCO and New VASCO. The authorized capital stock of New VASCO is in all other material respects the same as Current VASCO's authorized capital stock, except for the deletion from New VASCO's Certificate of Incorporation, as amended, of a general requirement that all dividends on preferred stock be paid before payment of dividends on common stock, which deletion will permit the creation of a class or series of preferred stock that could participate with common stock in dividend payments, and for certain changes included to reflect current Delaware law. See "CERTAIN INFORMATION CONCERNING NEW VASCO -- Organization of New VASCO," "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO," and "COMPARISON OF STOCKHOLDER RIGHTS."

In contrast to shares of Current VASCO Series B Preferred Stock, which have no voting rights, shares of New VASCO Series B Preferred Stock have general voting rights. As of August 31, 1997, there were 9,000 shares of Current VASCO Series B Preferred Stock currently outstanding. Therefore, assuming all currently outstanding shares of Current VASCO capital stock are exchanged in the Exchange Offer, the number of voting shares of New VASCO would be 9,000 shares higher than the number of voting shares of Current VASCO. Based on the number of Current VASCO Shares outstanding as of August 31, 1997, the voting shares would increase from 19,422,979 to 19,431,979. The grant of voting rights, however, will not change the proportionate equity interest of holders of New VASCO Shares. See "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO -- Preferred Shares -- New VASCO Series B Preferred Stock."

Holders of Current VASCO Shares who do not exchange such shares for the appropriate class of New VASCO Shares will, in the event the Exchange Offer is consummated, collectively become holders of a minority interest in Current VASCO. As minority stockholders of Current VASCO, their shares are likely to be more illiquid than prior to the Reorganization, and New VASCO will have the power to control and direct the affairs of Current VASCO by written consent without consulting with or requiring a vote of such holders. See "RISK FACTORS -- Risks Relating to Exchange Offer and New VASCO -- Stockholders who do not Exchange will become Minority Stockholders of Current VASCO," and "-- Reduced Liquidity of Current VASCO Common Stock."

#### NO APPRAISAL RIGHTS

Holders of Current VASCO Shares, Current VASCO Stock Options, Current VASCO Conversion Options or Current VASCO Warrants are not entitled to appraisal rights in connection with the Reorganization under the Delaware General Corporation Law.

## THE EXCHANGE OFFER

## TERMS OF THE EXCHANGE OFFER

Current VASCO Shares. New VASCO hereby offers, upon the terms and subject to the conditions set forth in this Prospectus and in the accompanying Letter of Transmittal and Release (the "Letter of Transmittal and Release"), to exchange New VASCO Shares for Current VASCO Shares as follows:

ONE CURRENT VASCO SHARE AND ALL ASSOCIATED CORPORATE MATTER CLAIMS -----		ONE SHARE OF NEW VASCO -----
Current VASCO Common Stock	for	New VASCO Common Stock
Current VASCO Series B Preferred Stock	for	New VASCO Series B Preferred Stock

Associated Corporate Matter Claims. The Letter of Transmittal and Release, in addition to providing for the assignment and transfer of Current VASCO Shares, provides for the release, waiver and relinquishment of any and all of the following (collectively referred to in this document as "Associated Corporate Matter Claims") in accordance with the express terms of the Letter of Transmittal and Release:

all direct or indirect demands, claims, payments, obligations, actions or causes of action, assessments, losses, liabilities, damages (including without limitation special, consequential, exemplary, punitive and similar damages), reasonable costs and expenses paid or incurred, or diminutions in value of any kind or character (whether or not known or asserted prior to the date hereof, fixed or unfixed, conditional or unconditional, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise), that the holder of Current VASCO Securities now has or ever had against Current VASCO, any of its predecessor entities, or their respective assets, together with the respective successors and assigns of Current VASCO and any of its predecessor entities, as a result of acts or omissions occurring on or before the date of this Prospectus which arise from or are in connection with the Corporate Matters.

Although no claims based on the Corporate Matters have been asserted to date and the ability of any particular holder of Current VASCO Securities to assert any Associated Corporate Matter Claim is uncertain, and although certain Associated Corporate Matter Claims may or may not be barred by applicable statutes of limitations or any corresponding doctrines of laches, the Associated Corporate Matter Claims could include, among other things:

- (i) claims for rescission of stock (or other securities) issuances, acquisitions, sales or exchanges;
- (ii) claims of a direct interest in assets (including securities or other property) of Current VASCO or one of its predecessor entities;
- (iii) claims for rescission of corporate transactions; or
- (iv) claims for money damages.

The Associated Corporate Matter Claims which you are being asked to release, waive and relinquish in the Exchange Offer do not include claims, if any, that an exchanging holder of Current VASCO Securities may or may not be entitled to assert against any past or present officers, directors, shareholders, or agents of Current VASCO or its predecessors, arising from or in connection with the Corporate Matters, regardless of whether such claims are raised in an individual or a derivative capacity. Any such claim not released may or may not be subject to factual, legal or equitable defenses and, if asserted against an officer or director, may or may not be subject to indemnification by Current VASCO to the extent permitted by applicable law.

Stock Options. New VASCO hereby offers, upon the terms and subject to the conditions set forth in this Prospectus and the accompanying New VASCO Option Agreement, to exchange New VASCO Stock Options for Current VASCO Stock Options and a release of any and all Associated Corporate Matter Claims. The New VASCO Stock Options will be issued pursuant to the New VASCO 1997 Stock Option Plan and

will be for the same number of shares and have the same vesting, termination, exercise price and exercise expiration terms as the Current VASCO Stock Options tendered for exchange, but, in all cases, they will be nonqualified stock options. The New VASCO Option Agreement, in addition to providing for the New VASCO Stock Options also provides for the cancellation of the Current VASCO Stock Options and a release of any and all Associated Corporate Matter Claims, and includes a provision for the adjustment of the number of shares underlying the New VASCO Stock Options and of the exercise price for such shares in the event of a change in the capital structure of New VASCO. A copy of the New VASCO Option Agreement and a copy of the New VASCO 1997 Stock Option Plan are being distributed with this document to holders of outstanding Current VASCO Stock Options. See "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO -- Stock Options, Warrants and Convertible Notes" for further information on the New VASCO 1997 Stock Option Plan.

Conversion Options. New VASCO hereby offers, upon the terms and subject to the conditions set forth in this Prospectus and the accompanying New VASCO Convertible Note Agreement, to exchange New VASCO Conversion Options (i.e., options to convert notes into shares of New VASCO Common Stock) for Current VASCO Conversion Options (options to convert notes into shares of Current VASCO Common Stock) on substantially the same terms and conditions, and a release of any and all Associated Corporate Matter Claims. The New VASCO Convertible Note Agreement, in addition to providing for the grant of New VASCO Conversion Options, also provides for the cancellation of the Current VASCO Conversion Options and a release of any and all Associated Corporate Matter Claims. A copy of the New VASCO Convertible Note Agreement is being distributed with this document to holders of Current VASCO Conversion Options.

Warrants. New VASCO hereby offers, upon the terms and subject to the conditions set forth in this Prospectus and the accompanying New VASCO Warrant Agreement, to exchange New VASCO Warrants for Current VASCO Warrants and a release of any and all Associated Corporate Matter Claims. The New VASCO Warrants will be for the same number of shares and have the same exercise price, expiration date and other terms as the Current VASCO Warrants tendered for exchange. The New VASCO Warrant Agreement provides for the grant of New VASCO Warrants, the cancellation of Current VASCO Warrants and the release of any and all Associated Corporate Matter Claims, and includes a provision for the adjustment of the number of shares underlying the New VASCO Warrants and of the exercise price for such shares in the event of a change in the capital structure of New VASCO. A copy of the New VASCO Warrant Agreement is being sent with this document to holders of Current VASCO Warrants.

Exchange of Any Current VASCO Securities Releases Any and All Associated Corporate Matter Claims. The exchange of any of the Current VASCO Securities by a holder will release and waive any and all Associated Corporate Matter Claims the exchanging holder (or, if the Current VASCO Securities are held in a nominee name, the beneficial owner of the Current VASCO Securities) may have even if less than all of the exchanging holder's (beneficial owner's) Current VASCO Securities are exchanged; provided that if a nominee holds Current VASCO Securities on behalf of more than one beneficial owner, any release executed by the nominee will be effective only with respect to any Associated Corporate Matter Claims of beneficial owners directing such nominee to exchange all or any part of the Current VASCO Securities in which such beneficial owner has an interest.

#### OTHER ARRANGEMENTS RELATING TO THE EXCHANGE OFFER

Certain holders of Current VASCO Shares, Current VASCO Warrants and Current VASCO Conversion Options have entered into agreements with Current VASCO which grant such holders the right, under certain circumstances, to either sell the shares they hold to Current VASCO or to require Current VASCO to register under the Securities Act the shares they now hold or the shares they may acquire upon exercise or conversion of Current VASCO Warrants or Current VASCO Conversion Options. In the event that the holders of these rights exchange their Current VASCO Shares, Current VASCO Warrants or Current VASCO Conversion Options upon the terms and conditions set forth in this Prospectus and, as applicable, the accompanying Letter of Transmittal and Release, the New VASCO Warrant Agreement or the New VASCO Convertible Note Agreement, New VASCO, if the holders of these rights so request, may enter into registration rights agreements with provisions substantially the same as those of the respective registration rights agreements

entered into by Current VASCO that have not been performed as of the Expiration Date. See "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO -- Registration Rights and Other Arrangements."

Upon consummation of the Exchange Offer, New VASCO may at a later date merge Current VASCO into New VASCO or into or with a subsidiary of New VASCO on a stock or cash basis or undertake some other corporate reorganization of Current VASCO, subject to appraisal rights, if any, and any other remedies available under Delaware law. New VASCO also reserves the right in its sole discretion to purchase or make offers for any Current VASCO Shares that remain outstanding subsequent to the Expiration Date. The terms of any such purchases or offers could differ from the terms of the Exchange Offer.

Tendering holders of Current VASCO Securities will not be required to pay brokerage commissions or fees or, subject to the instructions in the Letter of Transmittal and Release, transfer taxes with respect to the exchange of Current VASCO Securities pursuant to the Exchange Offer. New VASCO will pay all charges and expenses, other than certain applicable taxes, in connection with costs incurred by it for the Exchange Offer. See "Payment of Expenses" below.

#### EXPIRATION DATE; EXTENSIONS; TERMINATION; AMENDMENT

The Exchange Offer will expire at 5:00 p.m., Chicago, Illinois time, on the Expiration Date, , 1997 [+21 business days], subject to extension by New VASCO by notice to the Exchange Agent as herein provided. New VASCO reserves the right to so extend the Exchange Offer at its discretion, in which event the term "Expiration Date" shall mean the time and date on which the Exchange Offer as so extended shall expire. New VASCO will notify the Exchange Agent of any extension by oral or written notice and will make a public announcement thereof, each prior to 8:00 a.m., Chicago, Illinois time, on the next business day after the previously scheduled Expiration Date.

New VASCO reserves the right in its sole discretion (i) to delay accepting any Current VASCO Securities for exchange or to extend or terminate the Exchange Offer and not accept for exchange any Current VASCO Securities if the Minimum Condition shall not have been satisfied or any of the events set forth below under the caption "Conditions to the Exchange Offer" shall have occurred and shall not have been waived by New VASCO by giving oral or written notice of such delay or termination to the Exchange Agent, (ii) to amend the terms of the Exchange Offer in any manner, or (iii) to terminate and abandon the Exchange Offer at any time prior to acceptance of Current VASCO Securities. Any such delay in acceptance for exchange, extension, amendment or termination and abandonment will be followed as promptly as practicable by public announcement thereof. If the Exchange Offer is amended in a manner determined by New VASCO to constitute a material change, New VASCO will promptly disclose such amendment in a manner reasonably calculated to inform the holders of Current VASCO Securities of such amendment. New VASCO will extend the Exchange Offer so that there is a period of at least ten business days from the announcement of the amendment to the Expiration Date, depending upon the significance of the amendment and the manner of disclosure to the holders of Current VASCO Securities, if the Exchange Offer would otherwise expire during such ten business-day period. The rights reserved by New VASCO in this paragraph are in addition to New VASCO's rights set forth below under the caption "Conditions to the Exchange Offer."

#### PROCEDURE FOR TENDERING CURRENT VASCO SHARES

The tender of any Current VASCO Shares as set forth below and the acceptance thereof by New VASCO will constitute a binding agreement between the tendering holder and New VASCO upon the terms and subject to the conditions set forth in this Prospectus and in the accompanying Letter of Transmittal and Release. Holders of Current VASCO Shares who wish to tender in exchange for New VASCO Shares pursuant to the Exchange Offer must transmit the certificates for the Current VASCO Shares together with a properly completed and duly executed Letter of Transmittal and Release, and all other documents required by such Letter of Transmittal and Release, so as to be received by the Exchange Agent on or prior to the Expiration Date, except as otherwise provided below under the caption "Guaranteed Delivery Procedure for Current VASCO Shares." LETTERS OF TRANSMITTAL AND RELEASE AND CURRENT VASCO

SHARES SHOULD NOT BE SENT TO NEW VASCO; THEY SHOULD BE SENT TO THE EXCHANGE AGENT AT THE ADDRESS SET FORTH BELOW.

Illinois Stock Transfer Company  
223 West Jackson Boulevard, Suite 1210  
Chicago, Illinois 60606  
(312) 427-2953

If any Letter of Transmittal and Release, endorsement, or other document required by the Letter of Transmittal and Release or the Notice of Guaranteed Delivery is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation, or other person acting in a fiduciary or representative capacity, such person should so indicate when signing, and unless waived by New VASCO, proper evidence satisfactory to New VASCO of such person's authority to so act, including the authority to release, waive and relinquish any and all Associated Corporate Matter Claims on behalf of the holder, must be submitted.

Signatures on a Letter of Transmittal and Release or a notice of withdrawal, as the case may be, are not required to be guaranteed if the Letter of Transmittal and Release is tendered (i) by a registered holder of Current VASCO Shares who has not completed the box entitled "Special Issuance and Delivery Instructions" on the Letter of Transmittal and Release or (ii) for the account of an Eligible Institution (as defined below). Signatures on all other Letters of Transmittal and Release must be guaranteed by an Eligible Institution. If signatures on a Letter of Transmittal and Release or a notice of withdrawal, as the case may be, are required to be guaranteed, such guarantee must be by a firm that is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc. or by a commercial bank or trust company having an office or correspondent in the United States (an "Eligible Institution").

If the Letter of Transmittal and Release is signed by a person other than a registered holder of any certificates representing Current VASCO Shares listed thereon, such Current VASCO Shares must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name or names of the registered holder or holders appear on such Current VASCO Shares.

IF THE CURRENT VASCO SHARES ARE HELD IN "STREET NAME" OR BY OTHER NOMINEE, BOTH THE REGISTERED STOCKHOLDER AND THE BENEFICIAL OWNER ARE REQUIRED TO SIGN THE LETTER OF TRANSMITTAL AND RELEASE.

#### GUARANTEED DELIVERY PROCEDURE FOR CURRENT VASCO SHARES

If a holder of Current VASCO Shares desires to tender shares and certificate(s) representing such shares are not immediately available, or time will not permit such holder's certificate(s) or any other required documents to reach the Exchange Agent before 5:00 p.m., Chicago, Illinois time, on the Expiration Date, a tender of Current VASCO Shares will be acceptable if:

(a) The tender is made by or through an Eligible Institution;

(b) Prior to 5:00 p.m., Chicago, Illinois time, on the Expiration Date, the Exchange Agent receives from (i) the registered holder of Current VASCO Shares (as well as from the beneficial owner of such shares, if applicable), a properly completed and duly executed Letter of Transmittal and Release, and (ii) such Eligible Institution, a properly completed and duly executed Notice of Guaranteed Delivery (by facsimile transmission, mail or hand delivery), setting forth the name and address of such holder and the number of Current VASCO Shares tendered, stating that the tender is being made thereby and guaranteeing that, within five business days after the Expiration Date, the certificate(s) representing such Current VASCO Shares (for which a properly completed and duly executed Letter of Transmittal and Release was received by the Exchange Agent prior to 5:00 p.m., Chicago, Illinois time on the Expiration Date) and all other documents required by the Letter of Transmittal and Release, will be deposited by the Eligible Institution with the Exchange Agent; and

(c) The certificate(s) for all tendered Current VASCO Shares, as well as all other documents required by the Letter of Transmittal and Release, are received by the Exchange Agent within five business days after the Expiration Date.

## THE EXCHANGE AGENT

Illinois Stock Transfer Company has been appointed as Exchange Agent for the Exchange Offer. All correspondence in connection with the Exchange Offer for Current VASCO Shares and the Letters of Transmittal and Release should be addressed to the Exchange Agent, as follows:

Illinois Stock Transfer Company  
223 West Jackson Boulevard, Suite 1210  
Chicago, Illinois 60606  
(312) 427-2953

## PROCEDURES FOR TENDERING CURRENT VASCO EQUITY EQUIVALENT SECURITIES

Holder of Current VASCO Stock Options, Current VASCO Conversion Options, and Current VASCO Warrants who wish to exchange their options or warrants should deliver a signed New VASCO Stock Option Agreement with respect to the Current VASCO Stock Options, New VASCO Convertible Note Agreement with respect to the Current VASCO Conversion Options or New VASCO Warrant Agreement (with original Current VASCO Warrants attached thereto) with respect to the Current VASCO Warrants, as applicable, to the following individual prior to the Expiration Date:

Gregory T. Apple  
Vice President and Treasurer  
VASCO Data Security International, Inc.  
1919 South Highland Avenue, Suite 118-C  
Lombard, Illinois 60148  
(630) 932-8844

The exchange of Current VASCO Equity Equivalent Securities will not be effected unless the Exchange Offer for the Current VASCO Shares is effected.

## WITHDRAWAL RIGHTS

All holders of Current VASCO Securities who have tendered Current VASCO Securities are free to withdraw such tendered Current VASCO Securities at any time prior to 5:00 p.m., Chicago, Illinois time, on the Expiration Date, which is , 1997 (or such later date if extended), or unless such tender has been previously accepted for exchange, at any time after , 1997 [60 days after date of commencement of the offer], by delivery of a written notice of withdrawal as provided below. However, once the Exchange Offer has expired and the tendered Current VASCO Securities are accepted by New VASCO, holders of Current VASCO Securities will have no right to withdraw tendered Current VASCO Securities.

Current VASCO Shares. For a withdrawal of Current VASCO Shares to be effective, a written notice of withdrawal must be received by the Exchange Agent, Illinois Stock Transfer Company, at the address set forth above. Any such notice of withdrawal must (i) specify the name of the person having deposited the Current VASCO Shares to be withdrawn, (ii) identify the Current VASCO Shares to be withdrawn (including the certificate number or numbers and number of Current VASCO Shares), and (iii) be signed in the same manner required for the Letter of Transmittal and Release by which such Current VASCO Shares were tendered. Any Current VASCO Shares which have been tendered for exchange, but which are withdrawn, will be returned to the holders of Current VASCO Shares without cost to such holders as soon as practicable after withdrawal. The Current VASCO Shares so withdrawn, if any, will be deemed not to have been validly tendered for exchange for purposes of the Exchange Offer. Properly withdrawn Current VASCO Shares may be re-tendered by following the procedures described above under "Procedure for Tendering Current VASCO Shares" at any time on or prior to the Expiration Date.

Current VASCO Equity Equivalent Securities. For a withdrawal of Current VASCO Equity Equivalent Securities to be effective, a written notice of withdrawal must be received by Gregory T. Apple at the address set forth above. Any such notice of withdrawal must (i) specify the name of the person having deposited the Current VASCO Equity Equivalent Securities to be withdrawn, (ii) identify the Current VASCO Equity



Equivalent Securities to be withdrawn (including the warrant number in the case of Current VASCO Warrants or the date of the agreement concerning the Current VASCO Stock Options or Current VASCO Conversion Options), and (iii) be signed in the same manner as the New VASCO Warrant Agreement, New VASCO Stock Option Agreement or New VASCO Convertible Note Agreement pursuant to which such Current VASCO Equity Equivalent Securities were tendered. Any Current VASCO Equity Equivalent Securities which are tendered for exchange but are withdrawn will be returned, without cost to the holder, as soon as practicable after withdrawal. The Current VASCO Equity Equivalent Securities so withdrawn, if any, will be deemed not to have been validly tendered for exchange for purposes of the Exchange Offer. Properly withdrawn Current VASCO Equity Equivalent Securities may be re-tendered by following the procedures above under "Procedures for Tendering Current VASCO Equity Equivalent Securities" at any time on or prior to the Expiration Date.

All questions as to the validity, form, and eligibility (including time of receipt) of such notices will be determined by New VASCO, whose determination shall be final and binding on all parties.

#### CONDITIONS TO THE EXCHANGE OFFER

New VASCO will not accept for exchange any Current VASCO Securities, and no New VASCO Securities will be issued in exchange for any such Current VASCO Securities (any and all Associated Corporate Matter Claims) if, on the Expiration Date of the Exchange Offer, the Minimum Condition has not been satisfied, unless such condition shall have been waived by New VASCO and notice of waiver has been given as discussed below.

Further, notwithstanding any other term of the Exchange Offer, New VASCO will not be required to accept for exchange any Current VASCO Securities tendered and may terminate or amend the Exchange Offer as provided herein before the acceptance of such Current VASCO Securities, if any of the following conditions exist:

(a) any Securities and Exchange Commission order suspending the effectiveness of the Registration Statement of which this Prospectus is a part is threatened or in effect;

(b) any action or proceeding is instituted or threatened in any court or by or before any governmental agency or regulatory authority with respect to the Exchange Offer which might, in the judgment of the Board of Directors of New VASCO, materially impair the ability of New VASCO to proceed with the Exchange Offer or have a material adverse effect on the contemplated benefits of the Exchange Offer to New VASCO; or

(c) there shall have been proposed, adopted or enacted any law, statute, rule or regulation which might materially impair the ability of New VASCO to proceed with the Exchange Offer, or have a material adverse effect on the contemplated benefits of the Exchange Offer to New VASCO, or result in the consummation of the Exchange Offer not being a tax-free transaction for federal income tax purposes with respect to the exchange of Current VASCO Shares.

The foregoing conditions are for the sole benefit of New VASCO and may be asserted by New VASCO regardless of the circumstances giving rise to such conditions or may be waived by New VASCO in whole or in part at any time and from time to time. If New VASCO waives or amends the foregoing conditions, New VASCO will extend the Exchange Offer for a minimum of five business days (ten business days if the Minimum Condition is waived) from the date that New VASCO first gives notice, by public announcement or otherwise, of such waiver or amendment if the Exchange Offer would otherwise expire within such five (or, if applicable, ten) business-day period. As noted above, New VASCO also reserves the right in its sole discretion to terminate and abandon the Exchange Offer at any time prior to acceptance of Current VASCO Securities. See "Expiration Date; Extensions; Termination; Amendment" above.

#### ACCEPTANCE OF CURRENT VASCO SECURITIES AND ISSUANCE OF NEW VASCO SECURITIES

Upon the terms of, and subject to the satisfaction or waiver of all conditions to, the Exchange Offer, as promptly as possible after the Expiration Date New VASCO will accept all Current VASCO Securities that

are properly tendered and not withdrawn. As soon as practicable thereafter, New VASCO will issue the appropriate number of corresponding New VASCO Shares to eligible holders of tendered Current VASCO Shares, and will execute and deliver New VASCO Option Agreements, New VASCO Warrant Agreements and New VASCO Convertible Note Agreements, as applicable. For purposes of the Exchange Offer, New VASCO shall be deemed to have accepted (i) Current VASCO Shares that are tendered for exchange when, as, and if New VASCO has given oral or written notice thereof to the Exchange Agent, and (ii) Current VASCO Equity Equivalent Securities that are tendered for exchange when, as, and if New VASCO has given such oral or written notice of acceptance of the Current VASCO Shares to the Exchange Agent.

If any tendered Current VASCO Securities are not accepted for exchange because of an invalid tender, the occurrence of certain other events set forth herein or otherwise, certificates or other instruments or documents representing any such unaccepted Current VASCO Securities will be returned, without expense, to the tendering holder thereof as promptly as practicable after the expiration or termination of the Exchange Offer.

THE METHOD OF DELIVERY OF THE CURRENT VASCO SECURITIES, LETTERS OF TRANSMITTAL AND RELEASE AND ALL OTHER REQUIRED DOCUMENTS (INCLUDING, AS APPLICABLE, NEW VASCO STOCK OPTION AGREEMENTS, NEW VASCO CONVERTIBLE NOTE AGREEMENTS AND NEW VASCO WARRANT AGREEMENTS) IS AT THE ELECTION AND RISK OF THE HOLDERS. IF SUCH DELIVERY IS BY MAIL, IT IS RECOMMENDED THAT REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, BE USED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE TIMELY RECEIPT BY THE EXCHANGE AGENT OR MR. GREGORY T. APPLE, AS THE CASE MAY BE, PRIOR TO THE EXPIRATION DATE.

All questions as to the validity, form, eligibility (including time of receipt), acceptance, and withdrawal of the Current VASCO Securities tendered for exchange will be determined by New VASCO in its sole discretion, which determination shall be final and binding. New VASCO reserves the absolute right to reject any and all tenders of any of the Current VASCO Securities not properly tendered or to reject any of the Current VASCO Securities, the acceptance of which might, in the judgment of New VASCO or its counsel, be unlawful. New VASCO also reserves the absolute right to waive any defects or irregularities in the tender or conditions of the Exchange Offer as to any of the Current VASCO Securities (including the right to waive the ineligibility of any holder who seeks to tender the Current VASCO Securities in the Exchange Offer). The interpretation of the terms and conditions of the Exchange Offer by New VASCO shall be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of Current VASCO Securities for exchange must be cured within such time as New VASCO shall determine. Neither New VASCO nor any other person shall be under any duty to give notification of defects or irregularities with respect to tenders of Current VASCO Securities for exchange, nor shall any of them incur any liability for failure to give such notification. Tenderees of the Current VASCO Securities will not be deemed to have been made until such irregularities have been cured or waived.

#### PAYMENT OF EXPENSES

Current VASCO has agreed to pay all costs incurred by New VASCO in connection with the Exchange Offer, including registration fees, Exchange Agent, accounting and legal fees and expenses, mailing and printing expenses and other associated costs.

New VASCO will pay all transfer taxes, if any, applicable to the exchange of Current VASCO Securities pursuant to the Exchange Offer. If, however, tendered Current VASCO Shares are registered in the name of any person other than the person signing the Letter of Transmittal and Release or if a transfer tax is imposed for any reason other than the exchange of Current VASCO Shares pursuant to the Exchange Offer, the amount of any such transfer tax (whether imposed on the registered holder or any other person) will be payable by the tendering holder. If satisfactory evidence of payment of such tax or exemption therefrom is not submitted, the amount of such transfer tax will be billed directly to such tendering holder.

MARKET PRICE OF CURRENT VASCO COMMON STOCK  
AND DIVIDEND POLICY

Shares of Current VASCO Common Stock are quoted on the OTC BB under the symbol "VASC." The following table sets forth the high and low closing bid quotations for the periods indicated within the past two fiscal years. None of the Current VASCO Series B Preferred Stock, Current VASCO Stock Options, Current VASCO Conversion Options or Current VASCO Warrants are publicly traded.

COMMON STOCK -----	HIGH ----	LOW ---
1995		
First Quarter.....	1 1/16	1/4
Second Quarter.....	1 7/8	7/16
Third Quarter.....	3 1/16	3/4
Fourth Quarter.....	8 5/8	1 1/2
1996		
First Quarter.....	7 1/8	4
Second Quarter.....	10 1/2	4 1/4
Third Quarter.....	8 5/8	5 1/8
Fourth Quarter.....	7 1/2	3 1/2
1997		
First Quarter.....	5 7/8	3 7/16
Second Quarter.....	4 5/8	2 1/4
Third Quarter (through September 8, 1997).....	3 9/16	2 7/16

On September 8, 1997, the closing bid quotation on the OTC BB was 2 9/16. The above quotations represent prices between dealers and do not include retail markups or markdowns or commissions. They may not necessarily represent actual transactions.

As of August 31, 1997, there were 167 holders of record of Current VASCO Common Stock, two holders of record of Current VASCO Series B Preferred Stock, 68 holders of Current VASCO Stock Options, five holders of Current VASCO Conversion Options and 48 holders of Current VASCO Warrants. These numbers of holders do not include the number of persons or entities who beneficially own shares of Current VASCO Common Stock held of record in "street name" through various brokerage firms, banks or other depositories.

New VASCO has not conducted any business and there are only one hundred outstanding shares of New VASCO Common Stock, all of which are held by Current VASCO. Therefore, there is no trading market for any New VASCO Securities at present, and there can be no assurance that a market will develop following the consummation of the Exchange Offer.

No dividends have been paid on the Current VASCO Common Stock since Current VASCO's inception and Current VASCO presently anticipates that it (and upon consummation of the Exchange Offer, New VASCO) will retain all of its future earnings for use in the expansion and operation of its business and does not anticipate paying any cash dividends in the foreseeable future. Current VASCO has paid dividends in the amount of \$108,000 and \$108,000 on the Current VASCO Series B Preferred Stock for the years ended December 31, 1996 and 1995, respectively, and in the amount of \$54,000 for the six months ended June 30, 1997.

SELECTED CONSOLIDATED FINANCIAL INFORMATION  
(IN THOUSANDS, EXCEPT PER SHARE DATA)(1)

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1992	1993	1994	1995	1996(2)(3)	1996	1997
						(UNAUDITED)	
Statement of Operations							
Data(1):							
Total revenues.....	\$ 2,302	\$ 2,199	\$ 2,693	\$ 3,695	\$10,192	\$ 3,184	\$ 6,592
Operating income (loss).....	557	138	192	(534)	(8,658)	(2,916)	(647)
Net income (loss) available to common stockholders.....	289	50	30	(465)	(9,349)	(2,979)	(1,291)
Net income (loss) per common share.....	0.02	0.00	--	(0.03)	(0.53)	(0.19)	(0.07)
Shares used in computing per share amounts.....	13,686	13,877	14,260	14,817	17,533	15,614	18,496

	DECEMBER 31,					JUNE 30,
	1992	1993	1994	1995	1996	1997
						(UNAUDITED)
Balance Sheet Data(1):						
Cash.....	\$ 3	\$ 209	\$ 38	\$ 745	\$ 1,814	\$ 2,863
Working capital.....	479	514	764	1,074	1,502	3,022
Total assets.....	1,340	1,522	2,111	2,414	12,368	11,914
Long term obligations, less current portion.....	512	746	60	7	5,714	8,278
Common stock subject to redemption.....	--	--	371	741	--	495
Stockholders' equity (deficit).....	243	340	1,364	966	(1,205)	(2,418)

For a discussion of factors that affect the comparability of the financial information set forth above, such as significant acquisitions undertaken by Current VASCO and the disposition of Current VASCO's VASCO Performance Systems line of business in 1996, see "REORGANIZATION OF CURRENT VASCO -- Organizational History of Current VASCO," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," and "RISK FACTORS."

- (1) Represents the financial information of Current VASCO. New VASCO has not begun operations.
- (2) Includes the results of operations of Lintel Security from March 1996 and Digipass from June 1996; see "FINANCIAL STATEMENTS."
- (3) Includes a pretax charge for acquired in-process research and development of \$7,351.

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 New VASCO and Current VASCO on the date hereof and assumptions which New VASCO and Current VASCO believe are reasonable. Neither New VASCO nor Current VASCO assumes any obligation to update any such forward-looking statements. These forward-looking statements involve risks and uncertainties. Current VASCO's (and if the Exchange Offer is consummated, New VASCO's) actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in "RISK FACTORS" and elsewhere in this Prospectus.

New VASCO has not had any operations and therefore no Management's Discussion and Analysis of Financial Condition and Results of Operations for New VASCO is included in this Prospectus.

#### OVERVIEW

Current VASCO designs, develops, markets and supports open standards-based hardware and software security systems which manage and secure access to data. Current VASCO's original corporate predecessor was founded in 1984, and Current VASCO entered the data security market in 1991 when it acquired a controlling interest in what is today one of Current VASCO's two operating subsidiaries, VASCO Data Security, Inc. ("VDSI") (formerly known as "ThumbScan, Inc."), a company that designs, develops and sells security tokens, primarily to European customers. In 1996, Current VASCO began developing and marketing open standards-based security systems by introducing a hardware and software package, VACMan, that is based on industry-accepted remote access protocols. In addition, in 1996 Current VASCO co-developed the Internet AccessKey, a product designed to limit access to proprietary websites on the Internet.

Recent Acquisitions. In 1996 Current VASCO significantly expanded its presence in the European data security market through the acquisition of two Belgian companies, Lintel Security (effective March 1, 1996) and Digipass (effective July 1, 1996), which today comprise Current VASCO's other operating subsidiary, VASCO Data Security NV/SA ("VDS NV/SA"). Both Lintel Security and Digipass at the time of acquisition were involved in designing, developing and marketing data security products, and Digipass was to a lesser extent involved in developing interactive voice response ("IVR") products used primarily for telebanking applications. Lintel Security and Digipass were combined in January 1997 and renamed VASCO Data Security NV/SA. Current VASCO is presently evaluating options related to the possible disposition of its IVR business, but does not expect the planned discontinuance of its IVR business to have a material adverse effect on Current VASCO's results of operations and financial condition.

The acquisition of Lintel Security was accomplished in two steps. Current VASCO, through VDSE, acquired 15% of the capital stock of Lintel Security in March of 1996, and then acquired the remaining 85% in June of 1996. As a result, Current VASCO's consolidated results for 1996 include 100% of Lintel Security's results for the period from March through June of 1996, with a minority interest elimination for the 85% not owned for this period, and 100% of Lintel Security's results for the remainder of 1996, and all references to inclusion of Lintel Security's results since the date of acquisition reflect these percentage ownership figures for the appropriate time periods.

The Lintel Security purchase involved a cash payment in the amount of \$289,482 and the issuance of (i) \$747,500 in convertible notes due May 30, 1998, (ii) 428,574 shares of Current VASCO's common stock, and (iii) 100,000 warrants entitling the holders to purchase an equal number of shares of Current VASCO's common stock at \$7.00 per share. The note bears interest at the rate of 8% per annum, which is payable quarterly, in cash or shares of Current VASCO's common stock at the option of the holders. The notes can be converted at any time, at the option of the holders, into shares of Current VASCO's common stock at \$7.00 per share. The warrants were valued at their fair value at the date of grant.

The purchase of Digipass was a cash transaction involving an initial payment of \$4,800,000 and an obligation to pay an additional \$3,400,000 on or before December 31, 1997. Underlying this obligation was a guarantee to the seller of Digipass, furnished by a European commercial bank, which was secured by various personal and company guarantees. Current VASCO renegotiated the guarantee into a convertible loan due September 30, 2002 that bears interest at a rate of 3.25%, payable annually, and the obligation to the seller of Digipass was paid in full in August 1997. See "Liquidity and Capital Resources."

Prior Lines of Business. Before entering the data security industry in 1991, Current VASCO's primary endeavor was providing consulting, training and software services to various institutions in the public and private sectors through its VASCO Performance Systems division ("VPS"). In 1996, Current VASCO sold this line of business, which represented in 1994 nearly 50%, and in prior years substantially more than 50%, of Current VASCO's revenues. Since Current VASCO's revenues prior to 1996 were derived from data security products and the training and consulting service business which was sold in 1996, a comparison of financial information for periods prior to 1996 with 1996 and subsequent periods may not be meaningful.

Revenue and Earnings. Taken together, the majority of sales made by VDSI and VDS NV/SA are in the European markets, although Current VASCO intends to actively pursue additional markets outside of Europe, particularly Asia and North and South America.

Revenues from sales of security tokens, specifically the AccessKey II and Digipass tokens, continue to represent the majority of Current VASCO's total revenues. Although Current VASCO believes it is likely that sales of security tokens will continue to account for a majority of Current VASCO's total revenues for the foreseeable future, Current VASCO also believes that revenues from sales of its other hardware and software data security products, including the additional product offerings made possible by the Lintel Security and Digipass acquisitions, will continue to increase in the future. No assurance, however, can be given that revenues will increase in the future.

In excess of 90% of VDSI's sales were comprised of AccessKey II devices, with Concord-Eracom Nederland BV accounting for 97% and 95% of VDSI's sales in 1996 and 1995, respectively. On a consolidated basis, these percentages are 43% and 64% for 1996 and 1995, respectively. However, the percentages for 1996 include the sales of the Lintel Security and Digipass operations only from their respective acquisition dates in 1996. Sales to Concord-Eracom are expected to account for a smaller percentage of Current VASCO's sales in 1997 as the full year impact of the acquisition of Lintel Security and Digipass is realized. It is expected that sales to other customers and markets will increase and, assuming this occurs, the degree of concentration attributable to this major customer will decrease further. However, Current VASCO expects that this major customer will continue to be a meaningful contributor to Current VASCO's revenues and earnings for the foreseeable future. Consequently, the unforeseen loss of this customer's business, or the inability to maintain reasonable profit margins on sales to this customer, may have an adverse effect on Current VASCO's results of operations and financial condition.

Research and Development. Current VASCO is devoting its capital and other resources to enhancing its 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. Current VASCO's 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.

Once technical feasibility has been established, ongoing development costs incurred prior to actual sales of the subject product are capitalized in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." Product development costs are capitalized on a product-by-product basis and are amortized by the greater of (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (ii) the straight-line method over the remaining estimated economic life of the product. The remaining estimated economic life of these products are reviewed at least quarterly.

Management has concluded that, in today's rapidly evolving technology markets, and with the expanding state of the computer and network security industry in general, it may be impractical to anticipate product life cycles in excess of two years. Historically, however, Current VASCO has experienced significantly longer product lives than the two year cycle.

Variations in Operating Results. Current VASCO's 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 Current VASCO's competitors; adoption of new technologies and standards; changes in pricing by Current VASCO or its competitors; the ability of Current VASCO to develop, introduce and market new products and product enhancements on a timely basis, if at all; component costs and availability; Current VASCO's success in expanding its 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, Current VASCO has experienced, and may experience in the future, seasonality in its business. The seasonal trends have included higher revenue in the last quarter of the calendar year and lower revenue in the next succeeding quarter. Current VASCO believes 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 Current VASCO's operating expenses are based on anticipated revenue levels and a high percentage of Current VASCO's 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 the supply and sales transactions of VASCO Data Security, Inc. are denominated in U.S. dollars, whereas many of the supply and sales transactions of VDS NV/SA are denominated in various foreign currencies. In order to reduce the risks associated with fluctuations in currency exchange rates, VDS NV/SA began in 1997 to buy U.S. dollars based on three to six month estimated future needs for U.S. dollars, has developed price lists denominated in both U.S. dollars and foreign currencies, and endeavors to denominate its new supply and sales transactions in U.S. dollars. VDS NV/SA is also beginning to attempt to match as to timing of delivery, amount of product and denomination of currency some purchase orders from vendors with sales orders to customers. See "RISK FACTORS -- Factors Relating to Operations -- Risks of International Operations."

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain consolidated financial data as a percentage of revenue for the six months ended June 30, 1996 and 1997 and the years ended December 31, 1994, 1995 and 1996.

	PERCENTAGE OF REVENUE				
	YEAR ENDED DECEMBER 31			SIX MONTHS ENDED JUNE 30	
	1994	1995	1996	1996	1997
Total revenue.....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold.....	52.8	78.1	57.6	59.7	50.0
Gross profit.....	47.2	21.9	42.4	40.3	50.0
Operating costs					
Sales and marketing.....	5.8	6.6	13.8	6.9	27.2
Research and development.....	7.8	6.5	5.6	6.8	5.3
General and administrative.....	26.4	23.1	35.8	27.1	27.3
Acquired-in-process research and development.....	--	--	72.1	91.1	--
Total operating costs.....	40.0	36.2	127.3	131.9	59.8
Operating (loss) income.....	7.1	(14.4)	84.9	(91.6)	(9.8)
Interest expense.....	(3.6)	(2.0)	(3.4)	(0.8)	(7.0)
Other expense, net.....	--	--	(0.4)	--	(1.1)
Income (loss) before income taxes.....	3.5	(16.4)	(88.8)	(92.4)	(17.9)
Provision (benefit) for income taxes.....	1.4	(6.8)	1.4	(0.6)	0.9
Net (loss) income.....	2.1	(9.6)	(90.7)	(91.8)	(18.8)

The following discussion is based upon Current VASCO's consolidated results of operation for the six months ended June 30, 1997 and 1996 and for the years ended December 31, 1996, 1995 and 1994. References to "VASCO NA" mean Current VASCO and VDSI, excluding the acquisition of Lintel Security and Digipass. References to "VASCO Europe" mean the operation of Lintel Security and Digipass following their acquisition by Current VASCO. (Percentages in the discussion are rounded to the closest full percentage point.)

## COMPARISON OF SIX MONTHS ENDED JUNE 30, 1997 AND JUNE 30, 1996

## Revenues

Current VASCO's consolidated revenues for the six months ended June 30, 1997 were \$6,592,000, an increase of 3,408,000, or 107%, as compared to the six months ended June 30, 1996. VASCO Europe contributed \$5,103,000 or 77% of total consolidated revenues for the 1997 period. Of the \$5,103,000 of revenues contributed by VASCO Europe, \$5,002,000 or 98% represent data security product revenues, with the remaining \$101,000, or 2%, representing revenues from IVR products. Revenues (and other operating results) attributable to VASCO Europe are included only from the time of acquisition of Lintel Security (four months for 1996 and six months for 1997) and of Digipass (not included in 1996 but included for six months in 1997).

VASCO NA's revenues were \$1,489,000 for the six months ended June 30, 1997, a decrease of \$1,030,000, or 41%, as compared to the same period in 1996. VASCO NA's revenues accounted for 23% of consolidated revenues for the six months ended June 30, 1997. Security product sales for VASCO NA decreased \$960,000, or 40%, as compared to the six months ended June 30, 1996 due in large part to the decrease in sales to VASCO NA's principal customer described below. VPS, the former technical and training unit which was sold in August of 1996, contributed revenues of \$185,000 for the six months ended June 30, 1996 and no revenues for the comparable period in 1997.



On a pro forma basis (after giving effect to the acquisition of both Lintel Security and Digipass as of January 1, 1996), consolidated revenues for Current VASCO for the six months ended June 30, 1996 were \$6,869,000. This amount is \$277,000, or 4%, higher than Current VASCO's consolidated revenues for the six months ended June 30, 1997. The decline in revenues for the six month period ended June 30, 1997 as compared to the same period in 1996 can be attributed to several factors: (1) a decrease in the revenues generated by the IVR business of VASCO Europe in the amount of \$565,000; and (2) a decrease in revenue from sales to VASCO NA's principal customer in the amount of \$767,000, due to a build-up in the reseller's inventory of data security products purchased from VASCO NA. The decrease in revenues from the IVR business, which Current VASCO is considering discontinuing, and from sales to VASCO NA's principal customer was partially offset by an increase of \$1,055,000 in revenues from other customers, generated primarily from sales by VASCO Europe.

#### Cost of Goods Sold

Consolidated cost of goods sold for the six months ended June 30, 1997 was \$3,296,000, an increase of \$1,396,000, or 73%, as compared to the six months ended June 30, 1996. This increase is primarily attributable to the inclusion of VASCO Europe in cost of goods sold for the period ended June 30, 1997. This increase in cost of goods sold, attributable to the full period effect of the VASCO Europe acquisitions, was partially offset by a decrease in VASCO NA's combined cost of goods sold. VASCO Europe's cost of goods sold was \$2,669,000, as compared to \$549,000 from the same period last year.

VASCO NA's cost of goods sold was \$627,000 for the first six months of 1997, representing a decrease of \$817,000, or 57%, from 1996. This decline was primarily a result of a decrease of \$663,000 in cost of goods sold related to security products, due primarily to lower sales for the period and, to a lesser extent, VASCO NA's ability to purchase component parts at somewhat lower costs. The sale of VPS also contributed to the decrease. Its cost of goods sold for the six months ended June 30, 1996 was \$154,000. There was no cost of goods sold for VPS for the comparable period in 1997 due to its disposal in August 1996.

Current VASCO's consolidated cost of goods sold on a pro forma basis for the six months ended June 30, 1996 was \$3,509,000. This amount is \$213,000, or 6% higher than Current VASCO's consolidated cost of goods sold for the six months ended June 30, 1997. The decrease in revenues for the six months ended June 30, 1997 as compared to the same period in 1996 is attributable, in large part, to the decrease in revenues discussed above, as well as the more favorable pricing of certain components purchased during 1997 and because VASCO Europe began to purchase certain component parts directly from manufacturers rather than through distributors.

#### Gross Profit

Current VASCO's consolidated gross profit for the six months ended June 30, 1997 was \$3,296,000, an increase of \$2,012,000, or 157%, over the same period in 1996. This represents a consolidated gross margin of 50%, as compared to a gross margin of 40% for the period ended June 30, 1996. VASCO Europe contributed \$2,434,000 to the consolidated gross profit. VASCO Europe's gross margin for the period ended June 30, 1997 was 48%. VASCO NA contributed \$862,000 to gross profit for the period ended June 30, 1997 as compared to \$1,191,000 for the first six months of 1996, a decrease of \$329,000, or 28%, due to the decline in VASCO NA's revenues described above. Data security products accounted for 100% of VASCO NA's gross profit for the first six months of 1997 due to the disposition of VPS during 1996, whereas data security products accounted for 97% of gross profit during the first six months of 1996, with VPS accounting for the remaining 3% of gross profit.

VASCO NA's gross margin percentage increased to 58% from 45% in the first six months of 1996, primarily because of sales of higher margin security products as opposed to lower margin VPS services. Historically, VASCO NA has sold security products to large customers in large quantities, thus resulting in significant quantity discounts and lower margins. As VASCO NA begins to build business in the U.S., new customers typically place smaller initial orders that do not qualify for quantity discounts, resulting in higher gross margins. Management anticipates that any follow-up orders from such customers could be for larger quantities that may qualify for quantity discounts.

Current VASCO's consolidated gross profit on a pro forma basis for the first six months of 1996 was \$3,360,000, representing a gross margin of 49%. The decline in gross profits for the period ended June 30, 1997 as compared to June 30, 1996 on a pro forma basis was approximately \$64,000 and was due primarily to the decrease in revenues.

#### Sales and Marketing Expenses

Consolidated sales and marketing expenses for the six months ended June 30, 1997 were \$1,793,000, an increase of \$1,573,000, or 715%, over the same period in 1996. Of the total increase, \$856,000, or 54%, can be attributed to the addition of VASCO Europe. Sales and marketing expenses increased by \$717,000, or 326%, for VASCO NA. The increase for VASCO NA can be attributed to increased sales efforts, including the addition of four sales people and increased travel costs; an increase in marketing initiatives, including print media campaigns and other efforts and a stepped-up presence at trade shows.

#### Research and Development

Consolidated R&D costs for the six months ended June 30, 1997 were \$348,000, an increase of \$130,000, or 60%, as compared to the period ended June 30, 1996. R&D costs represented 5% of consolidated revenues for the first six months of 1997 as compared to 7% for the same period in 1996. R&D efforts are undertaken by both VASCO NA and VASCO Europe on behalf of the consolidated group of companies, with VASCO NA being primarily responsible for the development of software products and VASCO Europe being responsible for hardware development. Consequently, management does not believe it is meaningful to address R&D costs separately at the operating company level.

Current VASCO has expensed, as cost of revenues, \$180,000 for the six month period ended June 30, 1996, reflecting the amortization of capitalized software development costs. Net product development costs carried on Current VASCO's books as an asset were \$0 and \$43,000 at June 30, 1997 and 1996, respectively. There were no product development costs capitalized in the first six months of 1997 or 1996.

#### General and Administrative Expenses

Consolidated general and administrative expenses for the six months ended June 30, 1997 were \$1,802,000, an increase of \$939,000, or 109%, over the same period in 1996. The total increase can be attributed to the addition of VASCO Europe, with \$412,000 being attributed to the amortization of goodwill and other intangibles related to the acquisitions of Lintel Security and Digipass.

#### Acquired In-process Research and Development

For the six months ended June 30, 1996, Current VASCO expensed \$2,900,000 pertaining to in-process research and development acquired in the Lintel Security acquisition. Based upon an independent appraisal, approximately 67% of the acquisition premium has been expensed in accordance with generally accepted accounting principles ("GAAP").

#### Operating Loss

Current VASCO's consolidated operating loss for the six months ended June 30, 1997 was \$647,000, compared to the consolidated operating loss of \$2,917,000 for 1996. The 1996 consolidated operating loss included a write-off of acquired in-process research and development in the amount of \$2,900,000. The operating loss, before the write-off, was \$17,000 and of this amount, VASCO NA contributed a loss of \$15,000 and VASCO Europe contributed net operating income of \$21,000. The remaining \$23,000 was attributable to amortization of intangibles.

Current VASCO's operating loss for the first six months of 1997 was attributable to continued investment in R&D (primarily for AccessKey III), sales and marketing investments in North America, one-time professional fees, the expenses for development of corporate infrastructure and, in general, the costs associated with consolidating and assimilating the Lintel Security and Digipass acquisitions.

Current VASCO's consolidated operating loss on a pro forma basis was \$2,250,000 for the six month period ended June 30, 1996. As compared to the operating loss of \$647,000 for the same period in 1997, this represents a decrease of \$1,603,000, or 71%. The decrease was due primarily to the absence in the six month period ended June 30, 1997 of a write-off of in process research and development acquired from Lintel Security and because of operating efficiencies realized due to the combination of Lintel Security and Digipass.

#### Interest Expense

Consolidated interest expense for the six months ended June 30, 1997 was \$533,000 compared to \$26,000 for the same period in 1996, attributable to higher borrowing levels. See "Liquidity and Capital Resources" below.

#### Net Loss Before Taxes

Current VASCO reported a net loss before taxes of \$1,180,000 for the six months ended June 30, 1997. This compares to a net loss before taxes of \$2,943,000 for the corresponding period in 1996. The 1997 pretax losses were \$1,339,000 for VASCO NA, with VASCO Europe posting pretax income of \$805,000. The remaining \$646,000 consisted of \$412,000 for amortization of intangibles and \$234,000 for interest expense.

For the six months ended June 30, 1996, pretax losses for VASCO NA were \$41,000, while VASCO Europe had pretax income of \$21,000. Of the \$2,943,000 net loss before taxes for this six month period, the remaining \$2,923,000 consisted of \$2,900,000 related to the write-off of acquired in-process research and development, and \$23,000 to the amortization of intangibles.

Current VASCO's consolidated net loss before taxes on a pro forma basis was \$2,310,000 for the six months ended June 30, 1996 as compared to a loss of \$1,180,000 for the same period in 1997. This represents a decrease of \$1,130,000, or 49%. The decrease was due to the absence in the six month period ended June 30, 1997 of a write-off comparable to the write-off of acquired in-process research and development recorded by Current VASCO in 1996, and reflects certain operating efficiencies.

#### Income Taxes

Current VASCO recorded tax expense for the six months ended June 30, 1997 of \$57,000. Current VASCO has net operating loss carryforwards of approximately \$2,965,000 as of June 30, 1997, which may be used to offset future taxable income of Current VASCO generated in the United States. The net operating loss carryforwards expire in various amounts beginning in 2010 and continuing through 2011.

#### Dividends and Accumulated Deficit

Current VASCO paid dividends of \$54,000 in each of the six months ended June 30, 1997 and 1996. These dividend payments were attributable to 9,000 shares of Current VASCO Series B Preferred Stock issued in 1994. Current VASCO began 1997 with an accumulated deficit of \$9,903,000. As a result of 1997 operations, this deficit has increased to \$11,194,000 at June 30, 1997.

Current VASCO's loss before taxes, the resulting net loss after taxes, and the resulting increase in accumulated deficit for the first six months of 1997, can be attributed primarily to the acquisitions of Lintel Security and Digipass and the write-off of acquired in-process research and development. The write-off of acquired in-process research and development accounted for 98% of Current VASCO's loss before taxes for the six months ended June 30, 1996.

#### 1996 COMPARED TO 1995

The following discussion and analysis should be read in conjunction with Current VASCO's Consolidated Financial Statements for the years ended December 31, 1996 and 1995.

## Revenues

Current VASCO's consolidated revenues for the year ended December 31, 1996 were \$10,192,000, an increase of \$6,497,000, or 176%, as compared to the year ended December 31, 1995. VASCO Europe contributed \$5,374,000, or 53%, of total consolidated revenues. Of the \$5,374,000 total revenues contributed by VASCO Europe, \$5,180,000, or 96%, represent data security product revenues, with the remaining \$194,000, or 4%, representing revenues from the IVR products. Revenues (and other operating results) attributable to VASCO Europe are included only from the time of acquisition of Lintel Security and of Digipass.

However, taking into account Lintel Security and Digipass on a full year basis for each of 1995 and 1996, Current VASCO's consolidated revenues on a pro forma basis were \$11,623,000 and \$13,654,000 for the years ended December 31, 1995 and 1996, respectively. This represents an increase of \$2,031,000, or 17%.

VASCO NA's revenues were \$4,818,000 for 1996, an increase of \$1,118,000, or 30%, as compared to 1995 and accounted for 47% of consolidated revenues in 1996. Security product sales increased \$2,157,000 to \$4,614,000 in 1996, representing a 88% increase over 1995. Conversely, VPS, the former technical and training unit which was sold in August of 1996, had revenues of \$204,000 in 1996, representing a decrease of \$1,034,000, or 84%, for the comparable period in 1995. VPS accounted for just 4% of VASCO NA's revenues in 1996, down from 33% in 1995.

## Cost of Goods Sold

Consolidated cost of goods sold for the year ended December 31, 1996 was \$5,871,000, an increase of \$2,984,000, or 103%, as compared to the year ended December 31, 1995. This increase is primarily attributable to the acquisition of VASCO Europe in 1996 and offset to some extent by a decrease in VASCO NA's combined cost of goods sold. VASCO Europe's cost of goods sold was \$3,378,000, accounting for 58% of the consolidated cost of goods sold.

Current VASCO's consolidated cost of sales on a pro forma basis, i.e., including Lintel Security and Digipass for the entire year, were \$7,422,000 and \$7,460,000 for the years ended December 31, 1995 and 1996, respectively. This represents an increase of \$38,000.

VASCO NA's cost of goods sold was \$2,493,000 in 1996, representing a decrease of \$394,000, or 14%, from 1995. This decrease was primarily a result of a decrease of \$814,000, attributable to VPS's operations prior to its disposal. This was partially offset by an increase in cost of goods sold related to security products of \$420,000. VASCO NA's cost of goods sold for security products was \$2,453,000 in 1996, as compared to \$2,033,000 in 1995, representing an increase of 21%. The cost of goods sold for security products increased as a percentage less than revenues for security products. This is due to certain non-recurring costs related to capitalized development costs (approximately \$350,000) and inventory write-downs (approximately \$100,000) included in the cost of goods sold for security products in 1995.

## Gross Profit

Current VASCO's consolidated gross profit for the year ended December 31, 1996 was \$4,321,000, an increase of \$3,513,000, or 435%, over 1995. This represents a consolidated gross margin of 42%, as compared to 1995's consolidated gross margin of 22%. VASCO Europe contributed \$1,996,000 to the consolidated gross profit representing a gross margin of 37%. VASCO NA contributed \$2,325,000 to the 1996 gross profit as compared to \$808,000 for 1995, an increase of \$1,517,000 or 188%. Data security products accounted for 93% of VASCO NA's 1996 gross profit due to the reduction in VPS activity and the eventual disposition of VPS during the year. Data security products only accounted for 57% of gross profit during 1995, with VPS accounting for the remaining 43% of gross profit.

Assuming Current VASCO had acquired Lintel Security and Digipass as of January 1, 1995, Current VASCO's consolidated gross profit on a pro forma basis was \$4,201,000 and \$6,194,000 for the years ended December 31, 1995 and 1996, respectively. This represents an increase of \$1,993,000, or 47%, and a gross margin of 36% and 45% for 1995 and 1996, respectively.

VASCO NA's gross margin increased in 1996 to 46% from 22% in 1995. This is attributable to 1995 non-recurring costs related to capitalized development costs and write-down of certain inventory, and increased sales of higher margin security products as opposed to lower margin VPS services.

#### Sales and Marketing Expenses

Consolidated sales and marketing expenses for the year ended December 31, 1996 were \$1,405,000, an increase of \$1,160,000, or 473%, over 1995. Of the total increase, \$548,000, or 47%, can be attributed to the addition of VASCO Europe. Sales and marketing expenses increased by \$612,000, or 250%, for VASCO NA. The increase for VASCO NA can be attributed to increased sales efforts, including, in part, the addition of four sales people, and increased travel costs; an increase in marketing activities, including print media campaigns and other efforts, and an increased presence at trade shows.

#### Research and Development

Consolidated R&D costs for the year ended December 31, 1996 were \$575,000, an increase of \$333,000, or 138%, as compared to the year ended December 31, 1995. R&D costs represented 6% of consolidated revenues for 1996, approximately the same percentage as 1995. R&D efforts are undertaken by both VASCO NA and VASCO Europe on behalf of the consolidated group of companies. Whereas VASCO NA is primarily responsible for the development of software products, VASCO Europe is responsible for hardware development. Consequently, management of Current VASCO believes it is not meaningful to address R&D costs separately at the operating company level.

Current VASCO expensed, as cost of goods sold, \$180,000 and \$445,000 in 1996 and 1995, respectively, reflecting the amortization of capitalized development costs. In the fourth quarter of 1995 Current VASCO accelerated the amortization of capitalized development costs to reflect an adjustment to the estimated economic life of certain products. The accelerated portion of 1995 amortization amounted to approximately \$350,000.

Net product development costs carried on Current VASCO's books as an asset were \$0 and \$157,000 at December 31, 1996 and December 31, 1995, respectively. There were no product development costs capitalized in 1996 or 1995.

#### General and Administrative Expenses

Consolidated general and administrative expenses for the year ended December 31, 1996 were \$3,648,000, an increase of \$2,793,000, or 326%, over 1995. Of the total increase, \$1,426,000, or 51%, can be attributed to the addition of VASCO Europe. General and administrative expenses increased by \$1,367,000, or 160%, for VASCO NA. The increase for VASCO NA can be attributed to an increase in administrative infrastructure to support the efforts of other areas of the Current VASCO, as well as amortization of intangibles associated with the acquisitions of Lintel Security and Digipass.

#### Acquired In-process Research and Development

Current VASCO has expensed, as an operating expense, \$7,351,000 pertaining to the in-process research and development acquired in the Lintel Security and Digipass acquisitions. Based upon independent appraisals, approximately 67% of the acquisition premium has been expensed in accordance with GAAP. As of December 31, 1996, there remains \$3,372,000 of intangible assets related to the acquisitions which will be carried on Current VASCO's books and be amortized over an additional 30 - 78 months. As noted above, \$440,000 of the intangible assets were amortized to expense in 1996.

#### Operating Loss

Current VASCO's consolidated operating loss for the year ended December 31, 1996 was \$8,658,000, compared to the consolidated operating loss of \$534,000 for 1995. The 1996 consolidated operating loss included a write-off of acquired in-process research and development in the amount of \$7,351,000 and the

\$440,000 of intangible assets amortized to expense in 1996. The operating loss, before the write-off and the amortization of intangibles expensed, was \$867,000. Of this amount, VASCO NA contributed a loss of \$911,000 and VASCO Europe contributed net operating income of \$44,000.

Current VASCO's 1996 operating loss, before the write-off of acquired in-process research and development and the amortization of intangibles expensed, was attributable to continued investment in R&D (primarily for AccessKey III), sales and marketing investments in North America, one-time professional fees associated with the acquisitions of Lintel Security and Digipass, the expenses for development of corporate infrastructure, such as sales personnel and administrative staff and office equipment, and, in general, the costs associated with consolidating and assimilating the Lintel Security and Digipass acquisitions.

Taking into account the results of Lintel Security and Digipass for the full fiscal years, Current VASCO's consolidated operating loss on a pro forma basis was \$339,000 and \$7,868,000 for the years ended December 31, 1995 and 1996, respectively. This represents an increase of \$7,529,000. This increase is related principally to the write-off of in-process research and development acquired in conjunction with the acquisitions of Lintel Security and Digipass.

#### Interest Expense

Consolidated interest expense in 1996 was \$346,000 compared to \$74,000 in 1995. The increase can be attributed to average borrowings in 1996 being substantially above those levels of the previous year. See "Liquidity and Capital Resources" below.

#### Net Loss Before Taxes

As a result of the above factors, Current VASCO reported a net loss before taxes of \$9,047,000 for the year ended December 31, 1996. This compares to a net loss before taxes of \$608,000 for the previous year. The pretax loss was \$1,206,000 for VASCO NA, with VASCO Europe posting pretax income of \$21,000. The remainder of the loss, \$7,862,000, was attributed to write-off of acquired in-process research and development of \$7,351,000, the \$440,000 of intangibles expensed and \$71,000 for interest expense.

Current VASCO's consolidated net loss before taxes on a pro forma basis (including Lintel Security and Digipass for the full 1995 and 1996 fiscal year periods) was \$380,000 and \$8,397,000 for the years ended December 31, 1995 and 1996, respectively. This represents an increase of \$8,017,000, due primarily to the write-off of in-process research and development described above, or 2110%.

#### Income Taxes

Current VASCO recorded tax expense for the year ended December 31, 1996 of \$162,000 for VASCO NA and \$32,000 for VASCO Europe. The tax expense recorded for VASCO NA represents the revaluation (write-down) of deferred tax assets. Current VASCO has net operating loss carryforwards of \$1,626,000 as of December 31, 1996, which may be used to offset future taxable income of Current VASCO generated in the United States. The net operating loss carryforwards expire in various amounts beginning in 2010 and continuing through 2011.

#### Dividends and Accumulated Deficit

Current VASCO paid dividends of \$108,000 in each of 1996 and 1995. These dividend payments were attributable to 9,000 shares of Current VASCO Series B Preferred Stock issued in 1994. Current VASCO began 1996 with an accumulated deficit of \$554,000. As a result of the 1996 net loss, this deficit has increased to \$9,903,000.

Current VASCO's 1996 loss before taxes, the resulting net loss after taxes, and the resulting increase in accumulated deficit, can be attributed primarily to the acquisitions of Lintel Security and Digipass and the write-off of acquired in-process research and development. The write-off of acquired in-process research and development accounted for 81% of Current VASCO's 1996 loss before taxes.

## 1995 COMPARED TO 1994

As previously noted, there was a gradual shift in Current VASCO's business to the point that security products accounted for the majority of consolidated revenues for the year ended December 31, 1995. In 1996, VPS, the consulting and technical training unit, was sold. In the following discussion for 1995 and 1994 references to VDSI mean the VDSI security products activity.

The following discussion and analysis should be read in conjunction with Current VASCO's Consolidated Financial Statements for the years ended December 31, 1995 and 1994. In the 1995 audited financial statements, Revenues and Cost of Revenues are categorized as "Security Hardware and Software" and "Training and Consulting Services" which equate to the operations of VDSI and VPS, respectively.

## Revenues

Current VASCO's consolidated revenues for the year ended December 31, 1995 were \$3,695,000, an increase of \$1,002,000, or 37%, over the previous year ended December 31, 1994.

VDSI revenues were \$2,458,000 for 1995, an increase of \$1,001,000, or 69%, over 1994, representing virtually all of the increase in consolidated revenues. The majority of VDSI's sales were comprised of AccessKey II devices. One European customer accounted for 95% and 80% of VDSI's sales in 1995 and 1994 respectively, and 64% and 44% of consolidated revenues in 1995 and 1994, respectively. Revenues for VPS were \$1,237,000 and \$1,236,000 for the comparable periods.

## Cost of Goods Sold

Consolidated cost of goods sold for the year ended December 31, 1995 was \$2,887,000, an increase of \$1,464,000, or 103%, over the previous year ended December 31, 1994.

VDSI's cost of goods sold was \$2,033,000 in 1995, representing an increase of \$1,308,000, or 180%, over 1994, and accounting for the majority of the increase in consolidated cost of goods sold. The majority of the increase in VDSI's cost of goods sold can be attributed to a corresponding increase in sales, but was further impacted by an adjustment to capitalized development costs amounting to approximately \$350,000, and the write down of certain inventory valuations amounting to approximately \$100,000, both occurring in the fourth quarter of 1995.

VPS's cost of goods sold was \$854,000 in 1995, representing an increase of \$156,000, or 22%, over 1994. This increase is reflective of higher costs associated with the inclusion of increased third party goods and services in the delivery of certain assignments.

## Sales and Marketing Expenses

Consolidated sales and marketing expenses for the year ended December 31, 1995 were \$245,000, an increase of \$88,000, or 56%, over 1994. The entire increase can be attributed to VDSI and reflects additions of personnel and related expenses and investments in the development of the North American market.

## Research and Development

Total research and development costs for the year ended December 31, 1995 were \$242,000, an increase of \$31,000, or 15%, over the prior year. R&D costs are principally attributable to the operations of VDSI.

Current VASCO has expensed, as cost of revenues, \$445,000 and \$54,000 in 1995 and 1994, respectively, reflecting the amortization of capitalized development costs. In the fourth quarter of 1995, Current VASCO accelerated the amortization of capitalized development costs to reflect an adjustment to the estimated economic life of certain products, which amounted to approximately \$350,000.

Net product development costs carried as an asset were \$157,000 and \$602,000 at December 31, 1995 and December 31, 1994, respectively. There were no product development costs capitalized in 1995 as compared to \$228,000 in 1994.

## General and Administrative Expenses

Consolidated general and administrative expenses for the year ended December 31, 1995 were \$855,000, an increase of \$143,000, or 20%, over 1994. The entire increase can be attributed to VDSI and reflects additions of personnel and related expenses and investments in the development of the North American market.

## Operating (Loss) Income

Current VASCO's consolidated operating loss for the year ended December 31, 1995 was \$534,000, compared to an operating profit of \$192,000 for the previous year. The loss was primarily due to the accelerated amortization of capitalized development costs described above, increased expenditures in virtually all areas of VDSI, and expenses in the development of corporate infrastructure, such as sales personnel, administrative staff and office equipment.

## Interest Expense

Consolidated interest expense for the year ended December 31, 1995 was \$74,000, compared to \$97,000 in 1994. The decrease of \$23,000 can be attributed to average borrowings in 1995 being below those levels of the previous year, and generally lower interest rates throughout 1995.

## Income Taxes

Current VASCO recorded a tax benefit of \$251,000 for the year ended December 31, 1995 based upon a loss before taxes of \$608,000, compared to a prior year tax expense of \$37,000 based upon income before taxes of \$95,000.

## Net (Loss) Income Before Taxes

Current VASCO reported a net loss of \$357,000 for the year ended December 31, 1995. This compares to net income of \$58,000 for the previous year.

## Dividends and Accumulated Deficit

Dividends of \$108,000 and \$27,000 were paid in 1995 and 1994, respectively. These dividend payments were attributable to 9,000 shares of Current VASCO Series B Preferred Stock issued in 1994. The Current VASCO Series B Preferred Stock dividend payments of \$108,000, and the net loss after taxes of \$357,000, yielded an accumulated deficit of \$554,000 at December 31, 1995, compared to an accumulated deficit of \$9,000 at the end of the previous year.

## LIQUIDITY AND CAPITAL RESOURCES

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

In 1995 Current VASCO borrowed \$130,000 from Mr. Hunt, resulting in a total loan payable balance of \$190,000 at the end of 1995. This loan was repaid in 1996 from the proceeds of private placements during 1996.

Also during 1995, Current VASCO privately placed units consisting of 217,352 shares of Current VASCO Common Stock and 108,676 Current VASCO Warrants to purchase one share of Current VASCO Common Stock at \$6.00. The Current VASCO Warrants are exercisable at the option of the holder; however, Current VASCO maintains the right to require exercise of the warrants 30 days prior to a public offering of Current VASCO's stock. Total issue fees and costs of \$22,261 have been netted against \$369,498 of proceeds from the placement.



Of the total 108,676 units issued in the private placement described in the immediately preceding paragraph, 53,000 units were sold to a group of investors subject to a Registration Rights Agreement ("Rights Agreement") entered into on October 19, 1995. The agreement required that the common stock portion of the units (106,000 shares) be covered by an effective registration statement under the Securities Act or the Exchange Act, by July 1, 1996. The described remedy in the event of default was a put option (the "put"), allowing the investor to exchange their units for consideration of \$7.00 per unit, or \$3.50 per common share. Due to a delay in making the required filing with the Securities and Exchange Commission, Current VASCO agreed to an extension and renegotiation of the Rights Agreement. This resulted in a requirement for an effective registration statement on or before March 31, 1997 and an increase in the put price to \$14.00 per unit, or \$7.00 per share. This filing deadline also was not satisfied and Current VASCO and the investor group entered into an amended agreement under which (i) the investors "put" approximately one-third of their shares (35,328 shares) back to Current VASCO with payments totaling \$247,296 being remitted to the investor group, (ii) additional Current VASCO Warrants to purchase an aggregate of 141,344 shares of Current VASCO Common Stock at a price of \$5.19 per share were granted to the investor group, (iii) the March 31, 1997 filing deadline was changed to March 31, 1998, and (iv) the investor group received the right to put their shares to Current VASCO if after March 31, 1997 Current VASCO raises financing of \$5,000,000 or more.

During the second quarter of 1996, Current VASCO placed additional units consisting of 666,666 shares of Current VASCO Common Stock and 137,777 warrants, each of which entitles the holder to purchase one share of Current VASCO Common Stock at \$4.50. The private placement of shares and warrants generated gross proceeds of \$3,000,000. In addition, in the same transaction, Current VASCO borrowed \$5,000,000 and issued a \$5,000,000 convertible note due on May 28, 2001. The note bears interest at 9%, with interest payable to the holder on a quarterly basis. The holder may, at its option, elect to receive interest payments in cash or common stock. In calculating the shares of Current VASCO Common Stock to be issued in lieu of cash interest, the average closing price for shares of Current VASCO Common Stock for the previous 20 trading days is used. In the event Current VASCO receives funds equal to or greater than \$30,000,000 from a public offering of its common stock, the holder of this note has the right to require Current VASCO to pay all amounts due and owing under the note within 30 days of receipt by Current VASCO of notice from the holder of exercise of this right. Total issue fees and costs of \$170,000 related to the equity portion of this transaction have been netted against the \$3,000,000 of proceeds from the equity private placement. In addition, 55,555 shares of Current VASCO Common Stock and 8,889 Current VASCO Warrants, each of which entitles the holder to purchase one share of Current VASCO Common Stock at \$4.50, were issued as commissions related to the placement.

The proceeds from the \$8,000,000 private placement (\$3,000,000 equity and \$5,000,000 debt) were used to make the first installment of \$4,800,000 toward the Digipass purchase, to satisfy one-time expenses related to the Lintel Security and Digipass acquisitions, to retire Current VASCO's debt to its commercial lender and to Mr. Hunt, and to fund working capital requirements in general.

In 1996 Current VASCO raised additional funds in a private placement of units consisting of 237,060 shares of Current VASCO Common Stock and 35,329 Current VASCO Warrants, each of which entitles the holder to purchase one share of Current VASCO Common Stock at \$4.50. Total issue fees and costs of \$47,885 were netted against the \$1,066,770 in total proceeds from the placement in Current VASCO's financial statements. In addition, 16,489 shares of Current VASCO Common Stock were issued as commissions related to the placement.

The net effect of 1996 activity resulted in an increase in cash of \$1,069,000, resulting in a cash balance of \$1,814,000 at December 31, 1996, compared to \$745,000 at the end of 1995. Current VASCO's working capital at December 31, 1996 was \$1,502,000, an increase of \$348,000, or 30%, from \$1,154,000 at the end of 1995. The majority of the improvement is attributable to an increase in all current asset categories, aided by the addition of VASCO Europe's assets and the private placements made during the year, offset with the final payment related to the Digipass acquisition in the amount of \$3,400,000. Current VASCO's current ratio was 1.21 at December 31, 1996, compared to 2.09 at the end of 1995.

Effective in June, 1997, Current VASCO established a bridge loan with Generale Bank in the amount of \$2,500,000, evidenced by five convertible notes in the amount of \$500,000 each. These notes bear interest at a rate of 3.25%, payable quarterly, and are due September 30, 1998, at which time 116% of the principal amount becomes due and payable. In the event Current VASCO (or New VASCO) completes a public offering prior to September 30, 1998, the holder of a note has the option within seven days after the completion of a public offering to require the note to be repaid at 100% of the principal amount thereof in cash or in common shares (valued at the public offering price), at the holder's election, together with all accrued and unpaid interest to the date of repayment plus additional special interest payable in cash as follows: \$55,556 if repayment is on or before December 31, 1997; \$88,235 if repayment is between January 1, 1998 and March 31, 1998, both dates inclusive; and \$125,000 if repayment is between April 1, 1998 and September 30, 1998, both dates inclusive. In the event that the holder of the note does not elect within seven days after completion of the public offering to require the note to be repaid, the holder may at any time thereafter (until the close of business on the September 30, 1998 maturity date) require the principal amount of the note to be repaid in shares of common stock (valued at the public offering price) plus accrued and unpaid interest to the date of repayment (but no additional special interest shall be payable). If the notes have not been repaid prior to the September 30, 1998 maturity date, and Current VASCO (or New VASCO) fails to repay the note prior to November 1, 1998, then on and from November 1, 1998 (but before payment of the note), in the event a public offering has not been completed the bank may convert the principal amount into shares of Current VASCO Common Stock (i) at a conversion price equal to a historical 20 day trading price in the United States if the stock is listed or quoted on the NASDAQ, EASDAQ or another national U.S. stock exchange, plus the payment of \$250,000 in special interest, payable in cash or shares at the option of the bank, or (ii) if the shares are not so listed, at a conversion price of \$1.00. These five notes also expressly provide that they are convertible into shares of New VASCO Common Stock, upon the same terms and conditions, in the event the Exchange Offer is consummated. Current VASCO also issued to the bank warrants entitling the bank to acquire an aggregate of 40,000 shares of Current VASCO Common Stock (or New VASCO Common Stock if the Exchange Offer is consummated) at exercise prices ranging from \$4 to \$10 per share.

As a result of the foregoing activities, at June 30, 1997 Current VASCO had a cash balance of \$2,863,000 and its current ratio was 1.54.

VDSE entered into a convertible loan agreement with Banque Paribas Belgique S.A. effective August, 1997, in order to refinance the \$3.4 million payment due December 31, 1997 in connection with Current VASCO's acquisition of Digipass. The terms of the agreement provide that the \$3.4 million principal amount is convertible, at the option of the lender, into shares of Current VASCO Common Stock or, if the Exchange Offer is consummated, into shares of New VASCO Common Stock. This loan bears interest at the rate of 3.25%, payable annually, and matures on September 30, 2002. The loan is convertible, commencing on the earlier of January 1, 1999 or the date of a public offering of Current VASCO (or New VASCO) shares on the EASDAQ and/or NASDAQ and terminating on August 31, 2002, at a conversion price equal to the per share public offering price, provided, however, that if no such offering has occurred prior to January 1, 1999, and the loan is converted after such date but prior to a public offering, the conversion price is the average closing market price for shares of Current VASCO Common Stock on the OTC BB for the 20 trading days prior to the date of the notice of conversion, less 10%. In the event a public offering is completed, the lender may at its option (by written notice within seven days after receipt by Current VASCO (or New VASCO) of proceeds of the public offering) require the principal amount of the loan to be repaid in cash, in which case additional special interest is payable as follows: \$340,000 if repayment is on or before June 30, 1998, \$510,000 if repayment is between July 1, 1998 and December 31, 1998 (both dates inclusive), and \$680,000 if repayment is on January 1, 1999 or later.

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

Current VASCO believes that its current cash balances and anticipated cash revenues from its 1997 operations will be sufficient to meet its anticipated cash needs through the end of 1997. Current VASCO is currently seeking to establish a new credit facility with a commercial lender and has entered into engagement letters with Banque Paribas S.A. and Generale Bank for a possible future public offering. There can be no assurance, however, that Current VASCO will be successful in establishing a new credit facility or effecting a public offering.

#### PREVIOUS INDEPENDENT ACCOUNTANTS

Price Waterhouse LLP audited Current Vasco's financial statements for the two fiscal years ended 1995. Following the acquisition of Lintel Security and Digipass, the Audit Committee dismissed Price Waterhouse LLP as the independent accountants of Current Vasco. The reports of Price Waterhouse LLP on the financial statements of Current Vasco for the two years ended December 31, 1995 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle. In connection with its audits for the two years ended December 31, 1995, there have been no disagreements with Price Waterhouse LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Price Waterhouse LLP would have caused them to make reference thereto in their report on the financial statements for such years. During the course of Price Waterhouse's audit of the 1995 financial statements discussion were held with Current VASCO's management concerning enhancements necessary in internal controls to enable Current VASCO to develop reliable financial statements on a timely basis.

Management has taken steps, based on Price Waterhouse's recommendations, to enhance internal controls.

#### NEW INDEPENDENT ACCOUNTANTS

Concurrently with the dismissal of Price Waterhouse LLP, the Company engaged KPMG Peat Marwick LLP as Current Vasco's independent auditor for 1996, in large part due to KPMG Peat Marwick LLP's resources in Belgium. KPMG Peat Marwick LLP was also engaged to reaudit the financial statements of Current VASCO for the two years ended December 31, 1995. Current VASCO did not consult with KPMG Peat Marwick LLP with respect to any particular accounting issues prior to KPMG Peat Marwick LLP's engagement by Current VASCO.

#### CERTAIN INFORMATION CONCERNING CURRENT VASCO

##### BUSINESS

##### INTRODUCTION

Current VASCO designs, develops, markets and supports open standards-based hardware and software security systems which manage and secure access to information assets. Current VASCO's hardware products include time-synchronous response only, challenge/response and time-synchronous challenge/response user authentication devices, some of which incorporate an electronic digital signature feature to guarantee the integrity of data transmissions. These devices are commonly referred to as security tokens.

Current VASCO's security tokens are based upon Current VASCO's core encryption technology, which utilizes two widely known and accepted algorithms, Data Encryption Standard ("DES") and Rivest, Shamir, Adelman ("RSA"). Current VASCO's Cryptech division produces high speed hardware and software encryption products used both internally for Current VASCO's security tokens and for OEM vendors requiring real time encryption services. In addition, Current VASCO recently has introduced a smartcard security token that uses the challenge/response mode and the X.509 certificate authentication standard.

Current VASCO's security tokens are designed to be used with the VASCO Access Control Manager ("VACMan") server software or to be integrated directly into applications. Together, Current VASCO's software and hardware products provide what it believes is an economical state-of-the-art authentication, authorization and accounting security system.

Current VASCO's security products are sold primarily to value-added resellers and distributors, and to a lesser extent end-users. Current VASCO had sold over 1.8 million security token devices, its primary product line, as of June 30, 1997.

Current VASCO has embarked upon an aggressive campaign to expand its distributor and reseller network. Distributors and resellers that have entered into agreements with Current VASCO's operating subsidiaries include, among others, Concord-Eracom Nederland BV, The Peripheral People, Protect Data Norge AS, Sirnet AB, All Tech Data Systems, Inc., Clark Data Systems, Inc., HUCOM, Inc. and SEI Information Technology.

Representative end-users of Current VASCO's products include ABN-AMRO Bank, Generale Bank, Banque Paribas Belgique S.A., Rabobank, S-E Banken, AMP Inc., Volvo Data North America, Inc., France Telecom, Manitoba Telephone, Andrew Corp., and Molson Breweries.

#### THE DATA SECURITY INDUSTRY

**Industry Background.** The increasing use and reliance upon proprietary or confidential data by businesses, government and educational institutions that is accessible remotely by users, together with the growth in electronic commerce, has made data security a paramount concern. Current VASCO believes that data security concerns will spur significant growth in the demand for both enterprise and consumer security solutions.

**ENTERPRISE SECURITY.** With the advent of personal computers and distributed systems in the form of wide area networks ("WANs"), intranets which connect users in disparate facilities, local area networks ("LANs"), which connect users located in a single facility and the public network known as the Internet/ World Wide Web (the "Internet"), and 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. As a result of the increased number of users having direct and remote access to enterprise networks and data, including a growing number of mobile computer users and telecommuters that perform some or all of their work from home or other remote locations, data has become increasingly vulnerable to unauthorized access.

Unauthorized access can range from users who are authorized to access portions of an enterprise's computing resources accessing unauthorized portions, to hackers who have no legitimate access breaking into a network and stealing or corrupting data. The consequences of such unauthorized access, which can often go undetected, can range from theft of proprietary information or other assets to the alteration or destruction of stored data. As a result of unauthorized access stemming from the increased use of enterprise-wide computing and remote access, network security has become a primary concern to most companies that use and rely on data. This increased attention to data security has stimulated demand for data security products. Current VASCO believes that enterprises are seeking solutions which will continue to allow them to expand access to data while maintaining adequate security.

**CONSUMER SECURITY.** In addition to the need for enterprise-wide security, the proliferation of PCs in both home and office, combined with widespread access to the Internet, have created significant opportunities for electronic commerce such as electronic bill payment, home banking and home shopping. All of these activities are primarily based on the use of the Internet and, according to published reports, the growth in the number of Internet users alone is expected to increase from approximately 28 million Web users worldwide in 1996 to approximately 175 million users worldwide by the end of 2001.

The public generally perceives that there is a risk involved in using credit cards to make purchases via the Internet and this perception has hampered the development of consumer-based electronic commerce. Accordingly, Current VASCO believes that successful expansion of electronic commerce, particularly in North America which has generally lagged behind Europe in this area, requires the implementation of improved security measures, which accurately identify users and reliably encrypt data transmissions over the Internet.

CURRENT DATA SECURITY SOLUTIONS  
BUILDING BLOCKS OF DATA SECURITY GRAPHIC

BUILDING BLOCKS OF DATA SECURITY

Data security and secured access to on-line commerce generally consist of five 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 was 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:** Includes firewalls, which limit a user's access to data to only that data which he or she is authorized to access, and authorization and accounting systems, which also limit access to data and keep track of a user's activities after access has been granted.

**Anti-virus:** Programs that scan for and, in many cases, remove destructive computer programs known as computer viruses that can become imbedded into programs residing on a computer.

**Administration and Management Tools:** Set, implement and monitor 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 these five components. However, most companies only implement a patchwork combination of these components which can result in their security systems being compromised.

Historically, Current VASCO's primary products have been security tokens. Security tokens are an integral part of identification and authentication systems, which in turn serve as the foundation for each of the five components of data security outlined above. Current VASCO has sought to leverage its identification and authentication expertise by expanding its product offerings to include the other components of data security, in each case incorporating Current VASCO's security tokens. Current VASCO has sought to expand its product

offerings to reach its ultimate goal of supplying a full range of security products for integrated, enterprise-wide security solutions which will meet the needs of the emerging data security market.

**IDENTIFICATION AND AUTHENTICATION.** Identification and authentication systems provide the foundation for security systems by validating the identity of each user attempting to access information or data contained in a system, regardless of location. The most common use of an identification and authentication device is to authenticate local and remote users who have established a network connection to a company's computer network. Authentication is often done in conjunction with a firewall to authenticate internal users of stand-alone PCs on networks or to authenticate customers and suppliers who have been granted access to a restricted portion of the company's data or other information.

There are three basic methods used to authenticate a user. The first method identifies WHO THE USER IS, utilizing a hard-to-forge physical attribute such as the user's fingerprints, voice patterns or eye retina patterns. In each case the physical attribute, or biometric, must be capable of being scanned and converted to a digital document. While biometric devices offer a high level of authentication, they are susceptible to replay attacks. Replay attacks collect samples of a user's biometric "print" (i.e. voice, finger, retina) and then replay the "print" to access a target system. Furthermore, current technology requires additional hardware to acquire, or read, the biometric "print." The added hardware presents two challenges for biometric solutions, one is the cost and the second is installation and maintenance.

The second authentication method is identifying WHAT THE USER KNOWS, usually a password known only to the specific user. Passwords, while easy to use, are also the least secure because they tend to be short and static, and are often transmitted without encryption ("clear text"). As a result, passwords are vulnerable to decoding or observation and subsequent use by unauthorized persons. Once a user's password has been compromised, the integrity of the entire computer network can be compromised.

The third authentication method identifies WHAT THE USER HAS, generally a physical device or token intended for use by that specific user. Tokens are small devices ranging from simple credit card-like devices to more complex devices capable of generating time-synchronized challenge/response access codes. Early examples of simple tokens include building access passes.

Certain token-based systems require both possession of the token itself and a PIN to indicate that the token is being used by an authorized user. Such an approach, referred to as two-factor authentication, provides much greater security than single factor systems such as passwords or simple possession of a token. Early implementations of two-factor authentication include automatic teller machine ("ATM") cards. ATM cards require the user to possess the card and to know the PIN before engaging in the transaction. Current VASCO believes that the use of the two-factor authentication system is the optimal solution for reliable computer and network security and has targeted its products toward this end.

**Security Tokens.** A security token is a small, portable computing device designed to generate a one-time password. They are normally difficult to counterfeit and are assigned to an individual user. The user transmits a token-generated password, along with an assigned user ID, to a host or authentication server, requesting access, generally to a network. Token-generated passwords are derived from a secret key or seed value. An authentication server on the network receives and decrypts the token password with a corresponding decryption key, validates the user, and (if validated) grants access. Currently available security tokens are event-based, time-synchronous, response only or challenge/response based.

Event-based tokens have the same list of predetermined passwords as the authentication server. Passwords are generated by the token in a predetermined manner, which is expected by the server, and the passwords remain valid for indefinite periods of time. As a result of the passwords being generated from a predetermined list and their ease of calculation by unauthorized users, event-based tokens are the easiest to compromise.

Time-synchronous tokens require the authentication server and the token to be password time-synchronous. When used, the token will calculate and display a password using a stored secret seed value and the current time of day. The server then determines whether the password received is correct for the time frame that it was used in. The principal drawbacks for time-synchronous tokens are extensive maintenance

with respect to clock synchronization and the possibility of multiple uses within the specified time frame. Usually, steps are taken to limit the re-use of a password, however, when a time-synchronous token is defined to multiple authentication servers, a common practice, then there is a risk of a password being re-used to access other servers. Nevertheless, these devices provide a higher level of security than event-based tokens.

Response only tokens use either an "event" or time to calculate the response only password. Response only tokens require the user to activate the token and read the password.

Challenge/response tokens provide the highest level of security. The authentication server responds to a request for access by issuing a randomly generated challenge in the form of a numeric or alphanumeric sequence. The token, using its embedded seed value, or key, encrypts the challenge. The result is an encrypted response which the user then transmits back to the authentication server via the user's PC keyboard. The server in turn retrieves the key that has been assigned to that user and decrypts the user's response. Assuming a match exists, the server authenticates the user and grants access.

As with time-synchronous tokens, challenge/response tokens do not transmit an encryption key. However, unlike time-synchronous tokens, passwords of challenge/response tokens are one-time passwords that can never be reused. In addition, there is no opportunity to initiate a second, illegal session with a challenge/response token. Each attempt at access is accompanied by a new challenge and a correspondingly unique password response.

Although challenge/response tokens generate true one-time passwords, it is possible to compromise the internal seed value of pure challenge/response tokens that only use the seed value and the challenge to calculate the response.

Time synchronous challenge/response tokens can be used to add another variable in the calculation of the onetime password. In addition to the secret seed value and the challenge from the host server, the time of day can be used. Because there is a challenge, the time synchronization does not have to be nearly as exact as with time-synchronous tokens. When time is used as an input variable for challenge response tokens, it is impossible, with today's most advanced computers, to use dictionary attacks to compromise the token.

Smartcards. Smartcards are credit card sized devices that contain an embedded microprocessor, memory and secure operating system. Smartcards have been used in many applications, for example, as stored value cards, either for making general purchases or for specific applications such as prepaid calling cards, and as health care cards, which are used to store patient and provider information and records. Major smartcard chip and card manufacturers include Gemplus SA, Schlumberger Ltd., Philips Electronics N.V., Siemens A.G. and Groupe Francois Charles Oberthur (FCO). These vendors, together with cryptographic vendors, have worked to make smartcard standards compatible with cryptographic standards to offer a security solution with authentication and digital signature capabilities.

## CURRENT VASCO SOLUTION

The following illustrates a sample configuration of a network and components of a security system:

STARTING POINT/REMOTE USERS:  
Typically defined as OFF-premise with  
a laptop or pc, customers, employees  
on-premise but not on the LAN.

STARTING POINT/LOCAL USERS:  
Typically defined as ON-PREMISE,  
past the firewall, and on the LAN.

[SEAMLESS SECURITY FLOW CHART]

AUTHENTICATION LEVEL -  
Tokens, smartcards, encryption.  
1. Before the firewall, VASCO tokens  
provide access control.

FIREWALL LEVEL - separates off-the-net  
from on-the-net users. Resides within  
the NAS (network Access Server).  
Available from 3rd party vendors

AUTHORIZATION LEVEL -  
Uses RADIUS server.  
2. Beyond the firewall, VACMan  
provides SELECTIVE access control.

AUTHENTICATION/AUTHORIZATION  
& ACCOUNTING LEVEL - Security Server  
w/RADIUS, TACACS, XTACACS, & TACACS+.  
3. Within the net VACMan provides SSO  
(Single-Sign-On) services for network users.



To date, most approaches to network security have been limited in scope and have failed to address critical aspects of data security. Current VASCO believes that the computer security industry is moving away from incremental or point solutions to enterprise-wide, fully integrated solutions. Current VASCO believes that an effective enterprise-wide solution must address and assimilate issues relating to the following: ease of use and administration, reliability, interoperability with heterogeneous enterprise environments and existing customer applications, and scalability. Current VASCO also believes that in order to capitalize on this growing market need for enterprise-wide security solutions, network security products must embody both hardware and software components and provide an industry-accepted, open standards-based solution.

Accordingly, Current VASCO has adopted the following approach to data security:

(i) In designing its products, it has sought to incorporate all industry-accepted, open, non-proprietary, remote access protocols, such as RADIUS and TACACS+. This permits interoperability between Current VASCO's security token products and leading remote access servers.

(ii) It has incorporated the two most widely known and accepted algorithms -- the DES and RSA algorithms -- into its products and has sought to refine its offering of single-function, multi-function, challenge/response, response only and digital signature security token products. Current VASCO believes that its combination of software and hardware products provide security with added speed, cryptographic functionality, reliability and flexibility not attainable with software-only programs. Its products provide two-factor authentication requiring the authorized user to possess both the token and the appropriate PIN.

(iii) In addition to providing identification and authentication features in its security products, Current VASCO has included in its security systems accounting and auditing features that allow customers to track and analyze all user access and attempted access to network systems. This permits easier customer implementation and monitoring of corporate security policies.

(iv) Current VASCO has designed its security systems to support various platforms -- such as Windows NT -- thereby allowing customers to ensure the same security for remote users as is provided to office-based users.

(v) Current VASCO has sought to design products that are easy to use and competitively priced. It also is increasing its customer support capabilities to ensure the smooth installation and maintenance of its systems.

As a result of this approach, Current VASCO believes it has positioned itself to market a new generation of open standards-based hardware and software security systems, including those designed to provide security to Internet users, and it intends to continue to grow to provide a full range of identification and authentication and other security products. See "Strategy."

Security Token Products. Generally, Current VASCO's challenge/response tokens work as follows: when a user logs onto a computer or enters a program or network with a user ID, the computer generates a numeric or alphanumeric challenge and displays both the challenge and a flashing bar pattern on the terminal screen. The user holds a token up to the flashing pattern on the screen, and the token reads and interprets the pattern and then displays a unique, or one-time, password on its liquid crystal display. The user then enters this password on the computer keyboard and, if a match exists, access to the computer, program or network is granted. If the terminal screen is not able to display a flashing bar pattern, the user can enter the numeric or alphanumeric challenge into the keypad on the token. PIN protected, break-in attempts to unlock the key are tracked by the token internally. After a pre-programmed number of invalid attempts, the token will be locked out of the system for a specified period of time.

Some of Current VASCO's products also are able to perform "digital signatures" for applications which require proof that a transaction was authorized. A combination of numbers from the transaction are entered into a token which produces an encrypted number that only that specific token, and the information from the transaction, could have created. This number is then entered as part of the transaction, acting as a digital signature authorizing the transaction.

Current VASCO's security tokens include AccessKey II and AuthentiCard, each an optical, hand-held challenge/response security token with a liquid crystal display and numeric keypad that generates a unique password each time it is used, and Digipass, a time-synchronous response only token that generates a one-time password, to authenticate users of PCs and networks and to verify data transmissions by electronic signature. In late 1997, Current VASCO expects to begin shipping its AccessKey III, which is an optical, hand-held multiple-mode security token capable of operating in time-synchronous response only, challenge/response and time synchronous challenge/response modes and of performing digital signature functions.

Smartcards are also emerging as viable security devices. Current VASCO recently announced a new smartcard product, VACMan/CryptaPak, that combines two authentication standards on one smartcard. VACMan/CryptaPak is a standards based smartcard solution that secures Internet applications based on the X.509 authentication standard and also secures remote dial-in access based on the RADIUS authentication standard. It includes a smartcard, smartcard reader and software that enables Netscape Communications Corporation's Communicator to authenticate users via the X.509 certificate standard and software that enables remote dial-in users to be authenticated via the RADIUS authentication standard. See "Current VASCO Security Products" below.

Encryption Products. Hardware encryption product offerings from Current VASCO include DES and RSA microprocessor chips that perform algorithmic functions for use in, among other things, ATMs, fax machines, modems and security servers. Current VASCO's DES and RSA chips are also the central component of its PC DES/RSA Cards, which are printed circuit boards that enable software applications to provide encryption security. Current VASCO also has acquired a software encryption application, Point 'n Crypt, which resides on a PC workstation and enables the user to encrypt or decrypt Windows files or folders. See "Current VASCO Security Products" below.

Access Control Products. Current VASCO has, through a strategic relationship, developed the VACMan access control system, which centralizes security services in a single location, supports all of Current VASCO's token devices, and is based on industry standard protocols to maximize interoperability. VACMan also incorporates authorization and accounting features. See "Current VASCO Security Products" below.

#### STRATEGY

Current VASCO's objective is to establish itself as a single source data security solutions vendor and to become a leader in the data security market. Current VASCO's growth is largely dependent on the successful implementation of its business strategy. There can be no assurance that Current VASCO will be able to successfully implement its business strategy or that, if implemented, such strategy will be successful. See "RISK FACTORS." Key elements of Current VASCO's strategy for achieving this objective are listed below:

Increase Name Recognition. Current VASCO intends to increase the name recognition of its products. It believes that by establishing itself as a brand name, it will obtain a key competitive advantage. Current VASCO believes that the market for data security products is confused by multiple technologies and conflicting claims and that end-users will ultimately be more comfortable buying a well-known product. Current VASCO intends to increase its name recognition by emphasizing sales to well-known visible end-users, expanding its distribution network, increasing its presence at technology trade shows and other increased marketing activities such as print media campaigns.

Expand Product Line. Current VASCO plans to continue to broaden its line of security products to meet its customers' needs and to establish itself as a single source security solutions vendor. Current VASCO intends to accomplish this by continuing to develop identification and authentication expertise, as well as by seeking strategic relationships and acquiring complementary assets or businesses.

Expand Global Presence. The implementation of data security products for electronic banking in the European market has become widespread and as a result, the market for Current VASCO's products has grown more quickly in Europe than in North America. While sales by VDS NV/SA and VDSI represented 54% and 44%, respectively, of Current VASCO's total revenue for the year ended December 31, 1996, Current VASCO's sales to United States customers represented approximately 4.6% of all sales for the year ended

December 31, 1996. Current VASCO believes that there are significant opportunities for its products in the developing North American market and further believes it is well positioned to take advantage of this growing market. Current VASCO intends to maintain and expand its leadership role in the identification, authentication, authorization and accounting markets in Europe and to leverage its European expertise to introduce and promote Current VASCO's identification, authentication, authorization and accounting products to the North American and other global markets. Enterprises that allow remote access to proprietary databases or information, or need to ensure secure data transmission for purposes of electronic commerce (including via the Internet), are potential customers for Current VASCO's security products. Current VASCO intends to pursue these potential customers through its growing network of distributors and resellers. See "Expand Marketing Channels" below.

Expand Marketing Channels. Current VASCO intends to aggressively recruit and support a network of value added resellers worldwide that specialize in both vertical (banking, financial, health, telecommunications and government) markets and horizontal (remote access and Internet application) markets. By undertaking these activities, Current VASCO intends to address and fulfill the requirements of the growing remote access market that is in need of advanced identification, authentication, authorization and accounting products. Some of the distributors and resellers that have entered into agreements to distribute Current VASCO's products in various strategic markets include:

EUROPE -----	NORTH AND SOUTH AMERICA -----	ASIA/AUSTRALIA -----
Concord-Eracom Nederland B.V. (Netherlands)	All Tech Data Systems, Inc. (Midwestern United States)	Horizon Systems (Hong Kong)
ME Networks AG (Switzerland)	Clark Data Systems, Inc. (Southwestern United States)	HUCOM, Inc. (Japan)
Protect Data Norge AS (Scandinavia)	Excelsys, SA (Chile)	The Peripheral People (Australia)
Secureware (France)	LatinWare Ltda. (Colombia)	
Sirnet AB (Scandinavia)	SEI Information Technology (Midwestern United States)	

Develop Strategic Relationships. To accomplish its strategic goals, Current VASCO has established and is developing strategic relationships with other vendors of complementary security products and may seek to acquire complementary assets or businesses. Also, Current VASCO has identified vendors of security or remote access products that relied solely on static passwords which Current VASCO believes its products can enhance.

Current VASCO also has entered into co-development agreements with certain companies to gain access to technology critical to the acceptance and adoption of Current VASCO technology and products. The first such agreement, with TriNet Services, Inc., resulted in Current VASCO's Internet AccessKey, enabling Current VASCO to become the first security authentication vendor to enhance security when accessing the Internet. The Internet AccessKey won the Sun Microsystems Java Cup International award for productivity tools.

Current VASCO also entered into a co-development agreement with SHIVA Corp. ("SHIVA"), a leader in remote access communications equipment, pursuant to which Current VASCO licensed from SHIVA a generic security server. The resulting product, VACMan, enables Current VASCO technology and products to be inserted into virtually any organization that allows remote dial-in access to its computer networks.

In addition, Current VASCO has entered into an original equipment manufacturer agreement with Netscape Communications Corporation ("Netscape") to bundle Netscape technology and products with Current VASCO products. The first result is a new product - VACMan/LDAP - which allows installations to define user information, including all token information, into Netscape's Directory Server. Netscape is the first

vendor to offer a product that supports a newly adopted world wide standard for directory services. Current VASCO intends to offer a product that supports the same newly-adopted worldwide standard for directory services which will result in a globally distributed security database accessible by a number of applications requiring information about users.

#### CURRENT VASCO SECURITY PRODUCTS

Current VASCO's family of hardware products include time-synchronous response only, challenge/response and time-synchronous challenge/response user authentication token devices or security tokens. Through June 30, 1997, Current VASCO had sold over 1.8 million security tokens (AccessKey II, AuthentiCard and Digipass). In addition, Current VASCO recently began marketing a smartcard security token that uses the challenge/response mode and the X.509 certificate authentication standard. Current VASCO also designs, develops and markets encryption chips and encryption boards through a division called Cryptech. The primary customers of the Cryptech products are OEMs of telecommunications equipment that require real time encryption.

All Current VASCO's security tokens are used with its software authentication server, VACMan, to provide a complete identification, authentication, authorization and accounting security system. VACMan supports each of Current VASCO's security devices and permits users to centralize their security systems in a single server or network of servers. It is designed for small, medium and large enterprises and Internet service providers, and it provides a centralized and flexible solution for managing network access. VACMan is scaleable for large remote access systems and a single server can support numerous distributed network access servers.

Current VASCO also offers numerous additional products to extend the security services of VACMan/Server to platforms and/or applications that do not yet support the RADIUS protocol. Examples of such products are VACMan/Client NT, VACMan/Client Enterprise (Netscape Web server), VACMan/Client IIS (Microsoft Web Server), and VACMan/Client Solarias. In addition Current VASCO offers workstation software to enhance network connections when using advanced products like AccessKey II or VACMan/CryptaPak. These products have unique workstation requirements to generate a terminal flash pattern for AccessKey II and to communicate to a smartcard reader attached to the workstation in the case of VACMan/CryptaPak.

Current VASCO also provides a software development kit ("SDK") that can be used by other vendors or by clients to build RADIUS support into their products or applications. This SDK enables them to perform one integration project and gain support for all RADIUS compliant security servers. The SDKs are written in the C programming language and can be used in numerous operating system environments such as MVS, VMS, UNIX, Windows, NetWare and DOS. The SDKs enable Current VASCO's strategic partners to integrate Current VASCO's products into their own product offerings.

The following chart describes each of Current VASCO's principal products:

HARDWARE	FEATURES
AccessKey II	<ul style="list-style-type: none"> <li>- Time-synchronous, challenge/response token generates one-time password with each use by application of patented technology</li> <li>- Optical interface reads flashing pattern on computer screen from which token generates one-time password</li> <li>- Optional PIN protection feature</li> </ul>
AuthentiCard	<ul style="list-style-type: none"> <li>- Time-synchronous, challenge/response token generates one-time password with each use</li> <li>- Utilizes DES algorithm</li> <li>- Operates optically or numerically</li> <li>- PIN protection and token lock/unlock feature</li> <li>- Programmable user messages</li> </ul>

HARDWARE - - - - -	FEATURES - - - - -
Digipass	<ul style="list-style-type: none"> <li>- Time-synchronous, response only token generates one-time password</li> <li>- Utilizes DES algorithm</li> <li>- PIN protection feature</li> <li>- Digital signatures feature</li> <li>- Storage of multiple secret keys for up to 8 tokens/applications in one</li> </ul>
DES and RSA Microprocessors*	<ul style="list-style-type: none"> <li>- Incorporate DES or RSA algorithms</li> <li>- Cryptographic functionality</li> <li>- Potential uses include ATMs, wireless telephone networks, modems, fax machines, PCs, servers</li> </ul>
PC DES/RSA Card*	<ul style="list-style-type: none"> <li>- Printed circuit boards incorporating Current VASCO's DES/RSA microprocessor chips</li> <li>- Can be integrated into applications requiring encryption security or used as development and evaluation tool for DES/RSA microprocessor chips</li> <li>- Development package includes technical manuals, layouts and documented programming source code for DOS, Windows, Windows NT, OS/2 and SCO/UNIX.</li> </ul>
VACMan/CryptaPak (including smartcard)	<ul style="list-style-type: none"> <li>- Hardware and software package</li> <li>- Includes smartcard token, smartcard reader and enabling software</li> <li>- Provides challenge/response and X.509 authentication based identification and authentication.</li> </ul>
AccessKey III	<p>SCHEDULED FOR SHIPMENT BEFORE YEAR-END 1997</p> <ul style="list-style-type: none"> <li>- Multiple mode token capable of operating in time-synchronous response only, challenge/response, and time-synchronous challenge/response</li> <li>- Utilizes DES algorithm</li> <li>- Operates optically and/or numerically</li> <li>- PIN protection and token lock/unlock feature</li> <li>- Digital signature function</li> <li>- Storage of multiple secret keys for up to 3 tokens/applications in one</li> </ul>

SOFTWARE - - - - -	FEATURES - - - - -
VACMan Suite	<ul style="list-style-type: none"> <li>- Centralizes security services (authentication, authorization and accounting) into single set of security servers to manage network access</li> <li>- Supports all Current VASCO tokens</li> <li>- Bundled with Netscape servers</li> <li>- Open standards based, supports RADIUS and TACACS+ industry standard protocols and offers numerous additional RADIUS client products to extend the security services of VACMan/Server to a broad range of platforms</li> <li>- Utilizes either ODBC (Other Data Base Compatibility) compliant relational data bases for administration and reporting, or an LDAP (Lightweight Directory Access Protocol) compliant directory server</li> <li>- Scaleable for large remote access systems</li> <li>- Interoperability with a majority of remote access servers including SHIVA, Ascend Communications, Cisco Systems and US Robotics</li> </ul>
Internet AccessKey	<ul style="list-style-type: none"> <li>- In conjunction with Current VASCO tokens, limits access to proprietary Websites</li> <li>- Challenge/response authentication system</li> <li>- Winner of 1996 Sun Microsystems Java Cup International award for productivity tools</li> </ul>

- - - - -  
\* Not offered in the United States.

SOFTWARE	FEATURES
Point'n Crypt	<ul style="list-style-type: none"> <li>- Encryption software application</li> <li>- Resides on PC workstation</li> <li>- Encrypts and decrypts Windows files or folders</li> <li>- When used with Current VASCO's VACMan/CryptaPak, user's encryption key can be stored on the user's smartcard</li> </ul>

VASCO, AccessKey, VACMan Server and VACMan/CryptaPak are trademarks of Current VASCO, applications for which are pending in the United States. In addition, AuthentiCard and Digipass are trademarks registered in Belgium. This Prospectus also contains trademarks of other companies.

#### INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

Current VASCO relies on a combination of patent, copyright, trademark and trade secret laws, as well as employee and third-party non-disclosure agreements to protect its proprietary rights. In particular, Current VASCO holds several patents in the United States and a corresponding patent in certain European countries, which cover certain aspects of its technology. The majority of its patents cover Current VASCO's AccessKey II, AccessKey III (which will replace AccessKey II), Digipass and AuthentiCard tokens. The remaining terms of the U.S. patents are between six and nine years. Current VASCO believes these patents to be valuable property rights and relies on the strength of its patents and trade secret law to protect its intellectual property rights. To the extent that Current VASCO believes its patents are being infringed upon, it intends to vigorously assert its patent protection rights, including but not limited to, pursuing all available legal remedies.

While Current VASCO believes that its patents are material to its future success, there can be no assurance that Current VASCO's present or future patents, if any, will provide a competitive advantage. It also may be possible for others to develop products with similar or improved functionality that will not infringe upon Current VASCO's intellectual property rights. Furthermore, to the extent that Current VASCO believes that its proprietary rights are being violated, and regardless of its desire to do so, it may not have adequate financial resources to engage in litigation against the party or parties who may infringe on its proprietary technology. See "RISK FACTORS -- Factors Relating to Operations -- Proprietary Technology and Intellectual Property."

#### RESEARCH AND DEVELOPMENT

Current VASCO's research and development efforts are concentrated on product enhancement, new technology development and related new product introductions. Current VASCO employs 13 full-time engineers and, from time to time, independent engineering firms to conduct non-strategic R&D efforts on its behalf. For the fiscal years ended December 31, 1994, 1995 and 1996, Current VASCO expended \$211,000, \$242,000 and \$575,000, respectively, on R&D, representing approximately 7.8%, 6.5%, and 5.6% of consolidated revenues for 1994, 1995 and 1996, respectively. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

While management is committed to enhancing its current product offerings, and introducing new products, there can be no assurance that Current VASCO's R&D activities will be successful in this regard. Furthermore, there can be no assurance that Current VASCO will have the financial resources required to identify and develop new technologies and bring new products to market in a timely and cost effective manner, or that any such products will be commercially successful if and when they are introduced.

#### PRODUCTION

Current VASCO's security hardware products are manufactured by third parties pursuant to purchase orders issued by Current VASCO. Its hardware products are comprised primarily of commercially available electronic components which are purchased globally. Current VASCO's software products are controlled in-house by Current VASCO personnel and can be produced either in-house or by several outside sources in

North America and in Europe. At June 30, 1997, Current VASCO had firm purchase orders from customers for an aggregate of 120,800 AccessKey II, AuthenticCard and Digipass security token units, exclusive of the units shipped under the orders as of June 30, 1997.

With the exception of the AccessKey II token, Current VASCO's security tokens utilize commercially available programmable microprocessors, or chips. Current VASCO uses two microprocessors, made by Samsung and Epson, for the various hardware products produced other than the AccessKey II token. The Samsung microprocessors are purchased from Samsung Semiconductor in Belgium, and the Epson microprocessors are purchased from Alcom Electronics NV/SA, also located in Belgium. The microprocessors are the only components of Current VASCO's 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, Current VASCO believes having two sources reduces the overall risk.

AccessKey II uses a custom-designed and fabricated microprocessor which is currently available from a single source, Micronix Integrated Systems, in the United States. Current VASCO does not have a long-term contract with Micronix, but rather submits blanket purchase orders for the AccessKey II microprocessor. Current VASCO expects AccessKey II production to be reduced by the end of 1997 and be replaced by AccessKey III which will employ a widely available microprocessor.

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

Current VASCO purchases the majority of its product components and arranges for shipment to third parties for assembly and testing in accordance with design specifications. Current VASCO's three 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 that extends to January 21, 1999, with automatic one-year renewals and subject to termination on six months notice. Each of these companies assembles Current VASCO's 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 Current VASCO and periodic visits are made by Current VASCO personnel for purposes of quality assurance, assembly process review and supplier relations.

There can be no assurance that Current VASCO will not experience interruptions in the supply of either the component parts that are used in its 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 Current VASCO's business and results of operations could be adversely affected. See "RISK FACTORS -- Factors Relating to Operations -- Dependence on Single Source Suppliers."

#### 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. The industry is comprised of many companies offering hardware, software and services that range from simple locking mechanisms to sophisticated encryption technologies. Current VASCO believes that competition in this market is likely to intensify as a result of increasing demand for security products. Current VASCO's competition comes from a number of sources, including (i) software operating systems suppliers and application software vendors that incorporate a single-factor static password security system into their products, and (ii) token-based password generator vendors promoting response only and/or challenge/ response technology, such as ActivCard, Inc., AXENT Technologies, Inc. CRYPTOCARD, Inc., Leemah DataCom Security Corporation, Racal-Guardata, Inc., Secure Computing Corp., and Security Dynamics Technologies, Inc. ("SDTI").

In some cases, these vendors also support Current VASCO's products and those of its competitors. Current VASCO also may face competition in the future from these and other parties in the future that develop computer and network security products based upon approaches similar to or different from those employed by Current VASCO. There can be no assurance that the market for computer and network security products will not ultimately be dominated by approaches other than the approach marketed by Current VASCO.

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

Many of Current VASCO's present and potential competitors have significantly greater financial, technical, marketing, purchasing and other resources than Current VASCO, 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 Current VASCO's prospective customers. Accordingly, it is possible that new competitors or alliances may emerge and rapidly acquire significant market share. If this were to occur, the financial condition or results of operations of Current VASCO could be materially adversely effected. See "RISK FACTORS -- Factors Relating to Operations -- Competition."

Current VASCO's 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 Current VASCO 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 Current VASCO for market share.

#### SALES AND MARKETING

Current VASCO's computer and network security products are marketed primarily through an indirect sales channel and distribution network and, to a lesser extent, directly to end-users. Current VASCO markets its products primarily in North America and Europe through a combination of value-added resellers, original equipment manufacturers, independent distributors and direct sales efforts. A sales staff of 15 coordinates sales through the distribution network and makes direct sales calls either alone or with sales personnel of vendors of computer systems. The sales staff also provides product education seminars to sales personnel of vendors and distributors with whom Current VASCO has working relations and to potential end-users of Current VASCO's products.

In January of 1997, Current VASCO introduced the VASCO Advantage Reseller ("VAR") program. The goal of this program is to expand Current VASCO's marketing channels by engaging companies already proficient in reselling computer network products and security solutions to distribute Current VASCO's products. The graph below depicts the number of value added resellers, resellers, OEM's and distributors (collectively referred to as "Resellers") that resell Current VASCO's products.

Current VASCO works with these Resellers through its United States and European operating subsidiaries, VDSI and VDS NV/SA. VDSI, which is primarily responsible for North America, South America and Japan, started in 1997 with one Reseller. Since January 1, 1997, arrangements have been made with 24 additional Resellers, for a total of 25. VDS NV/SA, which is generally responsible for developing sales in the remainder of the world, had an existing base of 17 Resellers prior to the announcement of the VAR program. Since January 1, 1997, VDS NV/SA has engaged an additional 19 Resellers, for a total of 36.



Combined, VDSI and VDS NV/SA have established relationships with a total of 61 Resellers to date, against a target of 64 for year-end 1997.

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	US ACTUAL	EUROPE ACTUAL
JAN	1	17
FEB	1	20
MAR	1	23
APR	2	25
MAY	7	27
JUN	10	31
JUL	15	34
AUG	25	36

#### CUSTOMERS AND MARKETS

Customers for Current VASCO's security products include, to some extent, businesses that purchase products directly from Current VASCO for use by their employees, clients or vendors, but the majority are value-added resellers or distributors of related security products or services who in turn sell to other businesses.

To date, virtually all of Current VASCO's security products have been sold in Europe. Sales to one European distributor, Concord-Eracom Nederland BV, accounted for 64% and 43% of Current VASCO's consolidated revenues in 1995 and 1996, respectively. On a pro forma basis (i.e., including Lintel Security and Digipass sales for all of 1995 and 1996) this customer would have accounted for 31% and 21% of Current VASCO's consolidated revenues, respectively. On the same pro forma consolidated basis, taking into account Lintel Security and Digipass sales for the calendar year 1996, Rabo Bank and SE Banken each would have accounted for approximately 10% of Current VASCO's total revenues.

Current VASCO is aware of the risks associated with this degree of customer concentration and expects to further minimize its reliance on these customers in 1997 and beyond. There can be no assurance, however, that Current VASCO's efforts to minimize this risk will ultimately be successful or that Current VASCO can sustain comparable sales volume with these customers. Furthermore, the loss of these customers' business, or an inability to maintain reasonable profit margins on these sales, may have an adverse effect on Current VASCO. See "RISK FACTORS -- Factors Relating To Operations -- Dependence on Major Customers" and "-- Risks of International Operations."

#### EMPLOYEES

As of August 1, 1997, Current VASCO employed 38 full-time employees and 7 full-time consultants. Of these, 21 were located in North America and 24 were located in Europe. Of the 45 total, 15 were involved in sales, marketing and customer support, 16 in product production, research and development and 14 in administration.

## PROPERTY

Current VASCO's corporate offices and North American administrative, sales and marketing, research and development and support facilities are located in the United States in an office complex in Lombard, Illinois, a western suburb of Chicago. These facilities are leased through November 30, 1997, and consist of approximately 5,100 square feet. Current VASCO plans to move before October 1997 to leased quarters covering approximately 10,000 square feet located in Oak Brook Terrace, Illinois, a western suburb of Chicago. The term of the sublease for the Oak Brook Terrace office space runs from September 15, 1997 through November 15, 1999, and Current VASCO believes that the new facilities will be adequate for its present growth plans.

Current VASCO's European administrative, sales and marketing, research and development and support facilities are located in Belgium in an industrial park in a southwestern suburb of Brussels. These facilities consist of approximately 10,000 square feet of office space which are occupied under a lease expiring in July of 1998. Current VASCO believes that these facilities are adequate through the term of the current lease.

## LITIGATION

Current VASCO is not currently involved in any material litigation. However, Current VASCO has a product acceptance dispute with its principal customer involving the sale in 1995 of approximately \$315,000 of certain smartcard readers produced by Current VASCO in response to written specifications submitted by the customer. Current VASCO has tested the readers and believes the readers comply with the original specifications. Current VASCO, which continues to sell other of its products to this customer, believes that it has a good relationship with the customer and that it will be able to amicably resolve the dispute so that the ultimate outcome will not have a material adverse effect on the business or operating results of Current VASCO. The amount of the dispute has been fully provided for in Current VASCO's accompanying consolidated financial statements.

## MANAGEMENT

## DIRECTORS AND OFFICERS OF CURRENT VASCO AND KEY PERSONNEL OF ITS SUBSIDIARIES

The executive officers and directors of Current VASCO and key personnel of its subsidiaries, and their respective ages, as of August 1, 1997 are as follows:

## Directors and Officers of Current VASCO

NAME ----	AGE ---	POSITION -----
T. Kendall Hunt.....	54	Chief Executive Officer, President, Chairman of the Board and Director
Forrest D. Laidley.....	53	Secretary and Director(1)(2)
Robert E. Anderson.....	48	Director(1)(2)
Gerald Guice.....	56	Director(1)(2)
Michael A. Mulshine.....	57	Director(1)(2)
Gregory T. Apple.....	31	Vice President -- Finance and Administration

## Key Personnel of VDSI

NAME ----	AGE ---	POSITION -----
John C. Haggard.....	38	President and Chief Operating Officer
Richard M. Vaden, Jr.....	40	Vice President -- Business Development and Sales
Hyon C. Im.....	35	Vice President -- Research and Development

## Key Personnel of VDS NV/SA

NAME	AGE	POSITION
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Mario Houthooft.....	44	Managing Director(3)
Frank Hoornaert.....	36	Technical Manager
Jan Valcke.....	43	Direct Sales Manager

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(1) Member of the Audit Committee of Current VASCO's Board of Directors.

(2) Member of the Compensation Committee of Current VASCO's Board of Directors.

(3) Mr. Houthooft is not an employee of VDS NV/SA, but serves as an officer of VDS NV/SA and performs services pursuant to a consulting agreement with VDS NV/SA. See "-- Consulting Arrangements -- Mario Houthooft Consulting Agreement."

T. KENDALL "KEN" HUNT -- serves, since 1990, as a Director, the Chairman of the Board and President of Current VASCO and prior thereto served in similar capacities during certain periods from 1984 with Current VASCO's predecessors. Mr. Hunt also serves as Current VASCO's Chief Executive Officer. Prior to founding Current VASCO's Delaware predecessor in 1984, he was the President and CEO of Deltak, Inc., an international technical services company which specialized in the creation and distribution of information programs, training, and job support and productivity software tools. Prior to joining Deltak, he was President of Intel Corporation's Computer System Division which sold, leased and serviced IBM products worldwide. Prior to Intel, he had positions with Proprietary Systems Corporation and IBM. Mr. Hunt received his B.A. from the University of Miami (Florida) and his M.B.A. from Pepperdine University.

FORREST D. LAIDLEY -- serves, since 1990, as Director, Secretary and General Counsel of Current VASCO. He has been involved with Current VASCO and its predecessors for certain periods in these capacities since 1984. He has been a partner in the law firm of Laidley & Porter in Libertyville, Illinois since 1985. He serves on the Advisory Council on Main Street Libertyville and is a director of Harris Bank Libertyville, an Illinois chartered banking institution, and Carmel High School, Mundelein, Illinois. Mr. Laidley received his B.A. degree in History from Yale University and his juris doctorate degree from DePaul University.

ROBERT E. ANDERSON -- serves, since 1990, as a Director of Current VASCO and as Chairman of the Audit and Compensation Committees. Mr. Anderson was involved with Current VASCO and its predecessors since 1984 as a consultant and served as Executive Vice President and Chief Financial Officer of one of Current VASCO's predecessors between 1987 and 1989. Since 1994 he has been an independent consultant. From 1990 to 1994 he served as President, Chief Executive Officer and a Director of The Bruss Company, a Chicago-based processor and international distributor of high-value food products to the food service industry. Between 1989 and 1990 he served as Chief Operating Officer for Comfab Technologies, Inc., a Chicago area telecommunications industry manufacturer. Mr. Anderson received his B.S. degree in Accounting from the University of Bridgeport.

GERALD GUICE -- serves, since 1990, as a Director of Current VASCO. From 1990 until the present, Mr. Guice has been Managing Director of INTEGRAL (GH) LTD, a Ghana-based producer and exporter of agricultural products, serving the U.S. and European markets. Previously, he was a founder and former President of Sentinel Computer Services, Inc. (now Sentinel Technologies, Inc.), a large Midwest regional computer hardware maintenance provider. Prior to Sentinel Computer Services, Inc., he held senior management and executive positions with several computer industry companies, including Control Data and IBM.

MICHAEL A. MULSHINE -- serves, since 1992, as a Director of Current VASCO. He is, and since 1977 has been, a principal of Osprey Partners, a management consulting firm. Since 1985 he has been a Director and Secretary of Scangraphics, Inc. (NASDAQ: SCNG), a provider of Geographic Information Systems database management software products and a leader in scanning and image processing technology.

Mr. Mulshine has served as a Director of Environmental Tectonics Corporation (AMEX:ETC), since 1994. Additionally, Mr. Mulshine is a Director of Intertec, Inc., an import/export trading company, and a Director of Inresco Inc., a manufacturer of circuit protection devices. Mr. Mulshine received his B.S. degree in Electrical Engineering from Newark College of Engineering.

GREGORY T. APPLE -- serves, since 1996, as Vice President of Finance and Administration of Current VASCO. His responsibilities encompass all accounting and administrative aspects of Current VASCO and its subsidiaries. Before joining Current VASCO in 1996, he was employed as Controller and Vice President of Finance of a privately held software company, Napersoft, Inc., from 1993 until 1996, with essentially similar responsibilities. From 1988 until joining Napersoft, he was an auditor for KPMG Peat Marwick LLP. Mr. Apple received his B.S. degree in Financial Accounting -- Business Information Systems from Illinois State University and is a Certified Public Accountant.

JOHN C. HAGGARD -- serves, since 1994, as President and Chief Operating Officer of VDSI. Prior to joining VDSI, Mr. Haggard was Assistant Vice President of Research and Development and Technical Owner for Computer Associates' Security Control and Audit ("SCA") division from 1988. Prior to Computer Associates Mr. Haggard was employed by SKK, Inc. which developed ACF2, an IBM mainframe data security product from 1982. During his 15 years in the data security industry Mr. Haggard has specialized in user authentication technologies ranging from biometric recognition to a variety of complex encryption schemes, including DES, RSA, and Kerberos. Mr. Haggard received his B.S. degree in Computer Science from Northern Illinois University.

RICHARD M. VADEN, JR. -- serves, since 1995, as VDSI's Vice President of Business Development and Sales. He has over twenty-one years experience in the data processing field. The past fifteen years have been spent specializing in the security of large main-frame, mid-range and micro systems. Prior to joining VDSI in 1995, Mr. Vaden spent eight years with Computer Associates International, Inc. ("CA") in various management positions. While with the Federal Division of CA, Mr. Vaden held the positions of Product Technical Manager, Security Products, Technical Director, Business Development, and Technical Director.

HYON C. IM -- serves, since 1996, as Vice President of Research and Development for VDSI. His primary objective is to orchestrate the research, design, and development efforts of his engineering staff. Prior to joining VDSI in 1996, Mr. Im was Senior System Software Developer at Computer Associates since 1988. During that time, he has been involved in the development of multi-platform security and client/server products both at application and operating system kernel levels. Mr. Im received his B.S. in Computer Science from Northern Illinois University.

MARIO HOUTHOOFT -- serves, since January 1, 1997, as Managing Director of VDS NV/SA pursuant to a consulting agreement. From 1992 until joining VDS NV/SA, he served in various management positions with Lintel Security. Prior thereto, he was with Cryptech Company from 1986 where he served in various positions. Mr. Houthoof received his degree in electronic engineering from the University of Ghent, Ghent, Belgium.

FRANK HOORNAERT -- serves, since 1996, as Technical Manager of VDS NV/SA. From 1993 until joining VDS NV/SA, he served as Technical Manager, Crypto Products of Lintel Security. Prior thereto, he was employed from 1991 as an engineer with Philips Industrial Company. Mr. Hoornaert received his degree in civil engineering from the University of Leuven, Leuven, Belgium.

JAN VALCKE -- serves, since 1996, as Direct Sales Manager of VDS NV/SA. From 1992 until joining VDS NV/SA, he served as Vice President of Sales and Marketing of Digipass.

Term of Office of Directors and Officers. Each Director holds office for a one-year term and until his respective successor has been duly elected and qualified. Executive officers of Current VASCO are elected by and serve at the discretion of the Board of Directors of Current VASCO.

#### BOARD COMMITTEES

The Board of Directors of Current VASCO currently maintains two standing committees, the Audit Committee and the Compensation Committee. The Audit Committee, currently comprised of directors

Robert E. Anderson, Forrest D. Laidley, Gerald Guice and Michael A. Mulshine, recommends to the Board of Directors the engagement of Current VASCO's independent accountants, reviews with such accountants the plan, scope and results of their audit of the consolidated financial statements and reviews the independence of such accountants. The Compensation Committee, currently comprised of the same directors as the Audit Committee, reviews and makes recommendations to the Board of Directors regarding all forms of compensation to be provided to the executive officers and directors of, and consultants to, Current VASCO and its subsidiaries.

#### COMPENSATION OF DIRECTORS

Directors of Current VASCO are reimbursed for expenses incurred in connection with their attendance at periodic Board meetings. Directors receive no cash compensation for their services; however, non-employee directors are eligible to receive stock option grants from time to time. In 1996 the non-employee directors of Current VASCO, Messrs. Laidley, Anderson, Guice and Mulshine, each received options to purchase 10,000 shares of Current VASCO's Common Stock, at an exercise price of \$4.25 per share, pursuant to Current VASCO's Stock Option Program.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Current VASCO's Compensation Committee is comprised of Messrs. Anderson, Guice, Laidley and Mulshine. Mr. Laidley, although not an employee, served as Current VASCO's Secretary during 1996 and Mr. Anderson served as Current VASCO's Chief Financial Officer and Executive Vice President from 1987 through 1989 and served Current VASCO as a consultant from January 1996 through March 1997.

Forrest D. Laidley serves as Director and Secretary of Current VASCO. Mr. Laidley is also a partner in the law firm of Laidley & Porter which has performed various legal services for Current VASCO since its inception. Mr. Laidley and his partners have made equity investments in Current VASCO from time to time through various private placements and are currently stockholders and warrant holders. On March 29, 1996, Mr. Laidley was issued warrants, expiring October 31, 2000, to purchase 5,883 shares of Current VASCO Common Stock at an exercise price of \$6.00 per share, as compensation for services rendered to Current VASCO in connection with financing activities. See "PRINCIPAL STOCKHOLDERS." Mr. Laidley's firm is currently performing legal services for Current VASCO and is expected to continue to do so. Mr. Laidley's services currently are and, except as noted above, during 1996 were on a noncompensation basis, although his firm is compensated for services rendered to Current VASCO by attorneys other than Mr. Laidley. For 1996 services, Mr. Laidley's firm was paid approximately \$57,000 (\$47,000 of which was paid in 1997).

On June 2, 1992 Current VASCO entered into an Investment Banking and Management Consulting Agreement with Osprey Partners ("Osprey"), pursuant to which, among other things, Current VASCO agreed to appoint Mr. Mulshine as a member of Current VASCO's Board of Directors. Michael A. Mulshine, a Director of Current VASCO, is a principal of Osprey. In 1993 and 1994 Osprey provided services to Current VASCO in connection with obtaining financing for Current VASCO and, pursuant to the Agreement, Osprey was paid fees aggregating \$60,000 during 1993, 1994 and 1995. The Agreement also granted Osprey a warrant to purchase 400,000 shares of Current VASCO's common stock at a price of \$.25 per share. On January 20, 1996 Current VASCO exercised its election to terminate the Agreement and deemed that 200,000 of the 400,000 shares of Current VASCO Common Stock underlying the warrant were earned and vested as of that date. Osprey may exercise its right to purchase such 200,000 shares of common stock at \$.25 per share anytime before June 1, 1999.

#### EXECUTIVE COMPENSATION

The following table sets forth all compensation awarded to, earned by, or paid for services rendered to Current VASCO in all capacities during the year ended December 31, 1996 for Current VASCO's Chief Executive Officer and President and VDSI's President and Chief Operating Officer, who are the only

executive officers of Current VASCO and its subsidiaries whose salary and bonus for such year exceeded \$100,000 (collectively, Messrs. Hunt and Haggard are referred to herein as the "Named Executive Officers").

SUMMARY COMPENSATION TABLE(1)

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS	ALL OTHER COMPENSATION(\$)
	YEAR	SALARY(\$)	BONUS(\$)	SECURITIES UNDERLYING OPTIONS/SARS(#)	
T. Kendall Hunt..... President, Chairman of the Board and Director of Current VASCO	1996	116,457	-0-	-0-	-0-
John C. Haggard..... President and Chief Operating Officer of VDSI	1996	105,750	-0-	40,000	-0-

(1) Current VASCO was not subject to the reporting requirements of the Exchange Act in 1995 or 1994. Accordingly, information with respect to 1995 or 1994 is not required to be disclosed.

STOCK OPTION PROGRAM AND INCENTIVE PLAN

Stock Option Program. Current VASCO has granted Current VASCO Stock Options designed to serve as a performance incentive for employees, directors, consultants and other key persons performing services for Current VASCO to encourage such persons to acquire or increase a proprietary interest in the success of Current VASCO (the "Option Program"). The Option Program is administered by the Compensation Committee.

The Option Program permits the grant of Current VASCO Stock Options to employees of Current VASCO and its subsidiaries. All Current VASCO Stock Options granted to employees are for a period of ten years, are granted at a price equal to the fair market value of Current VASCO Common Stock on the date of the grant and are vested 25% at the time of grant and 25% on each subsequent anniversary of the grant. Current VASCO Stock Options are therefore fully vested on the third anniversary of the date of grant.

The Option Program further permits the grant of Current VASCO Stock Options to directors, consultants and other key persons. All Current VASCO Stock Options granted to non-employees are for a period of ten years, are granted at a price equal to the fair market value of the Current VASCO 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.

Executive Incentive Compensation Plan. In February of 1995 the Compensation Committee adopted the Executive Incentive Compensation Plan ("Incentive Plan") to become effective for the year ended December 31, 1994. The Incentive Plan covers Current VASCO's eligible executives and key employees (each a "participant"), with such eligibility determined at the end of each year at the sole discretion of the Compensation Committee. Awards are based on prior year operating results, such results being subject to audit by Current VASCO's independent accountants, and are distributed following the completion of such audit.

The Incentive Plan allows for the creation of a cash pool ("Pool") in the amount of 10% of Current VASCO's annual pre-tax earnings. Fifty percent (50%) of the Pool is awarded to the participants based on each participant's earned salary as a percentage of all participants' salaries. The remaining fifty percent (50%) is awarded at the sole discretion of the Compensation Committee.

Awards, in whole or in part, may be offered in the form of shares of Current VASCO's Common Stock or cash at the sole discretion of the Compensation Committee and the Compensation Committee also may elect

to delegate the choice of cash or stock to the individual participants. To the extent that shares of stock are awarded in lieu of cash, the number of shares is based on the market value of Current VASCO Common Stock on the date the award is determined, and are taxable to the participant in the year the award is granted. Such shares are restricted and cannot be sold or transferred except pursuant to registration under the Securities Act or an exemption from such registration.

Option Grants During 1996. The following table sets forth all options granted to the Named Executive Officers during 1996.

OPTION GRANTS IN LAST FISCAL YEAR

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE (\$/SH)	EXPIRATION DATE(1)	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK	
					PRICE APPRECIATION FOR OPTION TERM(2)	
					5%(\$)	10%(\$)
T. Kendall Hunt.....	--	--	--	--	--	--
John C. Haggard.....	40,000	14.8%	4.25	04/15/06	107,100	270,300

(1) The options vest as follows: 25% at the time of the grant, and 25% on each subsequent anniversary of the grant.

(2) The potential realizable value amounts shown illustrate the values that might be realized upon exercise immediately prior to the expiration of their term using five percent and ten percent appreciation rates as required to be used in this table by the Securities and Exchange Commission, compounded annually, and are not intended to forecast possible future appreciation, if any, of Current VASCO's stock price. Additionally, these values do not take into consideration the provisions of the options providing for nontransferability or termination of the options following termination of employment. Therefore, the actual values realized may be greater or less than the potential realizable values set forth in the table.

Year-End Option Values. The following table sets forth the aggregate value as of December 31, 1996 of unexercised stock options held by the Named Executive Officers. The Named Executive Officers did not exercise any stock options during 1996 and the relevant columns have therefore been omitted.

YEAR-END OPTION VALUES

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE(1) OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END (\$)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
T. Kendall Hunt.....	--	--	--	--
John C. Haggard.....	88,750	108,750	250,031.25	250,031.25

(1) Market value of underlying securities is based on the average of the bid and asked price per share (\$3.375) of Current VASCO Common Stock as reported on the OTC BB on December 31, 1996 minus the exercise price.

(2) Options vest as follows: 25% at the time of the grant, and 25% on each subsequent anniversary of the grant. Options indicated as exercisable are those options which were vested as of December 31, 1996. All options which had not vested as of December 31, 1996 are indicated to be unexercisable.

CONSULTING ARRANGEMENTS

Mario Houthoof Consulting Agreement. Mr. Houthoof was one of the two principals of Lintel NV, the company that sold certain assets relating to data security products to Lintel Security, which was then acquired by Current VASCO. Mr. Houthoof's services as Managing Director of VDS NV/SA are rendered pursuant

to a management agreement by and between VDS NV/SA and LINK BVBA, the company that employs Mr. Houthoof. The management agreement has an indefinite term, although it is terminable by either party upon six months notice, or without prior notice upon payment of a specified amount. Mr. Houthoof is to devote at least forty-five hours per week to his VDS NV/SA duties pursuant to the agreement, which also contains confidentiality obligations and precludes Mr. Houthoof from soliciting VDS NV/SA employees or engaging in competing businesses during the term of the agreement. The agreement further provides that Mr. Houthoof will not render services to a competitor or start a competing business in the Benelux countries (Belgium, the Netherlands and Luxembourg) for a one month period following termination of the agreement. In addition to these restrictions, Mr. Houthoof is subject to a covenant not to compete contained in the Intel Security acquisition agreements pursuant to which Mr. Houthoof agreed not to compete, directly or indirectly, with Current VASCO (or any of its affiliates) in the manufacture and sale of computer security products through December 31, 2001.

Robert Anderson Consulting Agreement. From January 1996 until March 1997, pursuant to an oral arrangement, Robert Anderson served as a consultant to Current VASCO. Pursuant to this arrangement, Mr. Anderson was compensated in the amount of \$50,000 in 1996 and \$15,000 in 1997. The oral arrangement between Current VASCO and Mr. Anderson called for compensation in the amount of \$5,000 per month, and is no longer in effect.

#### CERTAIN TRANSACTIONS

Loans from Principal Stockholder. Since its inception, Current VASCO and its predecessors have relied from time to time on T. Kendall Hunt, Current VASCO's President and Chairman of the Board, to provide various forms of working capital. Throughout 1994 and 1995 Current VASCO was indebted to Mr. Hunt for borrowed money. In 1994 the balance owing to Mr. Hunt was \$150,000 which was liquidated in a refinancing as described below. Subsequent to the refinancing of this \$150,000 note, Mr. Hunt loaned Current VASCO an additional \$60,000 which remained outstanding at December 31, 1994. In 1995 Mr. Hunt made additional loans of \$130,000 to Current VASCO. The aggregate principal amount of the outstanding loans due to Mr. Hunt, \$190,000, remained outstanding at December 31, 1995. All notes evidencing such borrowing have been interest bearing with interest payable annually at the rate of prime plus 1%. Current VASCO made all interest payments on a timely basis and the notes, if not repaid, were extended at maturity. In January 1996 Current VASCO paid Mr. Hunt \$100,000 and reduced its note obligation by an equal amount. Current VASCO paid Mr. Hunt the remaining balance, \$90,000 plus accrued interest, during 1996.

In September 1994 Mr. Hunt surrendered a Current VASCO note in the principal amount of \$150,000 in exchange for 1,000 shares of Current VASCO Series B Preferred Stock and 250,000 shares of Current VASCO Common Stock. Mr. Hunt has committed not to convert his 1,000 shares of Current VASCO Series B Preferred Stock into Current VASCO Common Stock prior to September 16, 1997.

Pledge of Common Stock by Principal Stockholder. In August 1997, VDSE completed the restructuring of an existing obligation of \$3.4 million which was incurred in connection with the acquisition of Digipass and was to have matured in December 1997. In the restructuring, Banque Paribas Belgique S.A., which had issued a guarantee of the obligation, paid the obligation and received a \$3.4 million convertible note due 2002 from VDSE. As part of the restructuring, Mr. Hunt entered into a pledge agreement with Banque Paribas Belgique S.A. pursuant to which he pledged, as collateral for the VDSE convertible note, 1,416,666 of his shares of Current VASCO Common Stock, which number of shares is subject to adjustment based on the market value of the shares.

#### CURRENT VASCO EQUITY EQUIVALENT SECURITIES

In connection with the Exchange Offer, New VASCO is offering to exchange for all outstanding Current VASCO Stock Options, Current VASCO Conversion Options and Current VASCO Warrants, together, in each case, with a release of any and all Associated Corporate Matter Claims, New VASCO Stock Options, New VASCO Conversion Options, and New VASCO Warrants with substantially the same terms and conditions. See "THE EXCHANGE OFFER -- Terms of the Exchange Offer" and "DESCRIPTION OF CAPITAL STOCK OF NEW VASCO -- Stock Options, Warrants and Convertible Notes."



## CURRENT VASCO STOCK OPTIONS

Current VASCO has granted Current VASCO Stock Options designed to serve as a performance incentive for employees, directors, consultants and other key persons performing services for Current VASCO to encourage such persons to acquire or increase a proprietary interest in the success of Current VASCO (the "Option Program"). The Option Program is administered by the Compensation Committee.

The Option Program permits the grant of Current VASCO Stock Options to employees of Current VASCO and its subsidiaries. All Current VASCO Stock Options granted to employees are for a period of ten years, are granted at a price equal to the fair market value of Current VASCO Common Stock on the date of the grant and are vested 25% at the time of grant and 25% on each subsequent anniversary of the grant. Current VASCO Stock Options are therefore fully vested on the third anniversary of the date of grant.

The Option Program further permits the grant of Current VASCO Stock Options to directors, consultants and other key persons. All Current VASCO Stock Options granted to non-employees are for a period of ten years, are granted at a price equal to the fair market value of the Current VASCO 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.

As of August 31, 1997 there were 1,973,132 Current VASCO Stock Options outstanding of which 1,476,254 were exercisable at prices between \$.125 and \$6.00 per share.

## CURRENT VASCO WARRANTS

From time to time Current VASCO has issued Current VASCO Warrants to purchase shares of Current VASCO Common Stock at various exercise prices. As of August 31, 1997 there were Current VASCO Warrants to purchase 1,056,922 shares of Current VASCO Common Stock outstanding with exercise prices ranging from \$0.25 to \$10.00. Current VASCO Warrants for an aggregate of 280,761 shares of Current VASCO Common Stock are callable at the respective exercise prices of such Current VASCO Warrants, which range from \$5.19 to \$6.00, in the event of a public offering of Current VASCO Common Stock. Most Current VASCO Warrants contain registration rights provisions.

## CONVERTIBLE NOTES AND CURRENT VASCO CONVERSION OPTIONS

Generale Bank. Current VASCO presently has outstanding five notes which are held by Generale Bank, a bank based in Belgium, and represent indebtedness in the aggregate principal amount of \$2.5 million. Each of these notes is in the principal amount of \$500,000, bears interest, payable quarterly, at the rate of 3.25% per annum, and matures on September 30, 1998, at which time 116% of the principal amount becomes due and payable. In the event Current VASCO (or New VASCO) completes a public offering prior to September 30, 1998, the holder of a note has the option within seven days after the completion of a public offering to require the note to be repaid at 100% of the principal amount thereof in cash or in common shares (valued at the public offering price), at the holder's election, together with all accrued and unpaid interest to the date of repayment plus additional special interest payable in cash as follows: \$55,556 if repayment is on or before December 31, 1997; \$88,235 if repayment is between January 1, 1998 and March 31, 1998, both dates inclusive; and \$125,000 if repayment is between April 1, 1998 and September 30, 1998, both dates inclusive. In the event that the holder of the note does not elect within seven days after completion of the public offering to require the note to be repaid, the holder may at any time thereafter (until the close of business on the September 30, 1998 maturity date) require the principal amount of the note to be repaid in shares of common stock (valued at the public offering price) plus accrued and unpaid interest to the date of repayment (but no additional special interest shall be payable). If the notes have not been repaid prior to the September 30, 1998 maturity date, and Current VASCO (or New VASCO) fails to repay the note prior to November 1, 1998, then on and from November 1, 1998 (but before payment of the note), in the event a public offering has not been completed the bank may convert the principal amount into shares of Current VASCO Common Stock (i) at a conversion price equal to a historical 20 day trading price in the United States if the stock is listed or quoted on the NASDAQ, EASDAQ or another national U.S. stock exchange, plus the payment of \$250,000 in special interest, payable in cash or shares at the option of the bank, or (ii) if the shares are not so listed, at a conversion price of \$1.00. These five notes also expressly provide that they are convertible into shares of New VASCO Common Stock, upon the same terms and conditions, in the event the Exchange Offer is

consummated. These notes are not prepayable except under limited circumstances. Current VASCO and New VASCO have entered into an agreement providing for New VASCO's assumption, upon consummation of the Exchange Offer, of Current VASCO's obligations under the agreement pursuant to which the five convertible notes were issued.

Banque Paribas Belgique S.A. Effective August, 1997, VDSE entered into a convertible loan agreement with Banque Paribas Belgique S.A. in the principal amount of \$3.4 million. The principal amount is convertible, at the option of the lender, into shares of Current VASCO Common Stock or, if the Exchange Offer is consummated, into shares of New VASCO Common Stock. This loan bears interest at the rate of 3.25%, payable annually, and matures on September 30, 2002. The loan is convertible, commencing on the earlier of January 1, 1999 or the date of a public offering of Current VASCO (or New VASCO) shares on the EASDAQ and/or NASDAQ and terminating on August 31, 2002, at a conversion price equal to the per share public offering price, provided, however, that if no such offering has occurred prior to January 1, 1999, and the loan is converted after such date but prior to a public offering, the conversion price is the average closing market price for shares of Current VASCO Common Stock on the OTC BB for the 20 trading days prior to the date of the notice of conversion, less 10%. In the event a public offering is completed, the lender may at its option (by written notice within seven days after receipt by Current VASCO (or New VASCO) of proceeds of the public offering) require the principal amount of the loan to be repaid in cash, in which case additional special interest is payable as follows: \$340,000 if repayment is on or before June 30, 1998, \$510,000 if repayment is between July 1, 1998 and December 31, 1998 (both dates inclusive), and \$680,000 if repayment is on January 1, 1999 or later.

Other Notes. In addition to the convertible notes described above, Current VASCO has issued three other notes. These notes provide that they are convertible into shares of Current VASCO Common Stock but do not provide for conversion into shares of New VASCO Common Stock. However, Current VASCO has consented, pursuant to an agreement with New VASCO, to amend the notes in connection with the Exchange Offer to provide for the right to convert the notes into shares of New VASCO Common Stock, or in other words, to provide for the exchange of New VASCO Conversion Options for the Current VASCO Conversion Options contained in such notes. These amendments are set forth in the form of the New VASCO Convertible Note Agreement.

The first convertible note is in the aggregate principal amount of \$5 million, matures on May 29, 2001, and bears interest at an annual rate of 9%. Interest on the note is payable quarterly, and at the option of the holder interest payments are to be made either in cash or in a number of shares of Current VASCO Common Stock determined on the basis of an average market price. The Current VASCO Conversion Option of this note provides that the note is convertible in whole or in part at any time, at the option of the holder, into shares of Current VASCO Common Stock at a conversion price of \$12.00 per share. The note by its terms is not prepayable; however, Current VASCO and the holder of this note have amended the note to provide that, if during the term of the note Current VASCO receives funds of \$30,000,000 or more from a public offering of its common stock, the holder shall have the right to require Current VASCO to pay in cash all amounts due and owing pursuant to the note within 30 days of receipt by Current VASCO of notice from the holder of the exercise of this right.

The remaining two notes are each in the aggregate principal amount of \$373,750, and Current VASCO has the right to prepay each of these notes at any time. Pursuant to the prepayment option, the principal amount of one of these two notes has been reduced by \$33,750. The other terms of these two notes are identical. The notes mature on May 30, 1998, bear interest at an annual rate of 8%, payable quarterly, at the option of the holder, in cash or in a number of shares of Current VASCO Common Stock determined on the basis of an average market price. The holder of each of the notes has the right to convert the note in whole or in part at any time into shares of Current VASCO Common Stock at a price of \$7.00 per share. The shares of Current VASCO Common Stock issuable upon conversion of each of these notes are subject to an agreement dated March 1, 1996, which provides for the right under certain circumstances to have the shares into which these notes are convertible registered under the Securities Act.

## PRINCIPAL STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of Current VASCO's Common Stock as of August 31, 1997 for (i) each person or entity who is known to Current VASCO to beneficially own five percent or more of Current VASCO's Common Stock, (ii) each of Current VASCO's directors, (iii) each of the Named Executive Officers, and (iv) all directors and executive officers as a group. The persons named in the table have sole voting and investment power with respect to all shares of Current VASCO shown as beneficially owned by them unless otherwise indicated. For purposes of the table, a person or group of persons is deemed to have beneficial ownership of any shares as of a given date which such person has the right to acquire within 60 days after such date.

Each director and Named Executive Officer listed below has stated his intention to exchange his Current VASCO Securities for New VASCO Securities in the Exchange Offer. Accordingly, if the Exchange Offer is consummated and the individual's securities are exchanged, the individual will beneficially own the number of shares of each class of New VASCO capital stock equal to the number of shares of each class of Current VASCO capital stock set forth below. However, the percentage such shares will represent of the total number of shares of each class of New VASCO capital stock outstanding after consummation of the Exchange Offer will be greater if less than 100% of the issued and outstanding shares of each class of Current VASCO capital stock are exchanged pursuant to the Exchange Offer.

NAME AND ADDRESS OF BENEFICIAL OWNER -----	CLASS OF STOCK -----	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1) -----	PERCENT OF CLASS -----
Directors and Named Executive Officers			
T. Kendall Hunt..... 1919 S. Highland Avenue Suite 118-C Lombard, Illinois 60148	Common Preferred B	10,201,766(2) 1,000	52.26% 1.11%
Forrest D. Laidley..... 185 Milwaukee Avenue Suite 240 Libertyville, Illinois 60069	Common	592,403(3)	3.03%
Robert E. Anderson..... 831 West North Street Hinsdale, Illinois 60521	Common	665,342(4)	3.27%
Gerald Guice..... House Number 91 Achimota Cantonments Rd. P.O. Box 10219 Accra-North Ghana, West Africa	Common	1,418,333(5)	7.27%
Michael A. Mulshine..... 2517 Route 35, Suite D-201 Manasquan, New Jersey 08736	Common	235,000(6)	1.20%
John C. Haggard..... 1919 S. Highland Avenue Suite 118-C Lombard, Illinois 60148	Common	200,950(7)	1.03%
All Executive Officers and Directors as a Group (8 persons).....	Common	13,849,542(8)	65.73%

NAME AND ADDRESS OF BENEFICIAL OWNER -----	CLASS OF STOCK -----	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1) -----	PERCENT OF CLASS -----
Other 5% Stockholders KYOTO Securities, Ltd..... 1800 Avenue, McGill College Suite 2440 Montreal, Quebec H3A-3J6	Common	1,341,355(9)	6.70%
Barbara J. Hunt..... 11735 Briarwood Court Burr Ridge, Illinois 60525	Common	1,111,300	5.72%

(1) The number of shares beneficially owned by each director and executive officer is determined under rules promulgated by the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days after August 31, 1997 through the exercise of any stock option or other right. The inclusion herein of such shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of such shares. Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares such power with his or her spouse) with respect to all shares of capital stock listed as owned by such person or entity.

(2) Includes 31,250 shares underlying Current VASCO Stock Options held by Mr. Hunt exercisable within 60 days of August 31, 1997, 67,179 shares into which Mr. Hunt's 1,000 shares of Current VASCO Series B Preferred Stock are convertible as of August 31, 1997, and 1,111,300 shares held by Barbara J. Hunt, Mr. Hunt's spouse. Mr. Hunt disclaims beneficial ownership of any portion of his spouse's holdings. Mr. Hunt also holds 1 share of capital stock in each of VDSE and VDS NV/SA, in each case representing less than 1% of the shares of capital stock of such company.

(3) Includes 125,000 shares underlying Current VASCO Stock Options exercisable within 60 days of August 31, 1997, 5,883 shares underlying warrants exercisable within 60 days of August 31, 1997 and 250,000 shares held by Mr. Laidley and his spouse as joint tenants.

(4) Includes 609,507 shares underlying Current VASCO Stock Options exercisable within 60 days of August 31, 1997.

(5) Includes 95,000 shares underlying Current VASCO Stock Options exercisable within 60 days of August 31, 1997.

(6) Includes 35,000 shares underlying Current VASCO Stock Options held by Mr. Mulshine which are exercisable within 60 days of August 31, 1997, and 200,000 shares underlying Current VASCO Warrants exercisable within 60 days of August 31, 1997 granted to Osprey Partners, a management consulting firm in which Mr. Mulshine is a principal, in connection with certain investment banking activities undertaken on behalf of Current VASCO. Mr. Mulshine disclaims beneficial ownership of the shares underlying the warrants held by Osprey Partners except to the extent of his proportionate equity interest in the firm. See "Certain Relationships and Related Transactions."

(7) Includes 148,125 shares underlying Current VASCO Stock Options exercisable within 60 days of August 31, 1997.

(8) Includes 1,163,882 shares underlying Current VASCO Stock Options, 368,383 shares underlying Current VASCO Warrants, and 115,930 shares into which convertible notes and shares of Current VASCO Series B Preferred Stock are exercisable within 60 days of August 31, 1997, including those referred to in footnotes (2) through (7) above, as well as the shares held by Mr. Hunt's spouse.

(9) Includes 166,943 shares underlying Current VASCO Warrants exercisable within 60 days of August 31, 1997, and 416,667 shares into which a convertible note is exercisable within 60 days of August 31, 1997.

## CERTAIN INFORMATION CONCERNING NEW VASCO

## ORGANIZATION OF NEW VASCO

New VASCO was incorporated in Delaware on July 15, 1997. New VASCO was organized by representatives of Current VASCO to effect the Exchange Offer, which if consummated would result in New VASCO becoming a holding company for Current VASCO and its subsidiaries. Since New VASCO was organized for the purpose of effecting the Exchange Offer, New VASCO has not conducted any business and has only nominal assets. See "THE REORGANIZATION." If the Reorganization is completed, New VASCO presently intends to continue the business of Current VASCO. See "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Business."

The Certificate of Incorporation of New VASCO, as amended, is substantially the same as the Restated and Amended Certificate of Incorporation of Current VASCO, as amended, with four exceptions: (i) New VASCO's Certificate of Incorporation, as amended, authorizes the issuance of 75,000,000 shares of common stock (as opposed to 50,000,000 shares of common authorized in Current VASCO's Restated and Amended Certificate of Incorporation, as amended), (ii) general voting rights have been added to the certificate of designation of the New VASCO Series B Preferred Stock to be issued by New VASCO in exchange for the issued and outstanding shares of the Current VASCO Series B Preferred Stock that are tendered pursuant to the Exchange Offer, (iii) the New VASCO Certificate of Incorporation, as amended, does not designate a series of preferred stock comparable to Current VASCO Series A Preferred Stock, since there are no such shares of Current VASCO presently outstanding, and (iv) New VASCO's Certificate of Incorporation, as amended, does not contain a general requirement that all dividends on preferred stock be paid before payment of dividends on common stock, which deletion will permit the creation of a class or series of preferred stock that could participate with common stock in dividend payments. See "REORGANIZATION OF CURRENT VASCO -- Differences in Capital Stock and Rights of Stockholders" and "Federal Income Tax Consequences." The certificates of incorporation of Current VASCO and New VASCO are otherwise substantially the same, except for certain clarifying and conforming changes and certain changes included to reflect current Delaware law. New VASCO's bylaws are the same as those of Current VASCO. See "COMPARISON OF STOCKHOLDER RIGHTS."

If the Exchange Offer is consummated, New VASCO's assets will immediately thereafter consist principally of the number of Current VASCO Shares tendered pursuant to the Exchange Offer. As a result, upon consummation of the Exchange Offer and during the period New VASCO's activities are solely those of a holding company, New VASCO will be dependent for its income, if any, on dividends received from its subsidiaries, including Current VASCO, as well as from interest on any loans New VASCO might make to its subsidiaries. If the Exchange Offer is not consummated, New VASCO will be dissolved. See "THE REORGANIZATION" and "THE EXCHANGE OFFER."

## MANAGEMENT

New VASCO's directors and officers consist of the same individuals who serve as Current VASCO's present directors and officers, although changes in the persons who are officers and directors of New VASCO may occur after the Exchange Offer is completed. For information regarding the persons who comprise New VASCO's Board of Directors and who have been elected to serve as its officers upon consummation of the Exchange Offer, see "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Management."

## DESCRIPTION OF CAPITAL STOCK OF NEW VASCO

New VASCO's authorized capital stock consists of 75,000,000 shares of common stock, par value \$.001 per share, and 500,000 shares of preferred stock, par value \$.01 per share. The authorized preferred stock has been designated, in part, to provide for 9,500 shares of New VASCO Series B Preferred Stock. No shares of New VASCO Series B Preferred Stock have been issued and only 100 shares of New VASCO Common Stock, all of which are owned or record by Current VASCO, have been issued.

## COMMON SHARES

The holders of New VASCO Common Stock will be entitled to one vote for each share on all matters voted upon by stockholders, including the election of directors. There is no cumulative voting with respect to the election of directors. As a result, subject to the rights of holders of New VASCO Series B Preferred Stock and any other series of New VASCO preferred stock that may be designated in the future, holders of more than 50% of the outstanding shares of New VASCO Common Stock can elect all of the directors. Subject to the rights of any outstanding shares of New VASCO Series B Preferred Stock or the rights of any other series of preferred stock then outstanding, the holders of New VASCO Common Stock will be entitled to such dividends as may be declared at the discretion of the New VASCO Board of Directors out of funds legally available therefor. Holders of New VASCO Common Stock will be entitled to share ratably in the net assets of New VASCO upon liquidation after payment or provision for all liabilities and any preferential liquidation rights of any preferred stock then outstanding, including the New VASCO Series B Preferred Stock.

The holders of New VASCO Common Stock will have no preemptive or other subscription rights to purchase shares of New VASCO. Shares of New VASCO Common Stock will not be subject to any redemption provisions and will not be convertible into any other securities of New VASCO. All shares of New VASCO Common Stock will be, when issued pursuant to the Exchange Offer, fully paid and nonassessable.

## PREFERRED SHARES

The preferred stock authorized in New VASCO's Certificate of Incorporation, as amended, may be issued from time to time by the New VASCO Board of Directors as shares of one or more series. Subject to the provisions of New VASCO's Certificate of Incorporation, as amended, and limitations imposed by law, the New VASCO Board of Directors is expressly authorized to adopt resolutions to issue the shares, to fix the number of shares and to change the number of shares constituting any series, and to provide for the voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof, including dividend rights (including whether dividends are cumulative), dividend rates, terms of redemption (including sinking fund provisions), redemption prices, conversion rights and liquidation preferences of the shares constituting any series of the preferred stock, in each case subject to the rights of the holders of any series of preferred stock then outstanding, but without any further action or vote by the holders of New VASCO Common Stock.

One of the effects of undesignated preferred stock may be to enable the New VASCO Board of Directors to render more difficult or discourage an attempt to obtain control of New VASCO by means of a tender offer, proxy contest, merger or otherwise, and thereby to afford time to the New VASCO Board of Directors to determine whether such change in control is in the best interests of New VASCO and all its shareholders. The issuance of shares of preferred stock pursuant to the Board of Directors' authority described in the preceding paragraph may adversely affect the rights of the holders of New VASCO Common Stock. For example, preferred stock issued by New VASCO may rank prior to the New VASCO Common Stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of New VASCO Common Stock. Accordingly, the issuance of shares of preferred stock may discourage bids for the New VASCO Common Stock at a premium or may otherwise adversely affect the market price of the New VASCO Common Stock.

## NEW VASCO SERIES B PREFERRED STOCK

The Certificate of Designation for New VASCO Series B Preferred Stock authorizes 9,500 shares of convertible preferred stock that carry a cumulative dividend payable monthly of 12% per annum based on a liquidation value of \$100 per share. Each share of New VASCO Series B Preferred Stock is convertible, at the option of the holder, into the number of shares of New VASCO Common Stock determined as follows: the quotient obtained by dividing the liquidation value of such shares, or \$100, by 50% of the average market price of New VASCO Common Stock for the period of 20 consecutive business days on which the New VASCO Common Stock was traded prior to the notice date. Dividends are payable monthly at the rate of 1% per month, provided that if dividend payments are delinquent for more than a month, and for so long as such delinquency continues, the monthly dividend rate shall be 1.5%. In addition, holders of the New VASCO Series B Preferred Stock have the right, with proper notice, to purchase New VASCO Common Stock in satisfaction of accrued and unpaid dividends at a price per share of New VASCO Common Stock equal to one-half of the average trading price of New VASCO Common Stock for 20 days prior to the notice given by such stockholder of the election to so purchase shares of New VASCO Common Stock. Except as otherwise required by law, shares of the New VASCO Series B Preferred Stock are entitled to vote together with the New VASCO Common Stock and the holders of such other classes and series of stock that vote together with the New VASCO Common Stock as a single class, on all matters submitted to a vote of the holders of New VASCO Common Stock. In addition, if the monthly dividend is more than 30 days in arrears, and remains in arrears after proper notice by a holder of New VASCO Series B Preferred Stock, a majority of the holders of such shares, voting separately as a class, shall be entitled to elect a majority of the New VASCO Board of Directors until the default in the dividend payments has been paid in full. The New VASCO Certificate of Incorporation, as amended, also prohibits New VASCO from redeeming or repurchasing shares of New VASCO capital stock while dividends on the New VASCO Series B Preferred Stock are in arrears.

The New VASCO Series B Preferred Stock will become convertible at the option of New VASCO if and when the New VASCO Common Stock is quoted on NASDAQ or is listed for trading on either the American Stock Exchange or the New York Stock Exchange. Shares of New VASCO Series B Preferred Stock carry a liquidation preference over the New VASCO Common Stock in the amount of \$100 per share, plus the amount of any accrued and unpaid dividends, upon the liquidation, dissolution or winding up of New VASCO.

## STOCK OPTIONS, WARRANTS AND CONVERTIBLE NOTES

Pursuant to the Exchange Offer, New VASCO is offering to exchange for all outstanding Current VASCO Stock Options, Current VASCO Conversion Options and Current VASCO Warrants, and, with respect to the holder of each such security exchanged, the release of any and all Associated Corporate Matter Claims, New VASCO Stock Options, New VASCO Conversion Options and New VASCO Warrants with substantially the same terms and conditions. In addition, certain notes convertible into Current VASCO Common Stock presently provide the holders with the right to convert into New VASCO Common Stock in the event the Exchange Offer is consummated. See "THE EXCHANGE OFFER -- Terms of the Exchange Offer" and "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Current VASCO Equity Equivalent Securities."

## OPTIONS

The purpose of the New VASCO 1997 Stock Option Plan is to promote the long-term success of New VASCO and its subsidiaries for the benefit of New VASCO's stockholders by encouraging officers and employees of New VASCO and its subsidiaries to have meaningful investments in New VASCO so that, as stockholders themselves, those individuals will be more likely to represent the views and interests of other stockholders and by providing incentives to such officers and employees for continued service. New VASCO believes that the possibility of participation under the New VASCO 1997 Stock Option Plan will provide this group of officers and employees an incentive to perform more effectively and will assist New VASCO and its subsidiaries in attracting and retaining people of outstanding training, experience and ability. The New VASCO 1997 Stock Option Plan also allows for the grant of stock options to directors of, and consultants and advisors to, New VASCO and its subsidiaries.

The New VASCO 1997 Stock Option Plan was adopted by New VASCO's Board of Directors and approved by Current VASCO, as the present sole stockholder of New VASCO, effective as of July 23, 1997, and will remain in effect until terminated by the New VASCO Board of Directors or a committee appointed by the New VASCO Board of Directors to administer the plan (the "Committee"), which has exclusive authority to make awards under the New VASCO 1997 Stock Option Plan and all interpretations and determinations affecting the New VASCO 1997 Stock Option Plan. Participation in the New VASCO 1997 Stock Option Plan is limited to officers, directors, employees, consultants and advisers of New VASCO and its subsidiaries who are selected from time to time by the Committee. Participants in the New VASCO 1997 Stock Option Plan may also participate in other incentive plans of New VASCO. The New VASCO 1997 Stock Option Plan provides for the grant of either ISOs or non-qualified stock options for tax purposes.

5,000,000 shares of New VASCO Common Stock are available for issuance under the New VASCO 1997 Stock Option Plan, subject to adjustment by the Committee under certain circumstances. Such shares may consist in whole or in part of authorized and unissued shares of New VASCO Common Stock, or treasury shares.

The shares of New VASCO Common Stock which may be issued pursuant to the New VASCO Stock Options exchanged in the Exchange Offer, will be issued pursuant to the New VASCO 1997 Stock Option Plan. All such New VASCO Stock Options issued in exchange for Current VASCO Stock Options shall be for the same number of shares of New VASCO Common Stock and shall have the same exercise price, vesting term, termination provision and expiration date as the Current VASCO Stock Options for which they are exchanged. New VASCO will enter into New VASCO Option Agreements with exchanging Current VASCO Stock Option holders which will contain the same vesting, exercise price, termination provision and exercise expiration terms and conditions as the original agreements such holders have entered into with Current VASCO, and provide for the release of any and all Associated Corporate Matter Claims. The New VASCO Option Agreement also includes a provision for the adjustment of the number of shares underlying the New VASCO Stock Options and of the exercise price for such shares in the event of a change in the capital structure of New VASCO. As of August 31, 1997 there were 1,973,132 Current VASCO Stock Options outstanding for an aggregate of 1,973,132 shares of Current VASCO Common Stock with exercise prices ranging between \$.125 and \$6.00 per share, of which options for 1,476,254 shares were fully vested and exercisable. See "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Current VASCO Equity Equivalent Securities -- Current VASCO Stock Options."

#### WARRANTS

From time to time Current VASCO issued Current VASCO Warrants to purchase shares of Current VASCO Common Stock at various exercise prices. Pursuant to the terms of the Exchange Offer, New VASCO is offering to exchange New VASCO Warrants for all outstanding Current VASCO Warrants and the release of any and all Associated Corporate Matter Claims by each exchanging holder. All such New VASCO Warrants issued in exchange for Current VASCO Warrants shall be for the same number of shares of New VASCO Common Stock and shall have the same exercise price and expiration date as the Current VASCO Warrants for which they are exchanged. New VASCO will enter into New VASCO Warrant Agreements with exchanging Current VASCO Warrant holders that will provide for the release of any and all Associated Corporate Matter Claims, and include a provision for the adjustment of the number of shares underlying the New VASCO Warrants and of the exercise price for such shares in the event of a change in the capital structure of New VASCO.

As of August 31, 1997, there were outstanding Current VASCO Warrants for an aggregate of 1,056,922 shares of Current VASCO Common Stock with exercise prices ranging from \$0.25 to \$10.00. See "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Current VASCO Equity Equivalent Securities -- Current VASCO Warrants."



## CONVERTIBLE NOTES

Certain notes convertible into Current VASCO Common Stock grant the holders the right to convert such notes into shares of New VASCO Common Stock if the Exchange Offer is consummated. New VASCO has entered into an agreement with Current VASCO under which New VASCO has agreed to assume certain contractual obligations of Current VASCO relating to such notes. See "Registration Rights and Other Arrangements" below.

Pursuant to the terms of the Exchange Offer, New VASCO will also offer to holders of notes presently convertible solely into Current VASCO Common Stock (referred to in this document as Current VASCO Conversion Options) the opportunity to exchange their Current VASCO Conversion Options for New VASCO Conversion Options, which would enable such holders to convert their notes, on the same terms and conditions, into shares of New VASCO Common Stock. This exchange will be effected, if at all, by virtue of the New VASCO Convertible Note Agreements, pursuant to which the holders will transfer and release any and all Associated Corporate Matter Claims. For more detailed information on the conversion privileges of all notes that may become convertible into shares of New VASCO Common Stock if the Exchange Offer is consummated, see "CERTAIN INFORMATION CONCERNING CURRENT VASCO -- Current VASCO Equity Equivalent Securities -- Convertible Notes and Current VASCO Conversion Options."

## REGISTRATION RIGHTS AND OTHER ARRANGEMENTS

Certain holders of Current VASCO Common Stock have the contractual right, under certain circumstances, to sell shares of Current VASCO Common Stock to Current VASCO at a price of [\$7.00] per share. In the event these holders exchange the shares of Current VASCO Common Stock subject to such rights in the Exchange Offer, New VASCO may enter into an agreement granting the exchanging holders the right to require New VASCO to purchase the number of shares of New VASCO Common Stock issued in exchange for such shares at the same price, and subject to the same terms and conditions, as provided for in the agreement such holders have entered into with Current VASCO.

New VASCO has entered into an agreement with Current VASCO that provides for New VASCO's assumption, upon consummation of the Exchange Offer, of certain Current VASCO obligations under a financing agreement with Generale Bank for a \$2.5 million loan and with respect to a registration rights agreement with certain holders of Current VASCO Equity Equivalent Securities, as well as for the substitution of New VASCO Common Stock for Current VASCO Common Stock that may be issued after the Exchange Offer pursuant to the Current VASCO Equity Equivalent Securities and other agreements of Current VASCO.

New VASCO may also enter into agreements comparable to those entered into by Current VASCO with certain of its security holders to provide for registration rights with respect to the shares of Current VASCO Common Stock that such holders presently own, or have the right to acquire pursuant to the terms of their Current VASCO Securities. In the event such holders exchange their Current VASCO Securities for New VASCO Securities in the Exchange Offer, New VASCO may enter into registration rights agreements with such holders containing provisions substantially the same as those of the respective registration rights agreements entered into by Current VASCO that have not been performed as of the Expiration Date.

## COMPARISON OF STOCKHOLDER RIGHTS

### COMPARISON OF CURRENT VASCO STOCKHOLDER RIGHTS FOLLOWING THE EXCHANGE OFFER

Both Current VASCO and New VASCO are Delaware corporations and are governed by the laws of Delaware. Except for the differences described below and for the release of any and all Associated Corporate Matter Claims by each exchanging holder, there will be no appreciable difference in the rights of those Current VASCO stockholders who become stockholders of New VASCO by virtue of the Exchange Offer. The certificates of incorporation, as amended, of the two companies are substantially the same, except for the authorization of 75,000,000 shares of common stock, as opposed to 50,000,000, the lack of a designation of a

series of New VASCO preferred stock comparable to Current VASCO Series A Preferred Stock and changes made in the New VASCO Series B Preferred Stock provisions of New VASCO's Certificate of Incorporation, as amended, to (i) provide general voting rights of one vote per share of New VASCO Series B Preferred Stock, to be voted together with the shares of New VASCO Common Stock on all matters submitted for a vote of the shares of New VASCO Common Stock, (ii) remove certain triggering dates that will have passed prior to the Expiration Date and remove references to Series A Preferred Stock, (iii) provide that holders of New VASCO Series B Preferred Stock may not convert such shares into New VASCO Common Stock if the per share purchase price is less than the par value of the New VASCO Common Stock, and (iv) make clarifying and conforming changes. In addition, New VASCO's Certificate of Incorporation, as amended, differs from that of Current VASCO in that the New VASCO Certificate of Incorporation, as amended, does not contain a requirement found in the Restated and Amended Certificate of Incorporation of Current VASCO, as amended, that all dividends on preferred stock must be paid before payment of dividends on common stock, which deletion will permit the creation of a class or series of preferred stock that could participate with common stock in dividend payments. In addition, the New VASCO Certificate of Incorporation, as amended, contains certain clarifying and conforming changes and certain changes for consistency with current Delaware law, including provisions with respect to the liability of directors for monetary damages. New VASCO's bylaws are the same as those of Current VASCO.

#### COMPARISON OF RIGHTS OF HOLDERS OF STOCK OPTIONS AND WARRANTS FOLLOWING THE EXCHANGE OFFER

There will be no change in the rights of holders of Current VASCO Stock Options and Current VASCO Warrants who become holders of New VASCO Stock Options and New VASCO Warrants, as the case may be, by exchanging their instruments in the Exchange Offer since all New VASCO Stock Options and New VASCO Warrants will be identical to the Current VASCO Stock Options and Current VASCO Warrants for which they are exchanged, except that (A) under the New VASCO Stock Option Agreement and the New VASCO Warrant Agreement, (i) the holders of such Current VASCO Securities will have released any and all Associated Corporate Matter Claims, (ii) there are provisions for adjustment of the number of shares underlying such Current VASCO Securities and the exercise price for such shares in the event of a change in the capital structure of New VASCO, and (B) the New VASCO Stock Options will be issued under the New VASCO 1997 Stock Option Plan and will not be ISOs. In addition, upon exercise of New VASCO Stock Options and New VASCO Warrants, the holders thereof will become stockholders of New VASCO, as opposed to Current VASCO. There will be certain limited differences in the rights of New VASCO stockholders as compared to the rights of Current VASCO stockholders prior to the Exchange Offer. See "COMPARISON OF STOCKHOLDER RIGHTS - - Comparison of Current VASCO Stockholder Rights Following The Exchange Offer."

#### LEGAL MATTERS

The legality of the New VASCO Securities to be issued in the Exchange Offer and certain tax consequences associated with the Exchange Offer will be passed upon for New VASCO by Jenner & Block, Chicago, Illinois.

#### EXPERTS

The balance sheet of VASCO Data Security International, Inc. as of July 16, 1997 appearing in this Registration Statement has been audited by KPMG Peat Marwick LLP, independent public accountants, as set forth in their report thereon appearing elsewhere herein, and is included in reliance upon such report given upon the authority of said firm as experts in accounting and auditing.

The consolidated financial statements of VASCO CORP. as of December 31, 1995 and 1996 and for each of the years in the three-year period ended December 31, 1996 appearing in this Registration Statement have been audited by KPMG Peat Marwick LLP, independent certified public accountants, as set forth in their report thereon appearing elsewhere herein. Such consolidated financial statements are included herein in reliance on such report given on the authority of said firm as experts in auditing and accounting.

The financial statements of Lintel NV as of December 31, 1995 and for the years ended December 31, 1994 and 1995 appearing in this Registration Statement have been so included in reliance upon the report of Price Waterhouse and Partners, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The combined financial statements of Digipass SA and Digiline SA as of December 31, 1995 and for the years ended December 31, 1994 and 1995 appearing in this Registration Statement have been so included in reliance upon the report of Price Waterhouse and Partners, independent accountants, given on the authority of said firm as experts in auditing and accounting.

## FINANCIAL STATEMENTS

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## VASCO DATA SECURITY INTERNATIONAL, INC. ("NEW VASCO")

PRO FORMA BALANCE SHEET  
 JUNE 30, 1997  
 (UNAUDITED)

	NEW VASCO -----	VASCO CORP. -----	ADJUSTMENTS -----	NEW VASCO PRO FORMA -----
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash.....	\$ --	\$ 2,862,690	\$ --	\$ 2,862,690
Accounts receivable, net of allowance for doubtful accounts.....	--	2,772,146	--	2,772,146
Inventories, net.....	--	1,876,907	--	1,876,907
Prepaid expenses.....	--	321,159	--	321,159
Deferred income taxes.....	--	283,000	--	283,000
Other current assets.....	--	465,284	--	465,284
	-----	-----	-----	-----
Total current assets.....	--	8,581,186	--	8,581,186
<b>PROPERTY AND EQUIPMENT:</b>				
Furniture and fixtures.....	--	143,560	--	143,560
Office equipment.....	--	632,835	--	632,835
	-----	-----	-----	-----
Accumulated depreciation.....	--	776,395	--	776,395
	-----	(433,885)	--	(433,885)
	-----	-----	-----	-----
Goodwill, net of accumulated amortization.....	--	342,510	--	342,510
Other assets.....	--	763,828	--	763,828
	-----	2,226,299	--	2,226,299
	-----	-----	-----	-----
<b>TOTAL ASSETS.....</b>	<b>\$ --</b>	<b>\$ 11,913,823</b>	<b>\$ --</b>	<b>\$ 11,913,823</b>
	=====	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>				
<b>CURRENT LIABILITIES:</b>				
Current maturities of long-term debt.....	\$ --	\$ 3,459,034	\$ --	\$ 3,459,034
Accounts payable.....	--	860,672	--	860,672
Customer deposits.....	--	458,037	--	458,037
Other accrued expenses.....	--	781,134	--	781,134
	-----	-----	-----	-----
Total current liabilities.....	--	5,558,877	--	5,558,877
	-----	-----	-----	-----
Long-term debt.....	--	8,277,878	--	8,277,878
	-----	-----	-----	-----
Common stock subject to redemption.....	--	494,668	--	494,668
	-----	-----	-----	-----
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>				
Preferred stock, 8% cumulative series A convertible, \$.01 par value -- 317,181 shares authorized; 117,181 shares issued and outstanding.....	--	1,172	(1,172)	--
Preferred stock, 12% cumulative series B convertible, \$.01 par value -- 9,500 shares authorized; 9,000 shares issued and outstanding.....	--	90	(90)	--
Common stock, \$.001 par value -- 50,000,000 shares authorized; 18,576,471 shares issued and outstanding.....	--	18,576	(18,576)	--
Preferred stock, \$.01 par value -- 500,000 shares authorized; 9,000 shares of 12% cumulative series B convertible issued and outstanding on a pro forma basis.....	--	--	90	90
Common stock, \$.001 par value -- 75,000,000 shares authorized; 19,357,778 shares issued and outstanding on a pro forma basis.....	--	--	19,358	19,358
Additional paid-in capital.....	--	8,948,492	390	8,948,882
Accumulated deficit.....	--	(11,194,402)	--	(11,194,402)
Cumulative translation adjustment.....	--	(191,526)	--	(191,526)
	-----	-----	-----	-----
Less: Treasury stock, 2,824 common shares at cost.....	--	(2,417,598)	--	(2,417,598)
	-----	(2)	--	(2)
	-----	-----	-----	-----
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT).....</b>	<b>--</b>	<b>(2,417,600)</b>	<b>--</b>	<b>(2,417,600)</b>
	-----	-----	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT).....</b>	<b>\$ --</b>	<b>\$ 11,913,823</b>	<b>\$ --</b>	<b>\$ 11,913,823</b>
	=====	=====	=====	=====

See accompanying notes to pro forma financial statements.

## VASCO DATA SECURITY INTERNATIONAL, INC. ("NEW VASCO")

PRO FORMA STATEMENT OF OPERATIONS  
 YEAR ENDED DECEMBER 31, 1996  
 (UNAUDITED)

	NEW VASCO -----	VASCO CORP. -----	ADJUSTMENT	NEW VASCO PRO FORMA -----
Total revenues.....	\$ --	\$10,192,485	\$3,461,935	\$13,654,420
Cost of goods sold.....	--	5,871,468	1,588,652	7,460,120
	-----	-----	-----	-----
Gross profit.....	--	4,321,017	1,873,283	6,194,300
	-----	-----	-----	-----
Operating costs:				
Sales and marketing.....	--	1,405,453	--	1,405,453
Research and development.....	--	574,766	--	574,766
General and administrative.....	--	3,647,760	1,579,435	5,227,195
Acquired in-process research and development.....	--	7,350,992	--	7,350,992
	-----	-----	-----	-----
Total operating costs.....	--	12,978,971	1,579,435	14,558,406
Operating income (loss).....	--	(8,657,954)	293,848	(8,364,106)
Interest expense.....	--	(346,248)	(423,999)	(770,247)
Other income (expense), net.....	--	(42,407)	145,754	103,347
	-----	-----	-----	-----
Income (loss) before income taxes.....	--	(9,046,609)	15,603	(9,031,006)
Provision for income taxes.....	--	194,000	282,070	476,070
	-----	-----	-----	-----
Net loss.....	--	(9,240,609)	(266,467)	(9,507,076)
Preferred stock dividends.....	--	(108,160)	--	(108,160)
	-----	-----	-----	-----
Net loss available to common stockholders...	\$ --	\$(9,348,769)	\$ (266,467)	\$(9,615,236)
	=====	=====	=====	=====
Net loss per common share.....				\$ (0.53)
				=====
Weighted average common shares outstanding.....				18,314,576
				=====

See accompanying notes to pro forma financial statements.

## VASCO DATA SECURITY INTERNATIONAL, INC. ("NEW VASCO")

PRO FORMA STATEMENT OF OPERATIONS  
 SIX MONTHS ENDED JUNE 30, 1997  
 (UNAUDITED)

	NEW VASCO -----	VASCO CORP. -----	ADJUSTMENTS -----	NEW VASCO PRO FORMA -----
Total revenues.....	\$ --	\$ 6,591,694	\$ --	\$ 6,591,694
Cost of goods sold.....	--	3,296,091	--	3,296,091
Gross profit.....	--	3,295,603	--	3,295,603
Operating costs:				
Sales and marketing.....	--	1,792,724	--	1,792,724
Research and development.....	--	347,623	--	347,623
General and administrative.....	--	1,802,343	--	1,802,343
Total operating costs.....	--	3,942,690	--	3,942,690
Operating loss.....	--	(647,087)	--	(647,087)
Interest expense.....	--	(460,137)	--	(460,137)
Other expense, net.....	--	(72,750)	--	(72,750)
Loss before income taxes.....	--	(1,179,974)	--	(1,179,974)
Provision for income taxes.....	--	57,171	--	57,171
Net loss.....	--	(1,237,145)	--	(1,237,145)
Preferred stock dividends.....	--	(54,000)	--	(54,000)
Net loss available to common stockholders.....	\$ --	\$(1,291,145)	\$ --	\$(1,291,145)
Net loss per common share.....	=====	=====	=====	\$ (0.07) =====
Weighted average common shares outstanding				19,277,065 =====

See accompanying notes to pro forma financial statements.

## VASCO DATA SECURITY INTERNATIONAL, INC.

## NOTES TO PRO FORMA FINANCIAL STATEMENTS (UNAUDITED)

## ORGANIZATION AND PROPOSED EXCHANGE OF SECURITIES

VASCO Data Security International, Inc. ("New VASCO") is a Delaware Corporation and was incorporated on July 15, 1997.

New VASCO was formed by representatives of VASCO CORP. ("Current VASCO"), to effect an exchange of outstanding VASCO CORP. securities for securities of New VASCO (the "Exchange Offer"). In the Exchange Offer, New VASCO offers to exchange:

(a) Its Common Stock and Series B Preferred Stock for (i) shares of Current VASCO Common Stock and Series B Preferred Stock, respectively, on a one-for-one basis and (ii) a release by the exchanging holder of all potential claims against New VASCO and its predecessor entities arising out of or relating to certain corporate matters (the "Associated Corporate Matter Claims") described elsewhere herein.

(b) Its options ("New VASCO Stock Options") to purchase its Common Stock in exchange for (i) the cancellation of outstanding options to purchase Current VASCO Common Stock granted under various Current VASCO stock option programs ("Current VASCO Stock Options"), and (ii) a release by each exchanging holder of any and all Associated Corporate Matter Claims. The New VASCO Stock Options will be for the same number of shares and have the same exercise price, vesting terms and expiration dates as the Current VASCO Stock Options and will be issued under New VASCO's 1997 Stock Option Plan, as amended, as nonqualified options for federal income tax purposes;

(c) Its options ("New VASCO Conversion Options") to acquire its Common Stock in exchange for (i) the cancellation of outstanding options to acquire Current VASCO Common Stock pursuant to conversion of Current VASCO convertible notes ("Current VASCO Conversion Options"), and (ii) a release by each exchanging holder of any and all Associated Corporate Matter Claims. The New VASCO Conversion Options will be for the same number of shares and will have the same conversion price, conversion period and other terms of conversion as the Current VASCO Conversion Options;

(d) Its warrants ("New VASCO Warrants") to purchase its Common Stock in exchange for (i) the cancellation of outstanding warrants to purchase Current VASCO Common Stock ("Current VASCO Warrants"), and (ii) a release by each exchanging holder of any and all Associated Corporate Matter Claims. The New VASCO Warrants will be for the same number of shares and have the same exercise price and expiration dates as the Current VASCO Warrants.

The Exchange Offer is subject to certain terms and conditions, including the condition that there must as of the Expiration Date be tendered for exchange (i) at least 80% of the outstanding shares of Current VASCO Common Stock, and (ii) at least 80% of the outstanding shares of Current VASCO Series B Preferred Stock.

Assuming the requirements of the Exchange Offer are met, Current VASCO will become a subsidiary of New VASCO, and the assets and liabilities of Current VASCO will be recorded by New VASCO in consolidation at their historical carrying values. New VASCO has not yet begun operations.

## CAPITAL STOCK

On July 16, 1997, 100 shares of New VASCO's Common Stock were issued to Current VASCO, for \$100.

New VASCO's authorized capital stock consists of 75,000,000 shares of Common Stock, \$.001 par value, and 500,000 shares of Preferred Stock, \$.01 par value per share. The authorized Preferred Stock has been designated, in part, to provide for 9,500 shares of New VASCO's Series B Preferred Stock, which carries a cumulative dividend payable monthly of 12% per annum based on a liquidation value of \$100 per share. The Series B Preferred Stock is convertible into Common Stock based on a formula and has other provisions



## VASCO DATA SECURITY INTERNATIONAL, INC.

## NOTES TO PRO FORMA FINANCIAL STATEMENTS (UNAUDITED) -- (Continued)

described elsewhere herein. The New VASCO Series B Preferred Stock will be entitled to vote together with the holders of New VASCO Common Stock on all matters submitted to a vote of the holders of New VASCO Common Stock. The issuance of 100 shares of Common Stock is reflected as a pro forma adjustment in the accompanying pro forma balance sheet.

Effective as of July 23, 1997, the New VASCO 1997 Stock Option Plan was adopted. The New VASCO 1997 Stock Option Plan provides for the grant of either incentive stock options or non-qualified stock options. 5,000,000 shares of New VASCO Common Stock are available for issuance under the plan.

## PRO FORMA PRESENTATION

The pro forma balance sheet as of June 30, 1997 reflects adjustments for (i) the issuance by New VASCO of 100 shares of Common Stock on July 16, 1997, (ii) the conversion of Current VASCO's 117,181 shares of Series A Convertible Preferred Stock into 781,207 shares of New VASCO's Common Stock and the exchange of 100% of Current VASCO's outstanding Common Stock and cumulative Series B Convertible Preferred Stock into New VASCO's Common Stock and Series B Preferred Stock, respectively, pursuant to the Exchange Offer. No shares of Preferred Stock have been issued.

The pro forma statement of operations for the year ended December 31, 1996 reflects the historical operations of Current VASCO for the year ended December 31, 1996, adjusted to reflect the acquisitions of Lintel and Digipass as if such acquisitions had occurred as of January 1, 1996. The pro forma adjustments include the operations of Lintel and Digipass for the respective periods in 1996 prior to their acquisition by Current VASCO, as well as adjustments to reflect interest expense on the debt incurred to fund the acquisitions in the amount of \$249,000, and amortization of the related intangible assets and goodwill in the amount of \$386,000.

The pro forma statement of operations for the six months ended June 30, 1997 reflects the operations of Current VASCO for such six month period.

The pro forma net loss per share is computed based on the weighted average of 18,314,576 shares outstanding during 1996 and 19,277,065 for the six months ended June 30, 1997, assuming that the conversion of 117,181 shares of Current VASCO's Series A Convertible Preferred Stock into 781,207 shares of Common Stock of New VASCO and the Exchange Offer were affected as of January 1, 1996.

If pursuant to the Exchange Offer, 80% or more of the outstanding shares of Current VASCO Common Stock and 80% of the outstanding shares of Current VASCO Series B Preferred Stock are tendered, the exchange will become effective but any equity interest not exchanged would be reflected as minority interest between liabilities and stockholders' equity (deficit) on the pro forma balance sheet.

## REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying balance sheet of VASCO Data Security International, Inc. as of July 16, 1997. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

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

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of VASCO Data Security International, Inc. as of July 16, 1997, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Chicago, Illinois  
September 11, 1997

## VASCO DATA SECURITY INTERNATIONAL, INC. ("NEW VASCO")

BALANCE SHEET  
JULY 16, 1997  
(UNAUDITED)

ASSETS	
CURRENT ASSETS - CASH.....	\$100
	----
TOTAL ASSETS.....	\$100
	====
LIABILITIES AND STOCKHOLDER'S EQUITY	
STOCKHOLDER'S EQUITY:	
Preferred stock, \$.01 par value -- 500,000 shares authorized; none issued and outstanding.....	\$ --
Common stock, \$.001 par value -- 75,000,000 shares authorized; 100 shares issued and outstanding.....	--
Additional paid-in capital.....	100
	----
Total stockholder's equity.....	100
	----
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY.....	\$100
	====

See accompanying notes to financial statements.

## VASCO DATA SECURITY INTERNATIONAL, INC.

## NOTES TO BALANCE SHEET

## ORGANIZATION AND PROPOSED EXCHANGE OF SECURITIES

VASCO Data Security International, Inc. ("New VASCO") is a Delaware Corporation and was incorporated on July 15, 1997.

New VASCO was formed by representatives of VASCO CORP. ("Current VASCO"), to effect an exchange of outstanding VASCO CORP. securities for securities of New VASCO (the "Exchange Offer"). In the Exchange Offer, New VASCO offers to exchange:

(a) Its Common Stock and Series B Preferred Stock for (i) shares of Current VASCO Common Stock and Series B Preferred Stock, respectively, on a one-for-one basis and (ii) a release by the exchanging holder of all potential claims against New VASCO and its predecessor entities arising out of or relating to certain corporate matters (the "Associated Corporate Matter Claims") described elsewhere herein.

(b) Its options ("New VASCO Stock Options") to purchase its Common Stock in exchange for (i) the cancellation of outstanding options to purchase Current VASCO Common Stock granted under various Current VASCO stock option programs ("Current VASCO Stock Options"), and (ii) a release by each exchanging holder of any and all Associated Corporate Matter Claims. The New VASCO Stock Options will be for the same number of shares and have the same exercise price, vesting terms and expiration dates as the Current VASCO Stock Options and will be issued under New VASCO's 1997 Stock Option Plan, as amended, as nonqualified options for federal income tax purposes;

(c) Its options ("New VASCO Conversion Options") to acquire its Common Stock in exchange for (i) the cancellation of outstanding options to acquire Current VASCO Common Stock pursuant to conversion of Current VASCO convertible notes ("Current VASCO Conversion Options"), and (ii) a release by each exchanging holder of any and all Associated Corporate Matter Claims. The New VASCO Conversion Options will be for the same number of shares and will have the same conversion price, conversion period and other terms of conversion as the Current VASCO Conversion Options;

(d) Its warrants ("New VASCO Warrants") to purchase its Common Stock in exchange for (i) the cancellation of outstanding warrants to purchase Current VASCO Common Stock ("Current VASCO Warrants"), and (ii) a release by each exchanging holder of any and all Associated Corporate Matter Claims. The New VASCO Warrants will be for the same number of shares and have the same exercise price and expiration dates as the Current VASCO Warrants.

The Exchange Offer is subject to certain terms and conditions, including the condition that there must as of the Expiration Date be tendered for exchange (i) at least 80% of the outstanding shares of Current VASCO Common Stock, and (ii) at least 80% of the outstanding shares of Current VASCO Series B Preferred Stock.

Assuming the requirements of the Exchange Offer are met, Current VASCO will become a subsidiary of New VASCO, and the assets and liabilities of Current VASCO will be recorded by New VASCO in consolidation at their historical carrying values. New VASCO has not yet begun operations.

## CAPITAL STOCK

On July 16, 1997, 100 shares of New VASCO's Common Stock were issued to Current VASCO, for \$100.

New VASCO's authorized capital stock consists of 75,000,000 shares of Common Stock, \$.001 par value, and 500,000 shares of Preferred Stock, \$.01 par value per share. The authorized Preferred Stock has been

designated, in part, to provide for 9,500 shares of New VASCO's Series B Preferred Stock, which carries a cumulative dividend payable monthly of 12% per annum based on a liquidation value of \$100 per share. The Series B Preferred Stock is convertible into Common Stock based on a formula. The New VASCO Series B Preferred Stock will be entitled to vote together with the holders of New VASCO Common Stock on all matters submitted to a vote of the holders of New VASCO Common Stock. No shares of Preferred Stock have been issued.

Effective as of July 23, 1997, the New VASCO 1997 Stock Option Plan was adopted. The New VASCO 1997 Stock Option Plan provides for the grant of either incentive stock options or non-qualified stock options. 5,000,000 shares of New VASCO Common Stock are available for issuance under the plan.

## REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and  
Stockholders of VASCO Corp.:

We have audited the accompanying consolidated balance sheets of VASCO Corp. and subsidiaries (the Company) as of December 31, 1995 and 1996, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VASCO Corp. and subsidiaries as of December 31, 1995 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Chicago, Illinois  
September 11, 1997

VASCO CORP.  
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,		JUNE 30,
	1995	1996	1997
	-----	-----	-----
			(UNAUDITED)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash.....	\$ 744,612	\$ 1,813,593	\$ 2,862,690
Accounts receivable, net of allowance for doubtful accounts of \$182,000, \$452,000 and \$459,000.....	447,490	3,242,618	2,772,146
Inventories, net.....	252,646	2,182,743	1,876,907
Prepaid expenses.....	229,315	471,902	321,159
Notes receivable.....	--	225,141	--
Deferred income taxes.....	445,000	283,000	283,000
Other current assets.....	14,741	399,963	465,284
	-----	-----	-----
Total current assets.....	2,133,804	8,618,960	8,581,186
Property and equipment:			
Furniture and fixtures.....	183,375	143,560	143,560
Office equipment.....	123,773	592,965	632,835
	-----	-----	-----
Accumulated depreciation.....	307,148	736,525	776,395
	(183,807)	(360,079)	(433,885)
	-----	-----	-----
Software costs, net of accumulated amortization of \$371,000 in 1995.....	123,341	376,446	342,510
	157,311	--	--
Goodwill, net of accumulated amortization of \$58,571 and \$113,784 in 1996 and 1997.....	--	819,041	763,828
Other assets.....	--	2,553,108	2,226,299
	-----	-----	-----
Total assets.....	\$2,414,456	\$12,367,555	\$ 11,913,823
	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>			
<b>CURRENT LIABILITIES:</b>			
Current maturities of long-term debt.....	\$ 199,678	\$ 3,491,160	\$ 3,459,034
Notes payable.....	664,050	--	--
Accounts payable.....	93,776	1,945,644	860,672
Customer deposits.....	--	1,022,195	458,037
Other accrued expenses.....	102,072	658,084	781,134
	-----	-----	-----
Total current liabilities.....	1,059,576	7,117,083	5,558,877
	-----	-----	-----
Long-term debt, including stockholder note of \$5,000,000 in 1996 and 1997.....	7,258	5,713,750	8,277,878
	-----	-----	-----
Excess acquired net assets over cost, net of accumulated amortization of \$43,000 in 1995.....	10,735	--	--
	-----	-----	-----
Common stock subject to redemption.....	370,894	741,894	494,668
	-----	-----	-----
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>			
Preferred stock, 8% cumulative series A convertible, \$.01 par value -- 317,181 shares authorized; 317,181 shares issued and outstanding in 1995 and 117,181 shares issued and outstanding in 1996 and 1997.....	3,172	1,172	1,172
Preferred stock, 12% cumulative series B convertible, \$.01 par value -- 9,500 shares authorized; 9,000 shares issued and outstanding in 1995, 1996 and 1997.....	90	90	90
Common stock, \$.001 par value -- 50,000,000 shares authorized 15,793,575 shares issued and outstanding in 1995; 18,453,332 shares issued and outstanding in 1996; 18,576,471 shares issued and outstanding in 1997.....	15,794	18,454	18,576
Additional paid-in capital.....	1,508,534	8,783,425	8,948,492
Accumulated deficit.....	(554,488)	(9,903,257)	(11,194,402)
Cumulative translation adjustment.....	--	(105,056)	(191,526)
	-----	-----	-----
Less: Treasury stock, 287,923, -0- and 2,824 common shares, at cost, in 1995, 1996 and 1997.....	973,102	(1,205,172)	(2,417,598)
	(7,109)	--	(2)
	-----	-----	-----
Total stockholders' equity (deficit).....	965,993	(1,205,172)	(2,417,600)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT).....	\$2,414,456	\$12,367,555	\$ 11,913,823
	=====	=====	=====

See accompanying notes to consolidated financial statements.

## VASCO CORP.

## CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
				(UNAUDITED)	
Total revenues.....	\$ 2,693,167	\$ 3,695,133	\$10,192,485	\$ 3,184,266	\$ 6,591,694
Cost of goods sold.....	1,422,587	2,887,403	5,871,468	1,899,885	3,296,091
Gross profit.....	1,270,580	807,730	4,321,017	1,284,381	3,295,603
Operating costs:					
Sales and marketing.....	156,511	245,212	1,405,453	220,144	1,792,724
Research and development....	210,535	242,002	574,766	217,271	347,623
General and administrative.....	711,598	854,979	3,647,760	862,453	1,802,343
Acquired in-process research and development.....	--	--	7,350,992	2,900,031	--
Total operating costs....	1,078,644	1,342,193	12,978,971	4,199,899	3,942,690
Operating income (loss).....	191,936	(534,463)	(8,657,954)	(2,915,518)	(647,087)
Interest expense.....	(97,244)	(73,576)	(346,248)	(26,933)	(460,137)
Other expense, net.....	--	--	(42,407)	--	(72,750)
Income (loss) before income taxes.....	94,692	(608,039)	(9,046,609)	(2,942,451)	(1,179,974)
Provision (benefit) for income taxes.....	37,000	(251,000)	194,000	(17,700)	57,171
Net income (loss).....	57,692	(357,039)	(9,240,609)	(2,924,751)	(1,237,145)
Preferred stock dividends.....	(27,254)	(108,254)	(108,160)	(54,000)	(54,000)
Net income (loss) available to common stockholders.....	\$ 30,438	\$ (465,293)	\$(9,348,769)	\$(2,978,751)	\$(1,291,145)
Net income (loss) per common share.....	\$ --	\$ (0.03)	\$ (0.53)	\$ (0.19)	\$ (0.07)
Weighted average common shares outstanding.....	14,259,915	14,817,264	17,533,369	15,614,498	18,495,858

See accompanying notes to consolidated financial statements.



## VASCO CORP.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	SERIES A PREFERRED STOCK		SERIES B PREFERRED STOCK		COMMON STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
Balance at December 31, 1993.....	317,181	\$3,172	--	\$--	15,343,575	\$15,344
Net income.....						
Cash dividends paid on preferred B.....						
Dividends payable on preferred A upon conversion.....						
Issuance of Series B preferred stock.....			8,000	80		
Exchange of note payable for stock.....			1,000	10	250,000	250
Exercise of stock options.....					100,000	100
Balance at December 31, 1994.....	317,181	3,172	9,000	90	15,693,575	15,694
Net loss.....						
Cash dividends paid on preferred B.....						
Dividends payable on preferred A upon conversion.....						
Issuance of treasury stock.....						
Stock compensation.....					50,000	50
Exercise of stock options					50,000	50
Common stock subject to redemption.....						
Balance at December 31, 1995.....	317,181	3,172	9,000	90	15,793,575	15,794
Net loss.....						
Cash dividends paid on preferred B.....						
Dividends payable on preferred A upon conversion.....						
Exercise of stock options.....					22,750	23
Issuance of common stock.....					1,163,023	1,163
Issuance of common stock in connection with Lintel Acquisition.....					140,651	141
Conversion of Series A preferred stock.....	(200,000)	(2,000)			1,333,333	1,333
Cumulative translation adjustment.....						
Common stock subject to redemption.....						
Balance at December 31, 1996.....	117,181	1,172	9,000	90	18,453,332	18,454
1997 Activity (Unaudited):						
Net loss.....						
Cash dividends paid on preferred B.....						
Dividends payable on preferred A upon conversion.....						
Exercise of stock options.....					121,250	121
Cancellation of common stock.....					(16,489)	(17)
Issuance of common stock.....					18,378	18
Redemption of common stock.....						
Record legal fees associated with Private Placement.....						
Cumulative translation adjustment.....						
Balance at June 30, 1997 (Unaudited).....	117,181	\$1,172	9,000	\$90	18,576,471	\$18,576

See accompanying notes to consolidated financial statements.

## VASCO CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
(CONTINUED)

	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	CUMULATIVE TRANSLATION ADJUSTMENT
	-----	-----	-----
Balance at December 31, 1993.....	\$ 481,745	\$ (119,633)	\$ --
Net income.....		57,692	
Cash dividends paid on preferred B.....		(27,000)	
Dividends payable on preferred A upon conversion.....		(254)	
Issuance of Series B preferred stock.....	750,783		
Exchange of note payable for stock.....	149,740		
Exercise of stock options.....	12,320		
	-----	-----	-----
Balance at December 31, 1994.....	1,394,588	(89,195)	--
Net loss.....		(357,039)	
Cash dividends paid on preferred B.....		(108,000)	
Dividends payable on preferred A upon conversion.....		(254)	
Issuance of treasury stock.....	159,688		
Stock compensation.....	66,708		
Exercise of stock options.....	78,244		
Common stock subject to redemption.....	(190,694)	--	--
	-----	-----	-----
Balance at December 31, 1995.....	1,508,534	(554,488)	--
Net loss.....		(9,240,609)	
Cash dividends paid on preferred B.....		(108,000)	
Dividends payable on preferred A upon conversion.....		(160)	
Exercise of stock options.....	5,215		
Issuance of common stock.....	4,252,240		
Issuance of common stock in connection with Lintel Acquisition.....	3,387,769		
Conversion of Series A preferred stock.....	667		
Cumulative translation adjustment.....			(105,056)
Common stock subject to redemption.....	(371,000)	--	--
	-----	-----	-----
Balance at December 31, 1996.....	8,783,425	(9,903,257)	(105,056)
1997 Activity (Unaudited):			
Net loss.....		(1,237,145)	
Cash dividends paid on preferred B.....		(54,000)	
Dividends payable on preferred A upon conversion.....			
Exercise of stock options.....	28,817		
Cancellation of common stock.....			
Issuance of common stock.....	193,145		
Redemption of common stock.....			
Record legal fees associated with Private Placement...	(56,895)		
Cumulative translation adjustment.....			(86,470)
	-----	-----	-----
Balance at June 30, 1997 (Unaudited).....	\$8,948,492	\$(11,194,402)	\$(191,526)
	=====	=====	=====

See accompanying notes to consolidated financial statements.

## VASCO CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
(CONTINUED)

	TREASURY STOCK		TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT	
Balance at December 31, 1993.....	1,201,250	\$ (40,650)	\$ 339,978
Net income.....			57,692
Cash dividends paid on preferred B.....			(27,000)
Dividends payable on preferred A upon conversion.....			(254)
Issuance of Series B preferred stock.....			750,863
Exchange of note payable for stock.....			150,000
Exercise of stock options.....			12,420
Balance at December 31, 1994.....	1,201,250	(40,650)	1,283,699
Net loss.....			(357,039)
Cash dividends paid on preferred B.....			(108,000)
Dividends payable on preferred A upon conversion.....			(254)
Issuance of treasury stock.....	(217,352)	7,349	167,037
Stock compensation.....	(250,975)	8,486	75,244
Exercise of stock options.....	(445,000)	17,706	96,000
Common Stock subject to redemption.....			(190,694)
Balance at December 31, 1995.....	287,923	(7,109)	965,993
Net loss.....			(9,240,609)
Cash dividends paid on preferred B.....			(108,000)
Dividends payable on preferred A upon conversion.....			(160)
Exercise of stock options.....			5,238
Issuance of common stock.....			4,253,403
Issuance of common stock in connection with Lintel Acquisition.....	(287,923)	7,109	3,395,019
Conversion of Series A preferred stock.....			--
Cumulative translation adjustment.....			(105,056)
Common Stock subject to redemption.....			(371,000)
Balance at December 31, 1996.....	--	--	(1,205,172)
1997 Activity (Unaudited):			
Net loss.....			(1,237,145)
Cash dividends paid on preferred B.....			(54,000)
Dividends payable on preferred A upon conversion.....			--
Exercise of stock options.....			28,938
Cancellation of common stock.....			(17)
Issuance of common stock.....	(32,504)	33	193,196
Redemption of common stock.....	35,328	(35)	(35)
Record legal fees associated with Private Placement.....			(56,895)
Cumulative translation adjustment.....			(86,470)
Balance at June 30, 1997 (Unaudited).....	2,824	\$ (2)	\$(2,417,600)

See accompanying notes to consolidated financial statements.

## VASCO CORP.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED DECEMBER 31,		
	1994	1995	1996
Cash flows from operating activities:			
Net income (loss).....	\$ 57,692	\$(357,039)	\$(9,240,609)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Acquired in-process research and development.....	--	--	7,350,992
Depreciation and amortization.....	154,965	483,545	728,734
Interest paid in shares of common stock.....	--	--	118,750
Deferred income taxes.....	37,000	(251,000)	162,000
Compensation expense.....	--	75,244	--
Changes in current assets and current liabilities, net of acquisitions:			
Accounts receivable, net.....	(391,859)	168,858	(1,067,374)
Inventories, net.....	(119,323)	53,302	578,143
Other current assets.....	(129,184)	(48,640)	(279,940)
Accounts payable.....	2,545	(23,911)	459,068
Customer deposits.....	--	--	1,022,195
Other accrued expenses.....	(47,897)	(41,660)	(1,728,397)
Net cash provided by (used in) operations.....	(436,061)	58,699	(1,896,438)
Cash flows from investing activities:			
Acquisition of Lintel/Digipass.....	--	--	(4,461,144)
Additions to property and equipment.....	(14,626)	(93,749)	(283,142)
Capitalized software.....	(227,985)	--	--
Net cash used in investing activities.....	(242,611)	(93,749)	(4,744,286)
Cash flows from financing activities:			
Net proceeds from issuance of series B preferred stock....	750,783	--	--
Series B preferred stock dividends.....	(27,000)	(108,000)	(108,000)
Net proceeds from sales of common stock.....	12,500	443,237	4,133,605
Proceeds from exercise of stock options.....	--	--	5,238
Redemption of common stock.....	--	--	--
Proceeds from issuance of debt.....	463,500	810,986	4,986,096
Repayment of debt.....	(692,177)	(404,697)	(1,202,178)
Net cash provided by financing activities.....	507,606	741,526	7,814,761
Effect of exchange rate changes on cash.....	--	--	(105,056)
Net increase (decrease) in cash.....	(171,066)	706,476	1,068,981
Cash, beginning of period.....	209,202	38,136	744,612
Cash, end of period.....	\$ 38,136	\$ 744,612	\$ 1,813,593
Supplemental disclosure of cash flow information:			
Interest paid.....	\$ 80,747	\$ 67,087	\$ 51,929
Supplemental disclosure of noncash investing and financing activities:			
Fair value of assets acquired from Lintel/Digipass.....			\$12,003,644
Cash paid.....			(4,461,144)
Notes payable, common stock and warrants issued.....			\$ 7,542,500
Common stock issued upon conversion of Series A preferred stock.....			\$ 2,000

See accompanying notes to consolidated financial statements.

## VASCO CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(CONTINUED)

	SIX MONTHS ENDED JUNE 30,	
	----- 1996 -----	1997 ----- -----
	(UNAUDITED)	
Cash flows from operating activities:		
Net income (loss).....	\$(2,924,751)	\$(1,237,145)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Acquired in-process research and development.....	2,900,031	--
Depreciation and amortization.....	48,524	528,939
Interest paid in shares of common stock.....	--	193,196
Deferred income taxes.....	--	--
Compensation expense.....	--	--
Changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable, net.....	(319,896)	470,472
Inventories, net.....	(186,560)	305,836
Other current assets.....	9,334	85,422
Accounts payable.....	(6,830)	(1,084,972)
Customer deposits.....	--	(564,158)
Other accrued expenses.....	(70,394)	123,050
	-----	-----
Net cash provided by (used in) operations.....	(550,542)	(1,179,360)
	-----	-----
Cash flows from investing activities:		
Acquisition of Lintel/Digipass.....	(315,482)	--
Additions to property and equipment.....	(86,496)	(39,870)
Capitalized software.....	--	--
	-----	-----
Net cash used in investing activities.....	(401,978)	(39,870)
	-----	-----
Cash flows from financing activities:		
Net proceeds from issuance of series B preferred stock....	--	--
Series B preferred stock dividends.....	(54,000)	(54,000)
Net proceeds from sales of common stock.....	2,830,000	(56,895)
Proceeds from exercise of stock options.....	--	28,938
Redemption of common stock.....	--	(247,261)
Proceeds from issuance of debt.....	5,000,000	2,716,141
Repayment of debt.....	(671,308)	(32,126)
	-----	-----
Net cash provided by financing activities.....	7,104,692	2,354,797
	-----	-----
Effect of exchange rate changes on cash.....	--	(86,470)
	-----	-----
Net increase (decrease) in cash.....	6,152,172	1,049,097
Cash, beginning of period.....	744,612	1,813,593
	-----	-----
Cash, end of period.....	\$ 6,896,784	\$ 2,862,690
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid.....	\$ 50,995	\$ 106,411
	=====	=====
Supplemental disclosure of noncash investing and financing activities:		
Fair value of assets acquired from Lintel/Digipass.....	\$ 4,142,518	
Cash paid.....	(289,482)	
	-----	
Notes payable, common stock and warrants issued.....	\$ 3,853,036	
	=====	
Common stock issued upon conversion of Series A preferred stock.....		

See accompanying notes to consolidated financial statements.

## VASCO CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Nature of Operations

VASCO CORP. and its wholly owned subsidiaries, VASCO Data Security, Inc., and VASCO Data Security NV/SA (the Company), offer a variety of computer security products and services. The Company's patented and proprietary hardware and software products provide computer security, Advanced Authentication Technology and RSA/DES encryption for financial institutions, industry and government. The primary market for these products is Europe.

## Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

## Principles of Consolidation

The consolidated financial statements include the accounts of VASCO CORP. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

## Revenue Recognition

Revenues from the sale of computer security hardware and imbedded software are recorded upon shipment assuming that no significant vendor obligations remain outstanding and collectibility is reasonably assured.

## Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using accelerated methods 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. The cost and accumulated depreciation of property sold or retired are removed from the respective accounts and the resultant gains or losses, if any, are included in current operations.

## Software Costs

The Company capitalizes software development costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 86. 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. Unamortized capitalized costs determined to be in excess of the net realizable value of a product are expensed at the date of such determination.

The Company expensed \$54,207, \$444,795 and \$180,275 in 1994, 1995 and 1996, respectively, for the amortization of capitalized software costs. Approximately \$350,000 of fiscal 1995 amortization is as a result of the Company's revision of the remaining estimated economic life of previously capitalized development costs, resulting in acceleration of the amortization of these assets.

VASCO CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 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 and Long-Lived Assets

The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of SFAS No. 107, Disclosures about 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, 1996 and 1995, except for notes payable and long-term debt, for which the fair value is not determinable.

## 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 25, "Accounting for Stock Issued to Employees," and provide pro forma net income and earnings per share 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 25 and provide the pro forma disclosures of SFAS No. 123.

## 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.

## Goodwill

Goodwill is amortized on a straight-line basis over the expected period to be benefited, which is seven years. Adjustments to the carrying value of goodwill are made if the sum of expected future undiscounted net cash flows from the business acquired is less than the book value of goodwill.

## Income (Loss) per Common Share

Income (loss) per common share in fiscal 1994, 1995 and 1996 has been computed using the weighted average number of common shares outstanding during the year. Common stock equivalents and the effect of conversion of preferred stock have been excluded from the calculation of loss per common share for fiscal 1995 and 1996 as such items are anti-dilutive. Income per common share in 1994 is computed considering the dilutive effect of common stock equivalents, consisting primarily of options.

VASCO CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Reclassifications and Restatement

Certain prior year balances have been reclassified to conform to the 1996 presentation. Based on an analysis of information not previously considered, management has determined that certain accounts receivable were doubtful of collection and a certain sale should be deferred as of December 31, 1994. As a result, the Company has restated the accompanying 1994 financial statements, the effect of which was to decrease net income by \$80,000.

NOTE 2 -- ACQUISITIONS

Effective March 1, 1996, the Company acquired a 15% interest in Lintel NV (Lintel). On June 1, 1996, the Company acquired the remaining 85% of Lintel. Lintel, located in Brussels, Belgium, was a developer of security technologies for personal computers, computer networks and telecommunications systems, using cryptographic algorithms such as DES and RSA. The results of Lintel's operations are included in the Company's consolidated statement of operations from March 1, 1996 with minority interest being reflected in other expense in the consolidated statement of operations for the period from March 1, 1996 to June 1, 1996. The purchase price was \$4,432,000, consisting of \$289,482 in cash, \$747,500 in 8% convertible notes payable due May 30, 1998 and convertible to common stock at a rate of \$7.00 per share, 428,574 shares of the Company's common stock valued at \$7.00 per share, and 100,000 purchase warrants for the Company's common stock at an exercise price of \$7.00. The warrants were recorded at their fair value on the date of grant.

The acquisition of Lintel was accounted for as a purchase and, accordingly, the acquired assets have been recorded at their estimated fair values at the date of the acquisition. Acquired in-process research and development in the amount of \$2,900,000 was expensed during 1996 in conjunction with the acquisition, based upon an independent third-party valuation. Goodwill related to this transaction was \$387,000, which is being amortized over a period of seven years.

Effective July 1, 1996, the Company acquired Digipass s.a. (Digipass). Digipass, located in Belgium, was a developer of security technologies for personal computers, computer networks and telecommunications systems using the DES cryptographic algorithm. Prior to the Company's acquisition of Digipass, the assets of the interactive voice response (IVR) business of Digiline SA were transferred to Digipass. Digipass' IVR products are used primarily in telebanking applications and in corporate authentication and access control technology. The purchase price was \$8,200,000, with \$4,800,000 being paid at the effective date of the acquisition, and the balance of \$3,400,000 due on or before December 31, 1997 (see Note 13).

The acquisition of Digipass was accounted for as a purchase and, accordingly, the acquired assets and liabilities have been recorded at their estimated fair values at the date of the acquisition. Acquired in-process research and development in the amount of \$4,451,000 was expensed during 1996, based upon an independent third-party valuation. Goodwill related to this transaction was \$491,000, which is being amortized over a period of seven years. The results of operations for Digipass have been included in the consolidated statement of operations subsequent to July 1, 1996.

Other assets, resulting from the acquisitions of Lintel and Digipass, are comprised of the following at December 31, 1996 (net of accumulated amortization):

Software and hardware technology.....	\$1,540,417
Workforce.....	514,167
Customer lists.....	498,524
	-----
	\$2,553,108
	=====



VASCO CORP.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Software and hardware technology is being amortized over a period of three to four years while workforce and customer lists are being amortized over a period of seven years. Amortization of these assets was \$374,892 for the year ended December 31, 1996.

The following unaudited pro forma summary presents the Company's results of operations as if the acquisitions had occurred at the beginning of 1996. This summary is provided for informational purposes only. It does not necessarily reflect the actual results that would have occurred had the acquisitions been made as of those dates or of results that may occur in the future.

	1996
	----
Total revenues.....	\$13,654,420
Net loss.....	(9,507,076)
Net loss per common share.....	(0.53)

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,	
	-----	
	1995	1996
	----	----
Component parts.....	\$ 260,243	\$ 338,325
Work-in-process and finished goods.....	72,915	1,998,286
Obsolescence reserves.....	(113,585)	(153,868)
	-----	-----
	\$ 219,573	\$2,182,743
	=====	=====

The Company uses multiple suppliers for the microprocessors used in the production of hardware products, as well as for the assembly of the products. The microprocessors are the only components of the Company's hardware devices that would be considered non-commodity items and may not be readily available on the open market. There is, however, an inherent risk associated with each supplier of microprocessors. In order to increase orders of microprocessors a lead time of 12 weeks is typically needed. The Company maintains a sufficient inventory of all parts to handle short-term spikes in order quantities.

NOTE 4 -- OTHER ACCRUED EXPENSES

Other accrued expenses are comprised of the following:

	DECEMBER 31,	
	-----	
	1995	1996
	----	----
Accrued expenses.....	\$ 7,264	\$330,919
Accrued interest.....	22,967	126,966
Accrued payroll.....	10,555	--
Accrued dividends.....	1,566	196,977
Professional fees.....	30,000	--
Other.....	29,720	3,222
	-----	-----
	\$102,072	\$658,084
	=====	=====

VASCO CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE 5 -- INCOME TAXES

At December 31, 1996, the Company has net operating loss carryforwards approximating \$1,626,000. Such losses are available to offset future taxable income at VASCO CORP. and its U.S. subsidiary and expire in varying amounts beginning in 2010 and continuing through 2011. In addition, if certain substantial changes in the Company's ownership should occur, there would be an annual limitation on the amount of the carryforward which could be utilized. In fiscal 1994 and 1995, the Company had no current tax provision due to the utilization of approximately \$96,000 and \$66,000 respectively, of loss carryforward benefits.

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

	FOR THE YEAR ENDED DECEMBER 31,		
	1994	1995	1996
	-----	-----	-----
Federal statutory income tax rate.....	34.0%	(34.0)%	(34.0)%
State income taxes, net of federal benefit.....	4.5	(4.6)	(4.8)
Adjustment of prior year accrual.....	--	(2.8)	--
Valuation allowance.....	--	--	37.8
Other, net.....	0.6	0.1	1.1%
	-----	-----	-----
	39.1%	(41.3)%	0.1%
	=====	=====	=====

The deferred income tax balances are comprised of the following:

	DECEMBER 31,	
	1995	1996
	-----	-----
Deferred tax assets:		
Net operating loss carryforward.....	\$358,000	\$631,000
Inventory.....	45,000	60,000
Accounts receivable.....	72,000	175,000
Fixed assets.....	--	44,000
Other.....	31,000	4,000
	-----	-----
Total gross deferred income tax assets.....	506,000	914,000
Less valuation allowance.....	--	(631,000)
	-----	-----
Net deferred income tax assets.....	506,000	283,000
Deferred tax liabilities:		
Research and development costs.....	(61,000)	--
	-----	-----
Net deferred income taxes.....	\$445,000	\$283,000
	=====	=====

The net change in the total valuation allowance for the years ended December 31, 1995 and 1996 was \$-0- and an increase of \$631,000, 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. This assessment was performed considering the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. The Company has determined that it is more likely than not that \$283,000 of deferred tax assets will be realized. The remaining valuation allowance of \$631,000 is maintained on deferred tax assets which the Company has not determined to be more likely than not realizable at this time. This valuation allowance will be reviewed on a regular basis and adjustments made as appropriate.

VASCO CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE 6 -- DEBT

Debt consists of the following:

	DECEMBER 31,	
	1995	1996
Bank notes, interest payable at prime plus 1%.....	\$ 664,050	\$ --
Stockholder loan, interest payable at prime plus 1%.....	190,000	--
Convertible stockholder note, interest payable at 9%.....	--	5,000,000
Convertible notes, interest payable at 8%.....	--	713,750
Note related to Digipass acquisition, interest payable at 5.33%.....	--	3,400,000
Installment notes payable.....	--	88,578
Installment notes payable, secured by certain equipment of the Company.....	16,936	2,582
	-----	-----
	870,986	9,204,910
Less current maturities and notes payable.....	(863,728)	(3,491,160)
	-----	-----
Long-term debt.....	\$ 7,258	\$5,713,750
	=====	=====

The Company borrowed \$130,000 from its principal stockholder in fiscal 1995, increasing the total amount outstanding to that stockholder at December 31, 1995 to \$190,000. Interest on this note was the prime rate (8.5% at December 31, 1995) plus 1%. The amount was paid in full in 1996.

In September 1995, the Company entered into a \$1.2 million credit facility with a bank consisting of a \$700,000 note due February 29, 1996 and a \$500,000 note due June 30, 1996. The \$700,000 note is secured by separately identifiable export-related accounts receivable and inventory. This note is guaranteed by the principal stockholder. The \$500,000 note is secured by all of the tangible assets of the Company, with \$250,000 guaranteed by the principal stockholder. Both notes bear interest at the prime rate plus 1%. Amounts outstanding at December 31, 1995 were \$599,530 and \$64,520 under each respective note. This credit facility was paid in full in 1996 and not renewed. The Company is currently investigating additional capital formation alternatives including the issuance of additional debt and/or the sale of equity securities (see Note 13). The Company will continue to explore all capital formation alternatives that will facilitate growth within the parameters set forth by its Board of Directors.

During 1996, the Company acquired two companies located in Europe (see Note 2). To facilitate the first acquisition, Lintel, one component of the purchase price was represented by two convertible notes payable in the amount of \$373,750 (\$747,500 total) due May 30, 1998. The notes are convertible at the holders' option at a rate of \$7.00 per share of common stock. In October 1996, one of these notes was paid down by \$33,750, leaving the balance of \$713,750 at December 31, 1996. Each of these notes bears an interest rate of 8%, with interest payments made on a quarterly basis. At the holders' option, the interest may be paid either in cash or in common stock of the Company. In calculating the shares of common stock to be issued in lieu of cash interest, the average closing price for the Company's common stock for the previous 20 trading days is used.

The consideration related to the 1996 Digipass acquisition included a note payable in the amount of \$3,400,000 due December 31, 1997 (see Note 13). This note bears interest at an effective rate of 5.33%, with interest payments payable monthly beginning January 1, 1997. The Company has a bank guarantee on this note for which it pays 2% annually on the outstanding note balance.

During 1996, the Company continued to raise capital privately, including a private placement consisting of the issuance of 666,666 shares of common stock and a \$5,000,000 convertible note due May 28, 2001. The note bears interest at 9%, with interest payable to the holder on a quarterly basis. The holder may, at its option, elect to receive interest payments in cash or common stock. In calculating the shares of common stock to be

VASCO CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

issued in lieu of cash interest, the average closing price for the Company's common stock for the previous 20 trading days is used.

Aggregate maturities of debt at December 31, 1996 are as follows:

1997.....	\$3,491,160
1998.....	713,750
1999.....	--
2000.....	--
2001.....	5,000,000
	-----
Total.....	\$9,204,910
	=====

Interest expense to stockholders was \$9,600, \$12,900 and \$265,565 for the years ended December 31, 1994, 1995 and 1996, respectively.

NOTE 7 -- STOCKHOLDERS' EQUITY

Preferred Stock

The Company has the authority to issue 500,000 shares of preferred stock of which 317,181 have been designated Series A, 8% convertible preferred stock and 9,500 have been designated Series B, 12% convertible preferred stock. The remaining 173,319 shares are undesignated.

The Series A, 8% convertible preferred stock (Series A Shares) consists of 317,181 shares that carry a cumulative dividend, payable upon conversion, of 8% per annum. During 1996, 200,000 Series A Shares were converted into 1,333,333 shares of common stock, leaving 117,181 Series A Shares outstanding at December 31, 1996. The remaining shares are convertible at the option of the holder, at any time, into 781,206 shares of common stock. The holder of the Series A Shares is entitled to cast that number of votes per share as is equal to the number of full shares of common stock into which shares are convertible. Cumulative dividends, which become payable upon conversion of the Series A Shares, have been accrued in the Company's financial statements.

The Series B, 12% convertible preferred stock (Series B Shares) consists of 9,000 shares that carry a cumulative dividend, payable monthly, of 12% per annum based on a liquidation value of \$100 per share. The Series B Shares are convertible, at the option of the holders or the Company, into shares of the Company's common stock, at a price per share determined by dividing the liquidation value of such shares, or \$100, by 50% of the average of the bid and ask price of the Company's common stock for 20 days prior to the conversion date. Dividends are payable monthly at the rate of 1% per month, provided that if dividends are delinquent for more than a month, and for so long as such delinquency continues, the monthly dividend rate shall be 1.5%. In addition, holders of the Series B Shares have the right, with proper notice, to purchase common stock in satisfaction of accrued and unpaid dividends at a price per common share determined by dividing the accrued and unpaid dividends by 50% of the average of the bid and ask price of the Company's common stock for 20 days prior to the notice of such shareholder to purchase such shares of common stock. The Series B Shares are non-voting, except with respect to certain amendments changing the terms of such shares or creating any class of preferred stock ranking prior to, or on a parity with the Series B Shares. In addition, if the monthly dividend is more than 30 days in arrears and remains in arrears, after proper notice by a holder of Series B Shares, a majority of the holders of such shares shall be entitled to elect a majority of the Board of Directors until the default in the dividend payments has been paid in full. Of the total Series B Shares outstanding, 4,000 shares are convertible after March 1997 and the remaining 5,000 shares are convertible after September 1997. Total issue fees and costs have been netted against proceeds from the placement.

VASCO CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Common Stock

During 1996, the Company reissued 287,923 shares of treasury stock, issued 140,651 shares of common stock and 100,000 warrants to purchase one share of common stock at \$7.00 as a part of the acquisition of Lintel (see Note 2). In addition, the Company continued to raise money through private placements of its common stock. In the first quarter of 1996, the Company privately placed 167,482 shares of common stock and 83,741 warrants to purchase one share of common stock at \$6.00, generating \$284,720 in net proceeds. The warrants are exercisable at the option of the holder, however, the Company maintains the right to require exercise of the warrants 30 days prior to a public offering of the Company's stock.

During the second quarter of 1996, the Company placed 666,666 shares of common stock with 137,777 warrants to purchase one share of common stock at \$4.50. Total issue fees and costs of \$170,000 have been netted against \$3,000,000 of proceeds from the placement in the Company's financial statements. In addition, 55,555 shares of common stock and 8,889 warrants to purchase one share of common stock at \$4.50 were issued as commissions related to the placement.

The Company raised additional funds in a private placement of 237,060 shares of common stock with 35,329 warrants to purchase one share of common stock at \$4.50. Total issue fees and costs of \$47,885 have been netted against the \$1,066,770 in total proceeds from the placement in the Company's financial statements. In addition, 16,489 shares of common stock were issued as commissions related to the placement.

Additional common stock transactions during 1996 were as follows: 1,333,333 shares of common stock were issued pursuant to the conversion of 200,000 shares of Series A preferred stock; 22,500 shares of common stock were issued as a result of the exercise of options under the Company's incentive stock option plan (see Note 8) for total proceeds of \$5,238; and 20,021 shares of common stock were issued in lieu of an interest payment in the amount of \$118,750 related to the private debt placement that occurred during 1996 (see Note 6).

During 1995, the Company reissued from treasury and privately placed 108,676 equity units, each consisting of two shares of common stock with one warrant to purchase one share of common stock at \$6.00. The warrants are exercisable at the option of the holder, however, the Company maintains the right to require exercise of the warrants 30 days prior to a public offering of the Company's stock. Total issue fees and costs have been netted against the proceeds from the placement in the Company's financial statements. Included in the 108,676 equity units are 53,000 equity units subject to redemption at a price of \$7.00 per share, or \$14.00 per equity unit. In March 1997, 17,664 of these equity units were redeemed at \$14.00 per equity unit, with 70,667 warrants to purchase one share of common stock at \$5.19 being issued to the holders of the redeemed units.

During 1995, the Company also reissued 250,975 shares of treasury stock and issued 50,000 shares of common stock to certain key employees, including 43,175 to the principal stockholder. Compensation expense of \$75,244 was recorded based on the fair market value of the shares at the date of issuance. A further 50,000 shares of common stock were issued and 445,000 shares of treasury stock reissued as a result of the exercise of options under the Company's incentive stock option plan (see Note 8) for total proceeds of \$96,000.

NOTE 8 -- STOCK OPTION PLAN

The Company's 1987 Stock Option Plan, as amended, (Option Plan) is designed and intended as a performance incentive. The Option Plan is administered by the Compensation Committee as appointed by the Board of Directors of the Company (Compensation Committee).

The Option Plan permits the grant of options to employees of the Company to purchase shares of common stock intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (Code). All options granted to employees are for a period of ten years, are granted at a

VASCO CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

price equal to the fair market value of the common stock on the date of the grant and are vested 25% on the date of grant and an additional 25% on each subsequent anniversary of the grant.

The Option Plan further permits the grant of options to directors, consultants and other key persons (non-employees) to purchase shares of common stock not intended to qualify as incentive stock options under the Code. All options granted to non-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 may contain vesting requirements and/or restrictions as determined by the Compensation Committee at the time of grant. These options are vested 50% six months from the date of grant and the remaining 50% on the first anniversary of the date of grant.

During 1996, the Compensation Committee increased the shares authorized under the Option Plan by 500,000 to 3,000,000.

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Option Plan. Had compensation cost for the Option 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:

	DECEMBER 31,	
	1995	1996
	-----	-----
Net loss available to common stockholders		
As reported.....	\$(465,293)	\$(9,348,769)
Pro forma.....	(472,846)	(9,542,493)
Net loss per common share		
As reported.....	\$ (0.03)	\$ (0.53)
Pro forma.....	(0.03)	(0.54)

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 fiscal 1995 and 1996: dividend yield of 0%; expected volatility of 50%; risk free interest rates ranging from 6.29% to 7.58%; and expected lives of five years.

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

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE PRICE	OPTIONS EXERCISABLE	WEIGHTED AVERAGE PRICE
	-----	-----	-----	-----
Outstanding at December 31, 1993.....	2,138,211	\$0.20	2,010,086	\$0.20
Granted.....	235,000	0.25		
Exercised.....	(100,000)	0.38		
Forfeited.....	(424,954)	0.19		
	-----	-----	-----	-----
Outstanding at December 31, 1994.....	1,848,257	0.20	1,761,382	0.19
Granted.....	411,000	0.20		
Exercised.....	(495,000)	0.18		
Forfeited.....	(338,875)	0.18		
	-----	-----	-----	-----
Outstanding at December 31, 1995.....	1,425,382	0.20	1,232,257	0.20
Granted.....	335,000	4.65		
Exercised.....	(22,750)	0.23		
Forfeited.....	(76,000)	2.14		
	-----	-----	-----	-----
Outstanding at December 31, 1996.....	1,661,632	\$1.01	1,299,757	\$0.57
	=====	=====	=====	=====

VASCO CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 1996:

RANGE OF EXERCISE PRICES	NUMBER OF SHARES	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
		WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
\$4.25 - 6.00	301,500	9.35 years	\$4.65	104,000	\$4.84
\$.125 - .375	1,360,132	4.38 years	\$0.20	1,195,757	\$0.20

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, 1994, 1995 and 1996.

NOTE 10 -- GEOGRAPHIC AND CUSTOMER INFORMATION

During 1994, 1995 and 1996, sales to one customer (a reseller of the Company's products) aggregated approximately \$1,209,000, \$2,259,000 and \$4,475,000, respectively, representing 45%, 61% and 44% of the total revenues, respectively. Accounts receivable from this customer represented 87% and 31% of the Company's gross accounts receivable balance at December 31, 1995 and 1996, respectively. Sales to foreign customers, primarily located in Europe, aggregated \$1,296,000, \$2,333,000 and \$9,730,000 for the years ended December 31, 1994, 1995 and 1996, respectively.

Information regarding geographic areas for the year ended December 31, 1996 is as follows:

	UNITED STATES	FOREIGN	ELIMINATIONS	TOTAL
Sales to unaffiliated customers	\$ 462,018	\$ 9,730,467		\$10,192,485
Operating loss	(2,918,615)	(5,738,899)	\$ (440)	(8,657,954)
Identifiable assets	12,737,569	8,755,951	(9,125,965)	12,367,555

NOTE 11 -- COMMITMENTS AND CONTINGENCIES

The Company leases office space and equipment under operating lease agreements expiring at various times through 1998.

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

YEAR	AMOUNT
1997	\$182,000
1998	61,000
	-----
	\$243,000
	=====

Rent expense under operating leases aggregated approximately \$54,000, \$60,000 and \$158,000 for the years ended December 31, 1994, 1995 and 1996, respectively.

The Company is subject to legal proceedings and claims which have arisen in the ordinary course of its business and have not been finally adjudicated. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material adverse impact on the financial position of the company.

VASCO CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 12 -- INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods. All such adjustments are of a normal recurring nature. The interim results are not necessarily indicative of those for the full year.

NOTE 13 -- SUBSEQUENT EVENTS

On March 13, 1997, the Company entered into an original equipment manufacturer agreement with Netscape to purchase and resell Netscape products. The term of the agreement is for one year and contains a guaranteed minimum purchase requirement by the Company in the amount of \$840,000, payable in quarterly installments.

On May 1, 1997, the Company entered into a distributor agreement with HUCOM, Inc. to provide HUCOM with the exclusive rights to market the Company's products throughout Japan. The agreement calls for a guaranteed minimum purchase requirement by HUCOM of \$500,000 for 1997 and \$1,000,000 for 1998.

On June 5, 1997, the Company entered into a software licensing agreement with Shiva Corporation. The Company licensed a security server software marketed as VACMan (VASCO Access Control Manager) from Shiva on a royalty basis. In addition, the agreement calls for the Company and Shiva to co-develop additional products which will be sold by both companies.

On June 27, 1997, the Company entered into a new financing agreement with a European bank. The new agreement provides for \$2.5 million in financing, matures on September 30, 1998, bears interest at a rate of 3.25% annually and is convertible into common stock of the Company at the option of the bank. The proceeds of the financing will be used for general corporate purposes.

On August 20, 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. The note matures on September 30, 2002 and bears interest at a rate of 3.25% annually. In addition, the note is convertible into common stock of the Company at the option of the bank.



LINTEL NV  
BELGIUM

FINANCIAL STATEMENTS INCLUDING  
REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 1995

F-30

## REPORT OF INDEPENDENT ACCOUNTANTS

February 27, 1997

To the Board of Directors and Shareholders  
of Lintel NV  
Chaussee de Courcelles 113  
6041 Charleroi  
Belgium

We have audited the accompanying statement of financial position of Lintel NV as of December 31, 1995 and the related statements of operations, cash flows and accumulated deficit, expressed in thousands of Belgian francs, for the years ended December 31, 1995 and 1994. These financial statements were prepared using accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audit 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 includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements expressed in thousands of Belgian francs present fairly, in all material respects, the financial position of Lintel NV as of December 31, 1995 and the results of its operations and cash flows for the years ended December 31, 1995 and 1994 in conformity with accounting principles generally accepted in the United States of America.

Yours faithfully  
Price Waterhouse and Partners

/s/ L. Hellebaut

L. Hellebaut

## LINTEL NV

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 1995  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

	BEF 000
	-----
ASSETS	
CURRENT ASSETS	
Cash.....	2,890
Accounts receivable -- trade.....	15,089
Inventories (note 2).....	3,075
Other current assets.....	1,515
	-----
Total current assets.....	22,569
Property, plant and equipment (note 3).....	1,296
Other assets.....	242
	-----
TOTAL ASSETS.....	24,107
	=====
LIABILITIES AND STOCKHOLDER'S DEFICIT	
CURRENT LIABILITIES	
Accounts payable.....	15,375
Short-term debt (note 4).....	785
Income taxes payable (note 12).....	--
Other accounts payable and accrued expenses (note 5).....	6,949
	-----
Total current liabilities.....	23,109
Long term debt (note 6).....	4,215
	-----
Total liabilities.....	27,324
	-----
STOCKHOLDER'S DEFICIT	
Common stock (note 7).....	7,700
Accumulated deficit (note 8).....	(10,917)
	-----
Total Stockholder's Deficit.....	(3,217)
	-----
TOTAL LIABILITIES AND STOCKHOLDER'S DEFICIT.....	24,107
	=====

The accompanying notes 1 to 9 are an integral part of these financial statements.

## LINTEL NV

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

	1995 BEF 000 -----	1994 BEF 000 -----
Net sales -- trade.....	46,134	55,599
Cost of goods sold.....	(30,341)	(28,186)
Selling, general and administrative expenses.....	(22,027)	(20,778)
Depreciation and amortisation.....	(954)	(3,011)
Total operating costs.....	(53,322)	(51,975)
Income/(loss) from operations.....	(7,188)	3,624
Interest expense.....	(1,199)	(1,355)
Exchange gains.....	385	--
Other losses.....	(45)	(92)
Income/(loss) before income taxes.....	(8,047)	2,177
Income taxes (note 9).....	491	(561)
Net income/(loss) for the year.....	(7,556) =====	1,616 =====

The accompanying notes 1 to 9 are an integral part of these financial statements.

## LINTEL NV

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

	1995 BEF 000	1994 BEF 000
	-----	-----
Cash flows from operating activities:		
Net income/(loss).....	(7,556)	1,616
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortisation.....	954	3,011
(Increase)/decrease in accounts receivable.....	509	(8,578)
Increase in inventories.....	(1,644)	(62)
(Increase)/decrease in other assets.....	(912)	2,663
Increase in accounts payable.....	9,690	1,212
(Decrease)/increase in other payables and accrued expenses.....	(1,800)	1,788
Net cash used in operating activities.....	(759)	1,650
	-----	-----
Cash flows from investing activities:		
Capital expenditures.....	(787)	(533)
Net cash used in investing activities.....	(787)	(533)
	-----	-----
Cash flows from financing activities:		
Principal repayments of long-term debt.....	(645)	(836)
Net borrowings under line-of-credit arrangements.....	566	246
Net cash used in financing activities.....	(79)	(590)
	-----	-----
Net increase/(decrease) in cash.....	(1,625)	527
Cash at the beginning of the year.....	4,515	3,988
	-----	-----
Cash at the end of the year.....	2,890	4,515
	=====	=====

The accompanying notes 1 to 9 are an integral part of these financial statements.

## LINTEL NV

STATEMENTS OF THE ACCUMULATED DEFICIT FOR THE YEARS ENDED DECEMBER 31  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

	1995	1994
	BEF 000	BEF 000
	-----	-----
Balance, beginning of year.....	(3,361)	(4,977)
Net income/(loss) of the year.....	(7,556)	1,616
	-----	-----
Balance, end of the year.....	(10,917)	(3,361)
	=====	=====

The accompanying notes 1 to 9 are an integral part of these financial statements.

## LINTEL NV

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED  
DECEMBER 31, 1995 AND 1994  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

## NOTE 1 -- OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lintel NV, a Belgian limited company incorporated on December 20, 1983, manufactures and distributes computer security products primarily in Europe. The entity provides companies with generic, cryptographic products to safeguard the handling and transfer of electronic data against fraud and intrusion. Their products consist of public algorithms for data protection in financial and commercial applications. End-users are software houses, OEM's and others looking to integrate encryption modules or tools into their products or systems.

49% and 22% of the company's sales for 1995 and 1994 respectively, were to one customer, a major Dutch financial institution, who represented approximately 80% of trade receivables at December 31, 1995. Management maintains a close relationship with the customer's management, has never experienced any collection problems to date and does not anticipate any problems in collecting currently outstanding receivables.

On March 1, 1996, the assets and liabilities of the company were sold to a newly incorporated limited company named Lintel Security NV, which was subsequently acquired by VASCO Data Security International Inc.

## PERVASIVENESS OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

## REVENUE RECOGNITION

Revenues from the sale of products are recorded upon shipment of goods, assuming collectibility is reasonably assured, and are reported net of value-added taxes, discounts and allowances. The principal elements of cost of goods sold are components and manufacturing costs.

## TRANSLATION OF FOREIGN CURRENCY

Foreign currency transactions are recorded in Belgian francs at the exchange rates approximating those prevailing at the time of the transactions. Unsettled transactions are translated into Belgian francs at period-end rates. Gains and losses resulting from setting and remeasuring foreign currency transactions are recognized in income currently.

## PROPERTY, PLANT AND EQUIPMENT

Expenditures for property, plant and equipment are recorded at cost. Maintenance, repairs and minor renewals are expensed when incurred.

Depreciation is computed, using the straight-line method, over the estimated useful lives of the assets, ranging from 3 to 5 years.

## LINTEL NV

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED  
 DECEMBER 31, 1995 AND 1994  
 (EXPRESSED IN THOUSANDS OF BELGIAN FRANCS) -- (CONTINUED)

## INVENTORIES

Inventories, consisting principally of chips and cards, are stated at the lower of cost or market value. Cost is determined using the first-in first-out (FIFO) method. When required, appropriate provisions are made for obsolete and slow-moving items.

## RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred prior to establishment of technological feasibility are charged to operations. Research and development costs for 1995 and 1994 were BEF 3,650,000, and BEF 2,008,000, respectively. Software development costs incurred subsequently to establishment of technological feasibility were not material.

## INCOME TAXES

The company accounts for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been reported in the company's financial statements or tax returns. In estimating future tax consequences, the company considers all expected future events other than changes in tax law or rates.

## NOTE 2 -- INVENTORIES

	31/12/1995
	-----
Goods for Resale.....	3,075

## NOTE 3 -- PROPERTY, PLANT AND EQUIPMENT

	31/12/1995
	-----
Furniture.....	3,330
Vehicles.....	948
	-----
	4,278
Less accumulated depreciation.....	(2,982)
	-----
	1,296
	=====

## NOTE 4 -- SHORT-TERM DEBT

Short-term debt represents short-term borrowings, overdrafts and current maturities of long-term debt with credit institutions.

## NOTE 5 -- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31/12/1995
	-----
Amounts payable to directors.....	2,601
Accrued charges.....	573
Credit institutions.....	3,775
	-----
	6,949
	=====



## LINTEL NV

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED  
 DECEMBER 31, 1995 AND 1994  
 (EXPRESSED IN THOUSANDS OF BELGIAN FRANCS) -- (CONTINUED)

Credit institutions include accrued interest on the long term debt.

## NOTE 6 -- LONG-TERM DEBT

	31/12/1995
	-----
NKBK bank loan.....	3,650
Credit institutions.....	565
	-----
	4,215
	=====

On July 5, 1993, Lintel borrowed BEF 2,500,000 from the "Nationale Kas voor Beroepskrediet" (NKBK), in the form of an advance under a 10-year credit facility. The advance is subject to interest at a rate of 9.10 per cent per annum. This rate is subject to revision after the first five years to the extent that the market rate at that time for similar instruments is different by more than 0.50 per cent. No repayments of principal are scheduled for the first five years, during which period the rate of interest is reduced to 5.00 per cent per annum. The advance is repayable in equal quarterly instalments over the second tranche of five years. The nominal rate of interest applicable to this period may also be subject to reduction at the lender's discretion.

On May 18, 1993, Lintel received a further loan of BEF 3,500,000 from the "Nationale Kas voor Beroepskrediet" which is repayable within 5 years and bears interest at the rate of 7.90% per annum.

## NOTE 7 -- COMMON STOCK

Total number of authorised and issued shares amounts to 110. All shares are bearer shares, are fully paid up, have equal voting rights, have no par value and are privately owned.

## NOTE 8 -- ACCUMULATED DEFICIT

Accumulated deficit include reserves amounting to BEF 2,934,000 at December 31, 1994 and BEF 3,350,000 at December 31, 1995.

## NOTE 9 -- INCOME TAXES

The actual income tax expense attributable to earnings for the years ended December 31, 1995 and 1994 differed from the amounts computed by applying the effective Belgian federal tax rate to pre-tax earnings, as follows:

	1995	1994
	----	----
Computed "expected" tax expense (benefit).....	(3,232)	874
Tax effect of permanent differences.....	2,741	499
Prior year adjustments to taxable basis.....	--	(812)
	-----	-----
Provision for income taxes.....	(491)	561
	=====	=====

There are no significant temporary differences between the assets and liabilities reported for tax purposes and those presented in the combined financial statements which would give rise to deferred taxes. The company has no losses available for carry forward under Belgian tax regulations.

DIGIPASS SA AND DIGILINE SA  
BELGIUM

COMBINED FINANCIAL STATEMENTS  
INCLUDING REPORT OF  
INDEPENDENT ACCOUNTANTS

DECEMBER 31, 1995

F-39

February 27, 1997

To the Board of Directors and Shareholders  
of Digipass SA and Digiline SA  
Chaussee de Courcelles 113  
6041 Charleroi  
Belgium

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying combined statement of financial position of Digipass SA and Digiline SA as of December 31, 1995 and the related combined statements of operations, cash flows and accumulated deficit, expressed in thousands of Belgian francs, for the years ended December 31, 1995 and 1994. These financial statements were prepared using accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements expressed in thousands of Belgian francs present fairly, in all material respects, the combined financial position of Digipass SA and Digiline SA as of December 31, 1995 and the combined results of their operations and cash flows for the years ended December 31, 1995 and 1994 in conformity with accounting principles generally accepted in the United States of America.

Yours faithfully  
Price Waterhouse and Partners

/s/ L. Hellebaut

L. Hellebaut

## DIGIPASS SA AND DIGILINE SA

COMBINED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 1995  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

	BEF 000
	-----
ASSETS	
CURRENT ASSETS:	
Cash.....	20,692
Accounts receivable -- trade.....	32,531
Inventories (note 2).....	35,571
Other current assets (note 3).....	27,565
	-----
Total current assets.....	116,359
Property, plant and equipment (note 4).....	39,005
	-----
TOTAL ASSETS.....	155,364
	=====
LIABILITIES AND EQUITY	
CURRENT LIABILITIES:	
Accounts payable -- trade.....	62,797
Income taxes payable.....	3,978
Short-term debt (note 5).....	2,981
Short-term debt to parent company (note 6).....	4,500
Other accounts payable and accrued expenses (note 7).....	29,245
	-----
Total current liabilities.....	103,501
Long-term debt (notes 8 and 9).....	41,100
	-----
TOTAL LIABILITIES.....	144,601
	-----
EQUITY:	
Common stock (note 10).....	14,000
Accumulated deficit (note 11).....	(3,237)
	-----
Total equity.....	10,763
	-----
TOTAL LIABILITIES AND EQUITY.....	155,364
	=====

The accompanying notes 1 to 13 are an integral part of these financial statements.

## DIGIPASS SA AND DIGILINE SA

COMBINED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

	1995 BEF 000	1994 BEF 000
	-----	-----
Net sales -- Trade.....	191,696	113,756
Cost of goods sold.....	(105,688)	(51,614)
Selling, general and administrative expenses.....	(65,112)	(47,909)
Depreciation and amortization.....	(7,848)	(12,343)
Total Operating Costs.....	(178,648)	(111,866)
Income from operations.....	13,048	1,890
Interest expense.....	(3,303)	(2,889)
Exchange gains/(losses).....	5,843	(332)
Other losses.....	(707)	(15)
Income/(loss) before income taxes.....	14,881	(1,346)
Income taxes (note 12).....	(8,896)	(121)
Net income/(loss) for the year.....	5,985	(1,467)
	=====	=====

The accompanying notes 1 to 13 are an integral part of these financial statements.

## DIGIPASS SA AND DIGILINE SA

COMBINED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

	1995 BEF 000	1994 BEF 000
	-----	-----
Cash flows from operating activities		
Net income/(loss).....	5,985	(1,467)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization.....	7,848	12,344
(Increase) in accounts receivable.....	(12,014)	(1,270)
(Increase)/decrease in inventories.....	(24,651)	1,427
(Increase)/decrease in other current assets.....	8,188	(2,136)
Increase in accounts payable.....	17,852	11,367
Increase in income tax payable.....	2,475	1,502
Increase/(decrease) in other accounts payable and accrued expenses.....	15,748	(14,103)
	-----	-----
Net cash provided by operating activities.....	21,431	7,664
	-----	-----
Cash flows from investing activities		
Capital expenditures.....	(1,721)	(2,897)
	-----	-----
Net cash (used in) investing activities.....	(1,721)	(2,897)
	-----	-----
Cash flows from financing activities		
Principal payments under capital lease obligations.....	(3,176)	(3,218)
Net borrowings under line of credit arrangements.....	416	(3,815)
	-----	-----
Net cash (used in) financing activities.....	(2,760)	(7,033)
	-----	-----
Net increase in cash.....	16,951	(2,266)
Cash at the beginning of the period.....	3,741	6,007
	-----	-----
Cash at the end of period.....	20,692	3,741
	=====	=====

The accompanying notes 1 to 13 are an integral part of these financial statements.

DIGIPASS SA AND DIGILINE SA  
 COMBINED STATEMENTS OF ACCUMULATED DEFICIT FOR  
 THE YEARS ENDED DECEMBER 31  
 (EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

	1995 BEF 000 -----	1994 BEF 000 -----
Balance, beginning of year.....	(9,222)	(7,755)
Net income/(loss).....	5,985	(1,467)
	-----	-----
Balance end of year.....	(3,237) =====	(9,222) =====

The accompanying notes 1 to 13 are an integral part of these financial statements.

## DIGIPASS SA AND DIGILINE SA

NOTES TO THE COMBINED FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 1995 AND 1994  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

## NOTE 1 -- OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Digiline SA, a Belgian limited company incorporated on October 27, 1989, develops telephone terminals, to extend the range of telematic applications designed for the general public. Digiline also offers a remote control system for reading water, gas and electricity meters over the public telephone network. Furthermore, Digiline develops various products to support telephone terminals. For several years, Digiline has dedicated resources to the design and manufacture of voice-processing products for the industrial sector. Digiline is a wholly-owned subsidiary of Digiline International SA, a Luxembourg limited company.

Digipass SA, a Belgian limited company incorporated on March 19, 1992, develops devices based on sophisticated encryption techniques, offering a range of security products to identify correspondents and to authenticate exchanges of data and improve security for electronic transactions.

The companies' customers are located primarily in Belgium and the Netherlands and are mainly active in the financial sector. Three customers have each contributed 10% or more of sales in 1995 and 1994 as follows:

	1995	1994
	%	%
	----	----
A.....	23	--
B.....	16	16
C.....	13	--

At December 31, 1995 only customer A above represented 10% or more of trade receivables, namely 20%. Management maintains a close relationship with the customers' management, has never experienced any collection problems to date and does not anticipate any problems in collecting currently outstanding receivables.

## BASIS FOR PREPARATION OF COMBINED FINANCIAL STATEMENTS

On July 1, 1996 Digipass SA acquired all of the assets and liabilities of Digiline SA, except for certain real estate assets and related capital lease obligations. On July 3, 1996, Digiline was acquired by VASCO Data Security International Inc. (VASCO.) Prior to the acquisition by VASCO, Digiline and Digipass were under common control and management. Accordingly, the accompanying combined financial statements include Digipass and Digiline for all periods presented, after elimination of all transactions between the two companies.

## PERVASIVENESS OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect 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.

## REVENUE RECOGNITION

Revenues from the sale of products are recorded upon shipment of goods, assuming collectibility is reasonably assured, and are reported net of value-added taxes, discounts and allowances. The principal elements of the cost of goods sold are components and manufacturing costs.



## DIGIPASS SA AND DIGILINE SA

NOTES TO THE COMBINED FINANCIAL STATEMENTS FOR THE  
 YEARS ENDED DECEMBER 31, 1995 AND 1994 -- (CONTINUED)  
 (EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

## RESEARCH AND DEVELOPMENT COST

Research and development costs incurred prior to establishment of technological feasibility are charged to operations. Research and development costs for 1995 and 1994 were BEF 8,960,000 and BEF 6,879,000, respectively. Software development costs incurred subsequently to establishment of technological feasibility were not material.

## TRANSLATION OF FOREIGN CURRENCY

Foreign currency transactions are recorded in Belgian francs at the exchange rates approximating those prevailing at the time of the transactions. Unsettled transactions are translated into Belgian francs at period-end rates. Gains and losses resulting from the settlement and remeasurement of foreign currency transaction are recognized in income currently.

## PROPERTY, PLANT AND EQUIPMENT

Expenditures for property, plant and equipment are recorded at cost, less the amount of any capital investment grants received. Maintenance, repairs and minor renewals are charged to income as incurred.

Depreciation is computed using the straight-line method, in order to spread the net cost of acquisition over the estimated useful lives of the assets, ranging from 3 to 5 years.

Upon disposition, the cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and the resultant gains or losses, if any, are included in current operations.

## INCOME TAXES

The company accounts for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been reported in the company's financial statements or tax returns. In estimating future tax consequences, the company considers all expected future events other than changes in tax law or rates.

## CASH AND CASH EQUIVALENTS

Cash equivalents include time deposits and highly liquid investments with original maturities of three months or less.

## INVENTORIES

Inventories, consisting principally of chips and cards, are stated at the lower of cost or market value. Cost is determined using the first-in first-out (FIFO) method. When necessary, appropriate provisions are made for potential losses on obsolete and slow-moving items.

## NOTE 2 -- INVENTORIES

	31/12/1995
	-----
Work-in-progress.....	542
Goods for resale.....	34,767
Consumables.....	262
	-----
	35,571
	=====

## DIGIPASS SA AND DIGILINE SA

NOTES TO THE COMBINED FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 1995 AND 1994 -- (CONTINUED)  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

## NOTE 3 -- OTHER CURRENT ASSETS

	31/12/1995
	-----
Grants receivable.....	2,038
Income taxes receivable.....	25
VAT receivable.....	3,405
Prepayments.....	22,097
	-----
	27,565
	=====

Grants receivable comprise governmental incentives receivable for research and development. Prepayments consist mainly of advance payments to suppliers for inventory purchases.

## NOTE 4 -- PROPERTY, PLANT AND EQUIPMENT

	31/12/1995
	-----
Land and buildings.....	36,736
Furniture and fixtures.....	7,148
Machinery and office equipment.....	6,164
	-----
	50,048
Less accumulated depreciation.....	(11,043)
	-----
	39,005
	=====

Depreciation expense totaled BEF 4.3 million and BEF 5.5 million in 1995 and 1994, respectively.

Most of the assets were acquired under capital leases (see note 9). In connection with the acquisition of Digiline by Digipass (see note 1), certain assets recorded under capital leases with a net book value of BEF 37,230,000 were retained by the owner of Digiline.

## NOTE 5 -- SHORT-TERM DEBT

	31/12/1995
	-----
Current maturities of long-term debt.....	2,981
	-----

## NOTE 6 -- SHORT-TERM DEBT TO PARENT COMPANY

On January 21, 1994, Digiline SA obtained a short-term loan from its parent, bearing interest at 8% per annum. The interest expense for each of the years ended December 31, 1995 and 1994 was BEF 360,000.

## DIGIPASS SA AND DIGILINE SA

NOTES TO THE COMBINED FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 1995 AND 1994 -- (CONTINUED)  
(EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

## NOTE 7 -- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31/12/1995
	-----
Advances received from customers.....	17,222
Accrued interest on short-term debt to parent company.....	720
Remuneration and social security costs.....	6,382
VAT payable.....	1,269
Other accrued expenses.....	3,164
Withholding taxes payable.....	488
	-----
	29,245
	=====

## NOTE 8 -- LONG-TERM DEBT

	31/12/1995
	-----
Capitalized lease obligations.....	40,600
Advances received from the state.....	500
	-----
	41,100
	=====

The interest rate related to the capitalized lease obligations amounts to 10% per annum and the obligations are collateralized on the companies' assets.

The advances received from the regional government of Wallonia (Southern Belgium) were to finance research and development activities sub-contracted to universities by Digiline SA. Because the research and development projects proved to be successful under the terms of agreement with the regional government, the advances became repayable. However, to date, no repayment schedule has been determined by the regional government.

## NOTE 9 -- CAPITAL LEASES

The companies lease most of their property, plant and equipment under long-term non-cancelable agreements and have the option to purchase the leased assets for a nominal cost upon termination of the lease agreements.

## DIGIPASS SA AND DIGILINE SA

NOTES TO THE COMBINED FINANCIAL STATEMENTS FOR THE  
 YEARS ENDED DECEMBER 31, 1995 AND 1994 -- (CONTINUED)  
 (EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

Future minimum lease payments for assets held under capital leases as of December 31, 1995 are as follows:

	BEF 000
	-----
1996.....	7,017
1997.....	6,860
1998.....	6,550
1999.....	5,928
2000.....	5,885
Thereafter.....	39,724
	-----
Total minimum lease payments.....	71,964
Less amount representing interest.....	(43,922)
	-----
Present value of net minimum lease payments.....	28,042
Less current maturities.....	(2,426)
	-----
Long-term obligations.....	25,616
	=====

The companies were not party to any operating leases during the years ended 31 December 1995 and 1994.

## NOTE 10 -- COMMON STOCK

	31/12/1995
	-----
Digiline SA.....	10,000
Digipass SA.....	4,000
	-----
	14,000
	=====

Total number of shares of Digiline authorized, issued and outstanding amounts to 1,000. All shares are bearer shares, are fully paid up, have equal voting rights and no par value.

Total number of shares of Digipass authorized, issued and outstanding amounts to 4,000. All shares are bearer shares, are fully paid up, have equal voting rights and no par value.

## NOTE 11 -- ACCUMULATED DEFICIT

The accumulated deficit includes a non-distributable legal reserve amounting to BEF 1,400,000 at December 31, 1995.

## DIGIPASS SA AND DIGILINE SA

NOTES TO THE COMBINED FINANCIAL STATEMENTS FOR THE  
 YEARS ENDED DECEMBER 31, 1995 AND 1994 -- (CONTINUED)  
 (EXPRESSED IN THOUSANDS OF BELGIAN FRANCS)

## NOTE 12 -- INCOME TAXES

The actual income tax expense attributable to earnings for the years ended December 31, 1995 and 1994 differed from the amounts computed by applying the effective Belgian federal tax rate to pre-tax earnings, as follows:

	1995	1994
	----	----
Computed "expected" tax expense (benefit).....	5,978	(540)
Tax effect of disallowed expenses.....	2,578	505
Interest penalty for insufficient prepayments.....	340	156
	-----	-----
Provision for income taxes.....	8,896	121
	=====	=====

There are no significant temporary differences between the assets and liabilities reported for tax purposes and those presented in the combined financial statements which would give rise to deferred taxes. The companies have no losses available for carry forward under Belgian tax regulations.

## NOTE 13 -- DEFINED CONTRIBUTION PLAN

The companies' personnel are covered by a group insurance policy with Swiss Life (Belgium), which is a defined contribution plan. Employees pay an annual contribution of 2% of their annual gross salaries, with a company contribution of 4%. The amount of the companies' contribution was BEF 622,000 and BEF 523,000 for 1995 and 1994, respectively.

DIGIPASS SA AND DIGILINE SA  
FINANCIAL STATEMENTS AS OF AND FOR THE  
SIX MONTHS ENDED JUNE 30, 1996 (UNAUDITED)

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## DIGIPASS SA AND DIGILINE SA

STATEMENT OF THE COMBINED FINANCIAL POSITION AS OF JUNE 30, 1996  
(EXPRESSED IN BELGIAN FRANCS)  
(UNAUDITED)

ASSETS	
CURRENT ASSETS	
Cash.....	25,199,658
Accounts receivable -- trade (net of allowance for doubtful debts of BEF nil).....	41,699,659
Inventories.....	54,780,970
Other current assets.....	18,379,881
	-----
Total current assets.....	140,060,168
Cash guarantees.....	559,942
Other assets.....	2,000,094
Property, plant and equipment.....	35,417,124
	-----
TOTAL ASSETS.....	178,037,328
	=====
LIABILITIES AND EQUITY	
CURRENT LIABILITIES	
Accounts payable -- trade.....	42,832,317
Income tax payable.....	11,356,285
Short-term debt.....	17,145,591
Other accounts payable and accrued expenses.....	42,793,666
	-----
Total current liabilities.....	114,127,859
Long-term debt.....	41,438,376
	-----
TOTAL LIABILITIES.....	155,566,235
	-----
EQUITY	
Common stock.....	14,000,000
Retained earnings.....	8,471,093
	-----
Total equity.....	22,471,093
	-----
TOTAL LIABILITIES AND EQUITY.....	178,037,328
	=====

The accompanying notes are an integral part of these financial statements.

## DIGIPASS SA AND DIGILINE SA

STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1996  
(EXPRESSED IN BELGIAN FRANCS)  
(UNAUDITED)

Net sales -- Trade.....	99,258,399
	-----
Total Operating Revenues.....	99,258,399
Cost of goods sold.....	(47,517,125)
Selling, general and administrative expenses.....	(28,365,575)
Depreciation and amortization.....	(1,979,838)
	-----
Total Operating Costs.....	(77,862,538)
	-----
Income from operations.....	21,395,861
Interest expense.....	(4,672,408)
Exchange gains.....	4,372,110
Other gains.....	3,160
	-----
Income before income taxes.....	21,098,723
Income taxes.....	(8,390,472)
	-----
Net profit.....	12,708,251
	=====

The accompanying notes are an integral part of these financial statements.



DIGIPASS SA AND DIGILINE SA  
 STATEMENTS OF THE CASH FLOWS FOR THE  
 SIX MONTHS ENDED JUNE 30, 1996  
 (EXPRESSED IN BELGIAN FRANCS)  
 (UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income.....	12,708,251
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization.....	1,979,838
Increase in accounts receivable.....	(9,169,134)
Increase in inventories.....	(19,210,468)
Decrease in other current assets.....	9,184,999
Increase in accounts payable.....	(19,963,617)
Increase in income tax payable.....	7,378,092
Increase in other accounts payable and accrued expenses...	13,548,017
Increase in cash guarantees.....	(438,099)
	-----
Net cash used in operating activities.....	(3,982,121)
	-----
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditure in property and equipment.....	(453,885)
Capital expenditure in other assets.....	(60,000)
	-----
Net cash used in investing activities.....	(513,885)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES	
Long-term debt.....	338,225
Short-term debt.....	9,664,544
Dividends paid.....	(1,000,000)
	-----
Net cash provided by financing activities.....	9,002,769
	-----
Net increase in cash.....	4,506,763
Cash at the beginning of the period.....	20,692,895
	-----
Cash at the end of period.....	25,199,658
	=====

The accompanying notes are an integral part of these financial statements.

DIGIPASS SA AND DIGILINE SA  
STATEMENTS OF THE RETAINED EARNINGS FOR THE  
SIX MONTHS ENDED JUNE 30, 1996  
(EXPRESSED IN BELGIAN FRANCS)  
(UNAUDITED)

Balance at the beginning of the period.....	(3,237,158)
Net profit of the period.....	12,708,251
Dividends.....	(1,000,000)
	-----
Balance at the end of the period.....	8,471,093
	=====

The accompanying notes are an integral part of these financial statements.

## DIGIPASS SA AND DIGILINE SA

NOTES TO THE FINANCIAL STATEMENT FOR THE SIX MONTHS ENDED JUNE 30, 1996  
 (EXPRESSED IN BELGIAN FRANCS)  
 (UNAUDITED)

## NOTE 1 -- INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods. All such adjustments are of a normal recurring nature. The interim results are not necessarily indicative of those for the full year.

## NOTE 2 -- OTHER CURRENT ASSETS

Grants receivable.....	3,962,649
Tax receivable.....	24,959
VAT receivable.....	6,873,273
Prepayments and deferred charges.....	7,519,000
	-----
	18,379,881
	=====

## NOTE 3 -- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Advances received on contracts in progress.....	34,539,488
Accrued interests on intercompany loan (8%).....	900,000
Remuneration and social security costs.....	2,460,734
Accrued miscellaneous payables.....	1,993,188
VAT payable.....	2,867,912
Other accrued expenses.....	32,344
	-----
	42,793,666
	=====

SCHEDULE II  
 VASCO CORP.  
 VALUATION AND QUALIFYING ACCOUNTS

ALLOWANCE FOR DOUBTFUL ACCOUNTS FOR TRADE ACCOUNTS RECEIVABLE	BEGINNING BALANCE	BAD DEBT EXPENSE	ACCOUNTS WRITTEN OFF	ENDING BALANCE
-----	-----	-----	-----	-----
Year ended December 31, 1996.....	\$182,000	\$346,000	\$(69,000)	\$459,000
Year ended December 31, 1995.....	96,000	165,000	(79,000)	182,000
Year ended December 31, 1994.....	--	96,000	--	96,000

RESERVE FOR OBSOLETE INVENTORIES	BEGINNING BALANCE	EXPENSE	INVENTORY WRITTEN OFF	ENDING BALANCE
-----	-----	-----	-----	-----
Year ended December 31, 1996.....	\$114,000	\$ 40,000	--	\$154,000
Year ended December 31, 1995.....	15,000	99,000	--	114,000
Year ended December 31, 1994.....	--	15,000	--	15,000

## REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and  
Stockholders of VASCO CORP.:

The audits referred to in our report dated September 11, 1997, included the related financial statement schedule as of December 31, 1996, and for each of the years in the three-year period ended December 31, 1996, included in the Registration Statement. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ KPMG Peat Marwick LLP

Chicago, Illinois  
September 11, 1997

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YOU SHOULD RELY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM WHAT IS CONTAINED IN THIS PROSPECTUS. THIS PROSPECTUS IS DATED / , 1997. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THE PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN SUCH DATE, AND NEITHER THE MAILING OF THE PROSPECTUS TO STOCKHOLDERS NOR THE ISSUANCE OF NEW VASCO SHARES, OPTIONS AND WARRANTS IN THE EXCHANGE OFFER SHALL CREATE ANY IMPLICATION TO THE CONTRARY.

## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law ("DGCL") provides that a corporation may indemnify directors, officers, employees and agents against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement in connection with specified actions, suits, or proceedings whether civil, criminal, administrative, or investigative (other than an action by or in the right of the corporation -- a "derivative action"), if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe their conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification is permitted only for expenses (including attorneys' fees) incurred in connection with the defense or settlement of such action, and the statute requires court approval before there can be any indemnification for expenses where the person seeking indemnification has been found liable to the corporation. The statute provides that it is not exclusive of other indemnification that may be granted by a corporation's charter, bylaws, disinterested director vote, stockholder vote, agreement, or otherwise.

Article V of the Bylaws of Registrant provides that Registrant shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (an "Indemnitee") who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of the Registrant or, while a director or officer of the Registrant, is or was serving at the written request of the Registrant as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such Indemnitee. Notwithstanding the preceding sentence, except as otherwise provided in Section 3 of Article V, the Registrant shall be required to indemnify an Indemnitee in connection with a proceeding (or part thereof) commenced by such Indemnitee only if the commencement of such proceeding (or part thereof) by the Indemnitee was authorized by the Board of Directors.

Section 102(b)(7) of the DGCL permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision may not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL (relating to unlawful dividends or unlawful stock purchases or redemptions, or (iv) for any transaction from which the director derived an improper personal benefit.

Article SIXTH of Registrant's Certificate of Incorporation provides that a director of Registrant shall not be liable to Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law. Any amendment, modification or repeal of Article SIXTH shall not adversely affect any right or protection of a director of Registrant in respect of any act or omission occurring prior to such amendment, modification or repeal.

## ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

## (a) Exhibits

- 3.1 Certificate of Incorporation of Registrant, as amended.
- 3.2 Bylaws of Registrant.
- 4.1 Certificate of Designation, Rights and Preferences of Series B Preferred Stock of Registrant.

- 4.2 Specimen of Registrant's Common Stock Certificate.\*
- 4.3 Specimen of Registrant's Series B Preferred Stock Certificate.\*
- 4.4 Form of Letter of Transmittal and Release.
- 4.5 Form of New VASCO Warrant Agreement.
- 4.6 Form of New VASCO Option Agreement (confirm whether 1 or more form(s) of option agreement(s) required).
- 4.7 Form of New VASCO Convertible Note Agreement.
- 5.1 Opinion of Jenner & Block regarding legality of securities being registered.\*
- 8.1 Opinion of Jenner & Block as to certain tax matters.\*
- 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 CORP., 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 CORP., VASCO Data Security Europe SA/NV, Mario Houthoofdt 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 Houthoofdt and Guy Denudt.
- 10.7 Management Agreement dated January 31, 1997 between LINK BVBA and VASCO Data Security NV/SA (concerning services of Mario Houthoofdt).
- 10.8 Sublease Agreement by and between VASCO CORP. and APL Land Transport Services, Inc. dated as of August 29, 1997.
- 10.9 Office Lease by and between VASCO CORP. 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 sa and Digipass sa 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 CORP. 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 CORP. dated June 20, 1997, as amended.
- 10.19 Financing Agreement between Generale Bank and VASCO CORP. dated as of June 27, 1997.
- 10.20 Letter Agreement between Generale Bank and VASCO CORP. 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 CORP. dated as of August 25, 1997.
- 10.33 Convertible Note dated June 1, 1996 made payable to Mario Houthoof 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 CORP.
- 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 CORP. 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 CORP. 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.
- 23.1 Consent of KPMG Peat Marwick LLP re: Registrant.
- 23.2 Consent of KPMG Peat Marwick LLP re: VASCO CORP.
- 23.3 Consent of Price Waterhouse and Partners.
- 23.4 Consent of Jenner & Block (included in the opinion filed as Exhibit 5.1 to this Registration Statement).\*
- 24.1 Powers of Attorney (included on Signature Pages).
- 99.1 Form of Letter of Chief Executive Officer of Registrant to security/stockholders.
- 99.2 Form of Notice of Guaranteed Delivery.
- 99.3 Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Nominees.
- 99.4 Form of Letter to Clients of Brokers, Dealers, Commercial Banks, Trust Companies and Nominees.

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 \* To be filed by amendment.

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

(b) Financial Statement Schedules

Schedule II -- Valuation and Qualifying Accounts.

Report of KPMG Peat Marwick LLP

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

ITEM 22. UNDERTAKINGS

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any Prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the Prospectus any facts or events arising after the effective date of registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which were registered) and any deviation from the low

or high end of the estimated maximum offering range may be reflected in the form of Prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(3) That, prior to any public reoffering of the securities registered hereunder through use of a Prospectus which is a part of this Registration Statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c) under the Securities Act of 1933, as amended (the "Act"), the issuer undertakes that such reoffering Prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(4) That every Prospectus (i) that is filed pursuant to paragraph (3) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the Registration Statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(5) Insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(6) To respond to requests for information that is incorporated by reference into the Prospectus pursuant to Item 4, 10(b), 11 or 13 of this Form S-4, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request.

(7) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the Registration Statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the Village of Lombard, State of Illinois, on September 12, 1997.

VASCO Data Security International,  
Inc.

By: /s/ T. KENDALL HUNT

-----  
T. Kendall Hunt  
Chairman of the Board, Chief  
Executive  
Officer and President

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

POWER OF ATTORNEY

Each of the undersigned, in his capacity as officer or director, or both as the case may be, of VASCO Data Security International, Inc. does hereby appoint T. Kendall Hunt, Robert E. Anderson and Gregory T. Apple, 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 Registration Statement and any and all amendments and post-effective amendments thereto, and all instruments necessary or incidental in connection therewith and to file the same 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 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 -----	DATE ----
----- /s/ T. KENDALL HUNT ----- T. Kendall Hunt	Chairman of the Board, Chief Executive Officer, President and Director	September 12, 1997
----- /s/ GREGORY T. APPLE ----- Gregory T. Apple	Vice President and Treasurer	September 12, 1997
----- /s/ FORREST D. LAIDLEY ----- Forrest D. Laidley	Secretary and Director	September 12, 1997
----- /s/ ROBERT E. ANDERSON ----- Robert E. Anderson	Director	September 12, 1997
----- /s/ GERALD GUICE ----- Gerald Guice	Director	September 12, 1997
----- /s/ MICHAEL A. MULSHINE ----- Michael A. Mulshine	Director	September 12, 1997

CERTIFICATE OF INCORPORATION  
OF  
VASCO DATA SECURITY INTERNATIONAL, INC.

I, the undersigned, for the purposes of incorporating and organizing a corporation under the General Corporation Law of the State of Delaware (the "General Corporation Law"), do execute this Certificate of Incorporation and do hereby certify as follows:

FIRST. The name of the corporation (hereinafter, the "Corporation") is VASCO Data Security International, Inc.

SECOND. The registered office of the Corporation in the State of Delaware is located at 1209 Orange Street, in the City of Wilmington, County of New Castle 19801, and its registered agent at such address is The Corporation Trust Company.

THIRD. The purpose or purposes of the Corporation shall be to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law.

FOURTH. The total number of shares of stock which the Corporation shall have the authority to issue is Fifty Million Five Hundred Thousand (50,500,000) shares, divided into Fifty Million (50,000,000) shares of Common Stock, par value \$.001 per share (hereinafter referred to as "Common Stock") and Five Hundred Thousand (500,000) shares of Preferred Stock, par value \$.01 per share (hereinafter referred to as "Preferred Stock").

COMMON STOCK

Subject to the rights of any Preferred Stock of any series issued and outstanding, each issued and outstanding share of Common Stock shall entitle the holder thereof to receive such dividends as may be declared from time to time by the Board of Directors of the Corporation (the "Board") out of funds legally available therefor, each issued and outstanding share of Common Stock shall entitle the holder thereof to share ratably in all assets available for distribution to holders of Common Stock in the event of any liquidation, dissolution or winding up of the Corporation, and, except as otherwise provided by law, each issued and outstanding share of Common Stock shall entitle the holder thereof to cast one vote on each matter submitted to a vote of the stockholders of the Corporation.

PREFERRED STOCK

The Board is authorized, subject to limitations prescribed by law and the provisions of this Article FOURTH, to provide for the issuance of the shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of

Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof.

The authority of the Board with respect to each series shall include, but not be limited to, determination of the following: (a) The number of shares constituting that series and the distinctive designation of that series; (b) The dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series; (c) Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights; (d) Whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board shall determine; (e) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates; (f) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund; (g) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, or payment of shares of that series; (h) Any other relative rights, preferences and limitations of that series.

If, upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the assets available for distribution to holders of shares of Preferred Stock of all series shall be insufficient to pay such holders the full preferential amount to which they are entitled, then such assets shall be distributed ratably among the shares of all series of Preferred Stock in accordance with the respective preferential amounts (including unpaid cumulative dividends, if any) payable with respect thereto.

FIFTH. The Board shall have the power to adopt, amend or repeal the by-laws.

SIXTH. A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law as the same exists or may hereafter be amended. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of a director of the Corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

SEVENTH. The powers of the incorporator are to terminate upon the filing of this Certificate of Incorporation with the Secretary of State of the State of Delaware. The names and mailing addresses of the persons who are to serve as the

initial directors of the Corporation until the first annual meeting of stockholders of the Corporation, or until their successors are duly elected and qualified, are:

- T. Kendall Hunt      1919 S. Highland Ave., Suite 118-C  
Lombard, Illinois 60148
  
- Forrest D. Laidley   1919 S. Highland Ave., Suite 118-C  
Lombard, Illinois 60148
  
- Robert A. Anderson   1919 S. Highland Ave., Suite 118-C  
Lombard, Illinois 60148
  
- Gerald Guice        1919 S. Highland Ave., Suite 118-C  
Lombard, Illinois 60148
  
- Michael A. Mulshine   1919 S. Highland Ave., Suite 118-C  
Lombard, Illinois 60148

EIGHTH. The incorporator of the Corporation is Gregory T. Apple, whose mailing address is c/o VASCO CORP., 1919 S. Highland Ave., Suite 118-C, Lombard, Illinois 60148.

The undersigned incorporator hereby acknowledges that the foregoing Certificate of Incorporation is his act and deed on this the 14th day of July, 1997.

/s/ Gregory T. Apple  
-----  
Gregory T. Apple  
Incorporator

CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF INCORPORATION  
OF  
VASCO DATA SECURITY INTERNATIONAL, INC.

-----  
Pursuant to Section 242 of the General  
Corporation Law of the State of Delaware  
-----

VASCO DATA SECURITY INTERNATIONAL, INC., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

FIRST: The Certificate of Incorporation of the Corporation is hereby amended as follows:

The first paragraph of Article FOURTH is amended to read in its entirety as follows:

"FOURTH: The total number of shares of stock which the Corporation shall have the authority to issue is 75,500,000 shares, divided into 75,000,000 shares of common stock, \$.001 par value per share (hereinafter referred to as "Common Stock"), and 500,000 shares of preferred stock, \$.01 par value per share (hereinafter referred to as "Preferred Stock").

SECOND: The amendment to the Certificate of Incorporation effected hereby has been proposed by the Board of Directors of the Corporation and duly adopted by the sole stockholder of the Corporation in accordance with Section 242 of the General Corporation Law of the State of Delaware (the "DGCL") and by written consent of such sole stockholder pursuant to Section 228 of the DGCL.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by its President as of this 11th day of August, 1997.

VASCO DATA SECURITY  
INTERNATIONAL, INC.

By: /s/ T. Kendall Hunt

-----  
T. Kendall Hunt  
President

## VASCO DATA SECURITY INTERNATIONAL, INC.

## BY-LAWS

## ARTICLE I - STOCKHOLDERS

## Section 1. Annual Meeting

To the extent required by applicable law, an annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, on such date, and at such time as the Board of Directors shall each year fix, which date shall be within thirteen months subsequent to the later of the date of incorporation or the last annual meeting of stockholders.

## Section 2. Special Meetings

Special meetings of the stockholders, for any purpose or purposes prescribed in the notice of the meeting, may be called by the Board of Directors or the Chief Executive Officer and shall be held at such place, on such date, and at such time as they or he shall fix.

## Section 3. Notice of Meetings

Written notice of the place, date, and time of all meetings of the stockholders shall be given, not less than ten nor more than sixty days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the General Corporation Law of the State of Delaware or the Certificate of Incorporation).

When a meeting is adjourned to another place, date, or time, written notice need not be given of the adjourned meeting if the place, date, and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that, if the date of any adjourned meeting is more than thirty days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date, and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

## Section 4. Quorum

Except as otherwise provided by law or these by-laws, at each meeting of stockholders the presence in person or by proxy of the holders of a majority in voting power of the outstanding shares of stock entitled to vote at the meeting shall be necessary and sufficient to constitute a quorum. In the absence of a quorum, the chairman of the meeting or the stockholders so present (by a majority in voting power thereof) may adjourn the meeting from time to time in the manner provided in Section 3 of Article I of these by-laws until a quorum shall attend. Shares of its own stock belonging to the corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the corporation,



shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the corporation or any subsidiary of the corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

#### Section 5. Organization

Such person as the Board of Directors may have designated or, in the absence of such a person, the highest ranking officer of the corporation who is present shall call to order any meeting of the stockholders and act as chairman of the meeting. In the absence of the Secretary of the corporation, the secretary of the meeting shall be such person as the chairman appoints.

#### Section 6. Conduct of Business

The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem, to him, in order.

#### Section 7. Proxies and Voting

At any meeting of the stockholders, every stockholder entitled to vote may vote, in person or by proxy.

Each stockholder shall have one vote for every share of stock entitled to vote which is registered in his name on the record date for the meeting, except as otherwise provided herein or required by law.

All voting, except on the election of directors and where otherwise required by law, may be by a voice vote; provided, however, that upon demand therefor by a stockholder entitled to vote or his proxy, a stock vote shall be taken. Every stock vote shall be taken by ballots, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedure established for the meeting. Every vote taken by ballots shall be counted by an inspector or inspectors appointed by the chairman of the meeting.

All elections shall be determined by a plurality of the votes cast, and, except as otherwise required by law, all other matters shall be determined by a majority of the votes cast.

#### Section 8. Stock List

A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order for each class of stock and showing the address of each such stockholder and the number of shares registered in his name, shall be open to the examination of any such stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held.

The stock list shall also be kept at the place of the meeting during the whole time thereof and shall be open to the examination of any such stockholder who is present. This list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

## ARTICLE II - BOARD OF DIRECTORS

### Section 1. Number and Term of Office

The number of directors who shall constitute the whole board shall be such number not less than five nor more than twenty as the Board of Directors shall at the time have designated. Each director shall be elected for a term of one year and until his successor is elected and qualified, except as otherwise provided herein or required by law.

Whenever the authorized number of directors is increased between annual meetings of the stockholders, a majority of the directors then in office shall have the power to elect such new directors for the balance of a term and until their successors are elected and qualified. Any decrease in the authorized number of directors shall not become effective until the expiration of the term of the directors then in office unless, at the time of such decrease, there shall be vacancies on the board which are being eliminated by the decrease.

### Section 2. Vacancies

If the office of any director becomes vacant by reason of death, resignation, disqualification, removal, or other cause, a majority of the directors remaining in office, although less than a quorum, may elect a successor for the unexpired term and until his successor is elected and qualified.

### Section 3. Regular Meetings

Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the Board of Directors and publicized among all directors. A notice of each regular meeting shall not be required.

### Section 4. Special Meetings

Special meetings of the Board of Directors may be called by one-third of the directors then in office or by the Chief Executive Officer and shall be held at such place, on such date, and at such time as they or he shall fix. Notice of the place, date, and time of each such special meeting shall be given each director by whom it is not waived by mailing written notice not less than three days before the meeting or by telegraphing the same not less than eighteen hours before the meeting. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

#### Section 5. Quorum

At any meeting of the Board of Directors, one-third of the total number of the whole board, but not less than two, shall constitute a quorum for all purposes. If a quorum shall fail to attend any meeting, a majority of those present may adjourn the meeting to another place, date, or time without further notice or waiver thereof.

#### Section 6. Participation in Meetings by Conference Telephone

Members of the Board of Directors, or of any committee thereof, may participate in a meeting of such board or committee by means of conference telephone or similar communications equipment that enables all persons participating in the meeting to hear each other. Such participation shall constitute presence in person at such meeting.

#### Section 7. Conduct of Business

At any meeting of the Board of Directors, business shall be transacted in such order and manner as the board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided herein or required by law. Action may be taken by the Board of Directors without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

#### Section 8. Powers

The Board of Directors may, except as otherwise required by law, exercise all such powers and do all such acts and things as may be exercised or done by the corporation, including, without limiting the generality of the foregoing, the unqualified power:

- (1) To declare dividends from time to time in accordance with law;
- (2) To purchase or otherwise acquire any property, rights or privileges on such terms as it shall determine;
- (3) To authorize the creation, making and issuance, in such form as it may determine, of written obligations of every kind, negotiable or non-negotiable, secured or unsecured, and to do all things necessary in connection therewith;
- (4) To remove any officer of the corporation with or without cause and, from time to time, to devolve the powers and duties of any officer upon any other person for the time being;
- (5) To confer upon any officer of the corporation the power to appoint, remove and suspend subordinate officers and agents;

(6) To adopt from time to time such stock option, stock purchase, bonus, or other compensation plans for directors, officers and agents of the corporation and its subsidiaries as it may determine;

(7) To adopt from time to time such insurance, retirement, and other benefit plans for directors, officers and agents of the corporation and its subsidiaries as it may determine; and

(8) To adopt from time to time regulations, not inconsistent with these by-laws, for the management of the corporation's business and affairs.

#### Section 9. Compensation of Directors

Directors, as such, may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including, without limitation, their services as members of committees of the directors.

### ARTICLE III - COMMITTEES

#### Section 1. Committees of the Board of Directors

The Board of Directors, by a vote of a majority of the whole board, may from time to time designate committees of the board, with such lawfully-delegable powers and duties as it thereby confers, to serve at the pleasure of the board and shall, for those committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternative members who may replace any absent or disqualified member at any meeting of the committee. Any committee so designated may exercise the power and authority of the Board of Directors to declare a dividend or to authorize the issuance of stock if the resolution which designates the committee or a supplemental resolution of the Board of Directors shall so provide. In the absence or disqualification of any member of any committee and any alternate member in his place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not he or they constitute a quorum, may by unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member.

#### Section 2. Conduct of Business

Each committee may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided herein or required by law. Adequate provision shall be made for notice to members of all meetings; one-third of the members shall constitute a quorum unless the committee shall consist of one or two members, in which event one member shall constitute a quorum; and all matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of such committee.

## ARTICLE IV - OFFICERS

## Section 1. Generally

The officers of the corporation: (i) shall consist of a President, a Secretary and a Treasurer, and (ii) may also consist of a Chairman of the Board, a Chief Executive Officer, a Chief Operating Officer, one or more Executive Vice Presidents and one or more Vice Presidents, as may from time to time be appointed by the Board of Directors. Officers shall be elected by the Board of Directors, which shall consider that subject at its first meeting after every annual meeting of stockholders. Each officer shall hold his office until his successor is elected and qualified or until his earlier resignation or removal. Any number of offices may be held by the same person.

## Section 2. Chairman of the Board

The Chairman of the Board must be a member of the Board of Directors. The Chairman of the Board shall preside over meetings of the Board of Directors and of the stockholders and perform such other duties as the Board of Directors may designate.

## Section 3. Chief Executive Officer

Subject to the provisions of these by-laws and to the direction of the Board of Directors, the Chief Executive Officer shall have the responsibility for the general management and control of the affairs and business of the corporation and shall perform all duties and have all powers which are commonly incident to the office of chief executive or which are delegated to him by the Board of Directors. He shall have power to sign all stock certificates, contracts and other instruments of the corporation which are authorized. He shall have general supervision and direction of all of the other officers and agents of the corporation.

## Section 4. President

The President shall perform such duties as the Board of Directors or the Chief Executive Officer shall prescribe. In the absence or disability, or a vacancy in the office, of the Chief Executive Officer or the Chief Operating Officer, the President shall perform the duties and exercise the powers of the Chief Executive Officer or the Chief Operating Officer, as the case may be.

## Section 5. Chief Operating Officer

The Chief Operating Officer shall be the chief administrative officer of the corporation, in charge of the operations of the corporation. The Chief Operating Officer shall perform such duties as the Board of Directors or the Chief Executive Officer shall prescribe.

## Section 6. Executive Vice Presidents

Each Executive Vice President shall be senior to each Vice President. Each Executive Vice President shall perform such duties as the Board of Directors or the Chief Executive Officer shall prescribe. In the absence or disability, or a vacancy in the office, of the President, the Executive

Vice President who has served in such capacity for the longest time shall perform the duties and exercise the powers of the President.

#### Section 7. Vice Presidents

Each Vice President shall perform such duties as the Board of Directors or the Chief Executive Officer shall prescribe. In the absence or disability, or a vacancy in the office, of the President, if there are then no Executive Vice Presidents, the Vice President who has served in such capacity for the longest time shall perform the duties and exercise the powers of the President.

#### Section 8. Treasurer

The Treasurer shall have the custody of all monies and securities of the corporation and shall keep regular books of account. He shall make such disbursements of the funds of the corporation as are proper and shall render from time to time an account of all such transactions and of the financial condition of the corporation.

#### Section 9. Secretary

The Secretary shall issue all authorized notices for, and shall keep minutes of, all meetings of the stockholders and the Board of Directors. He shall have charge of the corporate books.

#### Section 10. Delegation of Authority

The Board of Directors may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding any provision hereof.

#### Section 11. Removal

Any officer of the corporation may be removed at any time, with or without cause, by the Board of Directors.

#### Section 12. Action with Respect to Securities of Other Corporations

Unless otherwise directed by the Board of Directors, the President shall have power to vote and otherwise act on behalf of the corporation, in person or by proxy, at any meeting of stockholders of or with respect to any action of stockholders of any other corporation in which this corporation may hold securities, and otherwise to exercise any and all rights and powers which this corporation may possess by reason of its ownership of securities in such other corporation.

### ARTICLE V - RIGHT OF INDEMNIFICATION OF DIRECTORS, OFFICERS AND OTHERS

#### Section 1. Right to Indemnification

The corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (an "Indemnitee") who was

or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of the corporation or, while a director or officer of the corporation, is or was serving at the written request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such Indemnitee. Notwithstanding the preceding sentence, except as otherwise provided in Section 3 of this Article V, the corporation shall be required to indemnify an Indemnitee in connection with a proceeding (or part thereof) commenced by such Indemnitee only if the commencement of such proceeding (or part thereof) by the Indemnitee was authorized by the Board of Directors.

#### Section 2. Prepayment of Expenses

The corporation shall pay the expenses (including attorneys' fees) incurred by an Indemnitee in defending any proceeding in advance of its final disposition, provided, however, that such payment of expenses in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the Indemnitee to repay all amounts advanced if it should be ultimately determined that the Indemnitee is not entitled to be indemnified under this Article V or otherwise.

#### Section 3. Claims

If a claim for indemnification or advancement of expenses under this Article V is not paid in full within sixty (60) days after a written claim therefor by the Indemnitee has been received by the corporation, the Indemnitee may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the corporation shall have the burden of proving that the Indemnitee is not entitled to the requested indemnification or advancement of expenses under applicable law.

#### Section 4. Nonexclusivity of Rights

The rights conferred on any Indemnitee by this Article V shall not be exclusive of any other rights which such Indemnitee may have or hereafter acquire under any statute, provision of the certificate of incorporation, these by-laws, agreement, vote of stockholders or disinterested directors or otherwise.

#### Section 5. Other Sources

The corporation's obligation, if any, to indemnify or to advance expenses to any Indemnitee who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or nonprofit entity shall be reduced by any amount such Indemnitee may collect as indemnification or advancement of expenses from such other corporation, partnership, joint venture, trust, enterprise or non-profit enterprise.

## Section 6. Amendment or Repeal

Any repeal or modification of the foregoing provisions of this Article V shall not adversely affect any right or protection hereunder of any Indemnitee in respect of any act or omission occurring prior to the time of such repeal or modification.

## Section 7. Other Indemnification and Prepayment of Expenses

This Article V shall not limit the right of the corporation, to the extent and in the manner permitted by law, to indemnify and to advance expenses to persons other than Indemnitees when and as authorized by appropriate corporate action.

## ARTICLE VI - STOCK

### Section 1. Certificates of Stock

Each stockholder shall be entitled to a certificate signed by, or in the name of the corporation by, the President or any Executive Vice President or Vice President and by the Secretary or an assistant secretary or the Treasurer or an assistant treasurer, certifying the number of shares owned by him. Any of or all the signatures on the certificate may be facsimile.

### Section 2. Transfers of Stock

Transfers of stock shall be made only upon the transfer books of the corporation kept at an office of the corporation or by transfer agents designated to transfer shares of the stock of the corporation. Except where a certificate is issued in accordance with Section 4 of Article VI of these by-laws, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefor.

### Section 3. Record Date

Subject to applicable law, the Board of Directors may fix a record date, which shall not be more than 60 nor less than 10 days before the date of any meeting of stockholders, nor more than 60 days prior to the time for the other action hereinafter described, as of which there shall be determined the stockholders who are entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof; to express consent to corporate action in writing without a meeting; to receive payment of any dividend or other distribution or allotment of any rights; or to exercise any rights with respect to any change, conversion or exchange of stock or with respect to any other lawful action.

### Section 4. Lost, Stolen or Destroyed Certificates

In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.



## Section 5. Regulations

The issue transfer, conversion, and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

## ARTICLE VII - NOTICES

### Section 1. Notices

Whenever notice is required to be given to any stockholder, director, officer, or agent, such requirement shall not be construed to mean personal notice. Such notice may in every instance be effectively given by depositing a writing in a post office or letter box in a postpaid, sealed wrapper, or by dispatching a prepaid telegram, addressed to such stockholder, director, officer, or agent at his or her address as the same appears on the books of the corporation. The time when such notice is dispatched shall be the time of the giving of the notice.

### Section 2. Waivers

A written waiver of any notice, signed by a stockholder, director, officer or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such stockholder, director, officer or agent. Neither the business nor the purpose of any meeting need be specified in such a waiver.

## ARTICLE VIII - MISCELLANEOUS

### Section 1. Facsimile Signature

In addition to the provisions for the use of facsimile signatures elsewhere specifically authorized in these by-laws, facsimile signatures of any officer or officers of the corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

### Section 2. Corporate Seal

The Board of Directors may provide a suitable seal containing the name of the corporation, which seal shall be in charge of the Secretary. Duplicates of the seal may be kept and used by the Treasurer or by the assistant secretary or assistant treasurer.

### Section 3. Reliance Upon Books, Reports, and Records

Each director, each member of any committee designated by the Board of Directors, and each officer of the corporation shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or other records of the corporation, including reports made to the corporation by any of its officers, by an independent certified public accountant, or by an appraiser selected with reasonable care.

Section 4. Fiscal Year

The fiscal year of the corporation shall be as fixed by the Board of Directors.

Section 5. Time Periods

In applying any provision of these by-laws which requires that an act be done or not done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

ARTICLE IX - AMENDMENTS

Section 1. Amendments

These by-laws may be amended or repealed by the Board of Directors or by the stockholders.

## VASCO DATA SECURITY INTERNATIONAL, INC.

Certificate of Designation,  
Preferences and Rights of Preferred Stock  
by Resolution of the Board of Directors  
Providing for an Issue of  
Ninety-Five Hundred Shares  
of Preferred Stock Designated  
"Series B Preferred Stock"

I, T. Kendall Hunt, Chairman of the Board, Chief Executive Officer and President of VASCO Data Security International, Inc. (hereinafter referred to as the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 151 thereof, DO HEREBY CERTIFY:

That pursuant to authority conferred upon the Board of Directors of the Corporation by the Certificate of Incorporation of said Corporation (hereinafter referred to as the "Certificate of Incorporation") the Board of Directors adopted a resolution providing for the issuance of a series of Preferred Stock, par value \$.01 per share, of the Corporation to be designated "Series B Preferred Stock," which resolution is as follows:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Corporation by the Certificate of Incorporation, a series of Preferred Stock, par value \$.01 per share, of the Corporation be, and hereby is, created, to be designated "Series B Preferred Stock" (hereinafter referred to as the "Series B Preferred Stock"), consisting of Ninety-Five Hundred (9,500) shares, and, to the extent that the powers, preferences and relative and other special rights, and the qualifications, limitations and restrictions thereof, of the Series B Preferred Stock are not stated and expressed in the Certificate of Incorporation, such powers, preferences and relative and other special rights, and the qualifications, limitations and restrictions thereof, are hereby fixed and stated to be as follows (all terms used herein which are defined in the Certificate of Incorporation shall be deemed to have the meanings provided therein):

1. Dividends.

(a) Each holder of record of a share of Series B Preferred Stock shall be entitled to receive, when, as and if declared by the Board, out of funds of the Corporation legally available therefor pursuant to the General Corporation Law (the "Legally Available Funds"), mandatory preferential cumulative dividends during each Monthly Dividend Period (as hereinafter defined) that such share of Series B Preferred Stock is outstanding at a rate determined by multiplying 1% times the Liquidation Preference (as hereinafter defined) of the Series B Preferred Stock. Such dividends shall be payable on the first Business Day (as hereinafter defined) succeeding the last day of the preceding Monthly Dividend Period (each, a

"Dividend Payment Date"). Such dividends shall be fully cumulative and shall accrue on a monthly basis (whether or not declared) from the first day of each Monthly Dividend Period as to which such dividend may be payable as herein provided to the date on which such share of Series B Preferred Stock ceases to be outstanding.

(b) Dividends accrued on the Series B Preferred Stock shall be paid in cash on each Dividend Payment Date, subject to the availability of Legally Available Funds. If at any time the Corporation distributes less than the total amount of dividends then accrued with respect to the Series B Preferred Stock, such payment will be distributed among the holders of shares of Series B Preferred Stock so that an equal amount will be paid (as nearly as possible) with respect to each outstanding share of Series B Preferred Stock. If, for any reason or no reason, for any Monthly Dividend Period all or a portion of the dividends are not paid in cash on or before the Dividend Payment Date next succeeding the Dividend Payment Date on which such dividends were payable, then the rate at which dividends shall be computed shall immediately be increased to 1.5% per month until all accrued but unpaid dividends have been paid in full and such accrued but unpaid dividends shall be added (solely for the purpose of calculating dividends payable on the Series B Preferred Stock) to the Liquidation Preference of the Series B Preferred Stock effective at the beginning of the Monthly Dividend Period succeeding the Monthly Dividend Period as to which such dividends were not paid and shall thereafter accrue additional dividends in respect thereof ("Additional Dividends") at the rate of 1.5% per month until such unpaid dividends have been paid in full. At such time as all accrued but unpaid dividends have been paid in full at the adjusted rate, the dividend rate for future dividends shall return to the initial rate of 1% per month, unless and until the occurrence of a subsequent failure to make in full a monthly dividend payment, at which time the rate of dividends shall immediately be increased in accordance with the preceding sentence.

(c) Each such dividend shall be paid to the holders of record of shares of Series B Preferred Stock as they appear on the stock register of the Corporation on such record date as shall be fixed by the Board or a duly authorized committee thereof, which date shall be not more than 30 days nor less than 10 days preceding the Dividend Payment Date relating thereto.

(d) If dividends (including Additional Dividends) are not paid in full or declared in full and sums are not set apart for the payment thereof upon the Series B Preferred Stock and any other Preferred Stock ranking on a parity as to dividends with the Series B Preferred Stock, all dividends declared upon shares of Series B Preferred Stock and any other Preferred Stock ranking on a parity as to dividends shall be declared pro rata so that in all cases the amount of dividends declared per share on the Series B Preferred Stock and such other Preferred Stock shall bear to each other the same ratio that accumulated dividends per share, including Additional Dividends or accrued dividends, as the case may be, on the shares of Series B Preferred Stock and such other Preferred Stock shall bear to each other. Except as

provided in the preceding sentence, unless full cumulative dividends (including Additional Dividends) on the Series B Preferred Stock have been paid or declared in full and set aside for payment, no dividends or other distribution shall be declared or paid upon the Common Stock or any other capital stock of the Corporation ranking junior to or on parity with the Series B Preferred Stock as to distribution or liquidation rights nor shall shares of any such capital stock be redeemed or purchased by the Corporation or any subsidiary thereof, nor shall any money be paid to or made available for a sinking fund for redemption or purchase of any shares of capital stock ranking junior to or on a parity with the Series B Preferred Stock as to distribution or liquidation rights until all cumulative dividends (including Additional Dividends) on the Series B Preferred Stock shall have been paid and the dividend for the then-current Monthly Dividend Period shall have been paid or declared and sufficient funds set aside for payment thereof.

(e) Notwithstanding anything to the contrary contained herein, upon any conversion of shares of Series B Preferred Stock pursuant to either Section 2 or Section 3, all accrued and unpaid dividends on the Series B Preferred Stock to and until the date of such conversion shall be due and payable.

(f) The following terms shall have the meanings as set forth below:

"Business Day" means any day other than a Saturday, Sunday or any day on which the New York Stock Exchange is closed.

"Monthly Dividend Period" means the period from the first day through the last day of each calendar month, provided that the first Monthly Dividend Period shall mean the period commencing the day shares of Series B Preferred Stock are originally issued and ending on the last day of the month in which shares of Series B Preferred Stock are originally issued, and the amount of dividends payable in respect thereof shall be determined by multiplying (x) 1% times (y) the Liquidation Preference of the Series B Preferred Stock times (z) a fraction, the numerator of which is the number of days that shares of Series B Preferred Stock are outstanding during such Monthly Dividend Period (including the date of issuance thereof) and the denominator of which is 30.

## 2. Conversion At Option of Corporation.

(a) General. Provided that the conditions set forth in Section 2(b) shall be satisfied, at the option of the Corporation, upon giving the notice provided in Section 2(d) below, as of the Effective Date (as hereinafter defined) the Series B Preferred Stock shall be converted in whole or in part into fully paid and non-assessable shares of Common Stock. The number of shares of Common Stock which a holder of shares of Series B Preferred Stock shall be entitled to receive upon conversion shall be the product obtained by multiplying (i) the Applicable

Conversion Rate (determined as provided in Section 2(c)) times  
(ii) the number of shares of Series B Preferred Stock held by such holder which are being converted.

(b) Conditions. No shares of Series B Preferred Stock shall be converted into Common Stock pursuant to Section 2(a) unless each of the following conditions shall be satisfied as of the Effective Date:

(i) Immediately prior to authorizing any conversion pursuant to this Section 2, the Corporation, by resolution of the Board shall, to the extent of any Legally Available Funds, declare a dividend on the Series B Preferred Stock payable on the Effective Date in an amount equal to any accrued and unpaid dividends (including Additional Dividends) on the Series B Preferred Stock as of the Effective Date.

(ii) The issuance to the holders of shares of Series B Preferred Stock of all shares of Common Stock upon conversion of the Series B Preferred Stock pursuant to Section 2(a) shall have been registered under a currently effective registration statement under the Securities Act of 1933, as amended, and such issuance shall either be registered under all applicable securities or blue sky laws of any state in which a holder resides or such issuance shall be exempt from the registration provisions of such applicable state securities laws.

(iii) The Common Stock shall be listed for trading on either the American Stock Exchange or the New York Stock Exchange or quoted on NASDAQ.

(c) Applicable Conversion Rate. The conversion rate in effect at any time for the conversion of shares of the Series B Preferred Stock pursuant to this Section 2 (the "Applicable Conversion Rate") shall be the quotient obtained by dividing (i) the Liquidation Preference of the Series B Preferred Stock by (ii) the Applicable Conversion Value (as defined in the next sentence). The "Applicable Conversion Value" in the case of conversions pursuant to this Section 2 means the quotient obtained by dividing (x) the average of the Market Prices (as defined in the next sentence) of the Common Stock for the period of the 20 consecutive Business Days on which the Common Stock was traded ending on the Business Day immediately preceding (but not including) the date the notice referred to in Section 2(d) is deemed given, by (y) 2. The "Market Price" of the Common Stock for any day means the last reported sales price, regular way, or, in case no sale takes place on such day, the average reported closing bid and asked prices, regular way, in either case as reported on the principal national securities exchange on which such security is listed or admitted for trading, or, if such security is not listed or admitted to trading on any national securities exchange, on the NASDAQ National Market System or, if such security is not quoted on such National Market System, the average of the closing bid and asked prices on each such day in the over-the-counter

market as reported by NASDAQ, or, if bid and asked prices for such security on each such day shall not have been reported through NASDAQ, the average of the bid and asked prices for each such day as furnished by any New York Stock Exchange member firm regularly making a market in such security selected for such purpose by the Board.

(d) Notice of Conversion. At least 30 days but not more than 60 days prior to the date fixed for the conversion of shares of Series B Preferred Stock pursuant to Section 2(a), written notice of such conversion shall be mailed to each holder of record of shares of Series B Preferred Stock to be converted in a postage prepaid envelope addressed to such holder at such holder's post office address as shown on the records of the Corporation. Each such notice shall state: (i) the effective date of such conversion (the "Effective Date"); (ii) the number of shares of Series B Preferred Stock to be converted and, if less than all shares held by such holder are to be converted, the method of calculating such number; (iii) the Applicable Conversion Rate and an itemized calculation thereof; (iv) the place or places where certificates for such shares are to be surrendered in exchange for a certificate or certificates representing the Common Stock into which the shares of Series B Preferred Stock are to be converted (the "Conversion Shares"); and (v) that dividends on the shares to be converted shall cease to accrue on the Effective Date of the conversion. On or after the Effective Date each holder of shares of Series B Preferred Stock to be converted shall present and surrender such holder's certificate or certificates representing such shares of Series B Preferred Stock to the Corporation at the place designated in such notice. As promptly as practicable after the Effective Date, the Corporation shall issue and deliver to the holder of the shares of Series B Preferred Stock being converted, or on its written order, such certificate(s) as it may request for the number of whole shares of Common Stock issuable upon conversion of such shares of Series B Preferred Stock in accordance with the provisions of this Section 2 and cash, as provided in Section 2(f), in respect of any fraction of a share of Common Stock issuable upon such conversion. Such conversion shall be deemed to have been effected immediately prior to the close of business on the Effective Date, and at such time the rights of the holder as holder of the converted shares of Series B Preferred Stock shall cease and the person(s) in whose name(s) any certificate(s) for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares of Common Stock represented thereby. In the event some but not all of the shares of Series B Preferred Stock represented by a certificate or certificates being surrendered by a holder are converted, the Corporation shall execute and deliver to or on the order of the holder, at the expense of the Corporation, a new certificate representing the number of shares of Series B Preferred Stock which are not converted. From and after the Effective Date, all dividends on the shares of Series B Preferred Stock designated for conversion in such notice shall cease to accrue and all rights of the holders thereof, except the right to receive a certificate or certificates for Conversion Shares and the right to receive the accrued and unpaid dividends up to the Effective Date and any cash in payment of fractional shares, without interest, upon the surrender of certificates in representing the Series B Preferred

Stock, shall cease and terminate and such shares shall not be deemed to be outstanding for any purpose whatsoever. A notice hereunder shall be deemed to be given on the date it is deposited in first class United States mail in a sealed envelope, postage prepaid.

(e) Selection of Shares to be Converted. If less than all of the shares of Series B Preferred Stock are to be converted, the Board shall allocate the aggregate Liquidation Preference of shares to be converted pro rata (or as nearly pro rata as practicable) or by lot at the direction of the Board. Regardless of the method used, the calculation of the number of shares to be converted shall be based upon whole shares, such that the Corporation shall in no event be required to issue fractional shares of Series B Preferred Stock or cash in lieu thereof.

(f) Cash in Lieu of Fractional Shares. No fractional shares of Common Stock or scrip representing fractional shares shall be issued upon the conversion of shares of Series B Preferred Stock pursuant to this Section 2. Instead of any fractional shares of Common Stock which would otherwise be issuable upon conversion of Series B Preferred Stock, the Corporation shall pay to the holder of the shares of Series B Preferred Stock which were converted a cash adjustment in respect of such fractional shares in an amount equal to the same fraction of the Market Price per share of the Common Stock at the close of business on the Effective Date. The determination as to whether or not any fractional shares are issuable shall be based upon the aggregate number of shares of Series B Preferred Stock being converted at any one time by any holder thereof, not upon each share of Series B Preferred Stock being converted.

### 3. Conversion At the Option of Holder.

(a) General. Subject to and in compliance with the provisions of this Section 3, shares of Series B Preferred Stock may, at the option of any holder, be converted at any time and from time to time into fully paid and nonassessable shares of Common Stock. The number of shares of Common Stock which a holder of shares of Series B Preferred Stock shall be entitled to receive upon conversion pursuant to this Section 3 shall be the product obtained by multiplying (i) the Applicable Conversion Rate (determined as provided in Section 3(b)) by the number of shares of Series B Preferred Stock being converted at any time.

(b) Applicable Conversion Rate. The conversion rate in effect at any time for the conversion of the Series B Preferred Stock pursuant to this Section 3 (the "Applicable Conversion Rate") shall be the quotient obtained by dividing (i) the Liquidation Preference of the Series B Preferred Stock by (ii) the Applicable Conversion Value (as defined in the next sentence). The "Applicable Conversion Value" in the case of conversions pursuant to this Section 3 means the quotient obtained by dividing (x) the average of the Market Prices of the Common Stock for the period of the 20 consecutive Business Days on which the Common Stock was



traded ending on the Business Day immediately preceding (but not including) the date the notice referred to in Section 3(c) is deemed given, by (y) 2.

(c) Exercise of Conversion Privilege. To exercise its conversion privilege, a holder of shares of Series B Preferred Stock shall surrender the certificate(s) representing the shares being converted to the Corporation at its principal office, and shall give written notice to the Corporation at that office that such holder elects to convert such shares. Such notice shall also state the name or names (with address or addresses) in which the certificate(s) for shares of Common Stock issuable upon such conversion shall be issued. The certificate(s) for shares of Series B Preferred Stock surrendered for conversion shall be accompanied by proper assignment thereof to the Corporation or in blank. A notice hereunder shall be deemed to be given on the date it is deposited in first class United States mail in a sealed envelope, postage prepaid. The date when such written notice is received by the Corporation, together with the certificate(s) representing the shares of Series B Preferred Stock being converted, shall be the "Conversion Date." Any voluntary conversion of shares of Series B Preferred Stock by any holder shall be for at least 100 shares of Common Stock. As promptly as practicable after the Conversion Date, the Corporation shall issue and shall deliver to the holder of the shares of Series B Preferred Stock being converted, or on its written order, such certificate(s) as it may request for the number of whole shares of Common Stock issuable upon the conversion of such shares of Series B Preferred Stock in accordance with the provisions of this Section 3, and cash, as provided in Section 3(d), in respect of any fraction of a share of Common Stock issuable upon such conversion.

(d) Cash in Lieu of Fractional Shares. No fractional shares of Common Stock or scrip representing fractional shares shall be issued upon the conversion of shares of Series B Preferred Stock pursuant to this Section 3. Instead of any fractional shares of Common Stock which would otherwise be issuable upon conversion of Series B Preferred Stock, the Corporation shall pay to the holder of the shares of Series B Preferred Stock which were converted a cash adjustment in respect of such fractional shares in an amount equal to the same fraction of the Market Price per share of the Common Stock at the close of business on the Conversion Date. The determination as to whether or not any fractional shares are issuable shall be based upon the aggregate number of shares of Series B Preferred Stock being converted at any one time by any holder thereof, not upon each share of Series B Preferred Stock being converted.

(e) Partial Conversion. In the event some but not all of the shares of Series B Preferred Stock represented by a certificate or certificates surrendered by a holder are converted, the Corporation shall execute and deliver to or on the order of the holder, at the expense of the Corporation, a new certificate representing the number of shares of Series B Preferred Stock which were not converted.

(f) Reservation of Common Stock. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common

Stock, solely for the purpose of effecting the conversion of the shares of the Series B Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series B Preferred Stock, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series B Preferred Stock, the Corporation shall take such action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

4. Option to Purchase Common Stock in Satisfaction of Accrued But Unpaid Dividends.

(a) General. Subject to and in compliance with the provisions of this Section 4, if at any time there are then accrued but unpaid dividends on shares of Series B Preferred Stock and a holder thereof gives written notice to the Corporation that such holder intends to purchase Common Stock in accordance with the terms of this Section 4 and 30 days after the giving of such notice there remain accrued but unpaid dividends on the Series B Preferred Stock, then by further written notice to the Corporation in accordance with Section 4(b), such holder may purchase from the Corporation up to such number of shares of Common Stock (rounded down to eliminate a fractional share) as shall equal the quotient obtained by dividing (i) the amount of accrued but unpaid dividends on the Series B Preferred Stock held by such holder by (ii) the Applicable Exercise Price (as defined in the next sentence). The "Applicable Exercise Price" means the quotient obtained by dividing (x) the average of the Market Prices of the Common Stock for the period of the 20 consecutive Business Days in which the Common Stock was traded ending on the Business Day immediately preceding (but not including) the date the notice referred to in Section 4(b) is deemed given, by, (y) 2. The purchase price per share at which shares of Common Stock may be purchased pursuant to this Section 4 shall be the Applicable Exercise Price. The purchase price shall be paid by the holder's agreement to the cancellation of an amount of accrued but unpaid dividends on such holder's shares of Series B Preferred Stock equal to the aggregate purchase price of the shares of Common Stock purchased. Notwithstanding anything to the contrary contained herein, no holder may exercise any option hereunder to the extent that (i) the aggregate purchase price for shares of Common Stock to be purchased pursuant thereto exceeds the amount of Legally Available Funds for the payment of dividends, or (ii) the per share purchase price for shares of Common Stock to be purchased pursuant thereto is less than the par value of the Common Stock.

(b) Exercise of Option. To exercise its option under Section 4(a), a holder of shares of Series B Preferred Stock shall give written notice to the Corporation at the principal office of the Corporation that such holder elects to exercise its option. A notice under this Section 4 (including a notice under Section 4(a)) shall be deemed to be given on the date it is deposited in first class United States mail in a sealed envelope, postage prepaid.

(c) Reservation of Common Stock. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the purchase of shares of Series B Preferred Stock upon exercise of options pursuant to Section 4(a), such number of its shares of Common Stock as shall from time to time be sufficient to issue the maximum number of shares of Common Stock issuable upon exercise of such options, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to issue the maximum number of shares of Common Stock issuable upon exercise of such options, the Corporation shall take such action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

5. Voting Rights.

(a) Except as otherwise required by law, the holders of the Series B Preferred Stock shall be entitled to vote on all matters submitted to a vote of the holders of the Common Stock of the Corporation, voting together as a single class with the holders of Common Stock and the holders of such other classes and series of stock that vote together with the Common Stock of the Corporation as a single class. For purposes of this subsection, each share of Series B Preferred Stock shall entitle the holder thereof to the right to cast one vote.

(b) So long as any shares of the Series B Preferred Stock are outstanding and unless the vote or consent of the holders of a greater number of shares shall then be required by law, the consent of the holders of a majority of all of the outstanding shares of Series B Preferred Stock (given in person or by proxy, at a special meeting of stockholders called for such purpose or at any annual meeting of stockholders, with the holders of Series B Preferred Stock voting as a class and with each share of Series B Preferred Stock having one vote) shall be necessary for (i) authorizing, effecting or validating the amendment, alteration or repeal of any of the provisions of this Certificate of Designation or of any amendment thereto, or of any resolution or resolutions providing for the issue of any stock, that would have an adverse effect on the designations, rights, preferences or privileges of shares of Series B Preferred Stock or (ii) the creation of any class or series of capital stock ranking prior to or on a parity with the Series B Preferred Stock with respect to rights to receive dividends, redemption payments or distributions upon liquidation or winding up of the Corporation.

(c) If and when, at any time or times, dividends for any Monthly Dividend Period on the Series B Preferred Stock have not been paid in cash on or before the Dividend Payment Date next succeeding the Dividend Payment Date on which such dividends were payable, any holder of Series B Preferred Stock may give to the Corporation a notice of such non-payment. If within 30 days after the giving of the notice referred to in the preceding sentence, there remain any accrued but unpaid dividends on the Series B Preferred Stock, the holders of Series B Preferred Stock, voting separately as a class, shall be entitled to elect such number of directors

of the Corporation as shall be at all times a majority of the number of directors of the Corporation. The right to elect directors may be exercised at any annual meeting of the stockholders of the Corporation, at any special meeting held in place of an annual meeting, or at a special meeting of the holders of Series B Preferred Stock called to elect directors. The right to elect directors shall continue until dividends in default on Series B Preferred Stock are paid in full, and shall cease when the dividends are so paid, subject to future reactivation in the event of future defaults.

At any time that special voting power is vested in the holders of Series B Preferred Stock, the Secretary of the Corporation may, and at the written request of holders of 25 percent or more of the shares of Series B Preferred Stock must, call a special meeting of the holders of Series B Preferred Stock for the election of directors. The meeting must be held within forty (40) days of the delivery of the request at the time and place provided by law or in the bylaws of the Corporation for meetings of stockholders of the Corporation; provided, however, that no meeting need be called if the request is delivered less than ninety (90) days before the date fixed for the next annual meeting of the Corporation's stockholders.

If at any meeting held when special voting power is vested in the holders of Series B Preferred Stock the holders of at least 50 percent of Series B Preferred Stock then outstanding are present in person or by proxy, then the number of directors of the Corporation shall be increased by the number of directors that the holders of Series B Preferred Stock shall be entitled to elect and the holders of Series B Preferred Stock present by vote of at least 50 percent shall be entitled to elect the additional directors of the Corporation. The directors so elected shall serve until the next annual meeting of the stockholders of the Corporation and until their respective successors are elected by the holders of Series B Preferred Stock and have qualified.

When the holders of Series B Preferred Stock are divested of special voting power, the term of office of the persons elected as directors by the holders of Series B Preferred Stock shall terminate, and the number of directors of the Corporation shall be reduced accordingly. If the office of a director elected by the holders of Series B Preferred Stock is vacant due to resignation, removal or death during the time that special voting power is vested in the holders of Series B Preferred Stock, the vacancy shall be filled by the majority vote of the directors then in office, even if less than a quorum. If the vacancy is not so filled within forty (40) days after the creation of the vacancy, a special meeting of the holders of the Series B Preferred Stock shall be called and the vacancy filled at that meeting. Any director elected to fill a vacancy by the remaining directors may be removed by the vote of a majority of the holders of Series B Preferred Stock.

(d) Nothing herein contained shall be construed so as to require a class vote or the consent of the holders of the outstanding shares of Series B Preferred Stock (i) in connection with any increase in the total number of authorized or issued shares of Common Stock, or (ii) in connection with the authorization or increase or issuance of any class or series of capital stock ranking junior to the Series B

Preferred Stock as to dividends, redemption payments and distributions upon liquidation, dissolution or winding up of the Corporation. Nothing herein contained shall in any way limit the right and power of the Corporation to issue any bonds, notes, mortgages, debentures, and other obligations, or to incur indebtedness to banks and to other lenders.

6. Priority of Series B Preferred Stock in Event of Liquidation or Dissolution.

In the event of any liquidation, dissolution, or winding up of the affairs of the Corporation, whether voluntary or otherwise, after payment or provision for payment of the debts and other liabilities of the Corporation, the holders of the Series B Preferred Stock shall be entitled to receive, out of the remaining net assets of the Corporation, the amount of One Hundred Dollars (\$100.00) in cash for each share of Series B Preferred Stock (the "Liquidation Preference"), plus an amount equal to all dividends accrued and unpaid on each such share up to the date fixed for distribution, before any distribution of any kind shall be made to the holders of the Common Stock or any other stock ranking (as to any such distribution) junior to the Series B Preferred Stock. In the event of any involuntary or voluntary liquidation, dissolution or winding up the affairs of the Corporation, the Corporation by resolution of its Board shall, to the extent of any Legally Available Funds, declare a dividend on shares of Series B Preferred Stock payable on the date of distribution before any distribution is made to any holder of any series of stock of the Corporation ranking junior to the Series B Preferred Stock as to liquidation, dissolution or winding up, in an amount equal to any accrued and unpaid dividends on the Series B Preferred Stock as of such date. If the Corporation does not have sufficient Legally Available Funds to declare and pay all dividends accrued at the time of such liquidation, any remaining accrued and unpaid dividends shall be added to the payment to be received by the holders of shares of Series B Preferred Stock for such shares in such liquidation. If, upon any liquidation, dissolution or winding up of the Corporation, the assets distributable among the holders of any series of Preferred Stock ranking (as to any such distribution) on a parity with the Series B Preferred Stock shall be insufficient to permit the payment in full to the holders of all such series of Preferred Stock of all preferential amounts payable to all such holders, then the entire assets of the Corporation thus distributable shall be distributed ratably among the holders of shares of Series B Preferred Stock and all series of Preferred Stock ranking (as to any such distribution) on a parity with the Series B Preferred Stock in proportion to the respective amounts that would be payable per share if such assets were sufficient to permit payment in full. Except as otherwise provided in this Section 6, holders of Series B Preferred Stock shall not be entitled to any distribution in the event of liquidation, dissolution or winding up of the affairs of the Corporation.

For the purposes of this Section 6, neither the voluntary sale, lease, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all the property or assets of the Corporation, nor the consolidation or merger of the Corporation with one or more other corporations,

shall be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary.

7. Ranking of Series B Preferred Stock. Except as permitted in accordance with Section 5(b), with regard to rights to receive dividends, mandatory redemption payments and distributions upon liquidation, dissolution or winding up of the Corporation, the Series B Preferred Stock shall rank prior to any other equity securities of the Corporation.

IN WITNESS WHEREOF, said VASCO Data Security International, Inc. has caused this Certificate to be signed by T. Kendall Hunt its Chairman of the Board, Chief Executive Officer and President, this 21st day of July, 1997.

VASCO DATA SECURITY  
INTERNATIONAL, INC.

By: /s/ T. Kendall Hunt

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T. Kendall Hunt  
Chairman of the Board, Chief Executive  
Officer and President

LETTER OF TRANSMITTAL AND RELEASE  
TO TENDER AND GIVE A RELEASE IN RESPECT OF

CURRENT VASCO COMMON STOCK  
CURRENT VASCO SERIES B PREFERRED STOCK  
OF  
VASCO CORP.

PURSUANT TO THE EXCHANGE OFFER  
OF  
VASCO DATA SECURITY INTERNATIONAL, INC.

DATED \_\_\_\_\_, 1997

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THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., CHICAGO TIME, ON \_\_\_\_\_, 1997,  
UNLESS EXTENDED OR EARLIER TERMINATED.

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To: Illinois Stock Transfer Company, Exchange Agent

By Mail, Overnight Delivery or By Hand  
(9:00 a.m. - 5:00 p.m. Chicago Time)  
223 West Jackson Boulevard  
Suite 1210  
Chicago, Illinois 60606

Facsimile Transmission:  
(312) 427-2879

Confirm by Telephone:  
(312) 427-2953

Any questions concerning tender procedures may be directed to Gregory  
T. Apple, Vice President and Treasurer of VASCO Data Security International,  
Inc. ("New VASCO"), at (630) 932-8844.

List below the Current VASCO Shares to which this Letter of Transmittal  
and Release relates. If the space provided is inadequate, list the class of  
Current VASCO Shares, the certificate numbers and the number of Current VASCO  
Shares on a separately executed schedule and affix the schedule to this Letter  
of Transmittal and Release.

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DESCRIPTION OF CURRENT VASCO SHARES TENDERED  
(SEE INSTRUCTION 3)

Name(s) and Address(es) of holder(s) (please fill in, if blank)	Class of Current VASCO Shares*	Current VASCO Shares Tended (Attach additional signed schedules if necessary)	
		Certificate Number(s)	Total Number of Current VASCO Shares
(1)	(2)	(3)	(4)
Total			

\*Indicate class of Current VASCO Shares: Current VASCO Common Stock or  
Current VASCO Series B Preferred Stock.

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All capitalized terms used herein and not defined herein have the  
meaning ascribed to them in the Prospectus.

DELIVERY OF THIS LETTER OF TRANSMITTAL AND RELEASE (THE "LETTER OF  
TRANSMITTAL AND RELEASE") TO AN ADDRESS, OR TRANSMISSION OF INSTRUCTIONS VIA A  
FACSIMILE NUMBER, OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID  
DELIVERY. THE INSTRUCTIONS ACCOMPANYING THIS LETTER OF TRANSMITTAL AND RELEASE  
SHOULD BE READ CAREFULLY BEFORE THIS LETTER OF TRANSMITTAL AND RELEASE IS  
COMPLETED.

This Letter of Transmittal and Release must be used to accept the  
Exchange Offer (as defined herein to include the terms and conditions set forth  
herein and in the Prospectus dated \_\_\_\_\_, 1997 (the "Prospectus")), of  
New VASCO if certificates representing Current VASCO Shares (as defined in the  
Prospectus) are to be physically delivered to Illinois Stock Transfer Company,  
as exchange agent (the "Exchange Agent"). This Letter of Transmittal and Release  
must also be used if a tender of Current VASCO Shares is to be made according to  
the guaranteed delivery procedures described in the Prospectus under the heading  
"THE EXCHANGE OFFER - Guaranteed Delivery Procedures for Current VASCO Shares."

HOLDERS WHO TENDER CURRENT VASCO SHARES ARE REQUIRED TO GRANT A RELEASE  
OF THE ASSOCIATED CORPORATE MATTER CLAIMS (AS DEFINED IN THE PROSPECTUS). THE  
COMPLETION, EXECUTION AND DELIVERY OF THIS LETTER OF TRANSMITTAL AND RELEASE IS  
REQUIRED FOR ALL TENDERS AND WILL CONSTITUTE A





RELEASE OF ANY AND ALL ASSOCIATED CORPORATE MATTER CLAIMS (AS DEFINED IN THE PROSPECTUS) THE EXCHANGING HOLDER MAY HAVE EVEN IF LESS THAN ALL OF THE HOLDER'S CURRENT VASCO SECURITIES (AS DEFINED IN THE PROSPECTUS) ARE EXCHANGED IN THE EXCHANGE OFFER.

SUBJECT TO THE TERMS AND CONDITIONS OF THE EXCHANGE OFFER (AS DEFINED HEREIN), NEW VASCO WILL ACCEPT FOR EXCHANGE ALL CURRENT VASCO SHARES PROPERLY TENDERED (AND NOT WITHDRAWN) PURSUANT TO THE EXCHANGE OFFER AT OR PRIOR TO THE EXPIRATION DATE. AS PROMPTLY AS PRACTICABLE AFTER ACCEPTANCE OF THE TENDERED CURRENT VASCO SHARES AFTER THE EXPIRATION DATE, NEW VASCO WILL ISSUE TO THE EXCHANGE AGENT NEW VASCO SHARES (AS DEFINED IN THE PROSPECTUS) IN EXCHANGE FOR THE TENDERED AND ACCEPTED CURRENT VASCO SHARES AND THE EXCHANGE AGENT WILL TRANSMIT THE NEW VASCO SHARES TO THE EXCHANGING STOCKHOLDERS.

HOLDERS OF CURRENT VASCO SHARES WHOSE CURRENT VASCO SHARES ARE NOT IMMEDIATELY AVAILABLE OR WHO CANNOT DELIVER THEIR CURRENT VASCO SHARES AND ALL OTHER DOCUMENTS REQUIRED HEREBY TO THE EXCHANGE AGENT AT OR PRIOR TO THE EXPIRATION DATE MAY NEVERTHELESS TENDER THEIR CURRENT VASCO SHARES ACCORDING TO THE GUARANTEED DELIVERY PROCEDURES SET FORTH IN THE PROSPECTUS UNDER THE HEADING "THE EXCHANGE OFFER - GUARANTEED DELIVERY PROCEDURE FOR CURRENT VASCO SHARES," PROVIDED THAT SUCH HOLDERS ALSO EXECUTE AND DELIVER THIS LETTER OF TRANSMITTAL AND RELEASE PRIOR TO THE EXPIRATION DATE. SEE INSTRUCTION 2.

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[ ] CHECK HERE IF TENDERED CURRENT VASCO SHARES ARE ENCLOSED HERewith.

[ ] CHECK HERE IF TENDERED CURRENT VASCO SHARES ARE BEING DELIVERED  
PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE  
EXCHANGE AGENT AND COMPLETE THE FOLLOWING:

[ ] CHECK HERE IF CERTIFICATES REREpresentING SHARES HAVE BEEN LOST.  
The undersigned has lost the certificates for \_\_\_\_\_ Current VASCO  
Shares and requires assistance with respect to receiving New VASCO  
Shares in exchange for the \_\_\_\_\_ Current VASCO shares owned by the  
undersigned, and understands that an appropriate affidavit of loss and  
indemnity agreement and that an indemnity and/or surety bond may be  
required.

Name(s) of holder(s) \_\_\_\_\_

Date of Execution of Notice of Guaranteed  
Delivery \_\_\_\_\_

Name of Eligible Institution That Guaranteed  
Delivery \_\_\_\_\_

NOTE: SIGNATURES MUST BE PROVIDED BELOW.  
 PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY.  
 YOU MAY WISH TO CONSULT WITH COUNSEL OF  
 YOUR CHOICE REGARDING THIS LETTER OF TRANSMITTAL AND RELEASE.

Ladies and Gentlemen:

The undersigned hereby tenders to New VASCO the Current VASCO Shares indicated in the table above entitled "Description of Current VASCO Shares Tendered," upon the terms and subject to the conditions set forth in the Prospectus (receipt of which is hereby acknowledged) and in this Letter of Transmittal and Release.

Subject to, and effective upon, acceptance for exchange of the Current VASCO Shares tendered hereby in accordance with the terms and subject to the conditions of the Exchange Offer, the undersigned hereby sells, assigns and transfers to, or upon the order of, New VASCO, all right, title and interest in and to, the Current VASCO Shares. The undersigned hereby irrevocably constitutes and appoints the Exchange Agent as the true and lawful agent and attorney-in-fact of the undersigned (with full knowledge that the Exchange Agent also acts as the agent of New VASCO) with respect to such Current VASCO Shares, with full powers of substitution and revocation (such power of attorney being deemed to be an irrevocable power coupled with an interest), to (i) deliver certificates for such Current VASCO Shares together with all accompanying evidences of transfer and authenticity, to or upon the order of New VASCO, (ii) present such Current VASCO Shares for transfer of ownership on the books of Current VASCO, (iii) deliver to Current VASCO and New VASCO the release contained herein, (iv) receive all benefits and otherwise exercise all rights of beneficial ownership of such Current VASCO Shares, all in accordance with the terms of the Exchange Offer, and (v) accept delivery of the New Current VASCO Shares on behalf of the undersigned.

The undersigned hereby represents and warrants that: (i) the undersigned has full power and authority to tender the Current VASCO Shares tendered hereby and to sell, assign and transfer all right, title and interest in and to such Current VASCO Shares, (ii) the undersigned either has full power and authority to deliver the release of all Associated Corporate Matter Claims or is delivering a duly executed release (which is included in this Letter of Transmittal and Release) from a person or entity having such power and authority, and (iii) New VASCO will acquire good, indefeasible and unencumbered title to such Current VASCO Shares, free and clear of all liens, restrictions, charges, claims and encumbrances and not subject to any adverse claim, when the same are acquired by New VASCO. The undersigned, upon request, will execute and deliver any additional documents deemed by the Exchange Agent or New VASCO to be necessary or desirable to complete the sale, assignment and transfer of the Current VASCO Shares tendered hereby or to perfect the undersigned's release of all Associated Corporate Matter Claims.

The undersigned (the "Releasor") hereby forever releases and discharges Current VASCO, New VASCO and Current VASCO's predecessor entities, consisting of VASCO Corp., a corporation incorporated in Delaware on May 22, 1984 ("Old VASCO") and Ridge Point Enterprises, Inc., incorporated in Utah on January 7, 1985 ("VASCO Utah" and, together with Old VASCO, the "VASCO Predecessors"), and the respective successors and assigns of each of the foregoing (collectively, "VASCO"), and each of them, from and against all direct or indirect demands, claims, payments, obligations, actions or causes of action, assessments, losses, liabilities, damages (including, without limitation, special, consequential, exemplary, punitive and similar damages), reasonable costs and expenses paid or incurred, or diminutions in value of any kind or character (whether or not known or asserted prior to the date hereof, fixed or unfixed, conditional or unconditional, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise), that the Releasor now has or ever had against VASCO or the assets of Current VASCO or any of the VASCO Predecessors as a result of acts or omissions occurring on or before the date of the Prospectus, which arise from or are in connection with:

(i) any prior authorization, designation or issuance of stock, any stock split, reclassification, redesignation, dividend or distribution of or upon stock, any amendment to the certificate or articles of incorporation or bylaws including those affecting the amount, rights, powers or preferences of stock, and any failure to properly authorize, approve or effect any of the foregoing actions, including (a) the failure by Old VASCO to document whether an amendment to its Certificate of Incorporation was duly authorized or to file a Certificate of Amendment with the Delaware Secretary of State to amend its Certificate of Incorporation in 1984 to effect a three-for-one stock split of its common stock and to provide for 600,000 shares of non-voting common stock prior to purportedly effecting the stock split and issuing such non-voting common shares, (b) the failure by Old VASCO to document whether director and stockholder approval was obtained for an amendment to its Certificate of Incorporation increasing the number of authorized shares of common stock in 1986, (c) the purported issuance of Series A preferred stock in 1989 by VASCO Utah at a time when the issuance of preferred shares was not authorized by VASCO Utah's charter, and (d) the purported issuance of preferred stock by Current VASCO in connection with the 1990 merger, when the rights, powers and preferences of which such stock were not specified in Current VASCO's Certificate of Incorporation and when its Certificate of Incorporation did not provide its Board of Directors the power to designate such rights, powers and preferences;

(ii) any failure to properly design, approve, adopt, administer, or authorize the number of shares subject to, any stock option plan or program, including actions required to allow for options awarded thereunder to be treated as incentive stock options under the Internal Revenue Code of 1986, as amended (the "Code"), including the failure by Old VASCO, VASCO Utah and/or Current VASCO to (a) document approval by the Board of Directors and stockholders of stock option plans, (b) specify and authorize the number of shares of stock to be subject to such plans, (c) reserve the number of shares subject to such plans, (d) document the authorization for the grant of options pursuant to such plans and the issuance of shares upon exercise of such options, and (e) design such plans in a manner that would ensure options granted thereunder would be treated as incentive stock options;

(iii) any organization or any merger, consolidation, share exchange, reorganization, recapitalization, sale of assets or like event, or any failure properly to authorize, approve, effect or consummate same, including (a) the failure to document the approval by Old VASCO's stockholders of the 1986 reorganization through the share exchange undertaken by Old VASCO and Ridge Point Enterprises, Inc./VASCO Utah, (b) the failure to document whether all stockholders of Old VASCO voluntarily exchanged their shares for shares of Ridge Point Enterprises, Inc./VASCO Utah, (c) the failure to document the mechanics of the exchange of Old VASCO shares for shares of Ridge Point Enterprises, Inc./VASCO Utah, and (d) the following procedural irregularities which call into question the validity of the intended 1990 merger of VASCO Utah and Current VASCO, as well as Current VASCO's title to the assets of VASCO Utah purportedly succeeded to by Current VASCO by virtue of the merger: (1) the incorporation of Current VASCO, after the date of the 1990 merger agreement, (2) Current VASCO's approval of the plan of merger, including approval of the plan of merger prior to the incorporation of Current VASCO, the lack of documented stockholder approval as called for by the plan of merger and the effectiveness of the approval by Current VASCO's then Board of Directors, (3) the authorization and issuance of stock by Current VASCO pursuant to the merger, (4) the adoption of Current VASCO's initial bylaws, appointment of Current VASCO's initial directors and the election of its initial officers, and (5) the administrative dissolution of VASCO Utah prior to the filing of a Certificate of Merger with the State of Delaware, (6) the failure to file Articles of Merger with the State of Utah in connection with the intended merger of VASCO Utah and Current VASCO;

(iv) the dissolution, liquidation or winding up of any of Current VASCO's predecessors, or any failure properly to approve or effect said dissolution, liquidation or winding up, including (a) the failure to properly document any stockholder approval of the dissolution of Old VASCO and to document actions taken to dissolve, liquidate and wind-up Old VASCO in 1987, (b) the failure to vest effectively title and ownership in VASCO Utah of Old VASCO's assets and to document the assumption by VASCO Utah of Old VASCO's liabilities, and (c) the administrative dissolution of VASCO Utah in 1990 prior to the intended merger transaction with Current VASCO and before the filing of a Certificate of Merger with the State of Delaware; and

(v) any failure to afford security holders any appraisal, preemptive or other rights, whether accorded by statute or by the articles of incorporation, certificate of incorporation or bylaws of Current VASCO or any of its predecessors, in connection with any of the matters described in the foregoing clauses (i), (ii), (iii) or (iv) including (a) the failure of Old VASCO to document whether it afforded its stockholders, in connection with issuances of Old VASCO capital stock, the preemptive rights to purchase, upon the issuance or sale of Old VASCO stock (or securities convertible into Old VASCO stock), shares (or securities) in proportion to the amount of Old VASCO common stock then owned by such holder, subject to conditions and time limitations prescribed (and at a price determined as permitted by law), by Old VASCO's Board of Directors, as provided for in the Old VASCO Certificate of Incorporation and (b) the failure of VASCO Utah to document whether it afforded its stockholders the appraisal rights provided for by Utah law in connection with the intended 1990 merger of VASCO Utah with Current VASCO.

(The matters listed in the foregoing clauses (i), (ii), (iii), (iv) and (v) are collectively referred to in this document and the Prospectus as the "Corporate Matters").

The Releasor hereby irrevocably waives its rights under any applicable statute, rule, regulation, legal principle, or legal doctrine that provides that a general release does not extend to claims which a releasing party does not know or suspect to exist in its favor at the time of executing such release, which if known by the releasing party would have materially affected its settlement with the released party.

The Releasor hereby represents, warrants and covenants that (i) the Releasor has had adequate opportunity to consult legal counsel of Releasor's choice regarding this Letter of Transmittal and Release, (ii) the Releasor has executed and delivered this Letter of Transmittal and Release pursuant to the free will of the Releasor and with the intention that the release set forth in this Letter of Transmittal and Release be a general release to the full extent provided herein, and (iii) the Releasor has not sold, assigned or otherwise transferred any rights or remedies arising from or in connection with the Corporate Matters. The Releasor acknowledges and agrees that this Letter of Transmittal and Release (i) will effect a release of any and all Associated Corporate Matter Claims the Releasor may have even if less than all of the Releasor's Current VASCO Securities (as defined in the Prospectus) are exchanged in the Exchange Offer, and (ii) does not affect any rights or claims the Releasor may have against VASCO arising out of any matter or transaction arising from and after the date of the Prospectus.

This Letter of Transmittal and Release shall be governed by and construed in accordance with the internal laws and not the conflicts of law rules of the State of Illinois, and the invalidity or unenforceability of any term or provision of this Letter of Transmittal and Release shall not affect the validity or enforceability of any other term or provision hereof. This Letter of Transmittal and Release is binding on the Releasor and the Releasor's heirs, personal representatives, successors and assigns and inures to the benefit of New VASCO, Current VASCO, the VASCO Predecessors and VASCO.

The terms and conditions set forth in the Prospectus and this Letter of Transmittal and Release together constitute New VASCO's offer (the "Exchange Offer") to exchange the applicable class or series of New Current VASCO Shares for the applicable class or series of Current VASCO Shares properly tendered, in respect of which a release is given and accepted for exchange. New VASCO will acquire such Current VASCO Shares by issuing New VASCO Shares in exchange therefor. Such New VASCO Shares will be delivered to the Exchange Agent, which will deliver the New VASCO Shares to the holders of tendered and accepted Current VASCO Shares in respect of which a release is given, as soon as practicable following the Expiration Date.

The undersigned understands that the release provided hereby shall remain in full force and effect unless and until such release is revoked in accordance with the procedures set forth in the Prospectus and this Letter of Transmittal and Release for the withdrawal of a tender of Current VASCO Shares. The undersigned understands that after the acceptance of Current VASCO Shares pursuant to the Exchange Offer, no releases may be revoked.

The undersigned understands that Current VASCO Shares properly tendered and not withdrawn prior to the Expiration Date may be exchanged for the applicable New VASCO Shares, subject to the terms and conditions of the Exchange Offer. If any amount of tendered Current VASCO Shares is not exchanged for any reason, they will be returned, without expense, to the undersigned at the address shown below or at such different address as may be indicated herein under "Special Delivery Instructions."

The undersigned understands that the procedures described herein and in the Prospectus under the heading ATHE EXCHANGE OFFER and in the instructions hereto will constitute a binding agreement between the undersigned and New VASCO upon the terms and subject to the conditions described herein and in the Prospectus. For purposes of the Exchange Offer, the undersigned understands that validly tendered Current VASCO Shares (or defectively tendered Current VASCO Shares with respect to which New VASCO has, or has caused to be, waived such defect) will be deemed to have been accepted by New VASCO if, as and when New VASCO gives oral or written notice thereof to the Exchange Agent.

TENDERS OF CURRENT VASCO SHARES MADE PURSUANT TO THE EXCHANGE OFFER MAY BE WITHDRAWN, AND THE RELEASE GRANTED IN THIS LETTER OF TRANSMITTAL AND RELEASE MAY BE REVOKED, ON OR PRIOR TO THE EXPIRATION DATE BY WRITTEN NOTICE OF WITHDRAWAL OR REVOCATION IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THE PROSPECTUS. A purported notice of withdrawal will be effective only if delivered to the Exchange Agent in accordance with the specific procedures set forth in the Prospectus under the heading "THE EXCHANGE OFFER - Withdrawal Rights."

All authority conferred or agreed to be conferred in this Letter of Transmittal and Release shall not be affected by and shall survive the death or incapacity of the undersigned and any obligation of the undersigned hereunder shall be binding upon the heirs, executors, administrators, trustees in bankruptcy, personal and legal representatives, successors and assigns of the undersigned.

Unless otherwise indicated under "Special Issuance Instructions," please issue the applicable New VASCO Shares in the name(s) of the undersigned. Similarly, unless otherwise indicated under "Special Delivery Instructions," please mail the applicable New VASCO Shares (and accompanying documents, as appropriate) to the undersigned at the address shown below the undersigned's signature(s). In the event that both "Special Issuance Instructions" and "Special Delivery Instructions" are completed, please issue the applicable New VASCO Shares in the name(s) of, and mail the applicable New VASCO Shares to, the person(s) so indicated. The undersigned recognizes that New VASCO has no obligation under the "Special Issuance Instructions" or the "Special Delivery Instructions" provisions of this Letter of Transmittal and Release to effect the transfer of any Current VASCO Shares from the name of the holder(s) thereof if New VASCO does not accept for exchange such Current VASCO Shares.

-----  
SPECIAL ISSUANCE INSTRUCTIONS  
(SEE INSTRUCTIONS 1, 4, 5 AND 6)

To be completed ONLY if any New VASCO Shares are to be issued in the name of someone other than the person or persons whose signature(s) appear(s) on this Letter of Transmittal and Release below. If any of the New VASCO Shares are to be issued in the name of someone other than the person or persons whose signature(s) appear(s) on this Letter of Transmittal and Release below, the assignment block on the back of the stock certificate(s) of the tendered Current VASCO Shares must be properly completed or an appropriate instrument of transfer must be provided, in each case with signature guaranteed. (See Instruction 1).

Issue to:

Name.....  
(Please Print)

Address .....  
.....  
(Include Zip Code)

.....  
(Taxpayer Identification or Social Security  
Number(s)\* of Payee)

\*PLEASE ALSO COMPLETE THE ENCLOSED SUBSTITUTE FORM W-9.

-----  
SPECIAL DELIVERY INSTRUCTIONS  
(SEE INSTRUCTIONS 1, 4, 5 AND 6)

To be completed ONLY if any New VASCO Shares are to be sent to someone other than the person or persons whose signature(s) appear(s) on this Letter of Transmittal and Release below, or to the person or persons at an address other than that shown above in the box entitled "Description of Current VASCO Shares Tendered and in Respect of Which Release is Given."

Send to:

Name.....  
(Please Print)

Address .....  
.....  
(Include Zip Code)



-----  
SIGNATURE OF RECORD HOLDER

SEE INSTRUCTION 4

By completing, executing and delivering this Letter of Transmittal and Release, the undersigned hereby tenders the Current VASCO Shares and grants the release set forth in the foregoing provisions of this Letter of Transmittal and Release.

The undersigned hereby represents and warrants that the undersigned is the record holder and the beneficial owner of the Current VASCO Shares tendered herewith. (If the undersigned is not the beneficial owner, strike "and the beneficial owner" in the preceding sentence and have the beneficial owner sign this Letter of Transmittal and Release on the next page or on a counterpart and attach the counterpart hereto.)

Dated: \_\_\_\_\_, 1997  
-----

Sign Here: \_\_\_\_\_  
-----

SIGNATURE(S) OF REGISTERED HOLDER(S) OR AUTHORIZED SIGNATORY

(This Letter of Transmittal and Release must be signed by the registered holder(s) exactly as name(s) appear(s) on certificate(s) for the Current VASCO Shares, or by person(s) authorized to become registered holder(s) by endorsements and documents transmitted herewith. If signature is by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, please set forth full title and see Instruction 4.)

Name(s) \_\_\_\_\_  
-----

-----  
(Please Print)

Capacity \_\_\_\_\_  
-----

Address \_\_\_\_\_  
-----

-----  
(Include Zip Code)

Area Code and Tel. No. \_\_\_\_\_ Tax Identification or Social Security No. \_\_\_\_\_  
-----

GUARANTEE OF SIGNATURE(S)  
(IF REQUIRED -- SEE INSTRUCTIONS 1 AND 6)

Authorized Signature \_\_\_\_\_  
-----

Name of Firm \_\_\_\_\_  
-----

Address \_\_\_\_\_  
-----

Dated: \_\_\_\_\_, 1997 Area Code & Tel. No. \_\_\_\_\_  
-----

(COMPLETE ACCOMPANYING SUBSTITUTE FORM W-9)

-----  
SIGNATURE OF BENEFICIAL OWNER

SEE INSTRUCTION 4

IF THE CURRENT VASCO SHARES ARE REGISTERED IN THE NAME OF A  
NOMINEE, THIS LETTER OF TRANSMITTAL AND RELEASE MUST BE SIGNED  
BY THE BENEFICIAL OWNER OF THE CURRENT VASCO SHARES TENDERED.

By completing, executing and delivering this Letter of  
Transmittal and Release, the undersigned hereby tenders the Current VASCO Shares  
and grants the release set forth in the foregoing provisions of this Letter of  
Transmittal and Release. The undersigned hereby represents and warrants that the  
undersigned is the beneficial owner of the Current VASCO Shares tendered  
herewith.

Dated: \_\_\_\_\_, 1997

Sign Here: \_\_\_\_\_

-----  
SIGNATURE(S) OF BENEFICIAL OWNER(S) OR AUTHORIZED SIGNATORY

(If signature is by trustees, executors, administrators,  
guardians, attorneys-in-fact, officers of corporations or others acting in a  
fiduciary or representative capacity, please set forth full title and see  
Instruction 4.)

Name(s) \_\_\_\_\_

-----  
(Please Print)

Capacity \_\_\_\_\_

Address \_\_\_\_\_

-----  
(Include Zip Code)

Area Code and Tel. No. \_\_\_\_\_ Tax Identification or  
Social Security No. \_\_\_\_\_

GUARANTEE OF SIGNATURE(S)  
(IF REQUIRED -- SEE INSTRUCTIONS 1 AND 6)

Authorized Signature \_\_\_\_\_

Name of Firm \_\_\_\_\_

Address \_\_\_\_\_

Dated: \_\_\_\_\_, 1997 Area Code & Tel. No. \_\_\_\_\_

(COMPLETE ACCOMPANYING SUBSTITUTE FORM W-9)

INSTRUCTIONS FORMING PART  
OF THE TERMS AND CONDITIONS OF THE EXCHANGE OFFER

1. SIGNATURE GUARANTEES. Signatures are not required to be guaranteed by an Eligible Institution (as defined below) if the Letter of Transmittal and Release and the Current VASCO Shares tendered hereby are tendered (a) by a registered physical holder of such Current VASCO Shares who has not completed either the box entitled "Special Issuance Instructions" or the box entitled "Special Delivery Instructions," or (b) for the account of an Eligible Institution. Signatures on all other Letters of Transmittal and Release must be guaranteed by an Eligible Institution. If the Current VASCO Shares tendered hereby are registered in a name other than the signer of this Letter of Transmittal and Release, see Instruction 4. As used herein, "Eligible Institution" means a firm or other entity identified in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, including (as such terms are defined therein): (i) a bank; (ii) a broker, dealer, municipal securities dealer, municipal securities broker, government securities dealer or government securities broker; (iii) a credit union; (iv) a national securities exchange, registered securities association or clearing agency; or (v) a savings association.

2. DELIVERY OF LETTER OF TRANSMITTAL AND RELEASE AND CURRENT VASCO SHARES; GUARANTEED DELIVERY PROCEDURES. This Letter of Transmittal and Release is to be used only if Current VASCO Shares tendered hereby are (i) to be forwarded herewith or (ii) to be made according to the guaranteed delivery procedures set forth in the Prospectus under "THE EXCHANGE OFFER - Guaranteed Delivery Procedures for Current VASCO Shares." All physically tendered Current VASCO Shares, together with a properly completed and duly executed Letter of Transmittal and Release (or facsimile thereof) and any other documents required by this Letter of Transmittal and Release, must be mailed or delivered to the Exchange Agent at its address set forth on the front page hereof and must be received by the Exchange Agent at or prior to the Expiration Date.

Holders of Current VASCO Shares whose Current VASCO Shares are not immediately available or who cannot deliver Current VASCO Shares and all other required documents to the Exchange Agent at or prior to the Expiration Date may nevertheless effect a tender of the Current VASCO Shares if all of the following conditions are satisfied:

(a) the tender and delivery are made by or through an Eligible Institution;

(b) at or prior to the Expiration Date, the Exchange Agent receives a properly completed and duly executed Letter of Transmittal and Release and (by mail, overnight delivery, by hand or facsimile transmission) a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form provided by New VASCO; and

(c) the certificate(s) for the tendered Current VASCO Shares are received by the Exchange Agent within five business days after the Expiration Date.

THE METHOD OF DELIVERY OF CERTIFICATES FOR CURRENT VASCO SHARES, THIS LETTER OF TRANSMITTAL AND RELEASE AND ANY OTHER REQUIRED DOCUMENTS IS AT THE OPTION AND RISK OF THE TENDERING HOLDER AND, EXCEPT AS OTHERWISE PROVIDED IN THIS LETTER OF TRANSMITTAL AND RELEASE, DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE EXCHANGE AGENT. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

No alternative, conditional or contingent tenders will be accepted. All tendering holders, by execution of this Letter of Transmittal and Release (or a facsimile thereof), waive any right to receive any notice of the acceptance of their tender.

3. INADEQUATE SPACE. If the space provided herein is inadequate, the class of Current VASCO Shares, the certificate numbers of the Current VASCO Shares and the number of Current VASCO Shares tendered should be listed on a separate SIGNED schedule and attached hereto.

4. SIGNATURES ON LETTER OF TRANSMITTAL AND RELEASE, AND ENDORSEMENTS.

IF THE CURRENT VASCO SHARES ARE REGISTERED OF RECORD IN THE NAME OF A NOMINEE, THE LETTER OF TRANSMITTAL AND RELEASE MUST BE SIGNED BY THE NOMINEE (ON PAGE 9) AND BY THE BENEFICIAL OWNER (ON PAGE 10).

If this Letter of Transmittal and Release is signed by a person other than the record holder(s) of Current VASCO Shares tendered hereby, then, in order to validly tender such Current VASCO Shares pursuant to the Exchange Offer, such Current VASCO Shares must be endorsed or accompanied by an appropriate written instrument or instruments of transfer signed exactly as the name(s) of such record holder(s) appear(s) on the Current VASCO Shares, with the signature(s) on such Current VASCO Shares or instruments of transfer guaranteed by an Eligible Institution.

If this Letter of Transmittal is signed by the record holder(s) of the Current VASCO Shares tendered hereby, the signature(s) must correspond with the name(s) as written on the face of the Current VASCO Shares without any change whatsoever.

If any of the tendered Current VASCO Shares are held of record by two or more persons, all such persons must sign this Letter of Transmittal and Release.

If any of the tendered Current VASCO Shares are registered in different names, it will be necessary to complete, sign and submit as many separate Letters of Transmittal and Release as there are different registrations.

If this Letter of Transmittal and Release or any Current VASCO Shares are signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation, agent or other person(s) acting in a fiduciary or representative capacity, such person(s) should so indicate when signing and must submit proper evidence satisfactory to the Exchange Agent of their authority so to act.

5. TRANSFER TAXES. Except as set forth in this Instruction 5, New VASCO will pay or cause to be paid all transfer taxes, if any, with respect to the sale and transfer to it of any Current VASCO Shares pursuant to the Exchange Offer. If, however, New VASCO Shares or Current VASCO Shares not tendered or not exchanged are to be delivered to or are to be registered or issued in a name other than the name of the registered holder of the Current VASCO Shares, or if a transfer tax is imposed for any reason other than the transfer or sale of Current VASCO Shares to New VASCO pursuant to the Exchange Offer, the amount of any such transfer taxes will be the responsibility of the tendering stockholder and will be required to be paid by the stockholder before delivery by the Exchange Agent of the New VASCO Shares, unless satisfactory evidence of the payment of such taxes, or exemption therefrom, is submitted.

6. SPECIAL ISSUANCE AND DELIVERY INSTRUCTIONS. If New VASCO Shares (or Current VASCO Shares not tendered or exchanged) are to be issued in the name of a person other than the signer of this Letter of Transmittal and Release or if such Current VASCO Shares and/or New VASCO Shares are to be sent to someone other than the signer of this Letter of Transmittal and Release or to the signer at a different address, the boxes entitled "Special Issuance Instructions" or "Special Delivery Instructions" in this Letter of Transmittal and Release should be completed, as applicable. In such event, the signature of the registered holder (unless an Eligible Institution) must be guaranteed by an Eligible Institution.

7. REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES. Requests for assistance or additional copies of the Prospectus or this Letter of Transmittal and Release may be obtained from New VASCO at the address set forth on the last page of this Letter of Transmittal and Release. Holders of Current VASCO Shares may also contact such holder's broker, dealer, commercial bank or trust company or nominee for assistance concerning the Exchange Offer.

8. SUBSTITUTE FORM W-9. A tendering holder (or other payee) is required to provide the Exchange Agent with a correct taxpayer identification number ("TIN") on the Substitute Form W-9 that is provided below and to certify that it is not subject to backup withholding. Failure to provide the information on the form may subject the tendering holder (or other payee) to a \$50 penalty imposed by the Internal Revenue Service and 31% federal income tax withholding on the payments made to such person.

IMPORTANT: TO ACCEPT THE EXCHANGE OFFER, THIS LETTER OF TRANSMITTAL AND RELEASE OR A MANUALLY SIGNED FACSIMILE HEREOF, TOGETHER WITH CERTIFICATES FOR CURRENT VASCO SHARES OR THE NOTICE OF GUARANTEED DELIVERY MUST BE RECEIVED BY THE EXCHANGE AGENT ON OR PRIOR TO THE EXPIRATION DATE.

## IMPORTANT TAX INFORMATION

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH BELOW IS INCLUDED FOR GENERAL INFORMATION ONLY. EACH HOLDER IS URGED TO CONSULT A TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO IT (INCLUDING THE APPLICATION AND EFFECT OF FOREIGN, STATE AND LOCAL TAX LAWS) OF THE EXCHANGE OFFER. CERTAIN HOLDERS (INCLUDING INSURANCE COMPANIES, TAX-EXEMPT ORGANIZATIONS AND FOREIGN TAXPAYERS) MAY BE SUBJECT TO SPECIAL RULES NOT DISCUSSED BELOW. THE DISCUSSION DOES NOT CONSIDER THE EFFECT OF ANY APPLICABLE FOREIGN, STATE AND LOCAL TAX LAWS.

## SUBSTITUTE FORM W-9

Under the U.S. federal income tax laws, the Exchange Agent may be required to withhold 31% of the amount of the gross proceeds paid to certain holders or other payees pursuant to the Exchange Offer. To prevent backup withholding on any gross proceeds paid to a holder or other payee with respect to Current VASCO Shares tendered pursuant to the Exchange Offer, the holder is required to notify the Exchange Agent (as payor) of the holder's current TIN (or the TIN of any other payee) by completing the form below, certifying that the TIN provided on Substitute Form W-9 is correct (or that such holder is awaiting a TIN), and that (i) the holder has not been notified by the Internal Revenue Service (the "IRS") that the holder is subject to backup withholding as a result of failure to report all interest or dividends or (ii) the IRS has notified the holder that the holder is no longer subject to backup withholding. In general, if a holder of Current VASCO Shares is an individual, the TIN is the Social Security number of such individual. In addition, if the Exchange Agent is not provided with the correct TIN, the holder may be subject to a \$50 penalty imposed by the IRS.

Certain holders of Current VASCO Shares (including, among others, all corporations and certain foreign individuals) are not subject to these backup withholding and information reporting requirements. In order for a foreign individual to qualify as an exempt recipient, that holder must submit a statement signed under penalty of perjury attesting as to that status. Forms for such statement can be obtained from the Exchange Agent. For further information regarding backup withholding and instructions for completing Substitute Form W-9 (including how to obtain a TIN if you do not have one and how to complete Substitute Form W-9 if Current VASCO Shares are held in more than one name), consult the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9."

## CONSEQUENCES OF FAILURE TO COMPLETE SUBSTITUTE FORM W-9

Failure to complete Substitute Form W-9 will not, by itself, cause the Current VASCO Shares to be deemed invalidly tendered but may require the Exchange Agent to withhold 31% of the amount of the gross proceeds paid pursuant to the Exchange Offer. Backup withholding is not an additional U.S. federal income tax. Rather, the U.S. federal income tax liability of a person subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, the holder may claim a refund from the IRS.

## WHAT NUMBER TO GIVE THE DEPOSITARY

The holder is required to give the Exchange Agent the TIN (e.g., Social Security number or Employer Identification Number) of the record owner of the Current VASCO Shares. If the Current VASCO Shares are registered in more than one name or are not registered in the name of the actual owner, consult the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9," for additional guidance on which number to report.

PAYER'S NAME: THE ILLINOIS STOCK TRANSFER COMPANY

SUBSTITUTE  
FORM W-9  
DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE

PART 1 -- PLEASE PROVIDE YOUR  
TAXPAYER IDENTIFICATION NUMBER IN  
THE BOX AT THE RIGHT AND CERTIFY  
BY SIGNING AND DATING BELOW.

Social Security Number

\_\_\_\_\_

OR

[SEE GUIDELINES]

Employer Identification Number

\_\_\_\_\_

PAYER'S REQUEST FOR TAXPAYER  
IDENTIFICATION NUMBER AND  
CERTIFICATION ("TIN")

PART II -- For Payees exempt from backup withholding, see "Important Tax  
Information" above and Guidelines for Certification of Taxpayer  
Identification Number on Substitute Form W-9 enclosed herewith and complete  
as instructed therein.

Certifications -- Under penalties of perjury, I certify that:

- (1) The number shown on this form is my correct Taxpayer Identification Number (or a Taxpayer Identification Number has not been issued to me and either (a) I have mailed or delivered an application to receive a Taxpayer Identification Number to the appropriate Internal Revenue Service Center or Social Security Administration office or (b) I intend to mail or deliver an application in the near future. I understand that if I do not provide a Taxpayer Identification Number to the payer, 31% of all reportable payments made to me thereafter will be withheld until I provide a number to the payer and that, if I do not provide my Taxpayer Identification Number within sixty (60) days, such retained amounts shall be remitted to the Internal Revenue Service ("IRS") as backup withholding.)
- (2) I am not subject to backup withholding either because I have not been notified by the IRS that I am subject to backup withholding as a result of a failure to report all interest or dividends or the IRS has notified me that I am no longer subject to backup withholding.

Certification Instructions -- You must cross out item (2) above if you have been notified by the IRS that you are subject to backup withholding because of under-reporting interest or dividends on your tax return. However, if after being notified by the IRS that you were subject to backup withholding you received another notification from the IRS that you are no longer subject to backup withholding, do not cross out item (2). (Also see the "Important Tax Information" above).

Name \_\_\_\_\_

(Please Print)

Address \_\_\_\_\_

(Include Zip Code)

Signature \_\_\_\_\_ Date \_\_\_\_\_, 1997

NOTE: FAILURE TO COMPLETE AND RETURN THIS SUBSTITUTE FORM W-9 MAY  
RESULT IN A \$50 PENALTY IMPOSED BY THE IRS AND BACKUP  
WITHHOLDING OF 31% OF ANY PAYMENTS MADE TO YOU PURSUANT TO THE  
EXCHANGE OFFER. PLEASE REVIEW THE AGUIDELINES FOR  
CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE  
FORM W-9" FOR ADDITIONAL DETAILS.

[ADD CERTIFICATION RE AWAITING TIN, IF NECESSARY.]

ANY QUESTIONS CONCERNING TENDER PROCEDURES OR  
REQUESTS FOR ADDITIONAL COPIES OF THIS LETTER OF TRANSMITTAL AND RELEASE  
MAY BE DIRECTED TO:

ILLINOIS STOCK TRANSFER COMPANY  
223 WEST JACKSON BOULEVARD  
SUITE 1210  
CHICAGO, ILLINOIS 60606  
(312) 427-2953



GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION  
NUMBER ON SUBSTITUTE FORM W-9

Guidelines for Determining the Proper Identification Number to Give the Payer. Social Security numbers have nine digits separated by two hyphens: i.e., 000-00-0000. Employer identification numbers have nine digits separated by one hyphen: i.e., 00-0000000. The table below will help determine the number to give the payer.

FOR THIS TYPE OF ACCOUNT: -----	GIVE THE SOCIAL SECURITY NUMBER OF: -----	FOR THIS TYPE OF ACCOUNT: -----	GIVE THE EMPLOYER IDENTIFICATION NUMBER OF -----
1. An individual's account	The individual	8. Sole proprietorship account	The Owner(4)
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, any one of the individuals(1)	9. A valid trust, estate, or pension trust	Legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.)(5)
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person(1)	10. Corporate account	The Corporation
4. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)	11. Religious, charitable, or educational organization account	The organization
5. Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor(2)	12. Partnership account held in the name of the business	The partnership
6. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor or incompetent person(3)	13. Association, club, or other tax-exempt organization	The organization
7. a. The usual revocable savings trust account (grantor is also trustee)	The grantor-trustee(1)	14. A broker or registered nominee	The broker or nominee
b. So-called trust account that is not a legal or valid trust under State law.	The actual owner(1)	15. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or prison) that receives agricultural program payments	The public entity

- 
- (1) List first and circle the name of the person whose number you furnish.
  - (2) Circle the minor's name and furnish the minor's social security number.
  - (3) Circle the ward's, minor's or incompetent person's name and furnish such person a social security number.
  - (4) Show the name of the owner.
  - (5) List first and circle the name of the legal trust, estate, or pension trust.

NOTE: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

## OBTAINING A NUMBER

If you don't have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at the local office of the Social Security Administration or the Internal Revenue Service and apply for a number.

## PAYEE EXEMPT FROM BACKUP WITHHOLDING

Payees specifically exempted from backup withholding on ALL payments include the following:

- - A corporation.
- - A financial institution.
- - An organization exempt from tax under section 501(a), or an individual retirement plan.
- - The United States or any agency or instrumentality thereof.
- - A State, the District of Columbia, a possession of the United States, or any subdivision or instrumentality thereof.
- - A foreign government, a political subdivision of a foreign government, or agency or instrumentality thereof.
- - An international organization or any agency, or instrumentality thereof.
- - A registered dealer in securities or commodities registered in the U.S. or a possession of the U.S.
- - A real estate investment trust.
- - A common trust fund operated by a bank under section 584(a).
- - An exempt charitable remainder trust, or a non-exempt trust described in section 4947(a)(1).
- - An entity registered at all times under the Investment Company Act of 1940.
- - A foreign central bank of issue.

Certain payments other than interest, dividends, and patronage dividends that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under section 5041, 5041(a), 6045, and 6050A.

PRIVACY ACT NOTICE. Section 5109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to IRS. IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Beginning January 1, 1993, payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

## PENALTIES

## (1) PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER.

If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to wilful neglect.

(2) CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING. If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of \$500.

(3) CRIMINAL PENALTY FOR FALSIFYING INFORMATION. Falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

## FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR THE INTERNAL REVENUE SERVICE

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- - Payments to nonresident aliens subject to withholding under section 1441.
- - Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident partner.
- - Payments to patronage dividends where the amount received is not paid in money.
- - Payments made by certain foreign organizations.
- - Payments made to a nominee.

Payments of interest not generally subject to backup withholding include the following:

- - Payments of interest on obligations issued by individuals.

NOTE: You may be subject to backup withholding if this interest is \$800 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.

- - Payments of tax-exempt interest (including exempt interest dividends under section 852).
- - Payments described in section 6049(b)(5) to nonresident aliens.
- - Payments on tax-free convenient bonds under section 1451.
- - Payments made by certain foreign organizations.
- - Payments made to a nominee.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding. FILE THIS FORM WITH THE PAYER, FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, AND RETURN IT TO THE PAYER, IF THE PAYMENTS ARE INTEREST, DIVIDENDS, OR PATRONAGE DIVIDENDS, ALSO SIGN AND DATE THE FORM.

## NEW VASCO WARRANT AGREEMENT

This Agreement is by and among VASCO Data Security International, Inc., a Delaware corporation ("New VASCO"), VASCO CORP., a Delaware corporation ("Current VASCO") and the undersigned (the "Warrantholder"), which is the holder of warrants to acquire shares of common stock of Current VASCO (the "Current VASCO Warrants"), copies of which are attached hereto as Schedule(s) \_\_\_\_\_ and originals of which have been delivered to New VASCO.

Pursuant to the Prospectus of New VASCO dated \_\_\_\_\_, 1997, as supplemented and amended prior to the Expiration Date as defined therein (the "Prospectus"), New VASCO has offered to the Warrantholder the right to acquire the same number of shares of common stock of New VASCO on the same terms and conditions, including the exercise price and the expiration date, as provided for in the Current VASCO Warrants, in exchange for (i) the cancellation of the Current VASCO Warrants and (ii) the release set forth in Section 3 below in favor of Current VASCO or any of its predecessor entities (the "VASCO Predecessors") consisting of VASCO Corp., a corporation incorporated in Delaware on May 22, 1984 ("Old VASCO"), and Ridge Point Enterprises, Inc., incorporated in Utah on January 7, 1985 (and subsequently renamed VASCO Corp. ("VASCO Utah"), and the respective successors and assigns of each of the foregoing, including New VASCO (Current VASCO, New VASCO, the VASCO Predecessors and all such successors and assigns being collectively referred to hereinafter as "VASCO").

NOW, THEREFORE, for good and valuable consideration, the receipt of which hereby is acknowledged, the parties hereto agree as follows:

1. GRANT OF NEW VASCO WARRANTS. New VASCO hereby grants to the Warrantholder warrants to purchase shares of common stock of New VASCO in accordance with the provisions, and on the same terms and conditions, set forth in the Current VASCO Warrants but modified so that all references in the Current VASCO Warrants to "VASCO Corp." shall be changed and deemed to refer to "VASCO Data Security International, Inc." and all references to shares of "Common Stock of VASCO Corp." or similar terms shall be changed and deemed to refer to shares of "Common Stock of VASCO Data Security International, Inc." or similar terms. The purchase price per share of New VASCO common stock and the number of such shares purchasable pursuant to a New VASCO Warrant shall be adjusted from time to time as provided in Exhibit A hereto. The Current VASCO Warrants as so modified by the preceding are incorporated herein as if set forth in full hereto with such modifications and are herein referred to as the "New VASCO Warrants." The Warrantholder acknowledges that the grant of New VASCO Warrants and the cancellation of the Current VASCO Warrants effected by this Agreement may result in the recognition of gain or loss for tax purposes by the Warrantholder, and further agrees that such tax consequences are solely his, her or its responsibility, and not that of Current VASCO or New VASCO. The Warrantholder shall have no rights as a stockholder with respect to the New VASCO common stock into which the New VASCO Warrants are exercisable until proper exercise of a New VASCO Warrant and delivery to the

Warrantholder of such shares as provided in the New VASCO Warrants. All shares acquired by the Warrantholder pursuant to this Agreement shall be subject to any restrictions on sale, encumbrance and other disposition under applicable securities laws.

2. CANCELLATION OF CURRENT VASCO WARRANTS. The Current VASCO Warrants hereby are canceled and shall be of no further force and effect. The Warrantholder hereby agrees to the cancellation of the Current VASCO Warrants.

3. RELEASE. The Warrantholder hereby forever releases and fully discharges VASCO, and each of them, from and against all direct or indirect demands, claims, payments, obligations, actions or causes of action, assessments, losses, liabilities, damages (including without limitation special, consequential, exemplary, punitive and similar damages), reasonable costs and expenses paid or incurred, or diminutions in value of any kind or character (whether or not known or asserted prior to the date hereof, fixed or unfixed, conditional or unconditional, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise), that the Warrantholder now has or ever had against VASCO or the assets of Current VASCO or any of the VASCO Predecessors as a result of acts or omissions occurring on or before the date of the Prospectus which arise from or are in connection with

(i) any prior authorization, designation or issuance of stock, any stock split, reclassification, redesignation, dividend or distribution of or upon stock, any amendment to the certificate or articles of incorporation or bylaws including those affecting the amount, rights, powers or preferences of stock, and any failure to properly authorize, approve or effect any of the foregoing actions, including (a) the failure by Old VASCO to document whether an amendment to its Certificate of Incorporation was duly authorized or to file a Certificate of Amendment with the Delaware Secretary of State to amend its Certificate of Incorporation in 1984 to effect a three-for-one stock split of its common stock and to provide for 600,000 shares of non-voting common stock prior to purportedly effecting the stock split and issuing such non-voting common shares, (b) the failure by Old VASCO to document whether director and stockholder approval was obtained for an amendment to its Certificate of Incorporation increasing the number of authorized shares of common stock in 1986, (c) the purported issuance of Series A preferred stock in 1989 by VASCO Utah at a time when the issuance of preferred shares was not authorized by VASCO Utah's charter, and (d) the purported issuance of preferred stock by Current VASCO in connection with the 1990 merger, when the rights, powers and preferences of which such stock were not specified in Current VASCO's Certificate of Incorporation and when its Certificate of Incorporation did not provide its Board of Directors the power to designate such rights, powers and preferences;

(ii) any failure to properly design, approve, adopt, administer, or authorize the number of shares subject to, any stock option plan or program, including actions required to allow for options awarded thereunder to be treated as incentive stock options under the Internal Revenue Code of 1986, as amended (the "Code"), including the failure by Old VASCO, VASCO Utah and/or Current VASCO to (a) document approval by the Board of Directors and stockholders of stock option plans, (b) specify and authorize the number of shares of stock to be subject to such plans, (c) reserve the number of shares subject to such plans, (d) document the authorization for the grant of options pursuant to such plans and the issuance of shares upon exercise of such options, and (e) design such plans in a

manner that would ensure options granted thereunder would be treated as incentive stock options;

(iii) any organization or any merger, consolidation, share exchange, reorganization, recapitalization, sale of assets or like event, or any failure properly to authorize, approve, effect or consummate same, including (a) the failure to document the approval by Old VASCO's stockholders of the 1986 reorganization through the share exchange undertaken by Old VASCO and Ridge Point Enterprises, Inc./VASCO Utah, (b) the failure to document whether all stockholders of Old VASCO voluntarily exchanged their shares for shares of Ridge Point Enterprises, Inc./VASCO Utah, (c) the failure to document the mechanics of the exchange of Old VASCO shares for shares of Ridge Point Enterprises, Inc./VASCO Utah, and (d) the following procedural irregularities which call into question the validity of the intended 1990 merger of VASCO Utah and Current VASCO, as well as Current VASCO's title to the assets of VASCO Utah purportedly succeeded to by Current VASCO by virtue of the merger: (1) the incorporation of Current VASCO, after the date of the 1990 merger agreement, (2) Current VASCO's approval of the plan of merger, including approval of the plan of merger prior to the incorporation of Current VASCO, the lack of documented stockholder approval as called for by the plan of merger and the effectiveness of the approval by Current VASCO's then Board of Directors, (3) the authorization and issuance of stock by Current VASCO pursuant to the merger, (4) the adoption of Current VASCO's initial bylaws, appointment of Current VASCO's initial directors and the election of its initial officers, and (5) the administrative dissolution of VASCO Utah prior to the filing of a Certificate of Merger with the State of Delaware, (6) the failure to file Articles of Merger with the State of Utah in connection with the intended merger of VASCO Utah and Current VASCO;

(iv) the dissolution, liquidation or winding up of any of Current VASCO's predecessors, or any failure properly to approve or effect said dissolution, liquidation or winding up, including (a) the failure to properly document any stockholder approval of the dissolution of Old VASCO and to document actions taken to dissolve, liquidate and wind-up Old VASCO in 1987, (b) the failure to vest effectively title and ownership in VASCO Utah of Old VASCO's assets and to document the assumption by VASCO Utah of Old VASCO's liabilities, and (c) the administrative dissolution of VASCO Utah in 1990 prior to the intended merger transaction with Current VASCO and before the filing of a Certificate of Merger with the State of Delaware; and

(v) any failure to afford security holders any appraisal, preemptive or other rights, whether accorded by statute or by the articles of incorporation, certificate of incorporation or bylaws of Current VASCO or any of its predecessors, in connection with any of the matters described in the foregoing clauses (i), (ii), (iii) or (iv) including (a) the failure of Old VASCO to document whether it afforded its stockholders, in connection with issuances of Old VASCO capital stock, the preemptive rights to purchase, upon the issuance or sale of Old VASCO stock (or securities convertible into Old VASCO stock), shares (or securities) in proportion to the amount of Old VASCO common stock then owned by such holder, subject to conditions and time limitations prescribed (and at a price determined as permitted by law), by Old VASCO's Board of Directors, as provided for

in the Old VASCO Certificate of Incorporation and (b) the failure of VASCO Utah to document whether it afforded its stockholders the appraisal rights provided for by Utah law in connection with the intended 1990 merger of VASCO Utah with Current VASCO.

(The matters listed in the foregoing clauses (i), (ii), (iii), (iv) and (v) are collectively referred to in this document and the Prospectus as the "Corporate Matters").

The Warrantholder hereby irrevocably waives his rights under any applicable statute, rule, regulation, legal principle, or legal doctrine that provides that a general release does not extend to claims which a releasing party does not know or suspect to exist in its favor at the time of executing such release, which if known by the releasing party would have materially affected its settlement with the released party.

4. CERTAIN REPRESENTATIONS, WARRANTIES AND COVENANTS OF WARRANTHOLDER. The Warrantholder hereby represents, warrants and covenants that (i) the Warrantholder has received and adequately studied the Prospectus, (ii) the Warrantholder has had adequate opportunity to consult legal counsel of Warrantholder's choice regarding this Agreement, (iii) the Warrantholder has executed and delivered this Agreement and the release set forth herein pursuant to the free will of the Warrantholder with the intention that the release be a general release to the full extent provided herein, (iv) the Warrantholder has not sold, assigned or otherwise transferred any rights or remedies arising from or in connection with the Corporate Matters, and (v) the Current VASCO Warrants are the only warrants held by the Warrantholder to acquire capital stock of Current VASCO or any of the VASCO Predecessors. Current VASCO and the Warrantholder each acknowledges and agrees that this Agreement does not affect any rights or claims the Warrantholder may have against VASCO arising out of any matter or transaction arising from and after the date of the Prospectus. Further, it is expressly understood that this Agreement (i) will effect a release of any and all Associated Corporate Matter Claims (as defined in the Prospectus) the Warrantholder may have even if less than all of the Warrantholder's Current VASCO Securities (as defined in the Prospectus) are exchanged in the Exchange Offer (as defined in the Prospectus), and (ii) does not release and discharge (a) any rights or remedies Current VASCO in its own right, or as successor to the rights of the VASCO Predecessors, may have against any person or entity arising out of the Corporate Matters, or (b) any rights or remedies unrelated to the Corporate Matters the Warrantholder has as a current security holder of Current VASCO.

5. EXCHANGE OFFER; EFFECTIVE DATE. This Agreement is subject to the terms and conditions of the Exchange Offer, as defined in the Prospectus, and will become effective and binding on the parties hereto upon acceptance by New VASCO of shares of common stock of Current VASCO tendered pursuant to the Exchange Offer. Without limiting the foregoing, the Warrantholder has the right to withdraw this Agreement in accordance with the specific provisions in the Prospectus under the heading "THE EXCHANGE OFFER - Withdrawal Rights."

6. GENERAL. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements or understandings, oral or written, with respect to the subject matter hereof. This Agreement shall be governed by and construed in accordance with the internal laws and not the

conflicts of law rules of the State of Illinois, and the invalidity or unenforceability of any term or provision of this Agreement shall not affect the validity or enforceability of any other term or provision hereof. This Agreement is binding on and inures to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns and in addition, the provisions of the release set forth in Section 3 inure to the benefit of each of the entities included within the above definition of VASCO.



IN WITNESS WHEREOF, the parties have duly executed this

Agreement.

New VASCO:

VASCO DATA SECURITY INTERNATIONAL, INC.

By -----

Its -----

Current VASCO:

VASCO CORP.

By -----

Its -----

Warrantholder:

Printed Name -----

Signature -----

Title -----

Address -----

Dated \_\_\_\_\_, 1997

## EXHIBIT A

ADJUSTMENT OF EXERCISE PRICE AND  
NUMBER OF SHARES PURCHASABLE

1. In case, prior to the expiration of a New VASCO Warrant by exercise or by its terms, New VASCO shall issue any shares of New VASCO common stock as a stock dividend or subdivide the number of outstanding shares of New VASCO common stock into a greater number of shares, then in either of such cases, the then applicable exercise price per share of the shares of New VASCO common stock purchasable pursuant to that New VASCO Warrant in effect at the time of such action shall be proportionately reduced and the number of shares at that time purchasable pursuant to that New VASCO Warrant shall be proportionately increased; and conversely, in the event New VASCO shall contract the number of outstanding shares of New VASCO common stock by combining such shares into a smaller number of shares, then, in such case, the then applicable exercise price per share of the shares of New VASCO common stock purchasable pursuant to that New VASCO Warrant in effect at the time of such action shall be proportionately increased and the number of shares of NEW VASCO common stock purchasable pursuant to that New VASCO Warrant shall be proportionately decreased. If New VASCO shall, at any time during the term of a New VASCO Warrant, declare a dividend payable in cash on the New VASCO common stock and shall, at substantially the same time, offer to its stockholders a right to purchase new shares of New VASCO common stock from the proceeds of such dividend or for an amount substantially equal to the dividend, all New VASCO common stock so issued shall, for the purpose of that New VASCO Warrant, be deemed to have been issued as a stock dividend. Any dividend paid or distributed upon the New VASCO common stock shall be treated as a dividend paid in New VASCO common stock to the extent that shares of New VASCO common stock are issuable upon conversion thereof.

2. In case, prior to the expiration of a New VASCO Warrant by exercise or by its terms, New VASCO shall be recapitalized by reclassification of its outstanding New VASCO common stock (other than a change in par value to no par value), or New VASCO or a successor corporation shall consolidate or merge with or convey all or substantially all of its or of any successor corporation's property and assets to any other corporation or corporations (any such other corporations being included within the meaning of the term "successor corporation" hereinbefore used in the event of any consolidation or merger of any such other corporation with, or the sale of all or substantially all of the property of any such other corporation to, another corporation or corporations), then, as a condition of such recapitalization, consolidation, merger or conveyance, lawful and adequate provision shall be made whereby the Warrantholder shall thereafter have the right to purchase, upon the basis and on the terms and conditions specified in that New VASCO Warrant, in lieu of the shares of New VASCO common stock theretofore purchasable upon the exercise of that New VASCO Warrant, such shares of stock, securities or assets of the other

corporation as to which the Warrantholder would have been entitled had that New VASCO Warrant been exercised immediately prior to such recapitalization, consolidation, merger or conveyance; and in any such event, the rights of that Warrantholder to any adjustment in the number of shares of New VASCO common stock purchasable upon the exercise of that New VASCO Warrant, as hereinbefore provided, shall continue and be preserved in respect of any stock which the Warrantholder becomes entitled to purchase.

3. In case, prior to the expiration of a New VASCO Warrant by exercise or by its terms, New VASCO shall sell all or substantially all of its property or dissolve, liquidate or wind up its affairs, lawful provision shall be made as part of the terms of any such sale, dissolution, liquidation or winding up, so that the Warrantholder may thereafter receive upon exercise hereof in lieu of each share of New VASCO common stock which he would have been entitled to receive, the same kind and amount of any securities or assets as may be issuable, distributable or payable upon any such sale, dissolution, liquidation or winding up with respect to each share of New VASCO common stock; provided, however, that in any case of any such sale or of dissolution, liquidation or winding up, the right to exercise that New VASCO Warrant shall terminate on a date fixed by New VASCO. Such date so fixed shall be no earlier than 3:00 p.m., New York City time, on the forty-fifth (45th) day next succeeding the date on which notice of such termination of the right to exercise that New VASCO Warrant has been given by mail to the Warrantholder at its address as it appears on the books of New VASCO.

4. Upon any exercise of a New VASCO Warrant by the Warrantholder, New VASCO shall not be required to deliver fractions of one share, but may adjust the exercise price payable by that New VASCO Warrant in respect of any such fraction of one share on the basis of the exercise price per share then applicable upon exercise of that New VASCO Warrant.

5. In case, prior to the expiration of a New VASCO Warrant by exercise or by its terms, New VASCO shall determine to take a record of its stockholders for the purpose of determining stockholders entitled to receive any dividend, stock dividend, distribution or other right whether or not it may cause any change or adjustment in the number, amount, price or nature of the securities or assets deliverable upon the exercise of that New VASCO Warrant pursuant to the foregoing provisions, New VASCO shall give at least ten (10) days' prior written notice to the effect that it intends to take such record to the Warrantholder at its address as it appears on the books of New VASCO, said notice to specify the date as of which such record is to be taken, the purpose for which such record is to be taken, and the effect which the action which may be taken will have upon that New VASCO Warrant.

SCHEDULE \_\_\_\_\_

ATTACHED HERETO

## NEW VASCO OPTION AGREEMENT

This Agreement is by and among VASCO Data Security International, Inc., a Delaware corporation ("New VASCO"), VASCO CORP., a Delaware corporation ("Current VASCO") and the undersigned individual (the "Optionholder"), who is the holder of options to acquire shares of common stock of Current VASCO as set forth on Schedule I attached hereto (the "Current VASCO Options").

Pursuant to the Prospectus of New VASCO dated \_\_\_\_\_, 1997, as supplemented and amended prior to the Expiration Date as defined therein (the "Prospectus"), New VASCO has offered to the Optionholder the right to acquire the same number of shares of common stock of New VASCO, at the same exercise price and until the same expiration date as the Current VASCO Options, in exchange for (i) the cancellation of the Current VASCO Options and (ii) the release set forth in Section 3 below in favor of Current VASCO or any of its predecessor entities (the "VASCO Predecessors") consisting of VASCO Corp., a corporation incorporated in Delaware on May 22, 1984 ("Old VASCO"), and Ridge Point Enterprises, Inc., incorporated in Utah on January 7, 1985 and subsequently renamed VASCO Corp. ("VASCO Utah"), and the respective successors and assigns of each of the foregoing, including New VASCO (Current VASCO, New VASCO, the VASCO Predecessors and all such successors and assigns being collectively referred to hereinafter as "VASCO").

NOW, THEREFORE, for good and valuable consideration, the receipt of which hereby is acknowledged, the parties hereto agree as follows:

1. NEW VASCO OPTIONS. Subject to the provisions set forth herein and the terms and conditions of the 1997 VASCO Data Security International, Inc. Stock Option Plan, as amended, the terms of which are hereby incorporated by reference, New VASCO hereby grants to the Optionholder options to purchase shares of common stock of New VASCO (the "New VASCO Options") in accordance with the provisions set forth below in Sections 1.1 through 1.6, inclusive. The Optionholder acknowledges that the New VASCO Options are not "Incentive Stock Options," or otherwise qualified options for federal tax purposes, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended ("ISOs").

1.1 GRANT OF OPTION. New VASCO hereby grants to the Optionholder the right, privilege, and option to purchase the number of shares of its common stock at the respective purchase price per share as set forth on Schedule I hereto and in the manner and subject to the conditions hereinafter provided. This award is made to the Optionholder subject to termination as hereinafter specified.

1.2 TIME OF EXERCISE OF OPTION. The New VASCO Options may not be exercised prior to the expiration of the respective vesting period ("Vesting Period") as set forth on Schedule I. After the expiration of the respective Vesting Period, the applicable New VASCO Option may be exercised at any time, and from time to time, in whole or in part, until the termination thereof as provided in Section 1.4 below.

1.3 METHOD OF EXERCISE. The New VASCO Options shall be executed by written notice directed to the Committee of New VASCO established under the 1997 VASCO Data Security International, Inc. Stock Option Plan, as amended, at New VASCO's principal place of business, for the number of shares specified. New VASCO shall make immediate delivery of such shares, provided that if any law or regulation requires New VASCO to take any action with respect to the shares specified in such notice before the issuance thereof, then the date of delivery of such shares shall be extended for the period necessary to take such action.

1.4 TERMINATION OF OPTION. Except as herein otherwise stated, the New VASCO Options to the extent vested and exercisable, and further, to the extent not heretofore exercised, shall terminate upon the first to occur of the following:

(a) The expiration of that number of months specified in Schedule I as the Termination Period after the date on which the Optionholder's employment or other affiliation with New VASCO, Current VASCO or any subsidiary of either entity (collectively, the "VASCO Companies"), including a directorship, is terminated;

(b) In the event of the Optionholder's death while employed or affiliated with the VASCO Companies, his executors or administrators may exercise, within 60 days following the date of his death, the New VASCO Options as to any of the exercisable and vested shares not theretofore exercised during his lifetime; or

(c) With respect to a specific New VASCO Option, the respective option expiration date set forth on Schedule I.

1.5 RIGHTS PRIOR TO EXERCISE OF OPTION. The New VASCO Options are nontransferable by the Optionholder, except in the event of his death as provided in Section 1.4(b) above, and during his lifetime are exercisable only by the Optionholder. The Optionholder shall have no rights as a stockholder with respect to the option shares until proper exercise of a New VASCO Option and delivery to the Optionholder of certificates for such shares as herein provided.

1.6 RESTRICTIONS ON DISPOSITION. All shares acquired by the Optionholder pursuant to this Agreement shall be subject to any restrictions on sale, encumbrance and other disposition under applicable securities laws.

2. CANCELLATION OF CURRENT VASCO OPTIONS. The Current VASCO Options hereby are canceled and shall be of no further force and effect. The Optionholder hereby agrees to the cancellation of the Current VASCO Options and recognizes that the New VASCO Options granted under this Agreement are not, although the Current VASCO Options may have been, ISOs.

3. RELEASE. The Optionholder hereby forever releases and fully discharges VASCO, and each of them, from and against all direct or indirect demands, claims, payments,

obligations, actions or causes of action, assessments, losses, liabilities, damages (including without limitation special, consequential, exemplary, punitive and similar damages), reasonable costs and expenses paid or incurred, or diminutions in value of any kind or character (whether or not known or asserted prior to the date hereof, fixed or unfixed, conditional or unconditional, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise), that the Optionholder now has or ever had against VASCO or the assets of Current VASCO or any of the VASCO Predecessors as a result of acts or omissions occurring on or before the date of the Prospectus which arise from or are in connection with

(i) any prior authorization, designation or issuance of stock, any stock split, reclassification, redesignation, dividend or distribution of or upon stock, any amendment to the certificate or articles of incorporation or bylaws including those affecting the amount, rights, powers or preferences of stock, and any failure to properly authorize, approve or effect any of the foregoing actions, including (a) the failure by Old VASCO to document whether an amendment to its Certificate of Incorporation was duly authorized or to file a Certificate of Amendment with the Delaware Secretary of State to amend its Certificate of Incorporation in 1984 to effect a three-for-one stock split of its common stock and to provide for 600,000 shares of non-voting common stock prior to purportedly effecting the stock split and issuing such non-voting common shares, (b) the failure by Old VASCO to document whether director and stockholder approval was obtained for an amendment to its Certificate of Incorporation increasing the number of authorized shares of common stock in 1986, (c) the purported issuance of Series A preferred stock in 1989 by VASCO Utah at a time when the issuance of preferred shares was not authorized by VASCO Utah's charter, and (d) the purported issuance of preferred stock by Current VASCO in connection with the 1990 merger, when the rights, powers and preferences of which such stock were not specified in Current VASCO's Certificate of Incorporation and when its Certificate of Incorporation did not provide its Board of Directors the power to designate such rights, powers and preferences;

(ii) any failure to properly design, approve, adopt, administer, or authorize the number of shares subject to, any stock option plan or program, including actions required to allow for options awarded thereunder to be treated as incentive stock options under the Internal Revenue Code of 1986, as amended (the "Code"), including the failure by Old VASCO, VASCO Utah and/or Current VASCO to (a) document approval by the Board of Directors and stockholders of stock option plans, (b) specify and authorize the number of shares of stock to be subject to such plans, (c) reserve the number of shares subject to such plans, (d) document the authorization for the grant of options pursuant to such plans and the issuance of shares upon exercise of such options, and (e) design such plans in a manner that would ensure options granted thereunder would be treated as incentive stock options;

(iii) any organization or any merger, consolidation, share exchange, reorganization, recapitalization, sale of assets or like event, or any failure properly to authorize, approve, effect or consummate same, including (a) the failure to document the approval by Old VASCO's stockholders of the 1986 reorganization through the share exchange undertaken

by Old VASCO and Ridge Point Enterprises, Inc./VASCO Utah, (b) the failure to document whether all stockholders of Old VASCO voluntarily exchanged their shares for shares of Ridge Point Enterprises, Inc./VASCO Utah, (c) the failure to document the mechanics of the exchange of Old VASCO shares for shares of Ridge Point Enterprises, Inc./VASCO Utah, and (d) the following procedural irregularities which call into question the validity of the intended 1990 merger of VASCO Utah and Current VASCO, as well as Current VASCO's title to the assets of VASCO Utah purportedly succeeded to by Current VASCO by virtue of the merger: (1) the incorporation of Current VASCO, after the date of the 1990 merger agreement, (2) Current VASCO's approval of the plan of merger, including approval of the plan of merger prior to the incorporation of Current VASCO, the lack of documented stockholder approval as called for by the plan of merger and the effectiveness of the approval by Current VASCO's then Board of Directors, (3) the authorization and issuance of stock by Current VASCO pursuant to the merger, (4) the adoption of Current VASCO's initial bylaws, appointment of Current VASCO's initial directors and the election of its initial officers, and (5) the administrative dissolution of VASCO Utah prior to the filing of a Certificate of Merger with the State of Delaware, (6) the failure to file Articles of Merger with the State of Utah in connection with the intended merger of VASCO Utah and Current VASCO;

(iv) the dissolution, liquidation or winding up of any of Current VASCO's predecessors, or any failure properly to approve or effect said dissolution, liquidation or winding up, including (a) the failure to properly document any stockholder approval of the dissolution of Old VASCO and to document actions taken to dissolve, liquidate and wind-up Old VASCO in 1987, (b) the failure to vest effectively title and ownership in VASCO Utah of Old VASCO's assets and to document the assumption by VASCO Utah of Old VASCO's liabilities, and (c) the administrative dissolution of VASCO Utah in 1990 prior to the intended merger transaction with Current VASCO and before the filing of a Certificate of Merger with the State of Delaware; and

(v) any failure to afford security holders any appraisal, preemptive or other rights, whether accorded by statute or by the articles of incorporation, certificate of incorporation or bylaws of Current VASCO or any of its predecessors, in connection with any of the matters described in the foregoing clauses (i), (ii), (iii) or (iv) including (a) the failure of Old VASCO to document whether it afforded its stockholders, in connection with issuances of Old VASCO capital stock, the preemptive rights to purchase, upon the issuance or sale of Old VASCO stock (or securities convertible into Old VASCO stock), shares (or securities) in proportion to the amount of Old VASCO common stock then owned by such holder, subject to conditions and time limitations prescribed (and at a price determined as permitted by law), by Old VASCO's Board of Directors, as provided for in the Old VASCO Certificate of Incorporation and (b) the failure of VASCO Utah to document whether it afforded its stockholders the appraisal rights provided for by Utah law in connection with the intended 1990 merger of VASCO Utah with Current VASCO.

(The matters listed in the foregoing clauses (i), (ii), (iii), (iv) and (v) are collectively referred to in this document and the Prospectus as the "Corporate Matters").



The Optionholder hereby irrevocably waives his rights under any applicable statute, rule, regulation, legal principle, or legal doctrine that provides that a general release does not extend to claims which a releasing party does not know or suspect to exist in its favor at the time of executing such release, which if known by the releasing party would have materially affected its settlement with the released party.

4. CERTAIN REPRESENTATIONS, WARRANTIES AND COVENANTS OF OPTIONHOLDER. The Optionholder hereby represents, warrants and covenants that (i) the Optionholder has received and adequately studied the Prospectus, (ii) the Optionholder has had adequate opportunity to consult legal counsel of Optionholder's choice regarding this Agreement, (iii) the Optionholder has executed and delivered this Agreement and the release set forth herein pursuant to the free will of the Optionholder with the intention that the release be a general release to the full extent provided herein, (iv) the Optionholder has not sold, assigned or otherwise transferred any rights or remedies arising from or in connection with the Corporate Matters, and (v) the Current VASCO Options are the only options held by the Optionholder to acquire capital stock of Current VASCO or any of the VASCO Predecessors. Current VASCO and the Optionholder each acknowledges and agrees that this Agreement does not affect any rights or claims the Optionholder may have against VASCO arising out of any matter or transaction arising from and after the date of the Prospectus. Further, it is expressly understood that this Agreement (i) will effect a release of any and all Associated Corporate Matter Claims (as defined in the Prospectus) the Optionholder may have even if less than all of the Optionholder's Current VASCO Securities (as defined in the Prospectus) are exchanged in the Exchange Offer (as defined in the Prospectus), and (ii) does not release and discharge (a) any rights or remedies Current VASCO in its own right, or as successor to the rights of the VASCO Predecessors, may have against any person or entity arising out of the Corporate Matters, or (b) any rights or remedies unrelated to the Corporate Matters the Optionholder has as a current stockholder of Current VASCO.

5. EXCHANGE OFFER; EFFECTIVE DATE. This Agreement is subject to the terms and conditions of the Exchange Offer, as defined in the Prospectus, and will become effective and binding on the parties hereto upon acceptance by New VASCO of shares of common stock of Current VASCO tendered pursuant to the Exchange Offer. Without limiting the foregoing, the Optionholder has the right to withdraw this Agreement in accordance with the specific provisions in the Prospectus under the heading "THE EXCHANGE OFFER - Withdrawal Rights."

6. GENERAL. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements or understandings, oral or written, with respect to the subject matter hereof. This Agreement shall be governed by and construed in accordance with the internal laws and not the conflicts of law rules of the State of Illinois, and the invalidity or unenforceability of any term or provision of this Agreement shall not affect the validity or enforceability of any other term or provision hereof. This Agreement is binding on and inures to the benefit of the parties hereto and their respective successors and assigns and, in addition, the provisions of the release set forth in Section 3 inure to the benefit of each of the entities included within the above definition of VASCO.

IN WITNESS WHEREOF, the parties have duly executed this

Agreement.

New VASCO:

VASCO DATA SECURITY INTERNATIONAL, INC.

By -----  
Its -----

Current VASCO:

VASCO CORP.

By -----  
Its -----

Optionholder:

Printed Name -----

Signature -----

Title -----

Address -----

Dated -----, 1997  
-----



## NEW VASCO CONVERTIBLE NOTE AGREEMENT

This Agreement is by and among VASCO Data Security International, Inc., a Delaware corporation ("New VASCO"), VASCO CORP., a Delaware corporation ("Current VASCO") and the undersigned (the "Convertible Noteholder"), which is the holder of the note convertible into shares of common stock of Current VASCO attached hereto as Schedule \_\_\_\_\_ (the "Current VASCO Convertible Note").

Pursuant to the New VASCO Prospectus dated \_\_\_\_\_, 1997, as supplemented and amended prior to the Expiration Date as defined therein (the "Prospectus"), New VASCO has offered to the Convertible Noteholder the opportunity to amend the terms of the Current VASCO Convertible Note to provide for conversion into the same number of shares of common stock of New VASCO on the same terms and conditions provided for in the Current VASCO Convertible Note, in exchange for the release set forth in Section 2 below in favor of Current VASCO or any of its predecessor entities (the "VASCO Predecessors") consisting of VASCO Corp., a corporation incorporated in Delaware on May 22, 1984 ("Old VASCO"), and Ridge Point Enterprises, Inc., incorporated in Utah on January 7, 1985 and subsequently renamed VASCO Corp. ("VASCO Utah"), and the respective successors and assigns of each of the foregoing, including New VASCO (Current VASCO, New VASCO, the VASCO Predecessors and all such successors and assigns being collectively referred to hereinafter as "VASCO"). Current VASCO hereby agrees to amend the Current VASCO Convertible Note in accordance with and subject to the provisions of this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt of which hereby is acknowledged, the parties hereto agree as follows:

1. AMENDMENT TO CURRENT VASCO CONVERTIBLE NOTE. New VASCO, Current VASCO and the Convertible Noteholder hereby agree to amend the terms of the Current VASCO Convertible Note to provide that each reference in the Current VASCO Convertible Note to a right or option on the part of Current VASCO or the Convertible Noteholder to convert the Current VASCO Convertible Note into shares of Current VASCO common stock shall be replaced by the right or option to convert the Current VASCO Convertible Note into shares of New VASCO common stock on the same terms and conditions, including without limitation the conversion price; provided, that to the extent such conversion price is to be determined by reference to any market or trading price of Current VASCO common stock, the Current VASCO Convertible Note is hereby amended to provide that the conversion price shall be determined by reference to the market or trading price of New VASCO common stock in accordance with the formula set forth in the Current VASCO Convertible Note. It is further agreed by the parties that terms of the Current VASCO Convertible Note shall be amended to provide that the conversion price per share of New VASCO common stock and the number of such shares convertible pursuant to a New VASCO Warrant shall be adjusted from time to time

as provided in Exhibit A hereto. It is agreed and understood by the parties that the Current VASCO Convertible Note shall remain a valid and binding obligation of Current VASCO and conversion of the Current VASCO Convertible Note into shares of New VASCO common stock shall constitute payment under the Current VASCO Convertible Note as if converted into shares of Current VASCO common stock. The Convertible Noteholder acknowledges that the amendment to the Current VASCO Convertible Note may result in the recognition of gain or loss for tax purposes, and further the Convertible Noteholder agrees that such tax consequences are solely his, her or its responsibility, and not that of Current VASCO or New VASCO. The Convertible Noteholder shall have no rights as a stockholder with respect to the New VASCO common stock into which the Current VASCO Convertible Note is convertible until proper exercise of a conversion right and delivery to the Convertible Noteholder of certificates for the shares of New VASCO common stock pursuant to the conversion of the Current VASCO Convertible Note. All shares acquired by the Convertible Noteholder pursuant to this Agreement and the Current VASCO Convertible Note shall be subject to any restrictions on sale, encumbrance and other disposition under applicable securities laws.

2. RELEASE. The Convertible Noteholder hereby forever releases and fully discharges VASCO, and each of them, from and against all direct or indirect demands, claims, payments, obligations, actions or causes of action, assessments, losses, liabilities, damages (including without limitation special, consequential, exemplary, punitive and similar damages), reasonable costs and expenses paid or incurred, or diminutions in value of any kind or character (whether or not known or asserted prior to the date hereof, fixed or unfixed, conditional or unconditional, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise), that the Convertible Noteholder now has or ever had against VASCO or the assets of Current VASCO or any of the VASCO Predecessors as a result of acts or omissions occurring on or before the date of the Prospectus which arise from or are in connection with

(i) any prior authorization, designation or issuance of stock, any stock split, reclassification, redesignation, dividend or distribution of or upon stock, any amendment to the certificate or articles of incorporation or bylaws including those affecting the amount, rights, powers or preferences of stock, and any failure to properly authorize, approve or effect any of the foregoing actions, including (a) the failure by Old VASCO to document whether an amendment to its Certificate of Incorporation was duly authorized or to file a Certificate of Amendment with the Delaware Secretary of State to amend its Certificate of Incorporation in 1984 to effect a three-for-one stock split of its common stock and to provide for 600,000 shares of non-voting common stock prior to purportedly effecting the stock split and issuing such non-voting common shares, (b) the failure by Old VASCO to document whether director and stockholder approval was obtained for an amendment to its Certificate of Incorporation increasing the number of authorized shares of common stock in 1986, (c) the purported issuance of Series A preferred stock in 1989 by VASCO Utah at a time when the issuance of preferred shares was not authorized by VASCO Utah's charter, and (d) the purported issuance of preferred stock by Current VASCO in connection with the 1990 merger, when the rights, powers and preferences of which such stock were not specified in Current VASCO's Certificate of Incorporation and

when its Certificate of Incorporation did not provide its Board of Directors the power to designate such rights, powers and preferences;

(ii) any failure to properly design, approve, adopt, administer, or authorize the number of shares subject to, any stock option plan or program, including actions required to allow for options awarded thereunder to be treated as incentive stock options under the Internal Revenue Code of 1986, as amended (the "Code"), including the failure by Old VASCO, VASCO Utah and/or Current VASCO to (a) document approval by the Board of Directors and stockholders of stock option plans, (b) specify and authorize the number of shares of stock to be subject to such plans, (c) reserve the number of shares subject to such plans, (d) document the authorization for the grant of options pursuant to such plans and the issuance of shares upon exercise of such options, and (e) design such plans in a manner that would ensure options granted thereunder would be treated as incentive stock options;

(iii) any organization or any merger, consolidation, share exchange, reorganization, recapitalization, sale of assets or like event, or any failure properly to authorize, approve, effect or consummate same, including (a) the failure to document the approval by Old VASCO's stockholders of the 1986 reorganization through the share exchange undertaken by Old VASCO and Ridge Point Enterprises, Inc./VASCO Utah, (b) the failure to document whether all stockholders of Old VASCO voluntarily exchanged their shares for shares of Ridge Point Enterprises, Inc./VASCO Utah, (c) the failure to document the mechanics of the exchange of Old VASCO shares for shares of Ridge Point Enterprises, Inc./VASCO Utah, and (d) the following procedural irregularities which call into question the validity of the intended 1990 merger of VASCO Utah and Current VASCO, as well as Current VASCO's title to the assets of VASCO Utah purportedly succeeded to by Current VASCO by virtue of the merger: (1) the incorporation of Current VASCO, after the date of the 1990 merger agreement, (2) Current VASCO's approval of the plan of merger, including approval of the plan of merger prior to the incorporation of Current VASCO, the lack of documented stockholder approval as called for by the plan of merger and the effectiveness of the approval by Current VASCO's then Board of Directors, (3) the authorization and issuance of stock by Current VASCO pursuant to the merger, (4) the adoption of Current VASCO's initial bylaws, appointment of Current VASCO's initial directors and the election of its initial officers, and (5) the administrative dissolution of VASCO Utah prior to the filing of a Certificate of Merger with the State of Delaware, (6) the failure to file Articles of Merger with the State of Utah in connection with the intended merger of VASCO Utah and Current VASCO;

(iv) the dissolution, liquidation or winding up of any of Current VASCO's predecessors, or any failure properly to approve or effect said dissolution, liquidation or winding up, including (a) the failure to properly document any stockholder approval of the dissolution of Old VASCO and to document actions taken to dissolve, liquidate and wind-up Old VASCO in 1987, (b) the failure to vest effectively title and ownership in VASCO Utah of Old VASCO's assets and to document the assumption by VASCO Utah of Old VASCO's liabilities, and (c) the administrative dissolution of VASCO Utah in

1990 prior to the intended merger transaction with Current VASCO and before the filing of a Certificate of Merger with the State of Delaware; and

(v) any failure to afford security holders any appraisal, preemptive or other rights, whether accorded by statute or by the articles of incorporation, certificate of incorporation or bylaws of Current VASCO or any of its predecessors, in connection with any of the matters described in the foregoing clauses (i), (ii), (iii) or (iv) including (a) the failure of Old VASCO to document whether it afforded its stockholders, in connection with issuances of Old VASCO capital stock, the preemptive rights to purchase, upon the issuance or sale of Old VASCO stock (or securities convertible into Old VASCO stock), shares (or securities) in proportion to the amount of Old VASCO common stock then owned by such holder, subject to conditions and time limitations prescribed (and at a price determined as permitted by law), by Old VASCO's Board of Directors, as provided for in the Old VASCO Certificate of Incorporation and (b) the failure of VASCO Utah to document whether it afforded its stockholders the appraisal rights provided for by Utah law in connection with the intended 1990 merger of VASCO Utah with Current VASCO.

(The matters listed in the foregoing clauses (i), (ii), (iii), (iv) and (v) are collectively referred to in this document and the Prospectus as the "Corporate Matters").

The Convertible Noteholder hereby irrevocably waives his rights under any applicable statute, rule, regulation, legal principle, or legal doctrine that provides that a general release does not extend to claims which a releasing party does not know or suspect to exist in its favor at the time of executing such release, which if known by the releasing party would have materially affected its settlement with the released party.

3. CERTAIN REPRESENTATIONS, WARRANTIES AND COVENANTS OF CONVERTIBLE NOTEHOLDER. The Convertible Noteholder hereby represents, warrants and covenants that (i) the Convertible Noteholder has received and adequately studied the Prospectus, (ii) the Convertible Noteholder has had adequate opportunity to consult legal counsel of the Convertible Noteholder's choice regarding this Agreement, (iii) the Convertible Noteholder has executed and delivered this Agreement and the release set forth herein pursuant to the free will of the Convertible Noteholder with the intention that the release be a general release to the full extent provided herein, (iv) the Convertible Noteholder has not sold, assigned or otherwise transferred any rights or remedies arising from or in connection with the Corporate Matters, and (v) the Current VASCO Convertible Notes are the only convertible notes held by the Convertible Noteholder to acquire capital stock of Current VASCO or any of the VASCO Predecessors. Current VASCO and the Convertible Noteholder each acknowledges and agrees that this Agreement does not affect any rights or claims the Convertible Noteholder may have against VASCO arising out of any matter or transaction arising from and after the date of the Prospectus. Further, it is expressly understood that this Agreement (i) will effect a release of any and all Associated Corporate Matter Claims (as defined in the Prospectus) the Convertible Noteholder may have even if less than all of the Convertible Noteholder's Current VASCO Securities (as defined in the Prospectus) are exchanged in the Exchange Offer (as defined in the Prospectus), and (ii) does not release and discharge (a) any rights or remedies Current VASCO in its own right, or as successor to the

rights of the VASCO Predecessors, may have against any person or entity arising out of the Corporate Matters, or (b) any rights or remedies unrelated to the Corporate Matters the Convertible Noteholder has as a current security holder of Current VASCO.

4. EXCHANGE OFFER; EFFECTIVE DATE. This Agreement is subject to the terms and conditions of the Exchange Offer, as defined in the Prospectus, and will become effective and binding on the parties hereto upon acceptance by New VASCO of shares of common stock of Current VASCO tendered pursuant to the Exchange Offer. Without limiting the foregoing, the Convertible Noteholder has the right to withdraw this Agreement in accordance with the specific provisions in the Prospectus under the heading "THE EXCHANGE OFFER - Withdrawal Rights."

5. GENERAL. This Agreement shall be governed by and construed in accordance with the internal laws and not the conflicts of law rules of the State of Illinois, and the invalidity or unenforceability of any term or provision of this Agreement shall not affect the validity or enforceability of any other term or provision hereof. This Agreement is binding on and inures to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns and in addition, the provisions of the release set forth in Section 2 inure to the benefit of each of the persons and entities included within the above definition of VASCO.



IN WITNESS WHEREOF, the parties have duly executed this Agreement.

New VASCO: VASCO DATA SECURITY INTERNATIONAL, INC.  
 By -----  
 Its -----

Current VASCO: VASCO CORP.  
 By -----  
 Its -----

Convertible Noteholder: Printed Name -----  
 Signature -----  
 Title -----  
 Address -----  
 Dated -----, 1997  
 -----

## EXHIBIT A

ADJUSTMENT OF CONVERSION PRICE AND  
NUMBER OF SHARES CONVERTIBLE

1. In case, prior to the expiration of a Current VASCO Convertible Note by conversion or by its terms, New VASCO shall issue any shares of New VASCO common stock as a stock dividend or subdivide the number of outstanding shares of New VASCO common stock into a greater number of shares, then in either of such cases, the then applicable conversion price per share of the shares of New VASCO common stock convertible pursuant to that Current VASCO Convertible Note in effect at the time of such action shall be proportionately reduced and the number of shares at that time convertible pursuant to that Current VASCO Convertible Note shall be proportionately increased; and conversely, in the event New VASCO shall contract the number of outstanding shares of New VASCO common stock by combining such shares into a smaller number of shares, then, in such case, the then applicable conversion price per share of the shares of New VASCO common stock convertible pursuant to that Current VASCO Convertible Note in effect at the time of such action shall be proportionately increased and the number of shares of NEW VASCO common stock convertible pursuant to that Current VASCO Convertible Note shall be proportionately decreased. If New VASCO shall, at any time during the term of a Current VASCO Convertible Note, declare a dividend payable in cash on the New VASCO common stock and shall, at substantially the same time, offer to its stockholders a right to purchase new shares of New VASCO common stock from the proceeds of such dividend or for an amount substantially equal to the dividend, all New VASCO common stock so issued shall, for the purpose of that Current VASCO Convertible Note, be deemed to have been issued as a stock dividend. Any dividend paid or distributed upon the New VASCO common stock shall be treated as a dividend paid in New VASCO common stock to the extent that shares of New VASCO common stock are issuable upon conversion thereof.

2. In case, prior to the expiration of a Current VASCO Convertible Note by conversion or by its terms, New VASCO shall be recapitalized by reclassification of its outstanding New VASCO common stock (other than a change in par value to no par value), or New VASCO or a successor corporation shall consolidate or merge with or convey all or substantially all of its or of any successor corporation's property and assets to any other corporation or corporations (any such other corporations being included within the meaning of the term "successor corporation" hereinbefore used in the event of any consolidation or merger of any such other corporation with, or the sale of all or substantially all of the property of any such other corporation to, another corporation or corporations), then, as a condition of such recapitalization, consolidation, merger or conveyance, lawful and adequate provision shall be made whereby the Convertible Noteholder shall thereafter have the right to purchase, upon the basis and on the terms and conditions specified in that Current

VASCO Convertible Note, in lieu of the shares of New VASCO common stock theretofore convertible upon the conversion of that Current VASCO Convertible Note, such shares of stock, securities or assets of the other corporation as to which the Convertible Noteholder would have been entitled had that Current VASCO Convertible Note been converted immediately prior to such recapitalization, consolidation, merger or conveyance; and in any such event, the rights of that Convertible Noteholder to any adjustment in the number of shares of New VASCO common stock convertible upon the conversion of that Current VASCO Convertible Note, as hereinbefore provided, shall continue and be preserved in respect of any stock which the Convertible Noteholder becomes entitled to purchase.

3. In case, prior to the expiration of a Current VASCO Convertible Note by conversion or by its terms, New VASCO shall sell all or substantially all of its property or dissolve, liquidate or wind up its affairs, lawful provision shall be made as part of the terms of any such sale, dissolution, liquidation or winding up, so that the Convertible Noteholder may thereafter receive upon conversion hereof in lieu of each share of New VASCO common stock which he would have been entitled to receive, the same kind and amount of any securities or assets as may be issuable, distributable or payable upon any such sale, dissolution, liquidation or winding up with respect to each share of New VASCO common stock; provided, however, that in any case of any such sale or of dissolution, liquidation or winding up, the right to convert that Current VASCO Convertible Note shall terminate on a date fixed by New VASCO. Such date so fixed shall be no earlier than 3:00 p.m., New York City time, on the forty-fifth (45th) day next succeeding the date on which notice of such termination of the right to convert that Current VASCO Convertible Note has been given by mail to the Convertible Noteholder.

4. Upon any conversion of a Current VASCO Convertible Note by the Convertible Noteholder, New VASCO shall not be required to deliver fractions of one share, but may adjust the conversion price payable by that Current VASCO Convertible Note in respect of any such fraction of one share on the basis of the conversion price per share then applicable upon conversion of that Current VASCO Convertible Note.

5. In case, prior to the expiration of a Current VASCO Convertible Note by conversion or by its terms, New VASCO shall determine to take a record of its stockholders for the purpose of determining stockholders entitled to receive any dividend, stock dividend, distribution or other right whether or not it may cause any change or adjustment in the number, amount, price or nature of the securities or assets deliverable upon the conversion of that Current VASCO Convertible Note pursuant to the foregoing provisions, New VASCO shall give at least ten (10) days' prior written notice to the effect that it intends to take such record to the Convertible Noteholder, said notice to specify the date as of which such record is to be taken, the purpose for which such record is to be taken, and the effect which the action which may be taken will have upon that Current VASCO Convertible Note.

SCHEDULE \_\_\_\_\_

ATTACHED HERETO

CERTAIN PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THE OMITTED PORTIONS, MARKED BY AN \*\*, HAVE BEEN SUBMITTED TO THE COMMISSION WITH THE CONFIDENTIAL TREATMENT REQUEST.

OEM Software Order Form  
(With Terms and Conditions)

VASCO Data Security, Inc.

-----  
Full legal name of OEM ("Licensee")

1919 S. Highland Avenue, Suite 118-C, Lombard, Illinois 60148 U.S.A.  
-----  
Address of Principal Place of Business City State Zip/Country

Contact Person: John Haggard Telephone: (630) 932-8844 Fax: (630) 495-0279  
-----

Licensee is incorporated in the state/country of Delaware  
-----

Territory (Country): Worldwide ("Territory")  
-----

Licensee Products (Description): Internet, network and authentication hardware and software  
-----

IMPORTANT NOTICE: UPON EXECUTION BY THE PARTIES, LICENSEE WILL HAVE THE RIGHT TO MAKE AND DISTRIBUTE COPIES OF THE NETSCAPE PRODUCTS INDICATED IN ATTACHMENT A, SOLELY ON A BUNDLED BASIS AND NOT AS A STAND-ALONE PRODUCT, AT THE PRICING SET FORTH THEREIN AND ON THE TERMS AND CONDITIONS SET FORTH IN ATTACHMENT B, TO END USERS IN THE TERRITORY. BY SIGNING THIS ORDER FORM, LICENSEE AGREES TO ALL THE TERMS AND CONDITIONS ATTACHED (COLLECTIVELY THE "AGREEMENT").

LICENSEE

Netscape Communications Corporation

-----  
Full legal name of Netscape entity ("Netscape")

By: /S/ T. Kendall Hunt  
-----  
Signature

By: /S/ Noreen G. Bergin  
-----  
Signature

Name: T. Kendall Hunt  
-----  
Print or Type

Name: Noreen G. Bergin  
-----  
Print or Type

Title: Chairman & CEO  
-----

Title: Vice President, Finance  
& Corporate Controller  
-----

Date: 3/13/97  
-----

Date of Acceptance: March 18, 1997  
-----  
("Effective Date")

Address: 501 East Middlefield Road  
-----  
Mountain View, CA 94043  
-----

AGREEMENT CONSISTS OF:

- 1. OEM Software Order Form
- 2. Attachment A - Products and Pricing
- 3. Attachment B - Terms and Conditions

VASCO Data Security, Inc.  
OEM  
CONFIDENTIAL

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Rev 022197

ATTACHMENT A  
PRODUCTS AND PRICING

1. Products: Netscape will provide Licensee exportable versions of the products listed below in all languages and Windows 16-bit, 32-bit and NT platforms which are generally commercially available from Netscape as of the Effective Date.

Description of Products A	License Fee Per Copy	Subscription Per Copy B	Upgrade and Subscription Per Copy C
Navigator 3.x	\$**	\$**	\$**
Navigator Gold 3.x	\$**	\$**	\$**
Certificate Server 1.x	\$**	\$**	\$**
Enterprise Server 2.x	\$**	\$**	\$**
Directory Server 1.x	\$**	\$**	\$**
FastTrack Server 1.x	\$**	\$**	\$**

- A. Licensee will receive then-current versions of the above products for the Initial Term (as defined in Attachment B).
- B. This price applies when Licensee purchases the product(s) and subscription together.
- C. This price applies when Licensee purchases upgrades and subscription within 1 year after Licensee purchased the product(s).

2. Prepayment for Products. Licensee shall pay Netscape a nonrefundable prepayment against future-owed fees ("Prepayment") for the Products equal to US \$840,000 due and payable in accordance with the schedule set forth below. Licensee estimates that 0.5% of Prepayment shall be applied towards Products used by Licensee for internal business purposes. Prepayment shall apply only to the first year of this Agreement and not to any Subsequent Term (as such term is defined in Attachment B).

Amount Due	Due Date
\$210,000	**
\$210,000	**
\$210,000	**
\$210,000	**

In addition to the Prepayment, Licensee shall provide Netscape \$45,000 of its products (including the VACMan/Server with unlimited Client Access Licenses and 600 Internet access keys) free of charge for Netscape's internal use.

3. Support. In consideration of the Prepayment, Netscape will provide Licensee support for the above products in accordance with Netscape's then current terms and conditions for the 12-month period following the Effective Date. Thereafter, if Licensee desires to receive support as described in this section, Licensee shall pay Netscape \*\* annual support fees on each anniversary of the Effective Date.
4. Deliverables. 2 master reproduction copies of each Product and 2 copies of the applicable Documentation in any format generally available from Netscape. All deliveries shall be F.C.A. Netscape origin (INCOTERMS 1990). Netscape will promptly ship Products to Licensee upon Licensee's timely payment of all fees due on the Effective Date.

5. Point of Sales Reports. Contact Name: Gregory T. Apple

Telephone: 630-932-8844

Fax: 630-495-0279 Email: gta@vasco.com

6. Ship To Address for Deliverables

(not P.O. address)  
1919 S. Highland Avenue, Suite 118-C  
Lombard, Illinois 60148

- Bill To Address for Invoice

1919 S. Highland Avenue, Suite 118-C  
Lombard, Illinois 60148

Attention: Randy Jamieson

Telephone: 630-932-8844

Attention: Gregory T. Apple

Telephone: 630-932-8844 Fax: 630-495-0279

Sales Tax Resale / Exemption Certificate No.: 1912-8541 MTV Exp. July 2000

(ORIGINAL CERTIFICATE MUST BE ATTACHED)

VAT Registration No. BE 446822877

Netscape Sales Rep: Jeff Shardell

Telephone Number: (415) 937-4738



ATTACHMENT B  
OEM Terms and Conditions

1. Definitions. "Licensee Products" means Licensee's computers and computer-related products with which the Netscape Products are bundled for distribution hereunder. "Product(s)" means the executable version (but not the source code version) of the Netscape products listed on Attachment A, including Updates thereto provided by Netscape hereunder. "Documentation" means the standard user and reference manuals and installation guides which Netscape generally distributes to licensees of the Products. "Update" means any correction, modification, enhancement or improvement to any Product which Netscape makes generally commercially available to its licensees. Updates do not include software releases designated by Netscape as new products. "End User" means any third party licensed by Licensee or Licensee's distributor to use, but not to further distribute, the Products. If such third party is an entity, then, for fee accrual purposes, "End User" means each individual within such entity licensed to use but not to further distribute the Product.

2. Term. Unless sooner terminated, this Agreement shall remain in effect for 1 year from the Effective Date ("Initial Term"). Thereafter, the Agreement may be renewed by mutual agreement in writing for an additional 1 year period ("Subsequent Term").

3. Licenses. (a) Netscape grants to Licensee, subject to these terms and conditions, a nonexclusive and nontransferable right in the Territory to (i) reproduce, without change, the Products in executable form only on any tangible media and (ii) distribute by sublicense such Product copies to End Users, directly or through distributors, only when bundled with a Licensee Product. Licensee may grant distributors the right to grant further sublicenses to distribute copies of the Products to other distributors regardless of tier; however, Licensee shall not grant to any distributor the right to reproduce all or any portion of the Products. Netscape also grants Licensee a nonexclusive and nontransferable license (with no right to sublicense) to use the Products in the Territory for Licensee's internal business purposes in accordance with the applicable provisions of Netscape's end user license agreements provided with the Products. Licensee and its distributors shall not electronically transmit Products to distributors or End Users; provided, if Netscape releases a patch to any Product for general commercial distribution by permitting customers to download such patch from Netscape's internet home page, then Licensee shall have the right to distribute such patch (but not the entire Product) electronically to its distributors and End Users. Netscape also grants Licensee a nonexclusive and nontransferable license to use and reproduce without change the Documentation, and to distribute the Documentation in the Territory by sublicense to End Users, directly or through distributors, solely in conjunction with the Product. Reproduction of Products and Documentation shall occur only at Licensee's principal office unless an alternate location is specified in writing to Netscape.

(b) Except as expressly permitted herein or by applicable law, Licensee shall not, and shall not permit any distributor or other person to, copy, modify, translate, decompile, reverse engineer, disassemble, or otherwise determine or attempt to determine source code from the Products or to create any derivative works based upon the Products or Documentation. Neither Licensee nor any distributor shall market or distribute any Product copy (i) which is not bundled with a Licensee Product or (ii) outside the Territory. If Licensee or any distributor fails to comply with this Section 3(b), Netscape may immediately (in addition to all other remedies it may have and except for internal use licenses) revoke all licenses granted hereunder, subject to Section 13.

(c) Netscape grants Licensee a sublicense to use as permitted in Section 3(a) any third party software which may be contained in the Products. Netscape reserves the right to substitute any third party software in the Products so long as the new third party software does not materially affect the functionality of the Products.

(d) Licensee shall use, and is granted during the term hereof a nontransferable, nonexclusive and restricted license (with a right to sublicense to distributors) to use in the Territory the mark "Netscape Navigator Included" and those Netscape trademarks and trade names relating to the Products (collectively, the "Marks") in all advertising, marketing, technical, packaging and other materials related to the Products. Use of the Marks shall comply with Netscape's then-current trademark usage guidelines. Licensee need not use the Marks in any country in which their connotation is offensive and will consult with Netscape as to the foreign translation of the Marks so that Netscape can ensure uniformity of use. Licensee shall clearly indicate Netscape's ownership of the Marks. All use of the Marks shall inure to Netscape's benefit. Neither Licensee nor its distributors shall register any Netscape trademarks, or trademarks, trade names or domain names confusingly similar to Netscape trademarks, trade names or domain names without Netscape's express prior written consent. Upon Netscape's request from time to time, Licensee shall provide Netscape with copies of Licensee Products bearing the Marks, and Licensee and distributors shall suspend use of the Marks if Netscape reasonably deems the quality of the use to be inferior until Licensee and any such distributor have taken such steps as Netscape may reasonably require to correct the quality deficiencies.

4. Fees; Payments. Licensee shall pay Netscape the Prepayment set forth on Attachment A in accordance therewith. For each \$1.00 of fees due up to the Prepayment, \$1.00 is credited against the Prepayment. Following depletion of the Prepayment, fees for the Products will be paid quarterly net 15 days after Licensee's submission of quarterly reports to Netscape pursuant to Section 5. Upon exhaustion of the Prepayment, Licensee shall pay to Netscape the per



copy fees set forth on Attachment A for each Product or Update license granted by Licensee or distributors to End Users. License fee will accrue in the applicable quantity upon: (a) the initial date of Licensee's internal use of any Product; (b) distribution by Licensee of a copy of a Product to a distributor or End User; or (c) authorization by Licensee for an End User to increase the authorized number of copies. Licensee shall pay Netscape such license fees accrued during each quarter within 15 days after Licensee's submission of quarterly reports to Netscape pursuant to Section 5 and each such payment shall reference such quarterly report. All payments shall be made in U.S. dollars at Netscape's address as indicated herein or otherwise notified by Netscape. Past due amounts shall bear interest at the rate of 1% per month. All fees are exclusive of taxes, withholdings, duties or levies, however designated or computed and Licensee shall be responsible therefor except for taxes based on Netscape's net income. In lieu thereof, Licensee shall provide to Netscape a valid tax or other levy exemption certificate acceptable to the taxing or other levying authority. Should Licensee fail to provide Netscape with timely reports, then, regardless of Licensee's actual rate of depletion of the Prepayment, one quarter of Licensee's Prepayment shall be deemed depleted following the passage of one quarter of the Initial Term; 1/2 of Licensee's Prepayment shall be deemed depleted following the passage of one half of the Initial Term; three quarters of Licensee's Prepayment shall be deemed depleted following the passage of 3/4 of the Initial Term; and Licensee's entire Prepayment shall be deemed depleted following the passage of the Initial Term. All payments after exhaustion of Prepayment shall accompany the monthly reports.

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5. Reports; Audit. Licensee and its distributors shall maintain accurate records of End Users, including the name and address of each End User, the specific platforms distributed to each End User, and any further information as Netscape may from time to time reasonably request. Licensee shall report to Netscape within 45 calendar days after the end of each quarter the part number and quantity of Product licenses granted during such prior quarter for distribution hereunder and internal use, including zip/postal code and/or country therefor. In addition, Licensee and its distributors shall maintain all other data reasonably required for verification of Licensee's and each distributor's compliance with the terms hereof, including all information reasonably requested by Netscape, and Netscape may conduct up to one audit per year to verify compliance with this Agreement, which shall be conducted at Netscape's expense unless the results establish that inaccuracies in Licensee's reports have resulted in underpayment to Netscape of more than 5% of the amount actually due, in which case Licensee shall pay all amounts due and bear the expense of the audit.

6. Support. Licensee shall provide all front-line technical support to End Users in accordance with Netscape's then-current OEM support terms and conditions. Licensee shall employ at least 2 fully trained full time support personnel and provide support 5 days a week during local business hours. Licensee agrees that any documentation or packaging distributed by Licensee shall conspicuously state that End Users must call Licensee for technical support for the Products. Netscape will have no obligation to furnish any assistance, information or Documentation to any End User, and Licensee will cooperate with Netscape to ensure that End Users do not contact Netscape directly. Netscape shall provide back-end telephone assistance to Licensee in accordance with Netscape's then-current OEM support terms and conditions during the term for which Netscape has received payment therefor.

7. Distribution. (a) Licensee shall and shall cause its distributors to comply with all then-current applicable laws, regulations and other legal requirements in its performance of this Agreement, including without limitation: (i) all applicable export laws, rules and regulations of any agency of the U.S. Government or other applicable agencies; (ii) the U.S. Foreign Corrupt Practices Act; and (iii) all applicable laws, rules and regulations to preclude the acquisition of unlimited rights in technical data, software and documentation provided with the Products to a governmental agency. Licensee shall ensure the inclusion of appropriate notices required by the U.S. Government agencies or other applicable agencies.

(b) Prior to the distribution of any Product to a distributor, Licensee or the distributing distributor shall enter into an enforceable written agreement with such distributor ("Distributor Agreement") that (i) requires such distributor to comply with the relevant terms hereof, (ii) expressly names Netscape as an intended third party beneficiary with the right to rely on and directly enforce the terms thereof, and (iii) disclaims any warranty obligations of Netscape and/or liability of Netscape thereunder. Neither Licensee nor any distributor shall sublicense or otherwise distribute the Products or Documentation to End Users except pursuant to a written sublicense agreement ("End User License Agreement") that contains terms and conditions not inconsistent with and no less restrictive than the terms and conditions set forth in Netscape's then-current end user license agreement provided with the applicable Product. Licensee and its distributors shall use commercially reasonable efforts to enforce each Distributor Agreement and End User License Agreement with at least the same degree of diligence used in enforcing similar agreements with others. Licensee and distributors shall notify Netscape of any breach or suspected breach of a material obligation under a Distributor Agreement or an End User License Agreement which comes to their attention. In addition, Licensee and distributors will cooperate with Netscape in any legal action to prevent or stop unauthorized use, reproduction or distribution of Products or Documentation

(c) This is a nonexclusive relationship, and each party agrees that the other may enter into similar arrangements with third parties. Licensee shall and shall cause its distributors to treat all Products at least as favorably as it treats any competitive products it distributes. Neither Licensee nor distributors shall market or promote any Product or any other product in a manner that states or implies that the Product is inferior or secondary to any other product. For example, Licensee and its distributors shall not market or promote any competitive product as "preferred," "premier," "primary" or the like as compared to any Product.

(d) Upon 30 days written notice that Netscape is required by a supplier to cease and to cause its licensees to cease reproduction and distribution of a particular revision of any Product, Licensee and distributors shall cease such activities, provided Netscape replaces such affected Product with a functionally equivalent Product as soon as commercially practicable.

(e) Netscape agrees to assist Licensee in establishing relationships with Netscape's North American value added reseller customers ("VARs") by (i) providing exposure for Licensee in Netscape's special web site for VARs and (ii) at Licensee's expense, targeting mailings to vertically select VARs and including select Licensee's materials (including AccessKey II demo package) in a future edition of Netscape's Moz Mail kit for VARs.

8. Proprietary Rights. Title to and ownership of all copies of the Products and Documentation whether in machine-readable or

printed form, and including without limitation derivative works, compilations, or collective works thereof and all related technical know-how and all rights therein are and shall remain the exclusive property of Netscape or its suppliers. Except for the rights expressly granted to Licensee hereunder, Netscape reserves for itself all other rights in and to the Products and Documentation Licensee and distributor shall not take any action to jeopardize, limit or interfere in any manner with Netscape's ownership of or rights with respect to the Products and Documentation. Further, Licensee or its distributors shall not remove or alter any trademark, copyright or other proprietary notices, legends, symbols, or labels appearing on the Products and/or Documentation delivered to Licensee and Licensee shall reproduce such notices on all copies of the Products and/or Documentation made hereunder.

9. Confidentiality. "Confidential Information" shall mean this Agreement and all information a party discloses to the other which has been either (i) characterized in writing as confidential at the time of its disclosure or (ii) orally characterized as confidential at the time of disclosure and reduced to writing and marked "Confidential" within 30 days of disclosure, except for information which the receiving party can demonstrate: (a) is previously rightfully known to the receiving party without restriction on disclosure; (b) is or becomes, from no act or failure to act on the part of the receiving party, generally known in the relevant industry or public domain; (c) is disclosed to the receiving party by a third party as a matter of right and without restriction on disclosure; or (d) is independently developed by the receiving party without access to the Confidential Information. Each receiving party shall at all times, both during the term hereof and for a period of at least 3 years after termination, keep in confidence all the disclosing party's Confidential Information using a standard of care the receiving party uses with its own information of this nature, but in no event less

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than reasonable care. The receiving party shall not use the disclosing party's Confidential Information other than in the course of its duties hereunder. Without the prior written consent of the disclosing party, the receiving party shall not disclose the disclosing party's Confidential Information except on a "need to know" basis to an employee or contractor under binding obligations of confidentiality substantially similar to those set forth herein. If a receiving party is legally compelled to disclose any of the disclosing party's Confidential Information, then, prior to such disclosure, the receiving party will (x) assert the privileged and confidential nature of the Confidential Information and (y) cooperate fully with the disclosing party in protecting against any such disclosure and/or obtaining a protective order narrowing the scope of such disclosure and/or use of the Confidential Information. In the event such protection is not obtained, the receiving party shall disclose the Confidential Information only to the extent necessary to comply with applicable the legal requirements.

10. Limited Warranty. Netscape warrants only to Licensee that the Products when properly installed and used will substantially conform to the functional specifications set forth in the Documentation in effect when the Products are delivered to Licensee. Netscape's warranty and obligation shall extend for a period of 90 days ("Warranty Period") from the date Netscape first delivers the Products to Licensee. All warranty claims not made in writing or not received by Netscape within the Warranty Period shall be deemed waived. Netscape's warranty is solely for the benefit of Licensee, who has no authority to extend this warranty to any other person or entity. THE EXPRESS WARRANTY SET FORTH IN THIS SECTION CONSTITUTES THE ONLY WARRANTY MADE BY NETSCAPE. NETSCAPE MAKES NO OTHER REPRESENTATION OR WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED (EITHER IN FACT OR BY OPERATION OF LAW), WITH RESPECT TO THE PRODUCTS OR DOCUMENTATION. NETSCAPE EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES OR CONDITIONS INCLUDING THOSE OF TITLE, MERCHANTABILITY, NONINFRINGEMENT AND FITNESS FOR A PARTICULAR PURPOSE. NETSCAPE DOES NOT WARRANT THAT THE PRODUCTS OR DOCUMENTATION ARE ERROR-FREE OR THAT OPERATION OF THE PRODUCTS WILL BE SECURE OR UNINTERRUPTED AND DISCLAIMS ANY AND ALL LIABILITY ON ACCOUNT THEREOF. THE ABOVE LIMITATION SHALL APPLY TO THE EXTENT ALLOWED BY APPLICABLE LAW. Netscape shall have no obligation under the foregoing warranty for any nonconformance caused by: (a) the incorporation, attachment or engagement of any attachment, feature, program, or device, other than by Netscape, to the Products or any part thereof; (b) accident, transportation, neglect or misuse; alteration, modification, or enhancement of the Products other than by Netscape; (c) failure to provide an installation environment recommended for the Products; (d) use of supplies or materials not meeting Netscape specifications; (e) use of the Products for other than the intended purpose; (f) use of the Products on any systems other than the specified hardware platform for such Products; (g) Licensee's use of defective media or defective duplication of the Products; or (h) Licensee's failure to incorporate any Update previously released by Netscape which corrects such nonconformance. If Licensee provides Netscape with written notice of a failure under this limited warranty during the Warranty Period, Netscape will use reasonable efforts to correct promptly, at no charge to Licensee, any such errors or failures. This is Licensee's sole and exclusive remedy for breach of warranty hereunder.

11. Indemnity. (a) Netscape shall defend or settle, at its expense and option, any and all claims, losses, damages, expenses and costs (including attorneys' fees and costs) relating to any use, reproduction or distribution by Licensee of the Netscape-owned portion of the Products hereunder directly infringes any valid copyright or trade secret. Netscape will pay resulting costs, damages and legal fees finally awarded against Licensee in such action which are attributable to such claim provided that: (i) Licensee promptly notifies Netscape in writing of any such claim; (ii) Netscape has sole control of the defense and all related settlement negotiations, and (iii) Licensee cooperates with Netscape, at Netscape's expense, in defending or settling such claim. Should a Product become, or be likely to become in Netscape's opinion, the subject of an infringement claim described above, Netscape may (I) procure for Licensee the right to continue using the same or (II) replace or modify it to make it non-infringing. Netscape shall have no obligation or liability for, and Licensee shall defend, indemnify and hold Netscape harmless from and against any claim based upon: (A) use of other than the then current, unaltered version of the Product, unless the infringing portion is also in the then current, unaltered release; (B) use, operation or combination of Products with non-Netscape programs, data, equipment or documentation if such infringement would have been avoided but for such use, operation or combination; (C) Licensee's or its agent's continued use or distribution of the Product after Netscape has notified Licensee that (i) Netscape believes such use or distribution may result in infringement; and (ii) Netscape is using its commercially reasonable best efforts to make the Netscape-owned portion of the Product non-infringing; (D) compliance with Licensee's designs, specifications or instructions; (E) any modifications or marking of the Products not specifically authorized in writing by Netscape; (F) any unauthorized use of any Netscape intellectual property; or (G) third party software incorporated in the Products. The foregoing states the entire liability of Netscape and the exclusive remedy of Licensee with respect to infringement of any intellectual property right, whether under theory of warranty, indemnity or otherwise.

(b) Licensee shall indemnify, hold harmless and, at Netscape's request, defend Netscape and/or its suppliers from and against any and all claims, liabilities, losses, damages expenses and costs (including attorneys' fees and costs) relating to (i) Licensee's failure to include in each Distributor Agreement or End User License Agreement the contractual terms required to be included therein hereunder, or (ii) Licensee's use, distribution or reproduction of the Products including, without limitation, any claims, liabilities, losses, damages, expenses and costs relating to defective reproduction of or the use of defective media in the reproduction of Products, claimed product liability, breach of warranty or support obligations or infringement or misappropriation of intellectual property rights, except to the

extent such is covered under Section 11(a). Licensee will pay resulting costs, damages and legal fees finally awarded against Netscape in such action which are attributable to such claim.

12. Limitation of Liability. (a) TO THE EXTENT ALLOWED BY APPLICABLE LAW, IN NO EVENT SHALL NETSCAPE OR ITS SUPPLIERS BE LIABLE FOR ANY LOSS OF PROFITS, LOSS OF BUSINESS, LOSS OF USE OR DATA, INTERRUPTION OF BUSINESS, OR FOR INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY KIND, EVEN IF NETSCAPE HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES AND NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY. (b) EXCEPT AS SET FORTH IN THE INDEMNITY SECTION SET FORTH ABOVE, IN NO EVENT WILL NETSCAPE OR ITS SUPPLIERS BE LIABLE FOR ANY CLAIM AGAINST LICENSEE BY ANY THIRD PARTY. (c) IN NO EVENT SHALL NETSCAPE OR ITS SUPPLIERS BE LIABLE FOR (I) ANY REPRESENTATION OR WARRANTY MADE TO ANY THIRD PARTY BY LICENSEE, ANY DISTRIBUTOR OR THEIR RESPECTIVE AGENTS; (II) FAILURE OF THE PRODUCTS TO PERFORM EXCEPT AS, AND TO THE EXTENT, OTHERWISE EXPRESSLY PROVIDED HEREIN; (III) FAILURE OF THE PRODUCTS TO PROVIDE SECURITY; OR (IV) THE

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RESULTS OR INFORMATION OBTAINED OR DECISIONS MADE BY END USERS OF THE PRODUCTS OR THE DOCUMENTATION. THE REMEDIES PROVIDED HEREIN ARE LICENSEE'S SOLE AND EXCLUSIVE REMEDIES. (d) NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY AND EXCEPT FOR DEATH OR PERSONAL INJURY CAUSED BY THE NEGLIGENCE OF NETSCAPE, NETSCAPE'S ENTIRE LIABILITY TO LICENSEE FOR DAMAGES CONCERNING PERFORMANCE OR NONPERFORMANCE BY NETSCAPE OR IN ANY WAY RELATED TO THE SUBJECT MATTER OF THIS AGREEMENT, AND REGARDLESS OF WHETHER THE CLAIM FOR SUCH DAMAGES IS BASED IN CONTRACT OR IN TORT, SHALL NOT EXCEED THE AMOUNT RECEIVED BY NETSCAPE FROM LICENSEE DURING THE PREVIOUS 12 MONTHS FOR THE PRODUCT GIVING RISE TO SUCH CLAIM.

13. Termination. This Agreement may be terminated: (a) by either party upon 30 days written notice if the other party materially defaults in its obligations hereunder and does not cure such default within the 30 day notice period; (b) immediately by Netscape in the event Licensee attempts to derive the source code of the Products or breaches its confidentiality obligations hereunder; or (c) automatically upon notice from Netscape if Licensee ceases to do business in the normal course, becomes or is declared insolvent or bankrupt, is the subject of any proceeding relating to its liquidation or insolvency which is not dismissed within 90 calendar days, or makes an assignment for the benefit of its creditors. Immediately upon termination or expiration hereof, all licenses for the Products and Documentation granted hereunder shall terminate, and Licensee shall deliver to Netscape or destroy all copies of the Products and Documentation in its or its distributors' possession or control, and shall furnish to Netscape an affidavit signed by an officer of Licensee certifying such delivery or destruction; provided that: (i) all End User License Agreements which have been properly granted by Licensee or any distributor hereunder prior to termination shall survive; and (ii) in the event this Agreement is terminated for any reason other than Licensee's default and provided Licensee fulfills its obligation specified herein with respect to such items, Licensee may continue to use and retain copies of the Products and Documentation to the extent necessary to support Products rightfully distributed to End Users by Licensee, directly or through distributors, prior to termination hereof. Termination by either party shall not act as a waiver or release of any breach hereof or any liability hereunder. Except where specified otherwise, the rights and remedies granted to a party hereunder are cumulative and in addition to, and not in lieu of, any other rights or remedies which the party may possess at law or in equity. Within 30 calendar days after termination, Licensee shall pay to Netscape all sums then due and owing. Sections 3(b), 4, 5, 8, 9, 10, 11, 12, 13, 14, 15 and 16 shall survive any expiration or termination of this Agreement.

14. Notice. Any notice required or permitted hereunder shall be in English, in writing and shall be deemed to be properly given upon the earlier of (a) actual receipt by the addressee (including facsimile or e-mail) or (b) 5 business days after deposit in the mail, postage prepaid, when mailed by registered or certified airmail, return receipt requested, or (c) 2 business days after being sent via private industry courier to the respective parties at the addresses set forth in the Order Form or to such other person or address as the parties may from time to time designate in a writing. Notices to Netscape shall be to the attention of the Legal Department, Netscape Communications Corporation, 501 East Middlefield Road, Mountain View, California 94043. Notices to Licensee shall be to the attention of Legal Department, VASCO Data Security, Inc., 1919 South Highland Avenue, Suite 118C, Lombard, Illinois 60148.

15. Miscellaneous. (a) Neither party's waiver of a breach or delay or omission to exercise any right or remedy shall be construed as a waiver of any subsequent breach or as a waiver of such right or remedy. (b) This Agreement may be amended only by a writing signed by both parties. (c) Licensee may not assign this Agreement or any part thereof without the prior written consent of Netscape, and any attempt to assign (by operation of law or otherwise) this Agreement or any part thereof without such consent shall be null and void. (d) This Agreement shall be governed by and construed under the laws of the State of California, U.S.A., without reference to its conflicts of law provisions. (e) Any dispute regarding this Agreement shall be subject to the exclusive jurisdiction of the applicable court in the State of California, and the parties agree to submit to the personal and exclusive jurisdiction and venue thereof. Notwithstanding the foregoing, Netscape reserves the right to invoke the jurisdiction of any competent court to remedy or prevent violation of any provision under this Agreement relating to payment, Netscape Confidential Information or Netscape intellectual property. (f) This Agreement will not be governed by the United Nations Convention of Contracts for the International Sale of Goods. (g) This Agreement creates no agency, partnership, joint venture, or employment relationship and neither Licensee nor its agents have any authority to bind Netscape in any respect whatsoever. (h) The section headings herein are used for convenience only and shall have no substantive meaning. (i) If the application of any provision hereof to any particular facts shall be held to be unenforceable by any competent court, then (x) the enforceability of such provision as applied to any other facts and the validity of other provisions hereof shall not be affected and (y) such provision shall be reformed without further action by the parties hereto only to the extent necessary to make such provision valid and enforceable when applied to the particular facts. (j) Each party shall be excused from any delay or failure in performance hereunder, except the payment of monies by Licensee to Netscape, caused by reason of any occurrence or contingency beyond its reasonable control. The obligations and rights of the party so excused shall be extended on a day-to-day basis for the period of time equal to that of the underlying cause of the delay. (k) This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and supersedes all proposals or prior agreements whether oral or written, and all communications between the parties relating to the subject matter of this Agreement and all past courses of dealing or industry custom. The terms and conditions of this Agreement shall prevail over any conflicting purchase order or other written instrument submitted by Licensee. (l) This Agreement is written in the English language only, which language shall be controlling in all respects. (m) Netscape may use

Licensee's name in a list of customer references and/or provide Licensee's name and the names of the Products licensed by Licensee to third parties. Licensee agrees that Netscape may refer to Licensee, its products and the Netscape-Licensee relationship on the Netscape web site. (n) This Agreement may be executed in any counterparts or by facsimile, each of which when so executed shall be deemed an original and all of which taken together shall constitute one and the same agreement. (o) If any dispute arises under this Agreement, the prevailing party shall be reimbursed by the other party for any and all legal fees and costs associated therewith. (p) The parties will issue a joint press release announcing the relationship created hereunder. The parties shall mutually agree on any press release issued by either party regarding the licensing of the Product.

16. Licensee Outside the U.S. In the event Licensee is located outside the United States, the terms and conditions in this Section 16 apply: (a) If Licensee is located in a Member State of the European Union, Licensee (i) shall not actively market or solicit orders outside the Territory, (ii) shall be entitled to sublicense the Products, subject to the terms and conditions contained herein, to End Users located outside of the Territory but within the European Union, which are the result of unsolicited orders and (iii) acknowledges that its primary

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focus shall be on End Users located in the Territory; (b) If any applicable law requires Licensee to withhold amounts from any payments to Netscape hereunder, (i) Licensee shall effect such withholding, remit such amounts to the appropriate taxing authorities and promptly furnish Netscape with tax receipts evidencing the payments of such amounts, and (ii) the sum payable by Licensee upon which the deduction or withholding is based shall be increased to the extent necessary to ensure that, after such deduction or withholding, Netscape receives and retains, free from liability for such deduction or withholding, a net amount equal to the amount Netscape would have received and retained in the absence of such required deduction or withholding; (c) Les parties aux presentes confirment leur volonte que cette convention de meme que tous les documents y compris tout avis qui s'y rattache, soient rediges en langue anglaise (translation: The parties confirm that this Agreement and all related documentation will be in the English language").

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CERTAIN PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THE OMITTED PORTIONS, MARKED BY AN \*\*, HAVE BEEN SUBMITTED TO THE COMMISSION WITH THE CONFIDENTIAL TREATMENT REQUEST.

DEVELOPMENT AND LICENSE AGREEMENT

by and between

VASCO Data Security, Inc.

and

SHIVA Corporation

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## DEVELOPMENT AND LICENSE AGREEMENT

This Development and License Agreement ("Agreement") is made and entered into effective June 5, 1997 (the "Effective Date") by and between VASCO Data Security, Inc., an Illinois corporation with a principal place of business at Lombard, Illinois ("VASCO") and SHIVA Corporation, a Massachusetts corporation with a principal place of business at 28 Crosby Drive, Bedford, Massachusetts ("SHIVA").

WHEREAS,

SHIVA has developed and owns certain hardware and software technology relating to remote access and dial-up networking, and is the licensee of certain authentication and accounting software related thereto ("AccessManager"); and

VASCO has developed and owns certain hard token security products (the "Vasco token"); and

VASCO wishes SHIVA to integrate the VASCO token into the AccessManager, and to develop additional features and functionality for AccessManager; and

VASCO wishes to sublicense the AccessManager to its customers under its own trade name; and

The parties have executed a Memorandum of Understanding dated as of December 17, 1996 ("MOU") with respect to the foregoing and, pursuant to the MOU, VASCO has paid SHIVA a good faith deposit of \*\* ;

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth below, the parties agree as follows:

1. Definitions. As used in this Agreement, these terms shall have the following definitions:

1.1 "Affiliate" means, with respect to a company ("Company"), a second company which controls, is controlled by, or is under common control with such Company, where "control", means beneficial ownership of a majority of voting securities.

1.2 "Binary Code" means the form of computer software which is substantially or entirely in binary form and directly executable by a computer after suitable processing but without intervening steps of compilation or assembly of such software prior to execution.

1.3 "Confidential Information" shall mean any of the following disclosed by either party to the other hereunder: (i) the Specifications and the SHIVA and VASCO Technologies and any trade secrets related to any of the foregoing, including but not limited to any information relating to either party's product plans, designs, costs, prices and names, finances, marketing plans, business opportunities, personnel, research, development or know-how; and (ii) any information designated by the disclosing party as confidential in writing or, if disclosed orally, reduced to writing within thirty (30) days; provided, however, that Confidential Information shall not include information that: (i) is or becomes generally known or available by publication, commercial use or otherwise through no fault of the receiving party; (ii) is known and has been reduced to tangible form by the receiving party at the time of disclosure and is not subject to restriction; (iii) is independently developed or learned by the receiving party; (iv) is lawfully obtained from a third party who has the right to make such disclosure; or (v) is released for publication by the disclosing party in writing.

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1.4 "Error Correction" means either a modification made or added to the SHIVA Technology by SHIVA to establish substantial conformity to the applicable Specifications or, in lieu of such modification, a commercially reasonable procedure that eliminates the practical adverse effect of such nonconformity.

1.5 "Intellectual Property Rights" means, to the extent owned or controlled by the granting or transferring Party in any country, all relevant (i) copyrights, (ii) mask work rights, (iii) rights to exploit trade secret and other non-public or confidential information, including the right to use and exploit Confidential Information (subject to applicable obligations to keep such information in confidence), (iv) rights under Patents, and (v) rights under any other form of intellectual property necessary to the conduct, product or result permitted by the express terms of the license granted.

1.6 "SHIVA Software" means any software or other works of authorship included within the SHIVA Technology, whether created or licensed by SHIVA.

1.7 "SHIVA Technology" means the SHIVA hardware and software technology relating to digital modems, including software licensed by SHIVA relating to authentication and accounting.

1.8 "Source Code" means that form of computer software which is typically created and understood by programmers and which must be translated into so called "binary" or "object" format to permit direct execution by a computer.

1.9 "Specifications" mean the functional and technical specifications described in Exhibit B.

1.10 "Updates" means modifications or enhancements to the Technology, other than Error Corrections.

1.11 "VASCO Technology" means the VASCO hardware and software relating to computer access security.

2. Product Integration.

## 2.1 SHIVA Obligations.

- 2.1.1 SHIVA shall use commercially reasonable efforts to accomplish its responsibilities, including, but not limited to, providing the required personnel to carry out the work to design, develop, debug, test and maintain the Shiva Technology in accordance with the applicable Specifications and providing the deliverables for which it is responsible in accordance with this Agreement.
- 2.1.2 SHIVA shall provide VASCO with such technical support by qualified SHIVA personnel as VASCO may reasonably request in connection with VASCO's efforts to understand the Shiva Technology and to support such technology on behalf of its customers. The level of support shall be no less than that provided to other similarly-situated customers who have contracted for similar levels of support.
- 2.1.3 SHIVA shall develop the specifications and software code to add the features designated in Exhibit B for Version 2.0 of AccessManager, which shall be deemed to be included in the SHIVA Technology. Version 2.0 of AccessManager shall be deemed accepted by VASCO as of the date of delivery, unless VASCO provides written notice to SHIVA within 10 business days after delivery of the Binary Code version to VASCO that Version 2.0 does not materially conform to the specifications. Any such notice shall specify the manner in which the Shiva Technology does not so conform. SHIVA shall have 15 business days after receipt of notice to make necessary Error Corrections to cause the Shiva Technology to conform to the

specifications. Expiration of the 15-day period without notice of a nonconformance, or correction of a nonconformance by Shiva, shall constitute Final Acceptance.

2.1.4 SHIVA shall assist VASCO, during the Term, by providing (a) Error Corrections for the Technology to the extent SHIVA is aware of any such error and knows how to correct it and (b) in other cases, reasonable support of VASCO's Error Correction efforts.

2.1.5 Limited Warranty. THE TECHNOLOGY IS TO BE LICENSED ON AN "AS IS" BASIS AND SHIVA DISCLAIMS ALL WARRANTIES WITH RESPECT THERETO, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

2.1.6 At least 90 days before any new release, SHIVA shall notify VASCO of any Enhancements or changes to the Shiva Technology.

2.1.7 When available, SHIVA shall provide to VASCO any API it has created or had created in order to enable VASCO to interface with the Shiva Technology.

2.1.8 If SHIVA becomes unwilling or unable to support the Shiva Technology due to its failure to continue in business as a going concern, or its failure to continue the product line represented by the Shiva Technology related to this Agreement, then Universal Networks Company Limited shall assume SHIVA's support obligations then in force, in accordance with the agreement attached as Exhibit C. In the event that Universal Networks Company Limited is unwilling or unable to fulfill its support obligations, then VASCO shall be entitled to access to the source code of the Shiva Software held in escrow in accordance with the escrow agreement described in Exhibit D. VASCO shall bear all costs associated with setting up and maintaining this escrow account.

## 2.2 VASCO Obligations.

2.2.1 VASCO shall, upon request by SHIVA, permit SHIVA to become an authorized reseller of VASCO token and security products in accordance with a separate agreement to be negotiated between the parties.

2.2.2 VASCO shall reimburse SHIVA for all reasonable travel expenses (in accordance with VASCO's standard travel and expense policy) incurred by SHIVA personnel for training presentations and other sales activities undertaken by SHIVA at VASCO's request.

2.2.3 VASCO shall ensure that an adequate number of employees are trained in the Shiva Technology in order to fulfill its obligation to provide first-level support to its customers. For problems beyond first-level support requiring technical consultation with SHIVA, VASCO will ensure that its customers provide sufficiently detailed information to enable SHIVA to identify and attempt to correct any errors in the SHIVA Technology.

2.2.4 VASCO shall pay royalties to SHIVA in accordance with the provisions of Exhibit A.

2.2.5 VASCO shall provide to Shiva two Access Keys for each Shiva Access Manager sold at a cost of \*\*, which shall not exceed \*\* per Access Key.

2.3 Project Management. SHIVA and VASCO will each designate a project representative (the "Representatives") to coordinate their business relationship in accordance with this Agreement. Each Representative will (i) provide access to appropriately qualified personnel to participate in the planning and development and to answer questions; (ii) arrange access to the party's facilities and equipment if required

for the other party's performance; and (iii) consult by phone or email with the Representative of the other party to this Agreement as reasonably necessary to review the activities accomplished to date, the activities planned, and any problems which have occurred or which are anticipated. A party may change its Representative by giving written notice to the other party.

3. Proprietary Rights. The SHIVA Technology and Error Corrections to the SHIVA Technology, and all Intellectual Property Rights therein, are and remain the property of SHIVA or its licensor, subject to the license rights granted to VASCO in this Agreement. VASCO shall have no right, title or interest in and to any improvements, modifications, derivative works or enhancements to the SHIVA Technology.

4. SHIVA Representations and Warranties. SHIVA represents and warrants that neither the Shiva Technology nor the exercise by VASCO of its rights with respect thereto does or will, to the best of SHIVA's knowledge, infringe the Intellectual Property Rights of any third party in any jurisdiction.

5. SHIVA Licenses to VASCO. Subject to the terms of this Agreement, SHIVA hereby grants to VASCO a nontransferable, nonexclusive, worldwide license to (a) sell, sublicense, and distribute present and future VASCO Technology incorporating the SHIVA Technology in Binary Code, but not Source Code, form in conjunction with such VASCO Technology. VASCO may exercise such license rights both directly and through its VARs, distributors, or other third party sublicensees, subject to the restrictions set forth in Section 10 (Confidential Information) and provided that such third parties enter into a non-disclosure agreement with VASCO to the extent required by Section 10. Except to the extent permitted by this section, VASCO shall not sublicense the SHIVA Technology.

6. Export Control. Neither party shall export, directly or indirectly, any products or technical data acquired or to be provided under this Agreement, or the direct product of any such technical data, to any country for which the United States export statutes and regulations, at the time of export, require an export license or other government approval, without first obtaining such license or approval.

7. Payment. VASCO shall pay SHIVA as consideration for the licenses granted and the development and delivery of the SHIVA Technology the sums identified in Exhibit A (the "Fees"). VASCO has previously paid SHIVA the Deposit and shall pay SHIVA the balance of the total Fees according to Exhibit A. All payments due hereunder shall be made in United States dollars. Interest at the rate of 1.5% per month (or the greatest amount permitted by law, whichever is less) shall accrue on all balances unpaid more than 30 days after their due date.

8. Waiver of Consequential Damages: Limitation on Damages. NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR CONSEQUENTIAL, SPECIAL, INDIRECT OR INCIDENTAL DAMAGES, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, EVEN IF ADVISED OF THE POSSIBILITY THEREOF IN ADVANCE. IN NO EVENT SHALL EITHER PARTY'S LIABILITY TO THE OTHER HEREUNDER EXCEED THE AGGREGATE FEES PAID OR OWED TO SHIVA HEREUNDER.

9. Indemnification.

9.1 By SHIVA. SHIVA agrees to indemnify and hold harmless VASCO, its officers, directors, employees and agents against any claims, actions or demands alleging either that the SHIVA Technology or the exercise by VASCO of its rights thereto, in any way infringes the Intellectual Property Rights of any third parties; provided, that SHIVA shall have no obligation as to claims of infringement where SHIVA lacked knowledge of such claim or the factual basis therefore as of the Effective Date. This obligation is contingent upon: (i) VASCO giving prompt written notice to SHIVA of any such claim, action or demand, (ii) VASCO allowing SHIVA to control the defense and related settlement negotiations and (iii) VASCO fully assisting, at SHIVA's expense, in the defense. SHIVA shall have no obligation hereunder for any infringement caused solely by VASCO's modification of the SHIVA Technology (unless such modification

was made in accordance with SHIVA's instructions) or VASCO's combination thereof with products or equipment not supplied by SHIVA.

9.2 By VASCO. VASCO agrees to indemnify and hold harmless SHIVA, its officers, directors, employees and agents against any claims, actions or demands alleging that VASCO's modification of the SHIVA Technology (unless such modification was made in accordance with SHIVA's instructions) or VASCO's combination thereof with products or equipment not supplied by SHIVA in any way infringes the Intellectual Property Rights of any third parties; provided, that VASCO shall have no obligation as to claims of infringement where VASCO lacked knowledge of such claim or the factual basis therefore as of the Effective Date. This obligation is contingent upon: (i) SHIVA giving prompt written notice to SHIVA of any such claim, action or demand, (ii) SHIVA allowing VASCO to control the defense and related settlement negotiations and (iii) SHIVA fully assisting, at VASCO's expense, in the defense.

9.3 Exchange of Information. If either party hereafter learns of a claim that the Shiva Technology, or any portion thereof, infringes the Intellectual Property Rights of any third party in any jurisdiction, or of the factual basis for such a claim, it shall promptly inform the other party of the relevant facts and circumstances. SHIVA shall thereupon undertake such commercially reasonable efforts as are required to (i) obtain a license permitting VASCO's continued exercise of its rights as set forth herein, (ii) modify the Technology so as to be noninfringing and deliver such modification to VASCO, or (iii) develop or obtain for VASCO functionally equivalent, noninfringing, substitute technology. Immediately following receipt of any such noninfringing modification or substitute, VASCO shall cease shipment of products based on infringing Technology. In the event that SHIVA is unable to cure such infringement as set forth in clauses (i), (ii) or (iii) above, it shall notify VASCO and pay to VASCO a sum equal to all amounts paid by VASCO to the time of notification; provided, that SHIVA shall have no payment obligation pursuant to this clause if three (3) years have elapsed since Final Acceptance.

#### 10. Nondisclosure of Confidential Information.

10.1 General. Each party agrees that it will not make use of, disseminate, or in any way disclose Confidential Information to any person, firm or business, except to the extent necessary for negotiations, discussions, and consultations with personnel or authorized representatives of each party, counsel for investors, banks, and underwriters, and any purpose either party may hereafter authorize in writing. Furthermore, the existence of any business negotiations, discussions, consultations or agreements in progress between the parties shall not be released to any form of public media without the prior written approval of both parties. Each party agrees that it shall treat all Confidential Information of the other party with the same degree of care as it accords to its own Confidential Information and each party represents that it exercises reasonable care to protect its own Confidential Information. Each party shall disclose Confidential Information of the other party only to those of its employees and subcontractors (and those of such party's Affiliates) who need to know such information and represents that such employees have previously agreed, either as a condition of employment or in order to obtain the Confidential Information, to be bound by terms and conditions substantially similar to those of this Agreement. Each party will immediately give notice to the other party of any unauthorized use or disclosure of the Confidential Information. The party who made the unauthorized use or disclosure agrees to assist the other party in remedying any such unauthorized use or disclosure of the Confidential Information.

10.2 Disclosures to Sublicensees. SHIVA recognizes that VASCO may find it necessary to disclose Confidential Information to VASCO's third party sublicensees in connection with VASCO's development or sale of VASCO products embodying the SHIVA Technology; provided, that VASCO shall not make any such disclosure to a SHIVA Competitor (as defined below). Such disclosures shall be subject to execution of a commercially reasonable written nondisclosure agreement which agreement shall identify SHIVA as a third party beneficiary. VASCO shall promptly inform SHIVA of the identity of any entity to whom SHIVA's Confidential Information is disclosed pursuant to this provision. For purposes hereof, "SHIVA Competitor" means an entity primarily engaged in the design and sale of integrated circuits intended for use in high

performance voice-band digital modem solutions. By way of illustration, but not limitation, a company primarily engaged in the manufacture of computer systems, routers, or board level products shall not be deemed a SHIVA Competitor.

## 11. Term and Termination.

11.1 Term. The Term of this Agreement shall be 12 months from its Effective Date. Thereafter, it shall be renewed automatically for additional 12-month terms unless either party provides 90 days' written notice to the other, prior to the expiration of the then-current Term, that the Agreement be terminated. Notwithstanding the termination or expiration of this Agreement for any reason, all rights and obligations of the parties set forth in Sections 3 ("Proprietary Rights"), 4 ("SHIVA Representations and Warranties"), 5 ("SHIVA License to VASCO"), 6 (Export Control), 8 ("Waiver of Consequential Damages; Limitation on Damages"), 9 ("Indemnification"), 10 ("Nondisclosure of Confidential Information"), and 12 ("General Provisions") shall survive.

11.2 Termination For Cause. Subject to cure or remedy of an event of breach listed below by a party (the "Breaching Party"), as described in Section 11.3 ("Right to Cure"), the other party shall have the right to terminate this Agreement and its further obligations hereunder if the Breaching Party:

(a) is involved in any voluntary or involuntary bankruptcy proceeding or any other proceeding concerning insolvency, dissolution, cessation of operations, reorganization or indebtedness or the like and the proceeding is not dismissed within sixty (60) days;

(b) is unable to pay its debts as they mature in the ordinary course of business or makes a general assignment for the benefit of its creditors;

(c) is in material breach of any provision of this Agreement; or

(d) fails to provide reasonable adequate assurances of future performance of its obligations under this Agreement within ten (10) days following a demand from the other party for such assurances.

11.3 Right to Cure. Upon the occurrence of any event entitling a party to terminate this Agreement, the terminating party may send notice of termination, specifying the nature of the breach, to the other party. The breaching party shall be allowed thirty (30) days following the date of such notice to cure the problem to the non-breaching party's satisfaction. Failure to cure the problem shall result in termination without further notice by the non-breaching party, unless such non-breaching party extends the cure period by written notice or withdraws the termination notice.

11.4 Return of Certain Technology. Within thirty (30) days of any termination or expiration of this Agreement, VASCO shall either (i) pay SHIVA all amounts due SHIVA hereunder or (ii) provide SHIVA with a certification, signed by an authorized officer of VASCO, stating that VASCO has destroyed, and retains no copies of, materials incorporating any portion of the SHIVA Technology.

11.5 Termination by VASCO. VASCO shall have the right to terminate this Agreement upon 30 days' written notice to Shiva if Shiva enters into an OEM agreement with a third party which VASCO reasonably believes will be detrimental to VASCO's business.

## 12. General Provisions.

12.1 Notice. Any notice provided for or permitted under this Agreement will be treated as having been given when (i) delivered personally, (ii) sent by confirmed telex or telecopy, (iii) sent by commercial overnight courier with written verification of receipt, or (iv) mailed postage prepaid by certified or registered



mail, return receipt requested, to the party to be notified, at the address set forth below, or at such other place of which the other party has been notified in accordance with the provisions of this section.

If to VASCO: VASCO Data Security, Inc.  
Lombard, Illinois  
Attn: John C. Haggard, President

If to SHIVA: Peter Howells  
Shiva Corporation  
Spider House Peach Street  
Wokingham RG11 1XH  
United Kingdom

Copy to: General Counsel  
Shiva Corporation  
28 Crosby Drive  
Bedford, MA 01740  
USA

Such notice will be treated as having been received upon the earlier of actual receipt or five (5) days after posting.

12.2 Waiver. No term or provision hereof will be considered waived by either party, and no breach excused by either party, unless such waiver or consent is in writing signed on behalf of the party against whom the waiver is asserted. No consent by either party to, or waiver of, a breach by either party, whether express or implied, will constitute a consent to, waiver of, or excuse of any other, different, or subsequent breach by either party.

12.3 Severability. If any term of this Agreement is held invalid or unenforceable for any reason, the remainder of the term shall be amended to achieve as closely as possible the economic effect of the original term and all other terms shall continue in full force and effect.

12.4 Governing Law. This Agreement shall be governed by and construed under the laws of the Commonwealth of Massachusetts as applied to agreements entered into and to be performed entirely within Massachusetts between Massachusetts residents. The United Nations Convention on the International Sale of Goods shall not apply to this Agreement.

12.5 Choice of Forum. The parties hereby submit to the jurisdiction of, and waive any venue objections against, the United States District Court for the District of Massachusetts and the Superior and District courts of the Commonwealth of Massachusetts, in any litigation arising out of the Agreement.

12.6 Force Majeure. Neither party will be liable for any failure or delay in performance under this Agreement which might be due, in whole or in part, directly or indirectly, to any contingency, delay, failure, or cause of, any nature beyond the reasonable control of such party, including, without in any way limiting the generality of the foregoing, fire, explosion, earthquake, storm, flood or other weather, unavailability of necessary utilities or raw materials, strike, lockout, activities of a combination of workmen or other labor difficulties, war, insurrection, riot, act of God or the public enemy, law, act, order, export control regulation, proclamation, decree, regulation, ordinance, instructions of Government or other public authorities, or judgment or decree of a court of competent jurisdiction (not arising out of breach by such party of this Agreement). In the event of the happening of such a cause, the party whose performance is so affected will give prompt, written notice to the other party, stating the period of time the same is expected to continue, and shall begin performing its obligations hereunder immediately after the cause for

non-performance ceases. Such delay will not be excused under this Section for more than ninety (90) days.

12.7 Entire Agreement. This Agreement, including all attached exhibits, constitutes the entire agreement between the parties relating to its subject matter and supersedes all prior or simultaneous representations, discussions, negotiations, and agreements, whether written or oral, including the MOU.

12.8 Amendment. This Agreement may be amended or supplemented only by a writing that is signed by duly authorized representatives of both parties.

12.9 Assignment. Neither party may assign, voluntarily, by operation of law, or otherwise, any rights or delegate any duties under this Agreement (other than the right to receive payments) without the other party's prior written consent. Any attempt to assign in contravention of this provision will be void. This Agreement will bind and inure to the benefit of the parties and their respective successors and permitted assigns.

12.10 Relationship of the Parties. The parties to this Agreement are independent contractors. There is no relationship of agency, partnership, joint venture, employment, or franchise between the parties. Neither party has the authority to bind the other or to incur any obligation on its behalf.

12.11 Publicity. Neither party shall publicize or otherwise disclose the existence or terms of this Agreement without the prior approval of the other party, which approval shall not be unreasonably withheld. A party may disclose the terms of this Agreement where required by law, provided that such party makes every reasonable effort to obtain confidential treatment or similar protection to the fullest extent available to avoid public disclosure of the terms of this Agreement. A party required by law to make disclosure of the terms of this Agreement will promptly notify the other party and permit the other party to review and participate in the application process seeking confidential treatment.

12.12 Construction of Agreement. This Agreement has been negotiated by the respective parties hereto and their attorneys and its language shall not be construed for or against any party. The titles and headings are for reference purposes only and shall not in any manner limit the construction of this Agreement, which shall be considered as a whole.

12.13 Counterparts. This Development and License Agreement may be executed in two counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument. If this Agreement is executed in counterparts, no signatory hereto shall be bound until both the parties named below have duly executed or caused to be duly executed a counterpart of this Agreement.

12.14 Exhibits. The following Exhibits are attached to and form a part of this Agreement:

Exhibit A:	Fees
Exhibit B:	Specifications for Version 2.0 of Access Manager
Exhibit C:	Agreement to Provide Support
Exhibit D:	DSI Escrow Agreement

IN WITNESS WHEREOF, the parties have executed this Development and License Agreement as of the Effective Date.

VASCO Data Security, Inc.

SHIVA Corporation

-----  
Signature

-----  
Signature

-----  
Printed Name

-----  
Printed Name

-----  
Title

-----  
Title

-----  
Date

-----  
Date

EXHIBIT A  
Fees

Total initial payments made by VASCO pursuant to this Agreement shall be \*\*. In addition, VASCO shall pay to Shiva an ongoing royalty of \*\* on all of VASCO's sales of the AccessManager product.

The initial payments shall be made as follows:

	Amount -----	When Paid -----
Payment #1	**	R&D payment due upon signing of the Memorandum of Understanding
Payment #2	**	R&D payment due upon delivery of Version 2.0 of AccessManager by Shiva
Balance:	**	A marketing incentive payment due upon execution of this agreement

Thereafter, for each AccessManager sold by VASCO, VASCO shall pay to Shiva an amount equal to \*\* of which is for royalties and \*\* of which is attributable to ongoing support obligations. Payments shall be quarterly in arrears, within 10 days after the end of each quarter, and shall be accompanied by a report showing the quantity sold and the amount due to Shiva.

In order for VASCO to fulfill its license obligations with regard to that portion of the \*\* balance of the initial payments based on sales made by Shiva, Shiva shall provide to VASCO, within 10 days after the end of each calendar quarter, a report showing the quantity of AccessManager licensed to customers (including the names and addresses of those customers in order to facilitate shipment of tokens to the customers by VASCO) by Shiva. VASCO's royalty payment shall be based on Shiva's list price for AccessManager.

Shiva agrees that for each copy of Version 2.0 (or higher) of AccessManager sold, it shall bundle two of VASCO's Access Keys, which VASCO shall provide to Shiva at \*\*. VASCO shall provide instructions enabling customers to install the Access Keys on their systems.

Audit Rights. Shiva shall have the right, not more than once per year, upon notice to VASCO, and at reasonable times, to have a major independent accounting firm audit the books and records of VASCO related to the subject matter of this Agreement. Should any audit reveal an underpayment of more than 5% by VASCO to Shiva, VASCO shall pay the cost of the audit and shall immediately remit to Shiva the unpaid fees plus interest, as applicable.

EXHIBIT B  
Specifications

VACMAN VERSION 2.0 FEATURES

The features listed below for version 2.0 consolidate those of version 1.1 which specifically included support for the VASCO family of tokens comprising the AccessKey II, DigiPass and AuthentiCard.

- Programs to be licensed through program-specific registration codes
- Port Codebase from 16bit to 32 bit
- TACACS+ only release
- Remote management of SAM uUser lists
- Primary/Secondary User List Replication
- Time-of-day authentication
- Time quota support
- Make user database portable
- Import of Shiva User List
- Import of standard RADIUS user list
- Audit Reporting Program
- Multiple Shared Secret
- Password violation control
- Journaling user changes
- Win 95 style installer
- Password expiration control and enforcing password changes
- New Password Changing Method

EXHIBIT C

UNIVERSAL NETWORKS COMPANY LIMITED  
AGREEMENT TO PROVIDE SUPPORT

Universal Networks Company, Limited, having a principal place of business at Room 128, 1/F, 72 Tat Chee Road, Kowloon Tong, Kowloon, Hong Kong ("Universal Networks") hereby agrees to offer to provide second and third-level technical support for Shiva's AccessManager product to Vasco Data Security, Inc. ("VASCO") for the consideration that VASCO will purchase all future licenses of the AccessManager directly from Universal Networks at the same price that VASCO is purchasing from Shiva for the term of that contract, in the event that Shiva Corporation is unwilling to provide such second- and third-level support due to its failure to continue as a going concern or to its discontinuance of the AccessManager product line.

In the event that Universal Networks is unwilling or unable to provide such second- or third-level support, then Universal Networks shall incur no liability whatsoever to either Shiva Corporation or to VASCO; however, Universal Networks' inability or unwillingness to provide support due to its failure to continue as a going concern or to its discontinuance of the AccessManager product line shall constitute a triggering event such that the source code of the AccessManager product shall be released from escrow and VASCO shall be entitled to use the source code solely for the purpose of supporting its existing AccessManager customers in using the product, in accordance with the terms of an industry standard Escrow Agreement that will be agreed by all parties, and which will be attached to the Software License Agreement to which this Agreement to Provide Support is attached.

UNIVERSAL NETWORKS COMPANY LIMITED

- -----  
By: Peter Mak  
Its General Manager

EXHIBIT D

ESCROW AGREEMENT

[Attached following this page]

Shiva Agmt.doc  
8/11/97

PREFERRED REGISTRATION  
TECHNOLOGY ESCROW AGREEMENT

Account Number \_\_\_\_\_

This Preferred Registration Technology Escrow Agreement including any Exhibits ("Agreement") is effective this day of \_\_\_\_\_, 199 \_\_\_\_\_, by and among Data Securities International, Inc. ("DSI") a Massachusetts corporation, \_\_\_\_\_ ("Depositor") and Shiva Corporation ("Preferred Registrant").

WHEREAS, Depositor has entered or will enter into a contract with the Preferred Registrant regarding certain proprietary technology and other materials of Depositor;

WHEREAS, Depositor and Preferred Registrant desire the Agreement to be supplementary to said contract pursuant to 11 United States Code Section 365 (n);

WHEREAS, availability of or access to certain proprietary data related to certain proprietary technology and other material is critical to Preferred Registrant in the conduct of its business;

WHEREAS, Depositor has deposited or will deposit with DSI proprietary data to provide for retention, administration and controlled access for Preferred Registrant under the conditions specified herein;

NOW THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, and in consideration of the promises, mutual covenants and conditions contained herein, the parties hereto agree as follows:

1. Deposit Account. Following the delivery of the executed Agreement, DSI shall open a deposit account ("Deposit Account") for Depositor. The opening of the Deposit Account means that DSI shall establish an account ledger in the name of Depositor assign a deposit account number ("Deposit Account Number"), calendar renewal notices to be sent to Depositor as provided in Section 30, and request the initial deposit ("Initial Deposit") from Depositor. Depositor has an obligation to make the Initial Deposit. Unless and until Depositor makes the Initial Deposit with DSI, DSI shall request the Initial Deposit from Depositor.

2. Preferred Registration Account. Following the execution and delivery of the Agreement, DSI shall open a registration account ("Registration Account") for Preferred Registrant. The opening of the Registration Account means that DSI shall establish under the Deposit Account an account ledger with a unique registration number ("Registration Number") in the name of Preferred Registrant, calendar renewal notices to be sent to Preferred Registrant as provided in Section 30, and request the Initial Deposit from Depositor. DSI shall notify Preferred Registrant upon receipt of Initial Deposit.

3. Term of Agreement. The Agreement will have an initial term of one (1) year, commencing on the effective date, and shall continue in full force unless terminated earlier as provided in the Agreement. The Agreement may be extended for additional one (1) year terms.

4. Exhibit A, Notices and Communications. Notices and invoices to Depositor, Preferred Registrant or DSI should be sent to the parties at the addresses identified in the Exhibit A.

Documents, payment of fees, deposits of material, and any written communication should be sent to DSI offices as identified in the Exhibit A.

Depositor and Preferred Registrant agree to each name their respective designated contact ("Designated Contact") to receive notices from DSI and to act on their behalf in the performance of their obligations as



set forth in the Agreement. Depositor and Preferred registrant agree to notify DSI immediately in the event of a change of their Designated Contact in the manner stipulated in Exhibit A.

5. Exhibit B and Deposit Material. Depositor will submit proprietary data and related material ("Deposit Material") to DSI for retention and administration in the Deposit Account.

The Deposit Material will be submitted together with a completed document called a "Description of Deposit Material", hereinafter referred to as Exhibit B. Each Exhibit B should be signed by Depositor prior to submission to DSI and will be signed by DSI upon completion of the Deposit Material inspection.

Depositor represents and warrants that it lawfully possesses all Deposit Material, can transfer Deposit Material to DSI and has the authority to store Deposit Material in accordance with the terms of the Agreement.

6. Deposit Material Inspection. Upon receipt of an Exhibit B and Deposit Material, DSI will be responsible only for reasonably matching the labeling of the materials to the item descriptions listed on the Exhibit B and validating the count of the materials to the quantity listed on the Exhibit B. DSI will not be responsible for any other claims made by the Depositor on the Exhibit B. Acceptance will occur when DSI concludes that the Deposit Material Inspection is complete. Upon acceptance DSI will sign the Exhibit B and assign it the next Exhibit B number. DSI shall issue a copy of the Exhibit B to Depositor and Preferred Registrant within ten (10) days of acceptance.

7. Initial Deposit. The Initial Deposit will consist of all material initially supplied by Depositor to DSI.

8. Deposit Changes. Depositor may desire or may be obligated to update the Deposit Account with supplemental or replacement Deposit Material of technology releases.

Supplemental Deposit ("Supplemental") is Deposit Material which is to be added to the Deposit Account.

Replacement Deposit. ("Replacement") is Deposit Material which will replace existing Deposit Material as identified by any one or more Exhibit B(s) in the Deposit Account. Replaced Deposit Material will be destroyed or returned to Depositor.

9. Deposit. The existing deposit ("Deposit") means all Exhibit B(s) and their associated Deposit Material currently in DSI's possession. Destroyed or returned Deposit Material is not part of the Deposit; however, DSI shall keep records of the destruction or return of Deposit Material.

10. Replacement Option. Within ten (10) days of receipt of Replacement from Depositor, DSI will send a letter to Preferred Registrant stating that Depositor requests to replace existing Deposit Material, and DSI will include a copy of the new Exhibit B(s) listing the new Deposit Material.

Preferred Registrant has twenty (20) days from the mailing of such letter by DSI to instruct DSI to retain the existing Deposit Material held by DSI, and if so instructed, DSI will change the Replacement to a Supplemental. Conversion to Supplemental may cause an additional storage unit fee as specified by DSI's Fee and Services Schedule.

If Preferred Registrant does not instruct DSI to retain the existing Deposit Material, DSI shall permit such Deposit Material to be replaced with the Replacement. Within ten (10) days of acceptance of the Replacement by DSI, DSI shall issue a copy of the executed Exhibit B(s) to Depositor and Preferred Registrant. DSI will either destroy or return to Depositor all Deposit Material replaced by the Replacement.

11. Storage Unit. DSI will store the Deposit in defined units of space, called storage units. The cost of the first storage unit will be included in the annual Deposit Account fee.

12. Deposit Obligations of Confidentiality. DSI agrees to establish a locked receptacle in which it shall place the Deposit and shall put the receptacle under the administration of one or more of its officers, selected by DSI, whose identity shall be available to Depositor at all times. DSI shall exercise a professional level of care in carrying out the terms of the Agreement.

DSI acknowledges Depositor's assertion that the Deposit shall contain proprietary data and that DSI has an obligation to preserve and protect the confidentiality of the Deposit.

Except as provided for in the Agreement, DSI agrees that it shall not divulge, disclose, make available to third parties, or make any use whatsoever of the Deposit.

13. Audit Rights. DSI agrees to keep records of the activities undertaken and materials prepared pursuant to the Agreement. DSI may issue to Depositor and Preferred Registrant an annual report profiling the Deposit Account. Such annual report will identify the Depositor, Preferred Registrant, the current Designated Contacts, selected special services, and the Exhibit B history, which includes Deposit Material acceptance and destruction or return dates.

Upon reasonable notice, during normal business hours and during the term of the Agreement, Depositor or Preferred Registrant will be entitled to inspect the records of DSI pertaining to the Agreement, and accompanied by an employee of DSI, inspect the physical status and condition of the Deposit. The Deposit may not be changed during the audit.

14. Renewal Period of Agreement. Upon payment of the initial fee or renewal fee, the Agreement will be in full force and will have an initial period of at least one (1) year unless otherwise specified. The Agreement may be renewed for additional periods upon receipt by DSI of the specified renewal fees prior to the last day of the period ("Expiration Date"). DSI may extend the period of the Agreement to cover the processing of any outstanding instruction made during any period of the Agreement.

Preferred Registrant has the right to pay renewal fees and other related fees. In the event Preferred Registrant pays the renewal fees and Depositor is of the opinion that any necessary condition for renewal is not met, Depositor may so notify DSI and Preferred Registrant in writing. The resulting dispute will be resolved pursuant to the dispute resolution process defined in Section 25.

15. Expiration. If the Agreement is not renewed, or is otherwise terminated, all duties and obligations of DSI to Depositor and Preferred Registrant will terminate. If Depositor requests the return of the Deposit, DSI shall return the Deposit to Depositor only after any outstanding invoices and the Deposit return fee are paid. If the fees are not received by the Expiration Date of the Agreement, DSI, at its option, may destroy the Deposit.

16. Certification by Depositor Depositor represents to Preferred Registrant that:

- a. The Deposit delivered to DSI consists of the following: source code deposited on computer magnetic media; all necessary and available information, proprietary information, and technical documentation which will enable a reasonably skilled programmer of Preferred Registrant to create, maintain and/or enhance the proprietary technology without the aid of Depositor or any other person or reference to any other materials; maintenance tools (test programs and program specifications); proprietary or third party system utilities (compiler and assembler descriptions); description of the system/program generation; descriptions and locations of programs not owned by Depositor but required for use and/or support; and names of key developers for the technology on Depositor's staff.

- b. The Deposit will be defined in the Exhibit B(s).

17. Indemnification. Depositor and Preferred Registrant agree to defend and indemnify DSI and hold DSI harmless from and against any and all claims, actions and suits, whether in contract or in tort, and from and against any and all liabilities, losses, damages, costs, charges, penalties, counsel fees, and other expenses of any nature (including, without limitation, settlement costs) incurred by DSI as a result of performance of the Agreement except in the event of a judgment which specifies that DSI acted with gross negligence or willful misconduct.

18. Filing For Release of Deposit by Preferred Registrant. Upon notice to DSI by Preferred Registrant of the occurrence of a release condition as defined in Section 21 and payment of the release request fee, DSI shall notify Depositor by certified mail or commercial express mail service with a copy of the notice from Preferred Registrant. If Depositor provides contrary instruction within ten (10) days of the mailing of the notice to Depositor, DSI shall not deliver a copy of the Deposit to Preferred Registrant.

19. Contrary Instruction. "Contrary Instruction" is the filing of an instruction with DSI by Depositor stating that a Contrary Instruction is in effect. Such Contrary Instruction means an officer of Depositor warrants that a release condition has not occurred or has been cured. DSI shall send a copy of the instruction by certified mail or commercial express mail service to Preferred Registrant. DSI shall notify both Depositor and Preferred Registrant that there is a dispute to be resolved pursuant to Section 25. Upon receipt of Contrary Instruction, DSI shall continue to store the Deposit pending Depositor and Preferred Registrant joint instruction, resolution pursuant to Section 25, order by a court of competent jurisdiction, or termination by non-renewal of the Agreement.

20. Release of Deposit to Preferred Registrant. Pursuant to Section 18, if DSI does not receive Contrary Instruction from Depositor, DSI is authorized to release the Deposit, or if more than one Preferred Registrant is registered to the Deposit, a copy of the Deposit, to the Preferred Registrant filing for release following receipt of any fees due to DSI including Deposit copying and delivery fees.

21. Release Conditions of Deposit to Preferred Registrant

Release conditions are:

- a. Depositor's failure to continue to do business in the ordinary course.

22. Grant of Use License. Subject to the terms and conditions of the Agreement, Depositor hereby transfers and upon execution by DSI, DSI hereby accepts a non-exclusive, irrevocable, perpetual, and royalty-free Use License which DSI will transfer to Preferred Registrant upon controlled release of the Deposit as described in the Agreement. The Use License will be for the sole purpose of continuing the benefits afforded to Preferred Registrant through any existing license, maintenance, or other agreement with Depositor.

23. Use License Representation. Depositor represents and warrants to Preferred Registrant and DSI that it has no knowledge of any encumbrance or infringement of the Deposit, or that any claim has been made that the Deposit infringes any patent, trade secret, copyright or other proprietary right of any third party. Depositor warrants that it has the full right, power, and ability to enter into and perform the Agreement, to grant the foregoing Use License, and to permit the Deposit to be placed with DSI.

24. Conditions Following Release. Following a release and subject to payment to DSI of all outstanding fees, DSI shall transfer the Use License to Preferred Registrant. Additionally, Preferred Registrant shall be required to maintain the confidentiality of the released Deposit.

25. Disputes. In the event of a dispute, DSI shall so notify Depositor and Preferred Registrant in writing. Such dispute will be settled by arbitration in accordance with the commercial rules of the American Arbitration Association ("AAA"). Unless otherwise agreed to in writing by Depositor and Preferred Registrant, arbitration will take place at Bedford, Massachusetts.

26. Verification Rights. Depositor grants to Preferred Registrant the option to verify the Deposit for accuracy, completeness and sufficiency. Depositor agrees to permit DSI and at least one employee of Preferred Registrant to be present at Depositor's facility to verify, audit and inspect the Deposit held by DSI to confirm the quality and/or content of the Deposit for the benefit of Preferred Registrant. If DSI is present or is selected to perform the verification, DSI will be paid according to DSI's then current verification service hourly rates and any out of pocket expenses.

27. General. DSI may act in reliance upon any instruction, instrument, or signature believed to be genuine and may assume that any employee giving any written notice, request, advice or instruction in connection with or relating to the Agreement has apparent authority and has been duly authorized to do so. DSI may provide copies of the Agreement or account history information to any employee of Depositor or Preferred Registrant upon their request. For purposes of termination or replacement, Deposit Material shall be returned only to Depositor's Designated Contact, unless otherwise instructed by Depositor's Designated Contact.

DSI is not responsible for failure to fulfill its obligations under the Agreement due to causes beyond DSI's control.

This Agreement is to be governed by, and construed in accordance with the laws of the Commonwealth of Massachusetts, without giving effect to conflict of laws provisions thereof.

The Agreement constitutes the entire agreement between the parties concerning the subject matter hereof, and supersedes all previous communications, representations, understandings, and agreements, either oral or written, between the parties. The Agreement may be amended only in a writing signed by the parties.

If any provision of the Agreement is held by any court to be invalid or unenforceable, that provision will be severed from the Agreement and any remaining provisions will continue in full force.

28. Title to Media. Subject to the terms of the Agreement, title to the media, upon which the proprietary data is written or stored, is and shall be irrevocably vested in DSI. Notwithstanding the foregoing, Depositor will retain ownership of the proprietary data contained on the media including all copyright, trade secret, patent or other intellectual property ownership rights subsisting in such proprietary data.

29. Termination of Rights. The Use License as described above will terminate in the event that the Agreement is terminated without the Use License transferring to Preferred Registrant.

30. Fees. Fees are due upon receipt of signed contract, receipt of Deposit Material, or when service is requested, whichever is earliest. If invoiced fees are not paid within sixty (60) days of the date of the invoice, DSI may terminate the Agreement. If the payment is not timely received by DSI, DSI shall have the right to accrue and collect interest at the rate of one and one-half percent per month (\*\* per annum) from the date of the invoice for all late payments.

Renewal fees will be due in full upon the receipt of invoice unless otherwise specified by the invoice. In the event that renewal fees are not received thirty (30) days prior to the Expiration Date, DSI shall so notify Depositor and Preferred Registrant. If the renewal fees are not received by the Expiration Date, DSI may terminate the Agreement without further notice and without liability of DSI to Depositor or Preferred Registrant.

DSI shall not be required to process any request for service unless the payment for such request shall be made or provided for in a manner satisfactory to DSI.

all service fees and renewal fees will be those specified in DSI's Fee and Services Schedule in effect at the time of renewal or request for service, except as otherwise agreed. For any increase in DSI's standard fees, DSI shall notify Depositor and Preferred Registrant at least ninety (90) days prior to the renewal of the Agreement. For any service not listed on the Fee and Services Schedule, DSI shall provide a quote prior to rendering such service.

Depositor	Preferred Registrant	Data Securities International, Inc.
By:	By:	By:
(Print Name)	(Print Name)	(Print Name)
Title	Title	Title
Date:	Date:	Date:

EXHIBIT A  
DESIGNATED CONTACT  
Account Number

Notices, Deposit Material returns  
and communication, including  
delinquencies to Depositor should be

Invoices should be addressed to:

Company Name: Vasco Data Security, Inc.  
Address:

Designated  
Company  
Telephone:  
Facsimile:

State of Incorporation:

Notices and communication,  
including delinquencies to  
Preferred Registrant should  
should be addressed to:

Company Name:  
Address:

Designated Contact:  
Telephone:  
Facsimile:

Requests from Depositor or Preferred

Registrant to change the Designated Contact should be given in writing by  
the Designated Contact or an authorized employee of Depositor or Preferred  
Registrant.

Contracts, Deposit Material  
and notices to DSI should be  
addressed to

Invoice inquiries and fee  
remittances to DSI should  
be addressed to:

DSI  
Attn: Contract Administration  
6165 Greenwich Drive  
Suite 220  
San Diego, CA 92122

DSI  
Attn: Accounts Receivable  
49 Stevenson Street  
Suite 550  
San Francisco, CA 94105

Telephone: (619) 457-5199  
Facsimile: (619) 457-4252  
Date:

(415) 541-9013  
(415) 541-9424





DESCRIPTION OF DEPOSIT MATERIAL

Deposit Account Number \_\_\_\_\_

Depositor Company Name: Shiva Corporation

DEPOSIT TYPE: \_\_\_\_\_ Initial \_\_\_\_\_ Supplemental \_\_\_\_\_ Replacement  
If Replacement: \_\_\_\_\_ Destroy Deposit \_\_\_\_\_ Return Deposit

ENVIRONMENT:

Host System CPU/OS \_\_\_\_\_ Version \_\_\_\_\_ Backup \_\_\_\_\_  
Source System CPU/OS \_\_\_\_\_ Version \_\_\_\_\_ Compiler \_\_\_\_\_  
Special instructions:

DEPOSIT MATERIAL:

Exhibit B Name \_\_\_\_\_ Version \_\_\_\_\_

Item label description	Media	Quantity
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For Depositor, I certify that the above described Deposit Material was sent to DSI

By \_\_\_\_\_

Print Name \_\_\_\_\_

Date \_\_\_\_\_

For DSI, I received the above described Deposit Material subject to the terms on the reverse side of this Exhibit:

By \_\_\_\_\_

M. Elizabeth Potthoff

Date of Acceptance \_\_\_\_\_

ISE \_\_\_\_\_ EX. B# \_\_\_\_\_

## HEADS OF AGREEMENT

BETWEEN:

VASCO CORPORATION, represented by Kendall HUNT, Chief Executive Officer

AND:

VASCO DATA SECURITY EUROPE S.A., represented by Kendall HUNT, President and Director

AND:

DIGILINE INTERNATIONAL LUXEMBOURG, represented by Henri ARONSON and Dominique FONTAINE, Directors

AND:

DIGILINE S.A., represented by Dominique COLARD, Managing Director

AND:

DIGIPASS S.A., represented by Dominique COLARD and Jan VALCKE, Directors

AND:

Dominique COLARD, residing at rue Gillemont 21, 6120 Ham sur Heure

AND:

TOPS S.A., represented by Dominique COLARD, President

1.- Vasco Corp. (Vasco) has set up a new company, Vasco Data Security Europe (VDSE) in Brussels. VDSE is a holding company 100% owned by Vasco. VDSE's mission is to act as the holding company for various business ventures and activities in Europe, Eastern Bloc, Middle East, and other areas which provide economic opportunities for Vasco. It will invest in companies which are involved in computer security products and services, and have a << presence >> in territories where VDSE would like to establish an on-going business.

2.- Digiline International Luxembourg (DIL), in its capacity as shareholder of Digipass Belgium (DP), TOPS (TP) and Digiline Belgium (DB), on the one hand, and VASCO and VDSE, on the other hand, hereby agree to the following structure for the acquisition by VDSE of DP and of the assets and certain liabilities of DB:

TP will transfer its DP shares for book value to DP.

All of the assets of DB will be transferred to DP at their book value. In addition, DP will assume for book value all of the current accounts payable and accrued expenses of DB. The net value of such transfer and assumption will be invoiced by DB to DP. The transfer will be structured so as to qualify as a transfer of a branch of business activity in such a way that the employment contracts of all concerned employees will be automatically transferred to DP. VDSE will then purchase 100% of the stock of DP from DIL for the price of \$10,000,000.00 (USD) (ten million) less any positive net equity remaining in the building owned by TOPS and occupied by DP and DB. Positive net equity shall be defined as the fair market price of the building as determined by an << expert immobilier >>, less the remaining balance of the mortgage indebtedness (plus costs associated with the planned refinancing of the mortgage) due at the effective date of the final Agreement. Except for the abovementioned adjustment for the net equity in the building the amount of the purchase price shall not be subject to adjustment for any reason. In no event shall DIL be responsible for the financial results of year 1996.

Any costs arising from such transfer of assets and liabilities, shall be for the account of DP.

At Closing of the sale, the assets of DP will consist of all of the assets previously owned by DB or DP associated with the operation of the business of DP and DB including (1) cash, (2) accounts receivable, (3) furniture, fixtures, machinery and equipment, (4) inventory (raw materials, work-in-process and finished goods), (5) patents, trademarks and other intellectual property, (6) contracts to provide tokens or other products to third parties, (7) deposits and prepaid expenses, (8) product names including Digipass, Digiline, Digidial, Easy Dial, Intermezzo, and other names being used by DP and DB, and (9) any other assets owned by DP necessary for the operation of the business except the following assets: patents, trademarks, other intellectual property and product names related to Dynapark and Muslimclock.

DIL has agreed to retain the 1995 net after-tax profit and the 1996 net after-tax profit, up to the Closing of the sale, in DP and DB that VDSE is acquiring, except for the dividend distribution of BEF 1,000,000 approved by the shareholders of DB at the general meeting on May 8th, 1996.

DIL represents and warrants to Vasco and VDSE that the financial statements of DB and DP for the year ended December 31, 1995 have been prepared in good faith and in accordance with the provisions of the applicable Belgian accounting rules.

At Closing of the sale, the only liabilities of DP will be current accounts payable and accrued expenses associated with the operation of business of DP and DB. All intercompany receivables and payables on the books of DP will be written off at Closing.

3.- Payment of the purchase price shall be made in cash in immediately available US Dollars as follows :

Payment Number	Payment Date	Amount
	No later than December 31, 1996	\$ 5000000
1	No later than December 31, 1997	\$ 5000000
2	Total Payments	\$10000000

Payment 1 above shall be paid in cash at the settlement date of Vasco Corp.'s public offering but in no event later than December 31, 1996. Such payment shall be irrevocably and unconditionally guaranteed by means of an Irrevocable Letter of Credit or Irrevocable Bank Guarantee in favor of DIL issued by a first-class bank acceptable to DIL.

Payment 2 shall be paid in cash no later than December 31, 1997. Such payment shall be irrevocably and unconditionally guaranteed by means of an Irrevocable Letter of Credit or Irrevocable Bank Guarantee in favor of DIL issued by a first-class bank acceptable to DIL.

Based upon the assumption that DP, DB and DIL are not doing business in the United States of America the above payments will be made without deduction, withholding or offset for any US taxes.

Payments 1 and 2 may be delayed by written agreement of VDSE and DIL, provided that DIL shall under no circumstances be obliged to grant its consent to any such delay. Any amounts not paid on January the 1st 1997 shall bear interest at the rate of 8% per annum. Interest due for any portion of a year shall be prorated based on the actual number of days elapsed divided by 360.

At the sole election of DIL, payment 2 may be in the form of Vasco Common Stock, priced at Fair Market Value at the time of delivery, in U.S. Dollars. Fair Market Value (FMV) shall be defined as the average NASDAQ closing price for the prior 20 trading days from the date of issuance. Under current SEC regulations, shares are restricted from sale for 24 months from the date of issuance.

As provided in Clause 13, DIL shall have the right to withdraw from this Heads of Agreement if VASCO and VDSE have not presented to DIL the abovementioned bank guarantees in form and substance meeting the requirements set forth above within 30 business days from the date of signature of this Heads of Agreement. DIL shall have 5 business days from the date of its receipt of the proposed guarantees to confirm that the Guarantees are in accordance with the requirements of this Heads of Agreement. In the case where DIL withdraws from this Heads of Agreement, DB, DP, TP, and DC will not anymore be bound by this Heads of Agreement except if otherwise provided in this agreement.

4.- The Parties will mutually agree when to disclose the terms of this Agreement, until which time all terms will be kept private and confidential. Under any circumstances, SEC regulations will govern the disclosure timing. However, the disclosure of the terms of this Agreement will in any event not occur before DIL will have confirmed that the bank guarantees are in accordance with the requirements set forth above.

5.- Mario Houthoofd (MAH) will be the Managing Director of DP, the combined operations of DP and DB.

6.- DC acting through TP shall be a consultant to the new management of DP for a period of 6 months, with an option to extend this consulting agreement by mutual consent of DC and DP. DC's role shall be to advise management during a suitable transition period from the old management to the new management. DC shall be considered an independent consultant, and shall spend an average of 4 days per week as a consultant to DP. His involvement shall be progressively reduced to zero at the end of the period above.

TP will be paid by DP for these consultancy services at a fixed monthly fee of 309,337.00 BEF (plus applicable VAT).

During this consulting period, DC with the agreement of DP, may also be involved part-time in the areas of innovation and research and development, but will remain an independent consultant, not an employee.

7.- DC shall sign a non-compete contract for a period of 5 years. During this period, DC shall be free to conduct other non-competitive business, including designing, producing and selling devices that do not compete with Vasco's family of current or future products as defined below.

VDSE's business definition of competing products is as follows : the undertaking of any possible application of cryptography, any mathematical and logical system, as well as satellite communication and voice digitalization, assistance by means of services or consultancy, development, manufacturing and commercialization of methods, systems, machines and products related to security of data and programs, their transmission and their modification, as well as electrical components, computer software and hardware, but only if and to the extent that any of the foregoing is related to security as indicated above. DYNAPARK and MUSLIMCLOCK are not considered competing products.

8.- DIL shall undertake to use its best efforts to obtain that any DB employees whose employment contracts are not automatically transferred to DP pursuant to the business transfer referred to in Clause 2 above, shall sign new Employment Agreements with DP, containing terms and conditions consistent with Belgian law. It is understood that VDSE feels a moral obligation to maintain its business in Belgium and has no plans to relocate its business outside Belgium.

9.- Once DP has been acquired by VDSE, key employees of DP will be eligible to participate in the Vasco Corp. Stock Option Plan. Vasco will work with Price Waterhouse to assure that such participation is structured in such a way so as to optimize the tax treatment for such individuals.

10.- DP shall sign a new rental agreement with TP for the current DP and DB office facilities for a period of 24 months at a competitive fair market price. By giving at least 6 months written notice

prior to the end of such initial term or of any renewal term, DP may extend the term of this rental agreement for up to 3 additional 12-month periods.

11.- The undersigned parties agree that all information furnished to either of them or to any affiliate, employee or agent of either of them by DC, DB or DIL in connection with the acquisition of DP will be treated as strictly confidential and will not without the prior written consent of DIL, be disclosed by Vasco or VDSE or by any of their employees, agents or affiliates to any third parties either (i) prior to the Closing of VDSE's acquisition of DP, or (ii) if for any reason VDSE does not acquire DP. Following VDSE's acquisition of DP such obligation of confidentiality and nondisclosure shall remain applicable to any information furnished by DIL, DC or DB in connection with DIL's sale of DP which does not relate exclusively to DP.

12.- Vasco shall indemnify DB and DIL (and any of their affiliates, officers or shareholders) and hold each of them harmless against any liabilities, claims or expenses related to Vasco's public offering.

13.- The present Heads of Agreement shall be governed by Belgian law. Any controversies arising hereunder shall be submitted to arbitration in Brussels in accordance with the CEPANI rules. The acquisition of DP contemplated by the present Heads of Agreement shall be further implemented by means of documentation to be negotiated amongst the parties reflecting all of the terms and conditions set forth herein and other terms and conditions, including certain representations, warranties and covenants with respect to the business of DP and DB and, the assets and liabilities of DP, not inconsistent with the terms hereof. However, DC, DB, DP, TP and DIL reserve the right to withdraw from this Agreement if within 30 business days from the date of this Heads of Agreement they shall not have received the guarantees referred to in Clause 3 hereof. If DC, DB, DP, TP and DIL elect not to withdraw, the agreement shall be modified so that the guaranties referred to in clause 3 need not to be delivered. In case they elect to withdraw, the only obligation of Vasco and VDSE under Clause 11 hereof shall survive the termination of this Agreement and shall remain in effect for a period of 36 (thirty-six) months.

14.- VASCO shall be jointly and severally liable with VDSE for any and all obligations of VDSE under the present Heads of Agreement and under the definitive documentation referred to in Clause 13.

Done in Brussels, on May, 13th 1996

VASCO Corp.

By /s/ Kendall Hunt  
-----  
Kendall HUNT  
Chairman & CEO

VASCO DATA SECURITY  
EUROPE S.A.

By /s/ Kendall Hunt  
-----  
Kendall HUNT  
President and Director

TOPS S.A.

By /s/ Dominique Colard  
-----  
Dominique COLARD  
President

DIGILINE INTERNATIONAL LUX.

By /s/ Dominique Fontaine  
-----  
Dominique FONTAINE  
Director

By /s/ Henri Aronson  
-----  
Henri ARONSON  
Director

DIGILINE BELGIUM S.A.

By /s/ Dominique Colard  
-----  
Dominique COLARD  
Managing Director

DIGIPASS S.A.

By /s/ Dominique Colard  
-----  
Dominique COLARD  
Director

By /s/ Jan Valcke  
-----  
Jan VALCKE  
Director

## AGREEMENT

Whereas pursuant to Paragraph 13 of the Heads of Agreement between VASCO CORPORATION (<< Vasco >>), VASCO DATA SECURITY EUROPE S.A. (<< VDSE >> or << the Buyer >>), DIGILINE INTERNATIONAL LUXEMBOURG (<< DIL >> or << the Seller >>), DIGILINE S.A. (<< DB >>), DIGIPASS S.A. (<< DP >>), Dominique COLARD (<< Colard >>) and TOPS S.A. (<< TP >>), it was contemplated that certain additional terms and conditions with respect to the matters contemplated by the Heads of Agreement would be agreed to and executed by the parties;

Whereas below are set forth such additional terms and conditions as have been agreed to by the parties;

Whereas for purposes hereof (i) these additional terms and conditions together with the Heads of Agreement are collectively herein referred to as the << Agreement >> and (ii) the assets and liabilities heretofore conducted by DB (which will prior to the Closing Date be transferred to DP) and the business presently conducted by DP are hereinafter collectively referred to as the << Seller's Business >>;

Whereas the Buyer acknowledges that it has performed the necessary amount of due diligence which it believed to be appropriate for a transaction of the type contemplated herein, that such due diligence has included, amongst others, the review of the complete data put at the disposal of the Buyer and its advisors and accountants at its request and investigations by the Buyer with the management of the Seller.

## Article 1

As is contemplated by the Heads of Agreement, TP has transferred its shares of the capital stock of DP for book value to DP. As these shares have been canceled, DIL is currently the sole owner of 100 % of the shares of DP.

As is contemplated by the Heads of Agreement, the capital of DP has been increased and certain assets and liabilities from DB transferred to DP. VASCO and VDSE agree on the terms and conditions of the purchase agreement relating to the transfer of the assets and liabilities from DB to DP.

Vasco and VDSE therefore represent that the conditions set forth in the Bank Guarantee issued by the Bank Paribas have been fully completed by DIL, DP, DB, TP and COLARD.

Vasco and VDSE agree that only the transfer of any amount by VDSE to DIL which specifically relates to the payment of the purchase price of the shares by VDSE to DL as from the Closing Date will diminish the said Bank Guarantee issued by the Bank Paribas for the same amount.

## Article 2

For purpose of this Agreement, the term << Material >> shall mean:

(a) with respect to any contract, (i) having a remaining duration of at least 12 months and (ii) involving a commitment to expenditure of at least BEF 1 500 000 or involving the generation of income of at least BEF 1 500 000;

(b) with respect to any asset or liability or change in financial condition, an asset having a book value of at least BEF 1 500 000 or a liability involving an expenditure of at least BEF 1 500 000.

## Article 3

DL hereby represents and warrants to and agrees with Vasco and VDSE as follows:

1. DIL is the lawful owner of record of 42 653 shares of the capital stock of DP (<< DP Stock >>).



2. There are no shares of the capital stock of DP issued or outstanding other than those shares held currently by DIL.
  3. The shares of DP owned by DIL are free and clear of all liens, charges, encumbrances and restrictions of any kind and nature whatsoever and none of such shares is subject to any agreement whatsoever with respect to the voting, sale or pledge thereof with respect to any such DP Stock.
  4. Except as set forth on Schedule 1, none of DIL, TP, DB or Colard has any interest in any property, real or personal, tangible or intangible, used in the Seller's Business.
  5. Any shares of Vasco Common Stock to be acquired by DIL at the sole election of DIL pursuant to this Agreement will be acquired by DIL solely for the purpose of investment and not with a view to, or for sale in connection with, any distribution thereof DL acknowledges that all such shares of Vasco Common Stock will not be registered under the Securities Act of 1933, as amended, or the securities laws of any state or other jurisdiction, and that all such shares of Vasco Common Stock will bear a legend in substantially the following form:  
  
<< THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. AS AMENDED, (THE <>) AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS A REGISTRATION STATEMENT WITH RESPECT TO THESE SHARES HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR THE CORPORATION HAS BEEN FURNISHED WITH AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED. >>
  6. True, complete and correct copies of (a) the Certificate of Incorporation as amended to date, of DP and (b) the by-laws, as currently in effect, of DP are annexed hereto as Schedule 2.
  7. DP is a corporation duly organized, validly existing and in good standing under the laws of Belgium and has full corporate power and authority to conduct the Seller's Business.
  8. This Agreement has been duly and validly executed and delivered by DIL and constitutes its valid obligation, enforceable against it in accordance with its terms. Except any notification which might be necessary towards the Region wallonne and except for any notices and consents required in relation to the transfer of assets and liabilities of DB to DP, no consent is required to be obtained in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.
  9. The performance of this Agreement and the consummation of the transactions contemplated hereby will not result in a breach or violation of any of the terms or provisions of, or constitute a default under, (i) the articles of incorporation of by-laws or similar governing documents of DP, or (ii) any law, order, rule, regulation, writ, injunction or decree applicable to Seller's Business.
- To its knowledge, DP and its conduct of the Seller's Business are in compliance in all material respects with all, and not in violation in any material respect of any applicable law or ordinance, or any order, rule or regulation of any governmental agency or body to which DP or the Seller's Business are subject; nor to its knowledge has DP failed to obtain or to adhere in all material respects to the requirements of any government license, permit or authorization necessary to the ownership of its assets or to the conduct of the Seller's Business. All material governmental permits, licenses and authorizations required by DP in the conduct of the Seller's Business are set forth in Schedule 3.
10. Except as provided in Schedule 4, DP and the Seller's Business have paid all taxes (payroll, income, franchise, etc.) required to be paid and DP and DB have no liability whatsoever for any taxes except as may be reflected in the Financial Statements of DB and DP for the year ended December 31, 1995 and in

the intermediary financial statements of DB ended June 30, 1996 (hereafter << the Financial Statements >>) and except for any taxes to be paid by DP and relating to its business conducted since January 1st, 1996 for the six-month period ended June 30, 1996.

All Material tangible assets and properties owned by DP or used in the Seller's Business are as of the date hereof usable.

11. All accounts receivables reflected in the Financial Statements and all accounts receivables acquired or created by the Seller's Business subsequent to January 1, 1996, to and including the Closing Date, arose from beneficial transactions in the ordinary course of business.

12. All inventory reflected on the Financial Statements and all inventory relating to the Seller's Business acquired subsequent to December 31, 1995 to and including the Closing Date are of a quality and quantity usable or salable in the ordinary course of business. The values of the inventory carried on the Financial Statements represent the acquisition price of such inventory.

13. Except as set forth on Schedule 5, since December 31, 1995, either DP nor DB (insofar as the assets and liabilities transferred by it to DP are concerned) has:

(a) sold, assigned or transferred any of its assets or properties necessary for the operation of the Seller's Business, except in the ordinary course of business consistent with past practice;

(b) made any amendment or termination of any material contract, commitment or agreement relating to the Seller's Business to which it is a party or by which it is bound; or

(c) with respect to the employees of the Sellers' Business, received notice or had knowledge of any strike or disruption of work of a concerted nature or any threat thereof;

14. Except for the claim received by the Dutch PTT and Security Dynamics, DP has not received notice of any claims which have been asserted by any person to the use of any patents, trademarks, trademark registrations, logos, trade names, assumed names, copyright and copyright registrations or challenging or questioning the validity or effectiveness of any such license or agreement.

15. There are no strikes or disruptions of work involving the employees of the Seller's Business of a concerted nature. DP is not a party to any collective bargaining agreement with any union or other representative of employees except for such collective bargaining agreements (<< conventions collectives>>) which are applicable to all employees in the same business sector.

16. DP represents that he has not hidden any verbal or written notice of any threatened termination or cancellation of the business relationship of the Seller's Business since January 1, 1995 with (a) a major customer of the Seller's Business, or (b) a major supplier of the Seller's Business which would, either individually or in the aggregate have a material adverse effect on the Seller's Business.

17. Set forth on Schedule 6 is the name of each employee of DP and each employee transferred from DB to DP and the gross yearly compensation for each employee with indication of extra legal advantages such as life-insurance, rental costs of cars without fuel, repair and maintenance insurance and other costs related to the use of the cars, luncheon vouchers and medical insurance.

18. The representations and warranties of DL contained in this Agreement shall be true on and as of the date of the closing of the transactions contemplated by this Agreement (the << Closing Date >>) with the same force and effect as through made on and as of such date.

19. Seller represents that he fully complied with the requests for information contained in the Buyer's due diligence lists submitted by the Buyer and its auditors. Seller further represents that he did not hide or conceal any agreement of a Material nature or information of a Material nature which would have been vital to the due diligence process.

20. Notwithstanding anything to the contrary in this Article 3, Seller's representations and warranties are expressly qualified by and limited by the results of the Buyer's due diligence investigation referred to above; all of Seller's representations and warranties shall be construed to be qualified by all matters apparent from the due diligence investigation whether or not such matters are expressly mentioned in this Article 3 or in any of the Schedules attached to this Agreement.

#### Article 4

The Buyer and Vasco hereby represents and warrants to the Seller that:

4.1. It is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is established and has full corporate power and authority to enter into and perform its obligations under this Agreement.

4.2. This Agreement has been duly and validly executed and delivered by it and constitutes its valid and binding obligation, enforceable in accordance with its terms. No consent, authorization or approval of, exemption by, or filing with, any governmental or administrative authority, or any court, is required to be obtained or made by it in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

4.3. The performance of this Agreement and the consummation of the transactions contemplated hereby will not result in a breach or violation of any of the terms or provisions of, or constitute a default under, (i) the articles of incorporation or by-laws or similar governing documents of the Buyer or Vasco, or (ii) any law, order, rule, regulation, writ, injunction or decree applicable to the Buyer or Vasco.

#### Article 5

5.1. Closing. The Closing hereunder shall take place at the offices of DP located in Charleroi, or at such other place as the Buyer and the Seller may agree upon, on July 12th, 1996.

5.2. At the Closing, the Seller shall transfer to the Buyer the ownership of the shares.

5.3. At the Closing the Buyer shall deliver to the Seller an original copy of the Guarantee issued by Banque Paribas covering the balance of the Purchase Price.

5.4 A shareholders' register shall be issued and signed by the appropriate shareholders after the Closing.

#### Article 6

For the period beginning on the date hereof and ending June 30, 2001, Colard hereby covenants and agrees with VDSE that, unless acting as an officer, employee or consultant to VDSE or an affiliate of VDSE (which for purposes of this Section shall include Vasco), or with VDSE's prior written consent, he will not (i) compete, directly or indirectly, with VDSE, DP or any of their affiliates in regard to the competing products as defined in Section 7 of the Heads of Agreement (the << Competing Products >>), (ii) directly or indirectly, on his own behalf of or as an employee or agent of any other person or entity, contact or approach any person or business, wherever located, for the purpose of competing with VDSE or DP in the Competing Products; (iii) participate as a director, officer, consultant, or partner of, or have any other direct or indirect financial interest in, any enterprise which engages in the Competing Products; or (iv) participate as an employee, agent, representative or consultant in, or render any services to, any enterprise

in which his responsibility competes, directly or indirectly, with the Competing Products. Dynapark and Muslimclock are not considered competing products.

#### Article 7

Colard agrees that he shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others, all confidential matters relating to the Seller's Business. The Buyer and Vasco agree that they shall keep secret and retain in strictest confidence and shall not use for the benefit of themselves or others, all confidential informations relating to the business of Colard or DB apart from the Seller's Business purchased by the Buyer hereunder.

#### Article 8

The Buyer and Vasco undertake jointly and severally (i) to cause a Shareholders Meeting of DP to be held on the Closing Date to appoint new Directors of DP, and (ii) to procure that the former Directors who are resigning from their offices in connection with the sale of the Seller's Business to the Buyer are granted discharge from all liabilities incurred in their capacity as directors of DP at the General Shareholders Meeting of DP which is to be convened for the purpose of approving the 1996 financial statements of DP.

#### Article 9

9.1. Subject to the limits set forth in this Article 9, the Seller will, on demand by the Buyer, indemnify the Buyer from and against any and all loss, Liability, damage or deficiency (including interest, penalties and reasonable attorneys' fees) that the Buyer may suffer or incur as a result of the inaccuracy of any representation or the breach of any warranty, covenant, undertaking or other agreement of the Seller contained in this Agreement (any such inaccuracies or breaches being hereinafter collectively referred to as << Breaches >> and each individually as a << Breach >>). Such an indemnification will be considered as an adjustment of the purchase price paid by the Buyer.

9.2. Any losses, damages or expenses incurred by the Buyer or DP and any respective indemnification by the Seller shall be taken into account after discounting of any tax effect in DP resulting in a reduction of such losses, damages or expenses incurred or the respective indemnification; for this purpose, the Buyer shall make or procure to be made available to the Seller all relevant books of account, records and correspondence of the Buyer, DP and Vasco relevant to the Breach, subject to the Seller's keeping such information confidential.

9.3. Notwithstanding any other provision of this Agreement, the Liability of the Seller in respect of any Breach shall be Limited to claims of not less than BEF 500 000 (five hundred thousand Belgian Francs) in respect of any single Breach or any number of Breaches of the same nature arising out of the same causal event (hereinafter referred to as << Significant Claims >>) and any references in this Agreement to Seller's liability for breach of warranty shall be construed to refer only to liability for Significant Claims.

9.4. The Seller shall have no liability whatsoever in respect of any Significant Claim unless and until the amount recoverable from the Seller in respect of that Significant Claim, when aggregated with all other amounts so recoverable in respect of other Significant Claims, exceeds BEF 3 500 000 (three million five hundred thousand Belgian Francs), whereupon the Seller shall be liable for the whole of all such Significant Claims subject, however, to all provisions of this Article 9.

9.5. The Seller shall have no liability for any Significant Claim unless notice in writing of the Significant Claim, stating in reasonable detail the nature of the claim and the amount of the Significant Claim, shall have been given to the Seller on or before December 31, 1997 (such notice being hereinafter referred to as the << Notice >>).

9.6. If a Breach may occur or has occurred, the Buyer shall notify the Seller in writing without delay, stating in detail the nature of the Breach, and shall afford the Seller the opportunity, within 120 days, to take reasonable steps to remedy or avoid such Breach or potential Breach.

9.7. The Buyer shall, and shall procure that DP shall, take at Seller's cost and expense such actions as Seller may request to avoid, dispute, resist, appeal, compromise or mitigate any claim by any third party which would give rise to a Breach or any matter which might give rise to a Breach. For the purpose of enabling the Seller to remedy or mitigate a Breach or to otherwise determine the amount of any such claim, the Buyer shall make or procure to be made available to the Seller all relevant books of account, records and correspondence of the Buyer or DP relevant to the Breach, subject to the Seller keeping such information confidential.

9.8. The Seller shall not be liable:

a) in respect of any Breach if, and to the extent that, such Breach occurs as a result of any legislation or amendment to existing legislation not in force on the date hereof;

b) in respect of any Breach, if and to the extent that it would not have arisen but for any voluntary act, omission, transaction or arrangement after the date hereof by the Buyer, DP or Vasco or any change in the nature or manner of conduct of the Seller's Business after the Closing;

c) in respect of any Breach, to the extent that any liability arises or is increased as a result of any statutory change in the basis or method of calculation of or increase in the rate or rates of taxation;

d) in respect of any Breach, to the extent of the amount of any provisions in the financial statements of DB or DP as of December 31, 1995 or the intermediary financial statements as of June 30, 1996, in respect of the liability giving rise to the Breach in question.

9.9. The Buyer shall or shall cause DP to reimburse to the Seller any amount paid by the Seller under this Article 9 to the extent that such amount is subsequently recovered by or paid to the Buyer, to DP or to Vasco by any third party (including under any policy of insurance) as a result of the same facts or matters which have given rise to the payment of the sum paid by the Seller less any costs of recovery of such amount from such third party and after discounting any overall tax effect, and the Buyer shall and shall procure that DP or any third party take all reasonable steps to obtain such recoveries and payments.

#### Article 10

The representations, warranties and covenants contained in this Agreement shall survive the execution of this Agreement and the closing of the transactions contemplated hereby.

#### Article 11

In addition to the above additional terms and conditions to the Agreement, the parties agree that the Heads of Agreement shall be modified as follows:

AA. The purchase Price to be paid by VDSE for 100% of the stock of DP shall be \$ 8 200 000 (U.S. Dollars).

BB. The purchase Price of \$ 8 200 000 (U.S. Dollars) shall be paid as follows:

1. Payment no. 1 of \$ 4 800 000 (U.S. Dollars) in cash shall be paid at the Closing.
2. Payment no. 2 of \$ 3 400 000 (U.S. Dollars) shall be due and payable on December 31, 1997, and

3. As provided in the Heads of Agreement, Payment no. 2 shall be irrevocably and unconditionally guaranteed by means of an Irrevocable Letter of Credit or Irrevocable Bank Guarantee in favor of DL issued by a first-class bank acceptable to DIL.

#### Article 12

12.1. The validity, interpretation and performance of this Agreement shall be governed by the laws of the Kingdom of Belgium.

12.2. Any dispute concerning the validity, the interpretation or the performance of this Agreement shall be finally settled by arbitration under the rules of the CEPANI, by three arbitrators appointed in accordance with said Rules, one to be appointed by the Seller, one to be appointed by the Buyer and the third to be appointed by the first two or otherwise in accordance with such Rules. The place of arbitration shall be Brussels, Belgium. The proceedings shall be conducted in the French language. Any dispute arising between the contracting parties shall be subject to prior conciliation.

IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement in six original copies as of the 9th day of July 1996.

VASCO Corp.  
By: /s/ Kendall Hunt

VASCO DATA SECURITY EUROPE S.A.  
By: /s/ Kendall Hunt

DIGILINE S.A.  
By: /s/ Dominique COLARD

DIGIPASS S.A.  
By: /s/ Jean Louis DALCQ

By: /s/ Jean DEMEUR

/s/ Dominique COLARD

SCHEDULE 1

DC has a consultancy contract with TP

TP has a consultancy contract with DP

DP rents the office building from TP

DP rents 4 cars from DB

DC owns patents rights in relation to security tokens

DB has an outstanding debt towards DIL of 4.500.000 BEF plus interests (900.000 BEF at June30, 1996)

SCHEDULE 2

Certificate of Incorporation as amended to date and by laws of DP.

SCHEDULE 3

Not applicable

SCHEDULE 4

Any taxes to be paid pursuant to an examination by the tax authorities of the accounts of DP and DB for any period before June 30th, 1996.

SCHEDULE 5

Not applicable

## SCHEDULE 6

## Annual employees charges

	Date in	Monthly Cost	Annual Cost	Holiday Cost	13th Month	Meal Check	Insur.	Medical Cost	Car	Total
J. Valke	2/11/88	242000	2904000				69928		406404	3380332
M. Lebrun		200000	2400000							2400000
L. Duray	23/09/91	86700	1040400	73695	117088	39600	41616	1920		1314319
N. Buseyne	2/9/91	86853	1042236	73825	117295	39600	41689	1920		1316565
C. Skworcz	29/6/92	45902	550824	39017	61991	39600		1920		693351
A. Avi	16/10/92	93244	1118928	79257	125926	39600	44757	1920		1410389
P. Detry	2/8/93	73834	886008	62759	99713	39600	35440	1920		1125440
Ph. Back	22/10/93	84897	1018764	72162	114653	39600	40751	1920		1287850
JP. Lafot	2/5/96	119231	1430772	101346	161021	39600	57231	1920		1791891



## AGREEMENT

The effective date of this AGREEMENT is March 1, 1996 by and between VASCO CORP., a corporation existing under the laws of the State of Delaware ("Vasco"), VASCO DATA SECURITY EUROPE SA/NV, a corporation existing under the laws of Belgium ("Vasco Europe"), MARIO HOUTHOOFT ("Mario") and GUY DENUDT ("Guy").

## W I T N E S S E T H :

WHEREAS, Vasco Europe is a wholly owned subsidiary of Vasco; and  
WHEREAS, Vasco Europe owns 30 shares of the capital stock of LINTEL SECURITY, SA/NV, a corporation existing under the laws of Belgium ("New Lintel"), which represents 15% of the outstanding equity of New Lintel; and  
WHEREAS, Mario owns 85 shares of the capital stock of New Lintel, which represents 42.5% of the outstanding equity of New Lintel; and  
WHEREAS, Guy owns 85 shares of the capital stock of New Lintel, which represents 42.5% of the outstanding equity of New Lintel; and  
WHEREAS, simultaneously with the execution hereof, New Lintel will acquire certain assets associated with the computer security business of LINTEL, SA/NV ("Old Lintel"), a corporation all of the equity interests of which are owned by Mario and Guy.

NOW, THEREFORE, in consideration of the premises and mutual agreements hereinafter set forth, the parties hereto hereby agree as follows:

ARTICLE I  
ACQUISITION OF SHARES IN NEW LINTEL

1.01 Acquisition of Shares. Vasco Europe shall acquire all of the shares of Mario and Guy in New Lintel at a total price of \$1,000,000, and the equivalent of \$3,000,000 in shares of Vasco, both to be equally shared by Mario and Guy.

1.02 Said amount of \$1,000,000 shall be paid as follows:

- \* \$42,500 (\$21,250 each) no later than April 30, 1996;
- \* \$100,000 (\$50,000 each) no later than May 31, 1996;
- \* \$110,000 (\$55,000 each) no later than June 30, 1996;
- \* no later than June 1, 1996 issue of two promissory notes of \$373,750 each producing interest at a rate of 8% a year, convertible at any time between June 1, 1996 and May 30, 1998 into shares of Vasco Common Stock at a rate of \$7.00 per share.

1.03 On June 1, 1996, provided payments under 1.02 were duly executed:

(i) Mario shall sell, assign and transfer to Vasco Europe eighty-five (85) shares of the capital stock of New Lintel in exchange for the delivery by Vasco Europe to Mario of 214,287 shares of the common stock, par value \$.001 per share, of Vasco ("Vasco Common Stock"); and

(ii) Guy shall sell, assign and transfer to Vasco Europe eighty-five (85) shares of the capital stock of New Lintel in exchange for the delivery by Vasco Europe to Guy of 214,287 shares of Vasco Common Stock.

1.04 On June 1, 1996 Vasco shall issue and deliver to Mario and Guy each 50,000 purchase warrants on Vasco Common Stock at an exercise price of \$7.00 per share, to be exercised at any time through Dec. 31, 2001 (exercise price to be automatically split in case of splitting of the present shares).

1.05 Escrow of Shares. In order to secure the obligations of Mario and Guy to sell their shares of New Lintel to Vasco Europe as provided in Section 2.02 hereof, such shares shall be held in escrow in order to secure such obligations.

## ARTICLE II INVESTMENT REPRESENTATION

2.01 Investment Representation. With respect to any shares of Vasco Common Stock to be acquired by Mario and Guy, all as contemplated by Article II hereof, each of Mario and Guy hereby represent to Vasco and Vasco Europe that:

(a) he is acquiring such shares of Vasco Common Stock for his own account for the purpose of investment, and not with a view to, or for sale in connection with, any distribution thereof;

(b) he has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of his acquisition of such shares of Vasco Common Stock;

(c) he acknowledges that he has had, prior to his execution of this Agreement, the opportunity to ask questions of, and to receive answers from Vasco concerning Vasco, its affiliates and their business and financial condition; and

(d) he acknowledges that such shares of Vasco Common Stock have not been, and will not be, registered under the Securities Act of 1933 as amended (the "Securities Act") and, therefore, that such shares of Vasco Common Stock may not be sold, assigned or transferred by him except pursuant to an effective registration statement with respect thereto or in a transaction where such registration is not required (it being understood that under current Securities and Exchange Commission rules and regulations such shares could not be resold for two years without benefit of an effective registration statement); and

(e) he understands that such shares of Vasco Common Stock will bear a legend in substantially the following form: The shares evidenced by this certificate have not been registered under the securities act of 1933, as amended (the "securities act") and may not be offered, sold, pledged or otherwise transferred unless a registration statement with respect to these shares has become effective under the securities act, or the corporation has been furnished with an opinion of counsel reasonably satisfactory to the corporation that such registration is not required.

ARTICLE III  
REPRESENTATIONS; REGISTRATION RIGHTS

3.01 Vasco Common Stock. All shares of Vasco Common Stock to be issued pursuant to this Agreement will, upon delivery to Mario and/or Guy, as the case may be, be duly authorized, validly issued, and fully paid and non-assessable.

3.02 Registration Rights.

Vasco agrees to provide each of Mario and Guy, respectively, with the opportunity to include in a registration statement up to 27,143 shares of Vasco Common Stock delivered to them pursuant to Section 2.01 hereof, in the event that Vasco decides, in its sole discretion, to file a registration statement under the Securities Act in respect of Vasco Common Stock on its own behalf, other than a registration statement on Form S-4 (or any replacement form used for the registration of shares offered to security holders of any other entity in exchange for their interests in such entity) or Form S-8 (or any replacement form used for the registration of shares offered to employees, consultants, etc. under a stock option or similar type plan), provided that Vasco's managing underwriter determines that inclusion of such shares will not interfere with the successful marketing of the shares of Vasco Common Stock which Vasco intends to register and sell, and further provided, that, Mario and/or Guy, as the case may be, agree(s) to the terms of the underwriting agreement to be executed by Vasco with respect to such registration statement, such agreement to be evidenced by their execution of such underwriting agreement.

ARTICLE IV  
COVENANTS, UNDERSTANDINGS

4.01 Covenant Not to Compete. Through the period ending on December 31, 2001 each of Mario and Guy for himself only hereby covenants and agrees with Vasco and New Lintel that, unless acting as an officer, employee or consultant to Vasco or New Lintel or an affiliate of Vasco or New Lintel, or with Vasco's prior written consent, he will not:  
(i) compete, directly or indirectly, with Vasco or New Lintel or any of its affiliates in the manufacture and sale of computer

security products and other security type products (the "Business");

(ii) directly or indirectly, on his own behalf or in behalf of or as an employee or agent of any other person or entity, contact or approach any person or business, wherever located, for the purpose of competing with Vasco or New Lintel in the Business;

(iii) participate as a director, officer, consultant, or partner of, or have any other direct or indirect financial interest in, any enterprise which engages in the Business; or

(iv) participate as an employee, agent, representative or consultant in, or render any services to, any enterprise in which his responsibility competes, directly or indirectly, with the Business.

4.02 Understandings. Mario and Guy each understand that in entering into this Agreement Vasco and Vasco Europe are relying on the representations and warranties made by Mario and Guy with respect to Old Lintel in Article V of an asset purchase agreement by and between New Lintel, Old Lintel, Mario and Guy dated as of March 1, 1996 and, Mario and Guy each repeat and remake such representations and warranties to Vasco and Vasco Europe as if fully set forth herein.

4.03 Vasco Stock Option Plan. On and after June 1, 1996 (the time at which Vasco will own in excess of 51% of the outstanding shares of the capital stock of New Lintel), the directors and employees of New Lintel shall be eligible to participate in any stock option or other stock benefit plans adopted by Vasco, all in accordance with the terms of such plans.

4.04 Executive Bonus Plan. The parties understand and acknowledge that it is the intention of New Lintel to establish an annual executive bonus plan which plan shall provide that (i) 5% of the operating income of New Lintel for the previous year shall be distributed to executives of New Lintel and (ii) up to an additional 5% of the operating income of New Lintel for the previous year may be awarded to the executives of New Lintel solely at the discretion of the Board of Directors of New Lintel. Mario will be recommended to be included in the VASCO Corp. Executive Bonus Plan in an appropriate way.

#### ARTICLE V BOARD OF DIRECTORS; OFFICERS

5.01 Board of Directors. Until Dec. 31, 2006, each of Vasco Europe, Mario and Guy agree to vote all of the equity interests of New Lintel held by them to elect a Board of Directors to be comprised of five (5) persons as follows: Mario, Guy, T. Kendall Hunt ("Ken") and two persons who shall be selected by Vasco Europe.

5.02 Officers. Until Dec. 31, 2001, each of Vasco Europe, Mario and Guy agree to use its best efforts to cause the Board of Directors to elect Mario as Managing Director of New Lintel and Ken as Chairman of the Board of Directors of New Lintel.

ARTICLE VI  
GENERAL PROVISIONS

6.01 Disclosure. None of the parties hereto shall disclose the terms of this Agreement without the prior consent of all other parties except that Vasco may disclose the terms of this Agreement as may be required by law.

6.02 Notices. Any notice, request, instruction or other document to be given hereunder by any party to any of the other parties shall be in writing and shall be deemed to have been duly given when delivered personally or seven (7) days after dispatch by an overnight delivery service, such as Federal Express, DHL, etc. to the party to whom the same is so given or made:

If to Vasco or Vasco Europe: VASCO Corp  
1919 S. Highland Avenue Suite 118-C  
Lombard, Illinois 60148  
Attn: Mr. T. Kendall Hunt, CEO

If to Mario or Guy: Gerard MARTIN  
ROBERTI & Associates  
Boulevard Saint Michel 79  
B-1040 Brussels, Belgium

The above mentioned addresses may be modified by providing written notice to the other parties.

6.03 Assignability and Amendments. This Agreement shall not be assignable by any of the parties. This Agreement cannot be altered or otherwise amended except pursuant to an instrument in writing signed by each of the parties.

6.04 Entire Agreement. This Agreement and the Exhibits and Schedules which are a part hereof and the other writings and agreements specifically identified herein contain the entire agreement between the parties with respect to the transactions contemplated herein and supersede all previous written or oral negotiations, commitments and understandings.

6.05 Waivers, Remedies. Any waiver hereunder must be in writing and signed by the party to be bound thereby. A waiver of any of the terms or conditions of this Agreement shall not in any way affect, limit or waive a party's rights under any other term or condition of this Agreement. All remedies under this Agreement shall be cumulative and not alternative.

6.06 Counterparts and Headings. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. All headings are inserted for convenience of reference only and shall not affect the meaning or interpretation of this Agreement.

6.07 Severability. If and to the extent that any court of competent jurisdiction holds any provision (or any part thereof) of this Agreement to be invalid or unenforceable, such holding shall in no way affect the validity of the remainder of this Agreement.

6.08 Binding Effects. This Agreement shall be binding upon and inure to the benefit of the parties hereto, their successors, legal representatives and assigns.

6.09 U.S. Dollars. Wherever "\$" appears in this agreement it refers to United States Dollars.

6.10 Governing Law This Agreement shall be governed by the laws of Belgium. The sole jurisdiction of any claims made under this Agreement shall be set in the Commercial Court of Brussels, Belgium and as between French and Dutch the parties hereby elect that any disputes be heard solely in French.

IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement as of the day and year first above written.

VASCO CORP.

VASCO DATA SECURITY EUROPE, SA/NV

/s/ T. Kendall Hunt  
.....  
By: T. Kendall HUNT

/s/ T. Kendall Hunt  
.....  
By: T. Kendall HUNT

/s/ Mario Houthoof  
.....  
MARIO HOUTHOOFT

/s/ Guy Denudt  
.....  
GUY DENUDT

## ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT dated as of March \_\_\_\_\_, 1996 by and between LINTEL SECURITY SA/NV, a corporation existing under the laws of Belgium on one hand ("Buyer") and LINTEL SA/NV, a corporation existing under the laws of Belgium ("Seller"), MARIO HOUTHOOFT ("Mario") and GUY DENUDT ("Guy" and Mario being hereinafter collectively referred to as the "Shareholders"), on the other hand.

## W I T N E S S E T H :

WHEREAS, Seller is, among other things, engaged under the name of Lintel Security in the business of the manufacture and sale of computer security products and other security type products (the "Business"); and

WHEREAS, Mario and Guy own all of the equity interests in Seller; and

WHEREAS, Buyer wishes to purchase from Seller and Seller wishes to sell to Buyer substantially all of the assets (both tangible and intangible) of Seller used in connection with the Business.

NOW, THEREFORE, in consideration of the premises and the mutual agreements hereinafter set forth, the parties hereto hereby agree as follows:

ARTICLE I  
PURCHASE AND SALE OF ASSETS

1.01 Purchase of Assets. On the terms and subject to the conditions set forth herein, at the "Closing" (as defined in Section 2.01) Buyer shall purchase from Seller, and Seller shall sell, assign, transfer, convey and deliver to Buyer, all of Seller's right, title and interest in and to all of the assets and properties owned or used by Seller in the Business including those assets described in Section 1.02 hereof, except for the Excluded Assets (as defined below); all of such assets and properties being hereinafter collectively referred to as the "Purchased Assets."

1.02 Purchased Assets. The Purchased Assets shall include, without limitation, all of Seller's right, title and interest in and to all of the following assets whether tangible or intangible:

- (a) inventory;
- (b) furniture, fixtures and equipment;
- (c) Rights (as defined in Section 5.10 hereof);
- (d) contracts to supply products to unaffiliated third parties; and
- (e) goodwill.

1.03 Excluded Assets. The Purchased Assets shall not include:

- (a) the minute books of Seller;
- (b) the tax returns of Seller; and
- (c) accounts receivable.

The foregoing are collectively referred to herein as the "Excluded Assets."

1.04 Seller's Accounting Records. At all times after the Closing Date, Seller shall retain and make available to Buyer the original accounting and tax records and tax returns pertaining to Seller, and, to the extent necessary to enable Buyer to carry on the Business, shall permit Buyer to make copies thereof.

1.05 Instruments of Transfer. Seller shall deliver to Buyer at Closing such bills of sale, title documents and assignments and consents (where required) in form and substance satisfactory to Buyer and its counsel sufficient to vest in Buyer good and valid title to all of Seller's right, title and interest in and to the Purchased Assets free and clear of all mortgages, claims, liens, charges or encumbrances of any kind or nature whatsoever.

## ARTICLE II CLOSING

2.01 Closing. The Closing of the transactions contemplated hereby (the "Closing") shall take place at the offices of Roberti, Martin, Weinberger, Cools, Migeal & Hubert, no later than five (5) business days after the incorporation of New Lintel, or at such other place or time as shall be mutually agreed on by the parties hereto (such time on such date or such other agreed upon time and date is called the "Closing Date").

## ARTICLE III CONSIDERATION

3.01 Purchase Price. The purchase price to be paid by Buyer for and in consideration of the sale, assignment, transfer, conveyance and delivery of the Purchased Assets and shall be equal to (I) the fair value of the Purchased Assets, other than the inventory, which shall be determined in good faith (the "Transferred Consideration"), plus (ii) the value of the inventory included in the Purchased Assets (the "Inventory") which value shall be equal to the Seller's cost of such Inventory (the "Inventory Consideration"), plus (iii) the liabilities assumed by Buyer, as determined in accordance with Section 4.01 hereof (the "Purchase Price").

3.02 Payment of Purchase Price. In consideration of, and as full payment for the sale, assignment, transfer, conveyance and delivery of the Purchased Assets and for the Covenants Not to Compete, at the Closing, Buyer shall (a) pay the Transferred



Consideration to Seller by delivery to Seller of (i) a check, (b) agree to pay the Inventory Consideration in accordance with the commercial terms upon which Seller purchased the Inventory, and (c) assume and agree to pay, perform and discharge the Assumed Obligations (as defined below).

ARTICLE IV  
ASSUMED OBLIGATIONS

4.01 Assumption. At the Closing, Buyer shall assume and agree to pay, perform and discharge the obligations of Seller (the "Assumed Obligations") arising from and after the Closing Date pursuant to those contracts of Seller being transferred to Buyer and specifically identified as an "Assumed Contract" on Schedule 5.14 hereof (the "Assumed Contracts"). Any other provision of this Agreement to the contrary notwithstanding, Buyer shall not and does not assume any liability or obligation of Seller whether or not disclosed in this Agreement other than as is set forth in this Section 4.01.

ARTICLE V  
REPRESENTATIONS AND WARRANTIES OF SELLER

The Shareholders and the Seller hereby jointly and severally represent and warrant to and agree with Buyer as follows:

5.01 Organization and Good Standing. Seller is a corporation duly organized, validly existing and in good standing under the laws of Belgium. Seller has full corporate power and authority to conduct the Business.

5.02 Authority and Compliance. Seller has full corporate power and authority to execute and deliver this Agreement and any and all documents in connection herewith. The consummation and performance by Seller of the transactions contemplated by this Agreement have been duly and validly authorized by all necessary corporate and other proceedings. This Agreement has been duly and validly executed and delivered by the Seller and the Shareholders and constitutes a valid obligation of each of them, enforceable against each of them in accordance with its terms. No consent, authorization or approval of, exemption by, or filing with, any domestic governmental or administrative authority, or any court, or any third party is required to be obtained or made by Seller or the Shareholders in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

5.03 No Conflict. The performance of this Agreement and the consummation of the transactions contemplated hereby will not result in a breach or violation of any of the terms or provisions of, or constitute a default under, (i) the articles of incorporation or by-laws or similar governing documents of Seller, (ii) any contract or other agreement or instrument to which Seller

is a party or by which it is bound, or (iii) any law, order, rule, regulation, writ, injunction or decree applicable to Seller.

5.04 Compliance with Law. Seller and its use of the Purchased Assets and its conduct of the Business are in compliance in all material respects with all, and not in violation in any material respect of any applicable law or ordinance, or any order, rule or regulation of any governmental agency or body to which Seller or the Purchased Assets are subject; nor has Seller failed to obtain or to adhere in all material respects to the requirements of any government license, permit or authorization necessary to the ownership of the Purchased Assets or to the conduct of the Business. All governmental permits, licenses and authorizations required by Seller in the conduct of the Business are set forth in Schedule 5.04.

5.05 Financial Statements.

Schedule 5.05 contains copies of the financial statements of the Business for the year ended December 31, 1995 (the "Financial Statements"). The Financial Statements are true and correct and present fairly, in all material respects, the financial position of the Business as of December 31, 1995 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles, consistently applied.

5.06 Title to Assets. At the Closing, Seller will convey to Buyer good and valid marketable title to all of the Purchased Assets, free and clear of all liens, pledges, mortgages, security interests, licenses, and other encumbrances of any kind or nature whatsoever.

5.07 Condition of Assets. All tangible assets and properties included in the Purchased Assets are as of the date hereof and on the Closing Date will be in good operating condition and repair in all material respects (normal wear and tear excepted) and are usable in the ordinary course of the Business as previously conducted.

5.08 Inventory; Products. All inventory reflected on the Financial Statements and all inventory relating to the Business acquired by the Seller subsequent to December 31, 1995 to and including the Closing Date was and will be of a quality and quantity usable or salable in the ordinary course of business. The values of the inventory carried on the Financial Statements are at the lower of cost or market of such inventory in accordance with generally accepted accounting principles.

5.09 Absence of Certain Events. Except as set forth on Schedule 5.09, since December 31, 1995 Seller has not:

(a) sold, assigned or transferred any of its assets or properties necessary for the operation of the Business, except in the ordinary course of business consistent with past practice;

(b) made any amendment or termination of any material contract, commitment or agreement relating to the Business to which it is a party or by which it is bound;

(c) suffered any material adverse change or received verbal or written notice of a material adverse change in their business relations with any of the major suppliers or customers of the Business which would, individually or in the aggregate, have a material adverse effect on the conduct of the Business;

(d) with respect to the employees of the Business, received notice or had knowledge of any strike or disruption of work of a concerted nature or any threat thereof; or

(e) lost the services of any key employee of the Business or received notification of the threatened or imminent loss of any such employee.

5.10 Patents, Trademarks, Copyrights, etc. Except as set forth on Schedule 5.10, there are no patents, patent rights, patent applications, licenses, shop rights, trademarks, trademark applications, trade names, copyrights, computer software and similar rights (collectively "Rights") currently owned or used in the conduct of the Business. The Purchased Assets include all Rights and other proprietary information necessary to the conduct of the Business as currently being conducted. No patents, formulae, know-how, secrets, trademarks, trademark registrations, logos, trade names, assumed names, copyrights or computer software used in the Business infringe on any patents, trademarks, or copyrights, or any other rights of any person. Seller has taken all reasonable measures to maintain and protect, the patents, trademarks, trademark registrations, logos, trade names, assumed names, copyrights and copyright registrations listed on Schedule 5.10. Seller has not received notice of any claims which have been asserted by any person to the use of any such patents, trademarks, trademark registrations, logos, trade names, assumed names, copyrights and copyright registrations or challenging or questioning the validity or effectiveness of any such license or agreement.

5.11 Legal Proceedings, Etc. There are no claims, actions, suits, proceedings, arbitrations or investigations, either administrative or judicial, pending or, to the best knowledge of Seller, threatened by, or against Seller, which could harm the Buyer.

5.12 Labor Disputes. There are no strikes or disruptions of work involving the employees of the Business of a concerted nature. Seller is not a party to any collective bargaining agreement with any union or other representative of employees.

5.13 Customers; Suppliers; Adverse Conditions. Since January 1, 1995, there has not been any termination or cancellation, nor has Seller received verbal or written notice of any threatened termination or cancellation of the business relationship of the Seller with (a) any of the customers of the Business, or (b) any of the major suppliers (with the exception of CSP) of the Business which would, either individually or in the aggregate have a material adverse effect on the Business.

#### 5.14 Contracts and Commitments.

Except as listed and described on Schedule 5.14, Seller is not a party to any:

- (i) Contract (as defined below) with any present or former shareholder, director, officer, employee or consultant (including, without limitation, any employment agreement);
- (ii) Contract for the future purchase of, or payment for, supplies or products involving payment of in excess of \$50,000 or for the performance of services by a third party involving payment in excess of \$25,000;
- (iii) Contract to sell or supply products or to perform services involving receipt by the Seller of in excess of \$50,000;
- (iv) Representative, sales agency or distribution agreement, contract or commitment;
- (v) Contract or Contracts for the borrowing of money for a line of credit, or for a guarantee, pledge or undertaking of the indebtedness of any other person;
- (vi) Contract with respect to any Rights;
- (vii) Contract limiting or restraining in any respect Seller from engaging or competing in any lines of business or with any person; or
- (xiii) any other Contract material to the operation of the Business.

As used in the Agreement, the term "Contract" includes any mortgage, indenture, agreement, contract, commitment or lease,

#### 5.15 Employee Benefit Plans.

(a) Set forth on Schedule 5.15 is a summary of any bonus, incentive, deferred compensation, profit sharing, pension, retirement, disability, hospitalization, life insurance, health benefit, medical reimbursement, vacation, sick pay, severance pay or other plan or agreement or consideration above legal requirements, providing benefits to any of the employees of Seller ("Employee Plans").

(b) Set forth on Schedule 5.15 is the total amount of cumulative fringe benefits to which employees have accrued entitlement as of December 31, 1995. All amounts required by the provisions of any Employee Plan and applicable law to be contributed to any Employee Plan have been, or will be, contributed to such Employee Plan through the Closing Date.

(c) The Seller has provided Buyer with true and correct copies of all Employee Plans.

5.16 Employees. Schedule 5.16 hereof sets forth the name of each employee of Seller who performs services related to the Business and the job description and rate of compensation of each such employee as of the date hereof.

ARTICLE VI  
COVENANTS

6.01 Confidential Information. Each of Mario and Guy agrees with Buyer for himself only that he shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others, all confidential matters relating to the Business.

6.02 Post Closing Employment. Subject to the Closing having occurred, Buyer shall offer employment to only those employees of Seller listed on Schedule 6.02 (the "Acquired Employees") and shall make available to each Acquired Employee such salary and benefits as are currently provided to such Acquired Employee by Seller.

6.03 Purchase Contract. Annexed hereto as Schedule 6.03 is a true and correct copy of an agreement between Seller and ActivCard with respect to the obligation of ActivCard to supply Seller with AuthentiCard tokens (the "AC Tokens"). Seller agrees for a period of two years from and after the Closing Date to purchase such number of AC Tokens from ActivCard and to resell such AC Tokens to Buyer as may be necessary for Buyer to supply AC Tokens to Buyer's customers. Seller shall sell such AC Tokens to Buyer at Seller's cost therefor plus 5%.

ARTICLE VII  
CONDITIONS PRECEDENT TO THE OBLIGATIONS OF BUYER

The obligations of Buyer pursuant to this Agreement are subject to the satisfaction at the Closing of each of the following conditions, any one or more of which may be waived by Buyer.

7.01 Accuracy of Representation and Warranties. The representations and warranties of Seller and the Shareholders contained in this Agreement shall be true on and as of the Closing Date with the same force and effect as through made on and as of the Closing Date, except as effected by transactions contemplated hereby.

7.02 Performance of Agreement. Seller and the Shareholders shall have performed and complied with all covenants, obligations and agreements to be performed or complied with by them on or before the Closing Date pursuant to this Agreement.

7.03 Officer's Certificate. Buyer shall have received a certificate of the chief executive officer of Seller, dated the Closing Date, certifying as to the fulfillment of the conditions set forth in Sections 7.01 and 7.02 hereof.

7.04 Actions, Proceedings, etc. All actions, proceedings, instruments and documents required to carry out the transactions contemplated by this Agreement and all other related legal matters shall be reasonably satisfactory to Buyer and its counsel; and Buyer shall have been furnished with such other instruments and documents as it shall have reasonably requested.

7.05 Consent to Assignment. Seller shall have obtained and delivered to Buyer the Assumed Contract Consents.

7.06 Employment Agreement. Mario shall execute and deliver to Buyer an agreement relating to his providing services to Buyer during the Time Period as managing Director of Buyer in the form annexed hereto as Exhibit A (the "Employment Agreement").

7.07 Concurrent Agreement. Each of Vasco Corp., Vasco Europe, Mario and Guy shall have executed and delivered an agreement of even date herewith which agreement provides for, among other things, the purchase by Vasco Europe of the equity interests of Buyer owned by Mario and Guy.

#### ARTICLE VIII CONDITIONS PRECEDENT TO THE OBLIGATION OF SELLER

The obligations of Seller under this Agreement are subject to the satisfaction at the Closing of each of the following conditions, any one or more of which may be waived by Seller.

8.01 Accuracy of Representation and Warranties. The representations and warranties of Buyer contained in this Agreement shall be true on and as of the Closing Date with the same force and effect as through made on and as of the Closing Date, except as effected by transactions contemplated hereby.

8.02 Performance of Agreement. Buyer shall have performed and complied with all covenants, obligations and agreements to be performed or complied with by them on or before the Closing Date pursuant to this Agreement.

8.03 Employment Agreement. The Buyer shall have executed and delivered to Mario the Employment Agreement.

#### ARTICLE IX INDEMNIFICATION

9.01 Indemnification by the Shareholders and Seller.

The Shareholders and Seller hereby jointly and severally covenant and agree with Buyer that they shall reimburse and indemnify Buyer and its successors and assigns and hold them harmless from, against and in respect of any and all costs, losses, claims, liabilities, fines, penalties, damages and expenses, including interest which may be imposed in connection therewith and court costs and reasonable fees and disbursements of counsel (collectively "Claims") incurred by them due to, arising out of, or in connection with, (i) a breach of any of the representations, warranties, covenants or agreements made by the Shareholders and/or Seller in Article V and Section 6.04 of this Agreement, or (ii) any liability or obligation of Seller to any person or entity, except for any of the Assumed Obligations.

9.02 Indemnification by Buyer. Buyer hereby covenants and agrees with Seller that it shall reimburse and indemnify Seller and its successors and assigns and hold them harmless from, against and

in respect of any and all Claims incurred by Seller due to, arising out of, or in connection with (a) a breach of any of the representations, warranties, covenants or agreements made by Buyer in this Agreement, (b) any Assumed Obligation, or (c) liabilities relating to the operation of the Business from and after the Closing Date.

9.03 Indemnification by each of Mario and Guy. Each of Mario and Guy for himself only hereby covenants and agrees with Seller that he shall reimburse and indemnify Seller and its successors and assigns and hold them harmless from, against and in respect of any and all Claims incurred by Seller due to, arising out of, or in connection with (a) a breach of the covenants set forth in Section 6.01 and 6.02 of this Agreement.

ARTICLE X  
GENERAL PROVISIONS

10.01 Survival of Representations, Warranties, Covenants and Agreements. The representations, warranties and covenants contained in Articles V and VI of this Agreement shall survive the execution of this Agreement and the closing of the transactions contemplated hereby.

10.02 Expenses. Whether or not the transactions contemplated by this Agreement are consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expense.

10.03 Notices. Any notice, request, instruction or other document to be given hereunder by any party to any of the other parties shall be in writing and shall be deemed to have been duly given when delivered personally or seven (7) days after dispatch by an overnight delivery service, such as Federal Express, DHL, etc. to the party to whom the same is so given or made:

If to Buyer: c/o Vasco Corp.  
1919 S. Highland Avenue, Suite 118-C  
Lombard, Illinois 60148  
Attn: Mr. T. Kendall Hunt, CFO

with a copy to: Morse, Zelnick, Rose & Lander, LLP  
450 Park Avenue  
New York, New York 10022  
Attn: George Lander, Esq.

If to Seller, Mario or Guy: c/o Gerard Martin, Esq.  
Roberti & Associates  
Boulevard St. Michel 79  
B-1040 Brussels, Belgium

with a copy to:

Gerard Martin  
Roberti & Associates  
Boulevard St. Michel 79  
B-1040 Brussels, Belgium

The above addresses may be modified by providing written notice to the other parties.

10.04 Assignability and Amendments. This Agreement shall not be assignable by any of the parties. This Agreement cannot be altered or otherwise amended except pursuant to an instrument in writing signed by each of the parties.

10.05 Entire Agreement. This Agreement and the Exhibits and Schedules which are a part hereof and the other writings and agreements specifically identified herein contain the entire agreement between the parties with respect to the transactions contemplated herein and supersede all previous written or oral negotiations, commitments and understandings.

10.06 Waivers, Remedies. Any waiver hereunder must be in writing and signed by the party to be bound thereby. A waiver of any of the terms or conditions of this Agreement shall not in any way affect, limit or waive a party's rights under any other term or condition of this Agreement. All remedies under this Agreement shall be cumulative and not alternative.

10.07 Counterparts and Headings. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. All headings are inserted for convenience of reference only and shall not affect the meaning or interpretation of this Agreement.

10.08 Severability. If and to the extent that any court of competent jurisdiction holds any provision (or any part thereof) of this Agreement to be invalid or unenforceable, such holding shall in no way affect the validity of the remainder of this Agreement.

10.09 Binding Effects. This Agreement shall be binding upon and inure to the benefit of the parties hereto, their successors, legal representatives and assigns.

10.10 Governing Law. This Agreement shall be governed by the laws of Belgium. The sole jurisdiction of any claims made under this Agreement shall be set in the Commercial Court of Brussels, Belgium and as between French and Dutch the parties hereby elect that any disputes be heard solely in French.



IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement  
as of the day and year first above written,

LINTEL SECURITY SA/NV

By : /s/ T. Kendall Hunt  
-----

LINTEL SA/NV

By: /s/ Mario Houthoof  
-----

/s/ Mario Houthoof  
-----  
MARIO HOUTHOOFT

/s/ Guy Denudt  
-----  
GUY DENUDT

## MANAGEMENT AGREEMENT

## BETWEEN

The company under Belgian law, VASCO DATA SECURITY NV/SA having its registered office at 1081 Brussels (Belgium), Avenue de Jette 32, HRC 173.472, herewith represented by Mr. Guy Denudt and Mr. Thomas Kendall Hunt, mandated according to Article 3 from the bylaws published in the Official Journal dd. 11 February 1997, under number 970211-490, hereafter called (( the mandator )) ;

## AND

The company under Belgian law, LIN.K BVBA, having its registered office at 9090 Melle (Belgium), HRG 164.163, herewith represented by Mrs. Linda Waeytens, mandated according to Article 12 of the bylaws published in the Official Journal dd. 14 February 1992, under number 920214-320, hereafter called (( the manager )) ;

IT HAS BEEN AGREED AS FOLLOWS :

## OBJECT

The manager agrees to be at the disposal of the mandator in order to fulfill the following tasks :

- development of new applications and techniques in the field of mandator's activities ;
- training and management of employees, especially on technological level ;
- perform the necessary market research ;
- take care of the business relationships of the company ;
- negotiate, but not conclude purchase and sales contracts ;
- prospecting of new markets.

## Commitments

It is not allowed to the manger to take commitments in the name and on behalf of the mandator.

## Liberty of action

The manager is entitled to execute his job according to his personal view and opinion. He will report his points of view and decisions to the board of directors.

## TERM

Present agreement is concluded for an undefined period of time retroactively as of 1st of January 1997.

Each party can terminate the agreement at any time a six months notice.

Additionally each party will be entitled to terminate present agreement without notice under the condition of payment of an indemnification of 2.250.000,-BEF.

## ALLOWANCE

## Allowance

The mandator will pay to the manager a yearly fee of 4.500.000,- BEF.

## Expenses

The expenses for travel and accommodation will be reimbursed by the mandator to the manager.

## Invoicing

The manager will establish a monthly invoice regarding :

- -1/12th of the fixed yearly fee
- -the expenses.

## Payment terms

The invoices of the manager will be settled at the latest on the last working day of the current month by wire transfer to account nr. 290-0164745-60.

## Time and place

For the execution of his mission the manager will at least be at the disposal of the mandator 45 hours a week.

The manager is free to decide when and how he will put himself at the disposal of the company. However he will take care to be reachable by phone for the management of the company and will go to the premises of the company every time his presence is needed.

## Logistics

### Office

Besides his own office at his registered office the mandator will make available office space for the manager at his premises.

### Car

The manager will use his own car for travel related to his function.

## 6. CONFIDENTIALITY AND NON-SOLICITATION OF EMPLOYEES

### Confidentiality

The manager agrees not to disclose any information regarding the company of the mandator to third parties which could endanger the competitiveness of the mandator.

### Non-solicitation of employees.

During the term of this Agreement and for a period of one month thereafter, the manager shall not solicit or not knowingly hire any personnel for himself or any third party. During the same period he will not hire any personnel of the mandator even upon solicitation of the employee himself, unless this employee's contract has been terminated by the mandator.

## NON-EXCLUSIVITY CLAUSE

### Exclusivity

During the term of present agreement, the manager will not put his services at the disposal of competing companies, nor will he start competitive business or participate in it in any way.

During the term of one month after the termination of present agreement, the manager will not put his services at the disposal of competing companies, nor will he start competitive business in one of the Benelux countries.

#### Other activities

During the term of present agreement, the manager may however put his services at the disposal of another company under the condition that this company does not exercise activities in competition with the mandator.

#### IMMEDIATE TERMINATION DUE TO FRAUDE OR GROSS NEGLIGENCE

The mandator will be entitled to immediately terminate this agreement without any indemnification, in case of fraud or gross professional negligence from the manager towards the mandator, which will make any further cooperation impossible.

#### BANKRUPTCY

Present agreement will legally be terminated in case of the manager going bankrupt.

The manager is entitled to ask for immediate termination in case of bankruptcy of the mandator.

#### TERMINATION

##### Restitution

Upon termination of present agreement, the manager will return all keys, documents, software, databases and any material whatsoever to the mandator, including all notes, reports and minutes which he received from the mandator or which he made himself regarding the company of the mandator.

##### Expenses

At termination of the agreement the manager will introduce a detailed expense note related to all costs to be reimbursed at that time by the mandator.

#### VAT

All amounts mentioned in this agreement are without VAT.

#### APPLICABLE LAW AND JURISDICTION

##### Applicable law

This agreement shall be governed by the laws of Belgium.

##### Jurisdiction

Any dispute relating to this agreement shall be submitted to the exclusive jurisdiction of the CEPINA, by one or more arbitrators designated accordingly to this jurisdiction.

The arbitration court will be constituted by one arbiter only.

The place of jurisdiction is Brussels.

The procedural language being Dutch.

ELECTION OF DOMICILE AND NOTIFICATION  
Domicile

For the execution of present agreement each party has elected their respective above mentioned domicile.

Notification

Notification of all communications regarding termination of present agreement has to be done by registered mail or by bailiff summons.

Established in two originals in Brussels, on 31st of January 1997.

Each party declares having received one original.

The mandator,

The manager

/s/ Guy Denudt  
Director,

/s/ Linda Waeytens  
Manager

/s/ T. Kendall Hunt  
Director

## SUBLEASE AGREEMENT

This Sublease Agreement ("SUBLEASE") is executed as of August 29, 1997, by and between APL Land Transport Services, Inc. ("SUBLANDLORD") and VASCO Corp. (the "SUBTENANT").

## WITNESSETH:

WHEREAS, Sublandlord is the tenant of the premises herein demised and other premises under a certain Office Lease dated March 29, 1993 by and between Sublandlord, as tenant, and LaSalle National Trust, N.A., not personally, but as Trustee under Trust Agreement dated July 15, 1984 and known as Trust No. 108702, as landlord, which lease, as amended and supplemented to date, is hereinafter referred to as the "BASE LEASE." The term "LANDLORD" as used herein shall mean the successors and assigns of the original landlord under the Base Lease.

WHEREAS, Sublandlord has agreed with Subtenant to sublease to Subtenant certain of the premises leased by Sublandlord under the terms of the Base Lease, upon the terms and conditions herein provided.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. Premises. Sublandlord hereby leases to Subtenant a portion of those certain premises leased to Sublandlord under the Base Lease (the "SUBLEASED PREMISES") consisting of approximately Nine Thousand Five Hundred Twenty-Seven (9,527) rentable square feet, as described and shown on Exhibit A attached hereto, which Subleased Premises are located on the second (2nd) floor of the building commonly known as 1901 South Meyers Road, Oakbrook Terrace, Illinois (the "BUILDING"). Said designation of the size of the Subleased Premises shall be determinative between the parties.

2. Term of Sublease. The term of the Sublease shall commence on September 15, 1997 (the "COMMENCEMENT DATE") and shall terminate on November 15, 1999, unless sooner terminated as provided herein.

3. Rental. (a) As rental for the use of the Subleased Premises, Subtenant shall pay Monthly Gross Rent to Sublandlord as follows:

Effective Period -----	Monthly Gross Rent -----
September 15, 1997 - November 30, 1997	\$ 7,366.67
December 1, 1997 - November 14, 1998	\$12,702.67
November 15, 1998 - November 15, 1999	\$13,179.02

Rent shall be prorated for partial months within the lease term and for partial months in the rent schedule set forth in this Paragraph 3. Such rental shall be payable in advance on the first day of each month during the term hereof. Monthly Gross Rent for the first month of the sublease term shall be paid upon Sublessee's execution of this Sublease.

(b) All rentals shall be payable to Sublandlord and shall be delivered to Sublandlord at such location as Sublandlord may from time to time designate in writing.

(c) All charges, costs and sums required to be paid by Subtenant hereunder shall be deemed to be rent. Subtenant's covenant to pay rent shall be independent of any other covenant in this Sublease. Rent shall be paid without any set-off or deduction whatsoever.

(d) As security for the performance of its obligations under this Sublease, Subtenant, upon its execution of this Sublease has paid to Sublandlord a security deposit (the "SECURITY DEPOSIT") in the amount of Twenty-Six Thousand Three Hundred Fifty-Eight and 04/100 Dollars (\$26,358.04). The Security Deposit may be applied by Sublandlord to cure any default of Subtenant and upon notice by Sublandlord of such application, Subtenant shall replenish the Security Deposit in full by promptly paying to Sublandlord the amount so applied. Within forty five (45) days after the Expiration Date, Sublandlord shall return to Subtenant the balance, if any, of the Security Deposit, along with an itemized accounting of any reductions from the Security Deposit. The Security Deposit shall not be deemed an advance payment of Rent or measure of damages for any default by Subtenant under this Sublease, except as provided herein, nor shall it be a bar or defense to any action that Sublandlord may at any time commence against Subtenant. Sublandlord shall not be required to segregate the Security Deposit from its general funds. Subtenant shall not be entitled to any interest payment on the Security Deposit.

Subtenant shall, upon written request from Sublandlord, deposit additional monies with Sublandlord as an addition to the Security Deposit so that the total amount of the Security Deposit shall at all times bear the same proportion to the then current Monthly Gross Rent as the Security Deposit bears to the Monthly Gross Rent set forth in Paragraph 3(a) hereinabove.

Notwithstanding anything contained herein to the contrary, in the event Subtenant does not breach any of its obligations hereunder during the term hereof, Subtenant may apply Thirteen Thousand One Hundred Seventy-Nine and 02/100 Dollars (\$13,179.02) of the Security Deposit to rent owed for the final month of the sublease term.

4. Use of Subleased Premises. (a) Subtenant shall use the Subleased Premises for general office purposes or as otherwise permitted by the Base Lease.

(b) Subtenant shall be conclusively deemed to have accepted the Subleased Premises in the condition existing on the date Subtenant first takes possession thereof and to have waived all claims relating to the condition of the Subleased Premises, except as provided herein. No agreement of Sublandlord to alter, remodel, decorate, clean or improve the Subleased Premises or the Building and no representation regarding the condition of the Subleased Premises has been made by or on

behalf of Sublandlord to Subtenant, except as specifically stated in this Sublease. Notwithstanding anything contained herein to the contrary, within ten (10) days following the Commencement Date, Sublandlord shall clean the Subleased Premises, shampoo the carpeting and repair any damage resulting from its removal of furniture and equipment. Additionally, Sublandlord shall repair the leaks in the phone room and the sink in the front kitchen area of the Subleased Premises.

(c) Subtenant shall make arrangements directly with the telephone company for telephone service to the Subleased Premises. Subtenant shall promptly pay and be solely responsible for the entire cost of all such service. Subtenant shall also pay upon Sublandlord's demand the cost of removing any special equipment installed in the Subleased Premises by Subtenant or installed by Sublandlord at Subtenant's request, upon expiration of the term of the Sublease or the termination of this Sublease. Sublandlord agrees that Subtenant shall have the non-exclusive use of the racking and wiring in the phone room in the Subleased Premises. Subtenant shall permit other occupants of the Premises leased by Sublandlord in the Building to access and use said racking and wiring, as required for said occupants' use.

Subtenant shall make all necessary arrangements with the utility company serving the Building for electricity to be used in the Subleased Premises, and Subtenant shall pay all charges with respect thereto before the same shall be due. Subtenant acknowledges that Subtenant shall cause the electrical service to the Subleased Premises to be transferred into Subtenant's name as of the Commencement Date. Subtenant shall make no alterations or additions to the wiring installation, electric equipment or appliances without the prior written consent of Sublandlord in each instance. Subtenant acknowledges that the electrical feeder or riser capacity serving the Subleased Premises on the Commencement Date is adequate to serve its use of the same. Subtenant covenants and agrees that at all times its use of electric current shall never exceed the capacity of the feeders to the Building or the risers or wiring installation. To the extent permitted by the Base Lease, Subtenant may install wiring within the Leased Premises for its business use, provided that said wiring does not affect any mechanical systems of the Building and Subtenant removes said wiring upon termination of the Sublease.

(d) Subtenant shall be entitled to possession of the Subleased Premises upon the Commencement Date. Subtenant shall not occupy or use the Subleased Premises (or permit the use or occupancy of the Subleased Premises) for any purpose or in any manner which: (a) is unlawful or in violation of any applicable legal, governmental or quasi-governmental requirement, ordinance or rule (including the Board of Fire Underwriters); (b) may be dangerous to persons or property; (c) may invalidate or increase the amount of premiums for any policy of insurance affecting the Building; or (d) creates a nuisance, disturbs any other tenant of the Building or the occupants of neighboring property or injures the reputation of the Building.

5. Maintenance and Repairs. (a) Unless provided otherwise herein, Subtenant shall, at Subtenant's sole cost and expense and to the extent required of the tenant under the Base Lease, keep the Subleased Premises in good repair and condition, and shall perform all obligations of Sublandlord under the Base Lease with respect thereto. Said obligation shall include, without limitation, repairs



to and maintenance of the separate air conditioning unit that cools the telephone equipment room in the Subleased Premises.

(b) Upon the termination of this Sublease, Subtenant shall deliver possession of the Subleased Premises to Sublandlord in good order, condition and repair, and otherwise as required by, and subject to, the provisions of the Base Lease.

(c) Subtenant shall not, without the prior written consent of Sublandlord, make or cause to be made any alterations, improvements, additions or installations in or to the Subleased Premises. Notwithstanding anything herein to the contrary, Subtenant may adorn and/or decorate the Subleased Premises (excluding wall coverings) without Sublandlord's prior consent, to the extent Sublandlord may do so under the Base Lease; provided, however, Subtenant shall repair all damage caused thereto prior to the termination of the term hereof. Sublandlord may require as a condition of granting such consent that, before commencement of any such work or delivery of any materials into the Subleased Premises or the Building, Subtenant shall furnish to Sublandlord and Landlord for approval architectural plans and specifications, names and addresses of all contractors, contracts, necessary permits and licenses, certificates of insurance and instruments of indemnification against any and all claims, costs, expenses, damages and liabilities which may arise in connection with such work, all in such form and amount as may be satisfactory to Sublandlord and Landlord. In addition, prior to commencement of any such work or delivery of any materials into the Subleased Premises, Subtenant shall provide Sublandlord with appropriate evidence of Subtenant's ability to pay for such work and materials in full, and, if requested by Sublandlord or Landlord, shall deposit with Sublandlord at such time such security for the payment of said work and materials as Sublandlord may require. Whether or not Subtenant furnishes the foregoing, Subtenant agrees to hold Sublandlord, Landlord and their respective agents and employees forever harmless against all claims and liabilities of every kind, nature and description which may arise out of or in any way be connected with such work. All such work shall be done only by contractors or mechanics approved by Sublandlord and Tenant (which approval may be withheld in Sublandlord's and Landlord's sole discretion) and at such time and in such manner as Sublandlord and Landlord may from time to time designate. Subtenant shall pay the cost of all such work and the cost of decorating the Subleased Premises and the Building occasioned thereby. Upon completion of such work, Subtenant shall furnish Sublandlord with contractor's affidavits and full and final waivers of lien and receipted bills covering all labor and materials expended and used in connection therewith. All such work shall be in accordance with the Base Lease, applicable legal, governmental and quasi-governmental requirements, ordinances and rules (including the Board of Fire Underwriters), and all requirements of applicable insurance companies. All such work shall be done in a good and workmanlike manner, with the use of good grades of materials and in conformity with so-called building standards. Except for trade fixtures, all alterations, improvements, additions and installations to or on the Subleased Premises shall become part of the Subleased Premises at the time of their installation and, at the election of Sublandlord or Landlord, shall remain in the Subleased Premises at the expiration or termination of this Sublease, or termination of Subtenant's right of possession of the Subleased Premises, without compensation or credit to Subtenant. Subtenant shall not pledge, mortgage, hypothecate or in any way create a security interest in and to any of the alterations and improvements provided for herein to any creditor or third party

without the prior written consent of Sublandlord and Landlord, which shall not be unreasonably withheld or delayed.

6. Assignment. Subtenant shall not sublease, assign, mortgage, pledge, hypothecate or otherwise transfer or permit the transfer of this Sublease or the interest of Subtenant in this Sublease, in whole or in part, by operation of law or otherwise. If Subtenant or the beneficiary of Subtenant is a partnership, a withdrawal or change, voluntary, involuntary or by operation of law, of any partner or partners owning fifty-one percent (51%), whether by a single transaction or event or by cumulative transactions or events, or more of the partnership interest, or the dissolution of the partnership shall be deemed an assignment of this Sublease. If Subtenant is an Illinois land trust or other trust, a change in the beneficial ownership shall be deemed an assignment of this Sublease. If Subtenant, or the beneficiary of Subtenant is a corporation, any dissolution, merger, consolidation, or reorganization of the Subtenant or the sale or transfer of a controlling percentage of the capital stock of the Subtenant, whether by a single transaction or event or by cumulative transactions or events, shall be deemed an assignment of this Sublease. If the Subtenant consists of more than one person, a purported assignment, voluntary, involuntary, or by operation of law, from a majority of such persons to any or all of the others shall be deemed an assignment of this Sublease.

7. Concerning the Base Lease. (a) It is understood and agreed that the interest of Sublandlord hereunder and in the Subleased Premises hereby demised is solely as tenant under the Base Lease, and that this Sublease and Subtenant's rights and Sublandlord's obligations hereunder are subject to and subordinate to the Base Lease. Notwithstanding anything contained herein to the contrary, in the event Subtenant shall be in default of the provisions of this Sublease Agreement, Sublandlord shall have the right to exercise its early termination option under the Base Lease.

Provided Subtenant shall not be in default hereunder, Sublandlord shall comply with its obligations under the Base Lease, except to the extent said obligations are to be performed by Subtenant hereunder.

(b) There are hereby reserved unto Sublandlord all rights reserved to the Landlord under the Base Lease. Sublandlord shall promptly deliver to Subtenant copies of all notices received by Sublandlord from Landlord with reference to the Subleased Premises or otherwise.

(c) Sublandlord shall have the benefit of all covenants and undertakings of the Landlord under the Base Lease insofar as they apply to the Subleased Premises, including the right to enforce such covenants and undertakings, by litigation or otherwise. Except as otherwise provided herein, the sole obligation of Sublandlord hereunder with respect thereto shall be to give notice to the Landlord under the Base Lease of any non-performance thereof when Sublandlord hereunder shall receive written notice thereof from Subtenant hereunder, and to demand performance of same. Subtenant shall promptly deliver to Sublandlord copies of all notices received by Subtenant from Landlord with reference to the Subleased Premises or otherwise.

(d) As to the Subleased Premises, Subtenant hereby covenants and agrees to be bound by and to perform every term, provision, covenant and condition, expressed or implied, imposed upon Sublandlord by the Base Lease, except as otherwise expressly provided herein with reference to rentals which are to be paid directly by Subtenant to Sublandlord, and except as otherwise expressly provided pursuant to the other provisions of this Sublease, provided the same are more restrictive than the applicable provisions in the Base Lease. All such obligations so assumed by Subtenant hereunder shall be for the benefit of, and shall be enforceable by, Sublandlord or Landlord or both. Subtenant agrees not to take or omit (or to permit to be taken or omitted) any action in violation of the terms and conditions of the Base Lease, and Subtenant hereby agrees to indemnify, defend and hold Sublandlord harmless from and against any and all claims, expenses, damages and liabilities (including attorneys' fees and costs) to which Sublandlord may be subject by reason of Subtenant's failure to comply with any of the terms and conditions of the Base Lease, as to the Subleased Premises. Further, Sublandlord hereby agrees to indemnify, defend and hold Subtenant harmless from and against any and all claims, expenses, damages and liabilities (including attorneys' fees and costs) to which Subtenant may be subject by reason of Sublandlord's failure to comply with any of the terms and conditions of the Base Lease after cure periods, including, without limitation, any default or breach by Sublandlord or any other subtenant of Sublandlord in the Building.

(e) Notwithstanding anything to the contrary in this Sublease, all of the Subtenant's rights hereunder shall be subject to prior or subsequent termination of the Base Lease, pursuant to any provisions thereof, or otherwise.

8. Indemnity, Exoneration. (a) Subtenant shall defend, hold harmless and indemnify Sublandlord at all times against any loss, damage, costs or expenses by reason of any accident, injury (including death), loss or damage occurring on or about the Subleased Premises or resulting from any act or thing done or omitted to be done on or about the Subleased Premises by Subtenant or Subtenant's agents, employees, invitees and/or contractors.

(b) Neither Sublandlord, nor its agents, partners, employees or contractors shall be liable for any accident, injury (including death), loss or damage resulting to any person or property sustained by Subtenant or Subtenant's agents, employees, contractors or invitees, or any occupant of the Building or anyone claiming by or through them and resulting from any defect in the Building or the Subleased Premises, or in any equipment or appurtenance in the same, or resulting from any accident or occurrence in or about the Building or the Subleased Premises, or resulting directly or indirectly from any acts of negligence of any tenant or other occupant of Building, or of any person or entity whatsoever. All property of Subtenant or Subtenant's agents, employees, contractors and invitees, or of any occupant or user of the Subleased Premises shall be at the risk of Subtenant or such other person or entity only, and Sublandlord shall not be liable for any damage thereto.

9. Default by Subtenant. In the event of the breach by Subtenant of any of the terms, provisions, covenants, conditions or agreements of this Sublease Agreement, or of the Base Lease, Sublandlord shall have all the rights of the Landlord under the Base Lease and Subtenant shall be subject to all provisions thereof respecting the Subtenant under the Base Lease.

10. Notices. All notices required or permitted to be given hereunder shall be in writing and shall be deemed given and delivered, whether or not received, when personally delivered by the other party or its designated agent or courier service, or, if sent by mail, when deposited in the United States Mail, postage prepaid and properly addressed, certified mail, return receipt requested, at the following addresses: (i) To Sublandlord: American President Lines, 2021 Spring Road, Suite 300, Oak Brook, Illinois 60523, Attention: Mr. Neal West, and to Paul R. Diamond, Holleb & Coff, 55 East Monroe Street, Suite 3900, Chicago, Illinois 60603 or such other addresses as Sublandlord shall designate by written notice to Subtenant; and (ii) To Sub-tenant: Mr. Greg Apple at the address of the Subleased Premises after the Commencement Date and at 1917 South Highland, Lombard, Illinois 60148 prior to the Commencement Date, or such other address as Subtenant shall designate by written notice to Sublandlord.

11. Condition Precedent. This Sublease, and the rights and obligations of all parties hereto, are subject to the condition precedent of the consent of such Landlord to the making of this Sublease Agreement.

12. Holding Over. Notwithstanding anything contained in the Base Lease to the contrary, for each month or portion thereof Subtenant retains possession of the Subleased Premises, or any portion thereof, after the expiration or termination of this Sublease, Subtenant shall pay Sublandlord one hundred fifty percent (150%) of the most recent Monthly Gross Rent, and Subtenant shall also pay all damages sustained by Sublandlord by reason of such retention of possession. The provisions of this Paragraph shall not constitute a waiver by Sublandlord of any re-entry rights of Sublandlord herein or by law provided.

13. Real Estate Brokers. Subtenant represents that Subtenant has not dealt with any real estate brokers, sales persons, or finders in connection with this Sublease other than Trammell Crow Company and BKB Commercial and no other persons initiated or participated in the negotiation of this Sublease, or showed the Subleased Premises to Subtenant. Subtenant hereby agrees to indemnify, defend and hold harmless Sublandlord from and against any and all liabilities and claims for commissions and fees arising out of a breach of the foregoing representation.

14. Late Charges. Notwithstanding anything contained in the Base Lease to the contrary, all payments due from Subtenant to Sublandlord that are delinquent by five (5) days or more (i) shall bear interest at twelve percent (12%) per annum or the maximum rate permitted by law, and (ii) Subtenant shall pay a flat late charge of five percent (5%) of the delinquent rent.

15. Sublandlord's Right to Perform Subtenant's Duties. Notwithstanding anything contained in the Base Lease, if Subtenant fails to timely perform any of its duties under this Sublease, Sublandlord shall have the right (but not the obligation), to perform such duty on behalf and at the expense of Subtenant without further prior notice to Subtenant, and all sums expended or expenses incurred by Sublandlord in performing such duty shall be deemed to be rent under this Sublease and shall be due and payable upon demand by Sublandlord, together with an administration charge of fifteen percent (15%) of the amounts so expended.

16. Cross-Default. Any default by Subtenant under this Sublease shall constitute a default by Subtenant under any other lease, sublease or other rental arrangement with Sublandlord for space in the Building. Any default by Subtenant under any other lease, sublease or rental arrangement with Sublandlord for space in the Building shall constitute a default by Subtenant under this Sublease.

17. Furniture. Sublandlord and Subtenant agree that Sublandlord shall leave all of the furniture presently located in the Subleased Premises. Sublandlord and Subtenant have entered into that certain Furniture Sale and Purchase Agreement dated of even date herewith with respect to the purchase and sale of said furniture, the form of which Agreement is attached hereto as Exhibit B.

18. Recording. Neither Sublandlord nor Subtenant shall record this Sublease; provided, however if Sublandlord requests, the parties shall execute and acknowledge a short form of sublease for recording purposes which shall be recorded at Sublandlord's expense.

19. Joint Effort. The preparation of this Sublease has been a joint effort of the parties hereto and the resulting document shall not, solely as a matter of judicial construction, be construed more severely against one of the parties than the other.

20. Calculation of Time. Unless specifically stated otherwise, any reference herein to a specific period of days shall be interpreted as a reference to calendar days; provided, however, that if such period would otherwise end on a Saturday, Sunday or generally recognized holiday, then the period shall be deemed to end on the following day.

21. Partial Invalidity. If any term, covenant or condition of this Sublease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Sublease or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby and each term, covenant or condition of this Sublease shall be valid and be enforced to the fullest extent permitted by law.

IN WITNESS WHEREOF, the parties hereto have executed this Sublease Agreement the day and year first above written.

Sublandlord:

Subtenant:

APL LAND TRANSPORT SERVICES, INC.

VASCO Corp.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

EXHIBIT A

EXHIBIT B



## FURNITURE SALE AND PURCHASE AGREEMENT

THIS FURNITURE SALE AND PURCHASE AGREEMENT (this "Agreement") is dated as of the 9th day of July, 1997, by and between APL LAND TRANSPORT SERVICES, INC. ("Seller"), and VASCO CORP. ("Purchaser").

## R E C I T A L S:

WHEREAS, Seller and Purchaser are entering into that certain Sublease Agreement dated as of even date herewith (the "Sublease"), pursuant to which Purchaser is subleasing from Seller a certain portion of Seller's office space in Oakbrook Terrace, Illinois (the "Subleased Premises"); and

WHEREAS, As part of the Sublease, Seller desires to sell, transfer and assign to Purchaser, and Purchaser wishes to purchase from Seller, all of the furniture listed on Schedule 1 attached hereto and made a part hereof (collectively, the "Purchased Assets"), upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants, warranties, representations and conditions contained in this Agreement, the parties hereto hereby agree as follows:

## 1. Sale and Purchase of Purchased Assets.

(a) Purchased Assets. On the terms and subject to the conditions contained herein, Seller agrees to sell to Purchaser, and Purchaser agrees to purchase from Seller, as of the date hereof, all of Seller's right, title and interest in and to all of the Purchased Assets.

(b) Transfer of Title to Purchased Assets; Possession of Purchased Assets Prior to Final Payment. Title to the Purchased Assets shall pass from Seller to Purchaser as of the Commencement Date under the Sublease. At such time (the "Purchase Date"), Seller shall sell, assign, transfer, convey and deliver to Purchaser all of the Purchased Assets by bills of sale, assignments, endorsements and other good and sufficient instruments of transfer necessary to vest in Purchaser good, complete and indefeasible title to the Purchased Assets.

## 2. Purchase Price for Purchased Assets.

(a) Purchase Price. The total purchase price for the Purchased Assets shall be an amount equal to Fifteen Thousand Dollars (\$15,000.00) (the "Purchase Price").

(b) Payment of Purchase Price. Purchaser shall pay the Purchase Price to Seller upon Purchaser's execution of this Agreement.

(c) Allocation of Purchase Price. Purchaser and Seller agree that the Purchase Price shall be allocated among the Purchased Assets for all purposes, including the filing of all tax returns and

Internal Revenue Service Form 8594, in the manner determined by Seller. Each party will promptly notify the other if the Internal Revenue Service or any other taxing authority proposes to reallocate the Purchase Price other than as determined by Seller.

3. Seller's Representation as to Title. Seller has, on the date hereof, good and marketable title to all of the Purchased Assets, free and clear of any security interest, mortgage, lien, charge, restriction, encumbrance, conditional sale agreement, claim, pledge or right of any party (collectively, "Liens"). THE PURCHASED ASSETS TO BE CONVEYED HEREUNDER SHALL BE SOLD BY SELLER AND ACCEPTED BY PURCHASER ON AN "AS IS, WHERE IS" BASIS, AND, EXCEPT AS OTHERWISE SPECIFICALLY SET FORTH HEREIN, SELLER MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO THE PURCHASED ASSETS, INCLUDING, WITHOUT LIMITATION, WITH RESPECT TO THE QUALITY, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF ANY SUCH ITEMS.

4. Miscellaneous.

(a) Entire Agreement; Amendment. This Agreement and any others referred to herein constitute the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and thereof, and supersede all prior and contemporaneous negotiations, undertakings and agreements, written or oral, between the parties. No representation, inducement, agreement, promise, understanding or waiver altering, modifying, taking from or adding to the terms and conditions hereof shall have any force or effect unless the same is in writing and validly executed by both parties hereto.

(b) Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and permitted assigns. This Agreement shall not be assignable by Purchaser without the prior written consent of Seller.

(c) Notices. Any notice, request, instruction or other communication to be given hereunder by any party hereto shall be in writing and shall be deemed to have been duly given on the date of delivery, provided delivery is actually tendered at the appropriate address, addressed to the persons identified below (i) in person, or (ii) by courier service, or (iii) by facsimile copy (with original copy mailed the same day), or (iv) three (3) calendar days after deposit in the mail by first class certified mail, postage prepaid, return receipt requested, all addressed as set forth below:

If to Seller, to: American President Lines  
2021 Spring Road  
Suite 300  
Oak Brook, Illinois 60523  
Attention: Mr. Neal West

with copies to: Paul R. Diamond, Esq.  
Holleb & Coff  
55 East Monroe Street, Suite 3900  
Chicago, Illinois 60603

If to Purchaser, to: VASCO Corp.  
1917 South Highland  
Lombard, Illinois 60148  
Attention: Mr. Greg Apple

with a copy to: Dennis V. Composto, Esq.  
Laidley Sutter & Porter  
339 North Milwaukee Avenue  
Libertyville, Illinois 60048-2249

or to such other person or persons at such address or addresses as may be designated by written notice to the other party pursuant to this Section 4(c).

(d) Waivers. No delay on the part of any party in exercising any right, power or privilege shall operate as a waiver thereof, nor shall any waiver of any right, power or privilege operate as a waiver of any other right, power or privilege, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof or of any other right, power or privilege. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies which the parties otherwise may have at law or in equity.

(e) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties hereto has caused this Furniture Sale and Purchase Agreement to be executed on its behalf by its duly authorized representative as of the date first written above.

PURCHASER:

VASCO CORP.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

SELLER:

AMERICAN LAND TRANSPORT SERVICES, INC.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

SCHEDULE 1

Purchased Assets

OFFICE LEASE  
BASIC LEASE PROVISIONS

## BUILDING AND ADDRESS:

St. Regis Office Center  
1919 South Highland Avenue  
Lombard, Illinois 60148

## LANDLORD AND ADDRESS:

LaSalle National Bank, not personally, but as Trustee under Trust Agreement  
dated September 1, 1977 and known as Trust member 53107  
c/o Anvan Realty & Management Company  
Managing Agent for Beneficiary of LaSalle Trust 53107  
1919 South Highland Avenue, Suite 230-A  
Lombard, Illinois 60148

## TENANT AND ADDRESS:

VASCO - Value Added Systems Corp., an Illinois corporation  
240 East Lake Street, Suite 200  
Addison, Illinois 60101  
Attention: Mr. Kendall Hunt, President

DEMISED PREMISES AND BUILDING NO. : 118-C (Per Exhibit A)

DATE OF LEASE: 7/22/85

## LEASE TERM:

Five years; provided, however, that Tenant shall have the option to terminate the Lease Term effective as of any date after July 31, 1988 (the effective date of termination is hereinafter referred to as the "Effective Date"), which option shall be exercisable by Tenant by delivering to Landlord, not less than six months prior to the Effective Date:

- (1) a written notice of Tenant's election to terminate specifying the Effective Date of termination; and
- (2) (a) the payment of \$30,232.50 if the Effective Date is on or prior to July 31, 1989, or  
(b) the payment of \$20,155.00 if the Effective Date is on or after August 1, 1989.

COMMENCEMENT DATE OF LEASE TERM: August 1, 1985

EXPIRATION DATE OF LEASE TERM: July 31, 1990

BASE RENT: (Subject to Adjustments as hereinafter provided) :

\$60,465 for each of the first five (5) years of the Lease Term, (\$15.00 per square foot per annum) payable in installments of \$5,038.75 each calendar month thereof starting on the Commencement Date. Base Rent for the first twelve calendar months of the Lease Term (August, 1985 through July, 1986) shall be abated by Landlord; provided, however, that, except for aid twelve month Base Rent abatement, Tenant shall be required to pay to Landlord any and all other amounts which Tenant is obligated to pay to Landlord under the terms of this Lease including amounts accrued and/or due and owing during the first twelve months of the Lease Term.

ELECTRICITY ALLOCATION: In addition to the Base Rent, is the amount of \$1.28 per square foot per annum (\$429.97 per month), which Landlord has allocated for furnishing lighting and incidental electricity to the Demised Premises pursuant to the provisions of Section 3(b) hereof.

TENANT'S PROPORTION (for purposes of Section 2): 2.815% (it being understood that the Rentable Area of the Building is 143,197 square feet and the Rentable Area of the Demised Premises is 4031 square feet.

SECURITY DEPOSIT: See paragraph 23

BROKER(S) & ADDRESS(ES):

Frain, Camins & Swartchild  
179 West Washington  
Suite 505  
Chicago, Illinois 60602

Each reference in this Lease to any of the Basic Lease Provisions set forth above shall be deemed and construed to incorporate all of the terms provided under such Basic Lease Provision.

The following exhibits attached to this Lease are incorporated in this Lease by this reference and are to be construed as a part of this Lease to the same extent as if set out in full herein:

EXHIBIT A - Plan of Demised Premises  
EXHIBIT B - Legal Description of Real Property

1. LEASE OF PREMISES: BASE RENT. Landlord hereby leases to Tenant, and Tenant accepts the Demised Premises for the Lease Term, unless sooner general offices and no other purpose, subject to the agreements herein contained. Tenant shall pay the Base Rent to Landlord at its address set forth above, in equal monthly installments in advance on or before the first day of each month of the Lease Term, except as hereinabove provided. All such Rent shall be paid without any set off, counterclaim or deduction whatsoever. Unpaid Rent shall bear interest at the rate set forth in Section 24(f) from the date due until paid. Time is of the essence of this Lease. Tenant agrees to do and perform each and every covenant, agreement and obligation to be performed by Tenant hereunder. If the Lease Term terminates other than on the last day of any calendar month, the Base Rent for such month shall be appropriately prorated on a per diem bases.
2. BASE RENT ADJUSTMENT. The Base Rent shall be adjusted ("Rent Adjustment") in accordance with the provisions of this Section 2.
  - A. "Rentable Area of the Demised Premises", as used herein, shall be computed by measuring from the inside edge of the exterior glass walls to the office side of corridors and/or other permanent partitions, and to the center of partitions that separate the Demised Premises from adjoining rentable areas and shall include a proportionate share of lobby, public corridors, public toilets, vending areas, air conditioning rooms, fan rooms, janitors' closets, electrical closets and telephone closets on each floor, but shall not include stairs, elevator shafts, flues, stacks, pipe shafts and vertical ducts with their enclosing walls. "Rentable Area of the Building", as used herein, shall be the sum of rentable areas on all office floors. The rentable area of each floor shall be computed by measuring to the inside finish of exterior glass walls, and shall include all the area within the exterior glass walls, but not including stairs (except for stairs specially designed for the use of a particular tenant), elevator shafts, flues, stacks, pipe shafts and vertical ducts with their enclosing walls. In computing rentable area, no deduction shall be made for columns and projections necessary to the Building.
  - B. "Base Year", as used herein, shall be the twelve-month period commencing January 1st, 1985 and ending on December 31st, 1985, and "Comparison Year", as used herein, shall be those respective twelve-month periods commencing January 1st, 1986, and each successive corresponding twelve-month period thereafter which commences during the term of this Lease.
  - C. (1) In the event that the amount of taxes, as defined in this Section 2.C. ("Taxes"), attributable to any year of the Lease Term, shall be greater than the amount of Taxes attributable to the Base Year, then Tenant shall pay to Landlord, as additional Rent, an amount equal to Tenant's proportion of such increase. The amount of Taxes attributable to the Base Year and to subsequent years shall be the amount payable during any such year, even though the assessment for such Taxes may be for a different year.

(2) The term "Taxes" shall mean real estate taxes, assessments, sewer rents, rates and charges, transit taxes, taxes based upon the receipt of rent, any other federal, state or local governmental charge, general, special, ordinary or extraordinary (but not including income or franchise taxes or any other taxes imposed upon or measured by the Landlord's income or profits, unless the same shall be imposed in lieu of real estate taxes), which may now or hereafter be levied or assessed against the land owned by Landlord upon which the Building stands and upon the Building, and related parking and other areas, hereinafter collectively known as "Real Property" and legally described on Exhibit "B". In case of special Taxes or assessments which may be payable in installments, only the amount of each installment paid during a year shall be included in Taxes for that year. Taxes shall also include any personal property taxes (attributable to the year in which paid) imposed upon the furniture, fixtures, machinery, equipment, apparatus, systems and appurtenances used in connection with the Real Property for the operation thereof. In the event that the Real Property is not assessed as fully improved for the Base Year or for any subsequent year, then for the purposes of this Section 2, the Taxes payable in each such year shall be adjusted to the Taxes for which would have been payable in each such year if the assessment of the Real Property had been made on a fully improved basis.

(3) If the tax year for real estate taxes shall be changed by the applicable governmental authority resulting in the payment by the Landlord in one year of Taxes which relate to more than one year, then notwithstanding anything to the contrary contained in this Lease, for purposes determining the Base Year Taxes for such year, such amount of Taxes paid shall be adjusted to an amount which is equivalent to a one-year payment of Taxes.

D. (1) In the event that the amount of Expenses, as defined in Section 2.D.(2), the attributable to any year of the Lease Term shall be greater than the amount of Expenses attributable to the Base Year, Tenant shall pay to the Landlord as additional rent an amount equal to Tenant's proportion ("Tenant's Proportion") of such increase.

(2) For the purpose of this Section 2.D., the term "Expenses" shall mean and include those expenses paid or incurred by the Landlord for maintaining, operating and repairing the Real Property and the personal property used in conjunction herewith (hereinafter collectively known as "Project"), the cost of electricity, steam, water, fuel, heating, lighting, snow removal, striping and maintenance of the parking lot, landscaping, air-conditioning, window cleaning, janitorial service, insurance, including, but not limited to, fire, extended coverage, in workmen's compensation, elevator, or any other insurance carried in good faith by the Landlord and applicable to the Project, painting, uniforms, customary management fees, supplies, sundries, sales or use taxes on supplies or services, costs of wages and salaries of all persons engaged in the operation, maintenance and repair of the Project, and so-called fringe benefits, including social security



taxes, unemployment insurance taxes, costs for providing coverage for disability benefits, costs of any pensions, hospitalization, welfare or retirement plans, or any other similar or like expenses incurred under the provisions of any collective bargaining agreement, or any other costs or expenses which the Landlord pays or incurs to provide benefits for employees so engaged in the operation, maintenance and repair of the Project, the charges for any independent contractor who, under the contract with the Landlord or its representatives, does any of the work of operating, maintaining or repairing of the Project, current amortization of capital improvements made after completion of construction of the Building which are reasonably necessary for the operation and maintenance of the Building, legal and accounting expenses, including but not limited to, such expenses as relate to seeking or obtaining reductions in and refunds of real estate taxes, or any other expense or charge, whether or not hereinbefore mentioned, which are in accordance with generally accepted accounting and management principles, would be considered as an expense of maintaining, operating or repairing the Project. If the Building is not fully rented during all or portion of the year, Base or subsequent, then Landlord shall elect to make an appropriate adjustment of the Expenses for such year employing sound accounting and management principles, to determine the amount of expenses that would have been paid or incurred by the Landlord had the Building been fully rented, and the amount so determined shall be deemed to have been the amount of Expenses for such year. If any Project expense, though paid in one year, relates to more than one year, such expenses shall be proportionately allocated among such related years. The term "Expenses" shall not include (x) the cost of alterations to the Demised Premises; and (y) depreciation, interest and principal payments on mortgages and other debt costs, if any, real estate broker's leasing commissions or compensation, and any cost or expenditure or portion thereof for which Landlord has been reimbursed, whether by insurance proceeds or otherwise.

E. (1) In the event that the Consumer Price Index, as defined in Section 2.E.(2), for January 1st of the Base Year, shall be less than the Consumer Price Index for January 1st of any succeeding Comparison Year during the Lease Term, then Tenant shall pay to Landlord, as additional rent, Thirty-Five (35%) Percent of the annual Base Rent due during the Lease Term multiplied by the percentage of increase by which the Consumer Price Index in such succeeding Comparison Year(s) exceeds the Consumer Price Index for the Base Year (not in excess of 2-1/2% of the Base Rate per annum of the Demised Premises in any one year).

(2) For the purpose of this Section 2.E., the term "Consumer Price Index" means the Consumer Price Index for City of Chicago, All Items (Base Year 1967) - Urban Wage Earners & Clerical Workers, of the United States Bureau of Labor Statistics.

(3) If the manner in which such Consumer Price Index is determined by the Bureau of Labor Statistics shall be substantially revised, an adjustment shall be

made in such revised index, which would produce results equivalent, as nearly as possible, to those which would have been obtained if the Consumer Price Index had not been so revised.

(4) If the Consumer Price Index shall become unavailable to the public because publication is discontinued or otherwise, Landlord will substitute therefor, a comparable index based upon changes in the cost of living or purchasing power of the consumer dollar published by any other governmental agency or, if no such index shall be available, then a comparable index published by a major bank or other financial institution or by a university or a recognized financial publication.

F. Prior to effecting any Rent Adjustments, Landlord will furnish to Tenant, a statement showing the following:

(1) The Expenses, Taxes and Consumer Price Index for the immediately preceding Comparison Year and Landlord's reasonable estimates, forecasts or projections (the "Projections") of the Expenses, Taxes and Consumer Price Index for the then current Comparison Year;

(2) The Expenses, Taxes and Consumer Price Index for the Base Year;

(3) (a) the amount of Rent Adjustment paid to the Landlord during the immediately preceding Comparison Year;

(b) to the extent that the Landlord has actual knowledge at the time that it prepares the statement, the amount of the Rent Adjustment that should have been paid to the Landlord during the immediately preceding Comparison Year based upon the actual amounts of Expenses; Taxes and Consumer Price Index for said Comparison Year; and

(c) the amount set forth in paragraph (b) above minus the amount set forth in paragraph (a) above (the "Correction Amount").

(4) The amount of Rent Adjustment to be paid during the then current year based upon the Projections and the Correction Amount.

Said amount of Rent Adjustment to be paid during said year shall be stated to show:

(5) The Correction Amount, which if a positive number, shall be paid by Tenant to Landlord in a lump sum within thirty (30) days after the Landlord shall have submitted the statement, and, if a negative number, shall be credited to Tenant's account and reduce the amount of rent subsequently due and owing from Tenant to Landlord under this Lease; and

(6) the amount for the then current Comparison Year (based upon the Projections) to be paid in equal monthly installments on the first day of each month during said Comparison Year in the same manner as provided for the Base Rent.

- G. The Tenant or its representative shall have the right to examine the Landlord's books and records with respect to the items in the foregoing statement of Expenses and Taxes during normal business hours at any time within ten (10) days following the furnishing by the Landlord to the Tenant of such statement. Unless the Tenant shall take written exception to any item within thirty (30) days after the furnishing of the foregoing statement, such statement shall be considered as final and accepted by the Tenant.
- H. If the first year of the Lease Term commences on any day other than the first day of January, or if the last year of the term of this Lease ends on any day other than the last day of December, any payment due to the Landlord by reason of any increase in Taxes, Expenses or Consumer Price Index shall be prorated, and the Tenant shall pay any amount due to the Landlord within thirty (30) days after being billed therefor. This covenant shall survive the expiration or termination of this Lease.

3. SERVICES. The Landlord, as long as the Tenant is not in default under any of the covenants of this Lease, shall furnish:

- A. Heating and air-conditioning when necessary for normal comfort, as per Section 12 of Building Standards, in the Demised Premises from 8:00 A.M. to 6:00 P.M., Monday through Friday of each week, and from 8:00 A.M. to 1:00 P.M. on Saturdays (exclusive of national holidays) except as may be otherwise required by governmental authority. Tenant will be charged for all heating and air-conditioning requested and furnished prior to or following these hours at reasonable rates to be established by the Landlord.
- B. Electric wiring system in Premises connected with the source of alternating current. Tenant shall pay the Landlord for the electricity used by Tenant, including electricity used during janitor service, alteration or repairs in and to the Premises in accordance with the Electricity Allocation set forth in the Basic Lease Provisions on page 3 of this Lease. The Electricity Allocation is based on a five (5) day week electrical lighting use; any additional use of lighting, appliances and/or office equipment will be billed at a rate to be determined by the Commonwealth Edison Company. If in the judgment of Landlord, the requirement for electrical services for the Premises necessitates modification of the electric service supply system in and to Premises or Building, Landlord reserves the right to perform such modification and the cost thereof shall be paid by Tenant to Landlord at the time of completion of such modification. Any increased expense in maintaining the system resulting, in Landlord's opinion, from such modification and any increased expense in operating the system resulting

from such modification shall be paid for by Tenant. Tenant shall be responsible for performing all such maintenance unless, in the exercise of its right thereby expressly reserved, Landlord elects to perform part or all of such maintenance. Landlord shall not be liable for the stoppage or interruption of any services or utilities caused by riots, civil commotion, necessary repairs, strikes, lockouts, labor controversies, accidents, inability to obtain fuel or supplies or other causes or conditions beyond Landlord's control.

- C. Cold water in common with other tenants from Village of Lombard mains for drinking, lavatory and toilet purposes drawn through fixtures installed with Landlord's prior written consent, and hot water in common with other tenants for lavatory purposes from regular Building supply. Tenant shall pay Landlord as additional rent at rates fixed by Landlord (not to exceed rates for like uses charged by the Village of Lombard) for water furnished for any other purpose. Tenant shall not waste or permit the waste of water. If Tenant fails to pay within five (5) days after request by Landlord, Landlord's charges for water, then Landlord, upon not less than ten (10) days' notice, may, in addition to any other remedy provided in this Lease, discontinue furnishing that service and no discontinuance shall be deemed an eviction or disturbance of Tenant's use of the Demised Premises or render Landlord liable for damages or relieve Tenant from any obligation.
- D. Janitor service and customary cleaning in and about the Demised Premises, Saturdays, Sundays and holidays excepted. Tenant shall not provide any janitor services or cleaning without the Landlord's written consent and then only subject to supervision by Landlord and at Tenant's sole responsibility, and by janitor or cleaning contractor or employees at all times satisfactory to Landlord.
- E. Passenger elevator service in common with Landlord and other tenants, Monday through Friday from 8:00 A.M. to 6:00 P.M., Saturdays to 1:00 P.M., holidays excepted. Such normal elevator service, if furnished at other times shall be optional with Landlord and shall never be deemed a continuing obligation. Landlord, however, shall provide limited passenger elevator service daily at all times such normal passenger service is not furnished. Operatorless automatic elevator service shall be deemed "elevator service" within the meaning of this paragraph.
- F. Tenant shall make no alteration or addition to the electric equipment and/or appliances without the prior written consent of the Landlord in each instance. Landlord will supply and install, at Tenant's expense and upon Tenant's request, all lamps, bulbs, ballast and starters used in the Demised Premises after initial installation thereof. Tenant covenants and agrees that at all times its use of electric current shall never exceed the capacity of the feeders to the Building or the risers or wiring installation.

- G. Window washing of all windows in the Demised Premised, both inside and out, at such times as shall be required in the Landlord's reasonable judgment.
- H. The Landlord does not warrant that any of the services above-mentioned or the performance of any other duty or obligation by Landlord under this Lease will be free from interruptions caused by war, insurrection, civil commotion, riots, acts of God or the enemy governmental action, repairs, renewals, improvements, alterations, strikes, lockouts, picketing, whether legal or illegal, accidents, inability of the Landlord to obtain fuel or supplies or any other cause or causes beyond the reasonable control of the Landlord. Any such interruption of service shall never be deemed an eviction or disturbance of the Tenant's use and possession of the Demised Premises or any part thereof, or render the Landlord, liable to the Tenant for damages, or relieve the Tenant from performance of the Tenant's obligations under this Lease.
4. **CONDITIONS OF PREMISES.** The Tenant's execution of this Lease shall be conclusive evidence as against the Tenant that the Tenant has inspected the Demised Premises and found that the Demised Premises are in good order and satisfactory condition and that the Tenant will accept the Premises "as is" except for Landlord's obligation to paint and clean carpet set forth below. No promise of the Landlord to alter, remodel, decorate, clean or improve the Demised Premises or the Building and no representation respecting the condition of the Demised Premises or the Building have been made by the Landlord to the Tenant, unless the same is contained herein, or made a part hereof, or in a written document signed by the Landlord or its property. Landlord shall paint the Demised Premises and clean the carpet in the Demised Premises prior to Tenant taking possession thereof.
5. **FAILURE TO GIVE POSSESSION.** If the Landlord shall be unable to give possession of the Demised Premises on the Commencement Date of the Lease Term by reason of any of the following: (i) the Building has not been sufficiently completed to make the Demised Premises ready for occupancy, (ii) the Landlord has not cleaned the carpet in or painted the Demised Premises, (iii) the Landlord is unable to give possession of the Demised Premises by reason of the holding over or retention of possession of any tenant, tenants or occupants, or (iv) for any other reason, Landlord shall not be subject to any liability for the failure to give possession on said date. Under such circumstances, the rent reserved and covenanted to be paid herein shall be extended until the date the Demised Premises are available for occupancy by Tenant, and no such failure to give possession on the Commencement Date shall affect the validity of this Lease or the obligation of the Tenant hereunder; provided, however, that the Expiration Date of the Lease Term shall be extended for the same number of days. If the Demised Premises are ready for occupancy prior to the Commencement Date and Tenant occupies the Demised Premises prior to said date, Tenant shall pay rent for the period of occupancy prior to the Commencement Date at the proportionate rental to be Rent reserved herein. The Demised Premises shall not be deemed to be unready for Tenant's occupancy or incomplete if only

minor or insubstantial details of construction, decoration or mechanical adjustments remain to be done in the Demised Premises or any part thereof, or if the delay in the availability of the Demised Premises for occupancy shall be due to special work, changes, alterations or additions required or made by the Tenant in the layout or finish of the Demised Premises or any part thereof or shall be caused in whole or in part by Tenant through the day of Tenant in submitting plans, supplying information, approving plans, specifications or estimates, giving authorizations or otherwise or shall be caused in whole or in part by delay and/or default on the part of the Tenant and/or its subtenant or subtenants. In the event of any dispute as to whether the Demised Premises are ready for Tenant's occupancy, the decision of the Landlord's architect shall be final and binding on the parties.

6. USE OF PREMISES. The Tenant shall occupy and use the Demised Premises during the Lease Term for the purpose above specified and none other and:

- A. the Tenant will not make or permit to be made any use of the Demised Premises which, directly or indirectly, is forbidden by public law, ordinance or governmental regulation or which may be dangerous to persons or property or which may invalidate or increase the premium cost of any policy of insurance carried on the Building or covering its operations; the Tenant shall not do, or permit to be done, any act of thing upon the Demised Premises which will conflict with fire insurance policies covering the Building. The Tenant, at its sole expense, shall comply with all rules, regulations or requirements of the Illinois Inspection and Rating Bureau, or any other similar body, and shall not do, or permit anything to be done, upon said Demised Premises, or bring or keep anything thereof in violation of rules, regulations or requirements of the Fire Department, Illinois Inspection and Rating Bureau, Fire Insurance Rating Organization or other authority having jurisdiction and then only in such quantity and manner of storage as not to increase the rate of fire insurance applicable to the Building;
- B. any sign installed in the Demised Premises shall be installed by Landlord at Tenant's cost and in such manner, character and style as Landlord may approve in writing;
- C. the Tenant shall not advertise the business, profession or activities of the Tenant conducted in the Building in any manner which violates the letter of spirit of any code of ethics adopted by any recognized association or organization pertaining to such business, profession or activities, and shall not use the name of the Building for any purpose other than that of business address of the Tenant, and shall never use any pictures or likeness of the Building in any circulars, notices, advertisements or correspondence without the Landlord's express consent in writing;

- D. the Tenant shall not obstruct, or use for storage, or for any purpose other than ingress and egress, the sidewalks, entrances, passages, courts, corridors, vestibules, halls, elevators and stairways of the Building;
- E. no bicycle or other vehicle and no dog or other animal or bird shall be brought or permitted to be in the Building or any part thereof;
- F. the Tenant shall not make or permit any noise or odor that is objectionable to other occupants of the Building to emanate from the Demised Premises, and shall not create or maintain a nuisance thereon, and shall not disturb, solicit or canvass any occupant of the Building, and shall not do any act tending to injure the reputation of the Building;
- G. the Tenant shall not install any musical instrument or equipment in the Building, or any antennae, aerial wires or other equipment inside or outside the Building, without in each and every instance, prior approval in writing by the Landlord. The use thereof, if permitted, shall be subject to control by the Landlord to the end that others shall not be disturbed or annoyed;
- H. the Tenant shall not waste water by tying, wedging, or otherwise fastening open any faucet;
- I. no additional locks or similar devices shall be attached to any door. No keys for any door other than those provided by the Landlord shall be made. If more than two keys for one lock are desired by the Tenant, the Landlord may provide the same upon payment by the Tenant. Upon termination of this Lease, or of the Tenant's possession, the Tenant shall surrender all keys of the Demised Premises and shall make known to the Landlord the explanation of all combination locks on safes, cabinets and vaults;
- J. the Tenant shall be responsible for the locking of doors in and to the Demised Premises. Any damage resulting from neglect of this clause shall be paid for by the Tenant;
- K. if the Tenant desires telegraphic, telephonic, burglar alarm or signal service, the Landlord will, upon request, direct where and how connections and all wiring for such service shall be introduced and run. Without such direction, no boring, cutting or installation of wires or cables is permitted;
- L. shades, draperies and other forms of inside window coverings must be of such shape, color and material as approved by the Landlord;
- M. the Tenant shall not overload any floor. Safes, furniture and all large articles shall be brought through the Building and into the Demised Premises at such times and in such times and manner as the Landlord shall direct and at the Tenant's sole risk

and responsibility. The Tenant shall list all furniture, equipment and similar articles to be removed from the Building, and the list must be approved at the Office of the Building or by a designated person before building employees will permit any articles to be removed;

- N. unless the Landlord gives advance written consent in each and every instance, the Tenant shall not install or operate any steam or internal combustion engine, boiler, machinery, refrigeration or heating device or air-conditioning apparatus in or about the Demised Premises, or carry on any mechanical business therein, or use the Demised Premises for housing accommodations or lodging or sleeping purposes, or do any cooking therein or install or permit the installation of any vending machines, or use any illumination other than electric light, or use or permit to be brought into the Building any inflammable oils or fluids, such as gasoline, kerosene, naphtha and benzine, or any explosive or other articles hazardous to persons or property;
- O. the Tenant shall not place or allow anything to be placed against or near the glass partitions or doors of the Demised Premises which may diminish the light in , or be unsightly from, public halls or corridors;
- P. the Tenant shall not install in the Demised Premises any equipment which uses a substantial amount of electricity without advance written consent of the Landlord. The Tenant shall be ascertain from the Landlord, the maximum amount of electrical current which can safely be used in the Demised Premises, taking into account the capacity of the electric wiring in the Building and the Demised Premises and the needs of other tenants in the Building and shall not use more than such safe capacity. The Landlord's consent to the installation of the electric equipment shall not relieve the Tenant from the obligation not to use more electricity than such safe capacity; and
- Q. in addition to all other liabilities for breach of any covenant of this Section, the Tenant shall pay to the Landlord all damages caused by such breach and shall also pay to the Landlord, as additional rent, any amount equal to any increase in insurance premium or premiums caused by such breach. Any violation of this Section 6 may be restrained by injunction. The Tenant shall be liable to the Landlord for all damages resulting from violation of any of the provisions of this Section 6. The Landlord shall have the right to make such reasonable rules and regulations as the Landlord or its agent may from time to time to adopt on such reasonable notice to be given as the Landlord may elect. Nothing in this Lease shall be construed to impose upon the Landlord any duty or obligation to enforce provisions of this Section 6 or any rules and regulations hereafter adopted, or the terms, covenants or conditions of any other lease as against any other tenant, and the Landlord shall not be liable to the Tenant for violation of the same by any other tenant, its servants, employees, agents, visitors or licensees.



7. CARE AND MAINTENANCE. Subject to the provisions of Section 10, the Tenant shall, at the Tenant's own expense, keep the Demised Premises in good order, condition and repair during the Lease Term. If the Tenant does not make repairs promptly and adequately, the Landlord may, but need not, make repairs, and the Tenant shall promptly pay the cost thereof. The Tenant shall pay the Landlord for overtime and for any other expense incurred in the event repairs, alterations, decorating or other work in the Demised Premises are not made during ordinary business hours at the Tenant's request.
8. ALTERATIONS. The Tenant shall not do any painting or decorating, or erect any partitions, make any alterations in or additions to the Demised Premises or do any nailing, boring or screwing into the ceilings, walls or floors, without the Landlord's prior written consent in each and every instance. Unless otherwise agreed by the Landlord and Tenant in writing, all such work shall be performed either by or under the direction of the Landlord, but at the cost of Tenant. The Landlord's decision to refuse such consent shall be conclusive. If the Landlord consents to such alterations or additions, before commencement of the work or delivery of any materials onto the Demised Premises or into the Building, the Tenant shall furnish the Landlord for approval:
- A. plans and specifications;
  - B. names and addresses of contractors;
  - C. copies of contracts;
  - D. necessary permits; and
  - E. indemnification in form and amount satisfactory to Landlord and certificate of insurance from all contractors performing labor or furnishing materials, insuring against any and all claims, costs, damages, liabilities and expenses which may arise in connection with the alterations or additions.

Whether the Tenant furnishes the Landlord the foregoing or not, the Tenant hereby agrees to hold the Landlord, and its beneficiaries, and their respective agents and employees harmless from any and all liabilities of every kind and description which may arise out of or be connected in any way with said alterations or additions. With respect to any mechanic's lien filed against the Demised Premises, or the Building, for work claimed to have been furnished to the Tenant, Tenant shall either discharge such lien record within ten (10) days thereafter, at the Tenant's expense, or shall post a surety bond or other security with Landlord in form and amount reasonably satisfactory to Landlord. Upon completing any alterations or additions, the Tenant shall furnish the Landlord with contractor's affidavits and full and final waivers of lien and receipted bills covering all labor and materials expended and used. All alterations and additions shall comply with all insurance requirements and with all

ordinances and regulations of The Village of Lombard or any department or agency thereof. All alterations and additions shall be constructed in a good and workmanlike manner and good grades of materials shall be used.

All additions, decorations, fixtures, hardware, non-trade fixtures and all improvements, temporary or permanent, in or upon the Demised Premises, whether placed there by the Tenant or by the Landlord shall, unless the Landlord request their removal, become the Landlord's property and shall remain upon the Demised Premises at the termination of this Lease by lapse of time or otherwise without compensation or allowance or credit to the Tenant. If, upon the Landlord's request, the Tenant does not remove said additions, decorations, fixtures, hardware, non-trade fixtures and improvement, the Landlord may remove the same and the Tenant shall pay the cost of such removal to the Landlord upon demand.

9. ACCESS TO PREMISES. The Tenant shall permit the landlord to erect, use and maintain pipes, ducts, wiring and conduits in and through the Demised Premises. The Landlord or Landlord's agents shall have the right to enter upon the Demised Premises, to inspect the same, to perform janitorial and cleaning services and to make such decorations, repairs, alterations, improvements or additions to the Demised Premises or the Building as the Landlord may deem necessary or desirable, and the Landlord shall be allowed to take all material into and upon said Demised Premises that may be required therefor without the same constituting an eviction of the Tenant in whole or in part and the rent reserved shall in no wise abate (except as provided in Section 10) while said decorations, repairs, alterations, improvements or additions are being made, by reason of loss or interruption of business of the Tenant, or otherwise. If Tenant shall not be personally present to open and permit an entry into said Demised Premises, at any time, when for any reason any entry therein shall be necessary or permissible, the Landlord or Landlord's agents may enter the same by master key, or may forcibly enter the same, without rendering the Landlord or such agents liable therefor (if during such entry Landlord or Landlord's agents shall accord reasonable care to Tenant's property), and without in any manner affecting the obligations and covenants of this Lease. Nothing herein contained, however, shall be deemed or construed to impose upon the Landlord any obligations, responsibility or liability whatsoever, for the care, supervision or repair of the Building or any part thereof, other than as herein provided. The Landlord shall also have the right at any time, without the same constituting any actual or constructive eviction and without incurring any liability to the Tenant therefor, to change the arrangement and/or location of entrances or passageways, doors and doorways, and corridors, elevators, stairs, toilets, or other public parts of the Building, and to close entrances, doors, corridors, elevators or other facilities. The Landlord shall not be liable to the Tenant for any expense, injury, loss or damage resulting from work done in or upon, or the use of, any adjacent or nearby building, land, street or alley.

10. UNFITNESS. If the Demised Premises or the Building are made unfit by fire or other casualty, Landlord may elect:
- A. to terminate this Lease as of the date of the fire or casualty by notice to the Tenant within sixty (60) days after that date, or
  - B. to proceed with all due diligence to repair, restore, or rehabilitate the Building or the Demised Premises at Landlord's expense, in which latter event this Lease shall not terminate.

In the event this Lease is not terminated pursuant to this provision, rent shall abate on a per diem basis during the period of unfitness in the event of the termination of this Lease pursuant to this Section, rent shall be apportioned on a per diem basis and paid to the date of the fire or other casualty. In the event the Demised Premises are partially damaged by fire, or other casualty, but are not made unfit, then Landlord shall, except during the last year of the Lease Term hereof, proceed with all due diligence to repair and restore the Demised Premises and the rent shall abate in proportion to the non-usability of the Demised Premises during the period of unfitness. If a portion of the Demised Premises are made unfit as aforesaid during the last year of the term hereof, Landlord shall have the right to terminate this Lease as of the date of the fire or other casualty by giving written notice thereof to Tenant within thirty (30) days after the fire or other casualty, in which event the Rent shall be apportioned on a per diem basis and paid to the date of such fire or other casualty.

11. EMINENT DOMAIN. If the Building, or a substantial part of the Demised Premises, shall be lawfully taken or condemned for any public or quasi-public use or purpose, the term of this Lease shall end upon, and not before, the date of the taking of possession by the condemning authority, and without apportionment of the award. Tenant hereby assigns to the Landlord Tenant's interest in such award, if any. Current Rent shall be apportioned as of the date of such termination. If any part of the Building, other than the Demised Premises or not constituting a substantial part of the Demised Premises, shall be so taken or condemned the Landlord shall have the right to cancel this Lease upon not less than ninety (90) days' notice prior to the date of cancellation designated in the notice. No money or other consideration shall be payable by the Landlord to the Tenant for the right of cancellation, and the Tenant shall have no right to share in the condemnation award or in any judgment for damages caused by the change of grade.
12. SUBROGATION. The parties hereto agree to use good faith efforts to have any and all fire, extended coverage or any and all material damage insurance which may be carried endorsed with the following subrogation clause: "This insurance shall not be invalidated should the insured waive in writing prior to a loss any or all right of recovery against any party for loss occurring to the property described herein.", and each party hereto hereby waives all claims for recovery from the other party for any

loss or damage to any of its property insured under valid and collectible insurance policies to the extent of any recovery collectible under any insurance, subject to the limitation that this waiver shall apply only when it is either permitted or, by the use of such good faith efforts, could have been so permitted by the applicable policy of insurance.

13. ASSIGNMENT AND SUBLETTING. Tenant shall not, without the prior written consent of Landlord, (i) assign this Lease or any interest hereunder; (ii) permit any assignment of this Lease by operation of law; (iii) sublet the Demised Premises or any part thereof; (iv) permit the use of the Demised Premises by any parties other than Tenant, its agents and employees. Tenant shall give Landlord written notice of any proposed assignment of subleasing, which notice shall contain the proposed principal terms thereof, and upon receipt of such notice, Landlord shall have the option to cancel this Lease in the case of a proposed subleasing of all of the Demised Premises, or if Tenant proposes to sublease less than all of the so subleased, in which latter event, the Base Rent and Rent Adjustments shall be adjusted on a pro-rata square foot of rentable area basis. If Landlord wishes to exercise such option to cancel, Landlord shall, within fifteen (15) days after Landlord's receipt of such notice from Tenant, send to Tenant a notice so stating and, in such notice, Landlord shall specify the date as of which such cancellation is effective, which date shall be not less than thirty (30) and not more than ninety (90) days after the date on which Landlord sends such notice. If Landlord does not elect to cancel, as aforesaid, Landlord agrees not to withhold unreasonably its consent to any proposed assignment or subletting if the proposed assignee or sublessee (in Landlord's judgment) has a financial condition comparable to or better than that of Tenant, has a good reputation in the business community and agrees to use the Demised Premises for purposes satisfactory to Landlord. No assignment of this Lease or subletting of the Demised Premises shall be effective unless the assignee or subtenant shall execute an appropriate instrument assuming all of the obligations of Tenant hereunder and unless Tenant acknowledges therein its continued liability under this Lease. Any approved sublease shall be expressly subject to the terms and conditions of this Lease, and Tenant shall pay Landlord on the first day of each month during the term of the sublease, the excess of all rent and other consideration due from the subtenant for such month over that portion of the Adjusted Monthly Base Rent due under this Lease for said month, which is allocable on a square footage basis to the space sublet. In the event of any approved sublease or assignment, Tenant shall not be released or discharged from any liability, whether past, present or future, under this Lease, including any renewal term of this Lease.
14. WAIVER OF CLAIMS - INDEMNIFICATION. Tenant agrees that, to the extent not prohibited by law, Landlord and its beneficiaries, officers, agents, servants and employees shall not be liable for any damage either to person or property or resulting from the loss of use thereof sustained by Tenant or by other persons due to the Building or any part thereof or any appurtenances thereof becoming out of repair, or due to the happening of appurtenances thereof becoming out of repair, or due to the

happening of any accident or event in or about the Building, or due to any act or neglect of any tenant or occupant of the Building or of any other person. This provision shall apply particularly (but not exclusively) to damage caused by gas, electricity, snow, frost, steam, sewage, sewer gas or odors, fire, water or by the bursting or leaking of pipes, faucets, sprinklers and plumbing fixtures, and shall apply without distinction as to the person whose act or neglect was responsible for the damage and whether the damage was due to any of the causes specifically enumerated above or to some other cause of an entirely different kind. Tenant further agrees that all personal property upon the Demised Premises or upon loading docks, receiving and holding areas, or freight elevators of the Building shall be at the risk of Tenant only, and that Landlord shall not be liable for any loss or damage thereto or theft thereof.

Without limitation of any other provisions hereof, Tenant agrees to defend, protect, indemnify and save harmless Landlord, its beneficiaries, officers, agents, servants and employees of and from all liability to third parties arising out of the acts of Tenant and its servants, agents, employees, contractors, suppliers, workmen or invitees.

Tenant agrees to indemnify and save the Landlord, its beneficiaries and their respective agents and employees harmless against any and all claims, demands, costs and expenses, including reasonable attorneys' fees for the defense thereof arising from Tenant's occupancy of the Demised Premises or from any breach or default on the part of the Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to the terms of this Lease, or from any act or negligence of Tenant, its agents, servants, employees or invitees, in or about the Demised Premises. In case of any action or proceedings brought against the Landlord, its beneficiaries or their respective agents or employees by reason of any such claim, upon notice from Landlord, Tenant covenants to defend such action of proceeding by counsel reasonably satisfactory to Landlord.

15. MORTGAGE-GROUND LEASE. Landlord may execute and deliver a first mortgage or first trust deed in the nature of a mortgage, both sometimes hereinafter referred to as "Mortgage", against the Building, the Real Property or any interest therein, and may sell and lease-back the underlying land on which the Building is situated. If requested by the first mortgagee or trustee or by the lessor of any ground or underlying lease (ground lessor), Tenant will either subordinate its interest in this Lease to said Mortgage, or ground or underlying lease or make such interest superior and will execute such agreement or agreements as may be reasonably required by such mortgagee, trustee or ground lessor.

IT IS FURTHER AGREED:

- A. Should any Mortgage affecting the Building of the Real Property be foreclosed or if any ground or underlying lease be terminated:

- (1) The liability of the mortgagee, trustee or purchaser at such foreclosure sale or the liability of a subsequent owner designated as landlord under this Lease shall exist only so long as such trustee, mortgagee, purchaser or owner is the owner of the Building or Real Property and such liability shall not continue or survive after further transfer of ownership;
- (2) Upon request of the mortgagee or trustee, Tenant will attorn, as Tenant under this Lease, to the purchaser at any foreclosure sale thereunder, or if any ground or underlying lease be terminated for any reason, Tenant will attorn as Tenant under this Lease to the ground lessor under the ground lease and will execute such instruments as may be necessary or appropriate to evidence such attornment; and
- (3) Tenant's right to possession of the Demised Premises shall not be disturbed provided that Tenant is not in default in its duties and obligations under this Lease.

B. This Lease may not be modified or amended so as to reduce the rent or shorten the Lease Term, or so as to adversely affect in any other respect to any material extent the rights of the Landlord, nor shall this Lease be canceled or surrendered, without the prior written consent, in each instance, of the ground lessor or mortgagee.

16. CERTAIN RIGHTS RESERVED TO THE LANDLORD. The Landlord reserves and may exercise the following rights without affecting Tenant's obligations hereunder:

- A. to change the name or street address of the Building;
- B. to install and maintain a sign or signs on the exterior of the Building;
- C. to have access for the Landlord and the other tenants of the Building to any mail chutes located on the Demised Premises according to the rules of the United States Post Office;
- D. to designate all sources furnishing sign painting and lettering, ice, drinking water, towels, coffee cart service and toilet supplies, lamps and bulbs used on the Demised Premises;
- E. during the last six (6) months of the Lease Term or any part thereof, if during or prior to that time, the Tenant vacates the Demised Premises, to decorate, remodel, repair, alter or otherwise/prepare the Demised Premises for reoccupancy;
- F. to retain at all times pass keys to the Demised Premises;
- G. to grant to anyone the exclusive right to conduct any particular business or undertaking in the Building;

- H. to exhibit the Demised Premises to others and to display "For Rent" signs on the Demised Premises;
- I. to close the Building after regular working hours and on the legal holidays subject, however, to Tenant's right to admittance, under such reasonable regulations as Landlord may prescribe from time to time, which may include by way of example, but not of limitation, that persons entering or leaving the Building identify themselves to a watchman by registration or otherwise and that said persons establish their right to enter or leave the Building;
- J. to approve the weight, size and location of safes or other heavy equipment or articles, which articles may be moved in, about, or out of the Building or Demised Premises only at such times and in such manner as Landlord shall direct and in all events, however, at Tenant's sole risk and responsibility;
- K. to take any and all measures, including inspections, repairs, alterations, decorations, additions and improvements to the Demised Premises or the Building, as may be necessary or desirable for the safety, protection or preservation of the Demised Premises or the Building or the Landlord's interests, or as may be necessary or desirable in the operation of the Building.

The Landlord may enter upon the Demised Premises and may exercise any or all of the foregoing rights hereby reserved without being deemed guilty of an eviction or disturbance to the Tenant's use or possession and without being liable in any manner to the Tenant and without abatement of rent or affecting any of the Tenant's obligations hereunder.

- 17. HOLDING OVER. If the Tenant retains possession of the Demised Premises or any part thereof after the termination of the Lease Term or any extension thereof, by lapse of time or otherwise, the Tenant shall pay the Landlord the monthly rent at double the rate payable for the month immediately preceding said holding over (including increases for Expenses and Taxes which Landlord may reasonably estimate) computed on a per-month basis, for each month or part thereof (without reduction for any such partial month) that the Tenant thus remains in possession, and in addition thereto, Tenant shall pay the Landlord all damages, consequential as well as directly sustained by reason of the Tenant's retention of possession. Alternatively, at the election of Landlord expressed in a written notice to the Tenant and not otherwise, such retention of possession shall constitute a renewal of this Lease for one (1) year. The provisions of this paragraph do not exclude the Landlord's rights of re-entry or any other right hereunder.
- 18. LANDLORD'S REMEDIES. All rights and remedies of the Landlord herein enumerated shall be cumulative, and none shall exclude any other right or remedy allowed by law.

- A. If any involuntary action or proceedings under any section or sections of any bankruptcy or debtor relief act in any court or tribunal shall adjudge or declare Tenant insolvent or unable to pay Tenant's debts, or if any voluntary petition or similar proceedings under any section or sections of any bankruptcy or debtor relief act shall be filed by Tenant in any court or tribunal to declare Tenant insolvent or unable to pay Tenant's debts, then any such event shall be deemed to constitute and shall be construed as a repudiation by Tenant of Tenant's obligations hereunder and shall cause this Lease ipso facto to be canceled and terminated, without thereby releasing Tenant; and upon such termination, Landlord shall have the immediate right to re-enter the Demised Premises and to remove all persons and property therefrom and this Lease shall not be treated as an asset of the Tenant's estate and neither the Tenant nor anyone claiming by, through or under Tenant by virtue of any law or any order of any court shall be entitled to the possession of the Demised Premises or to remain in the possession thereof. Upon such termination of this Lease, and notwithstanding any other provisions of this Lease, Landlord shall forthwith be entitled to recover damages in the maximum amount provided by law.
- B. If the Tenant defaults in the payment of Rent, and the Tenant does not cure the default within five (5) days after demand for payment for such rent or if the Tenant defaults in the prompt and full performance of any other provisions of this Lease or of Exhibit C hereto and the Tenant does not cure the default within twenty (20) days after written demand by the Landlord that the default be cured (unless the default involves a hazardous condition, which shall be cured forthwith) or if the leasehold interest of the Tenant be levied upon under execution or be attached by process of law, or if the Tenant makes an assignment for the benefit of creditors or admits its inability to pay its debts, or if a receiver be appointed for any property of the Tenant, or if the Tenant abandons the premises, then and in any such event, the Landlord may, if the Landlord so elects but not otherwise, and with or without notice of such election, and with or without demand whatsoever, either forthwith terminate this Lease and the Tenant's right to possession of the Demised Premises or, without terminating this Lease, forthwith terminate the Tenant's right to possession of the Demised Premises.
- C. Upon any termination of this Lease, whether by lapse of time or otherwise, or upon any termination of the Tenant's right to possession without termination of this Lease, the Tenant shall surrender possession and vacate the premises immediately, and deliver full and free license to enter into and upon the Demised Premises in such event with or without process of law and to repossess the Landlord of the premises as of the Landlord's former estate and to expel or remove the Tenant.
- D. If the Tenant abandons the Demised Premises or otherwise entitles the Landlord so to elect, and the Landlord elects to terminate the Tenant's right to possession



only without termination this Lease, the Landlord may, at the landlord's option, enter into the Demised Premises, remove the Tenant's signs and other evidences of tenancy, and take and hold possession thereof as in Paragraph C. of this Section 18 provided, without such entry and possession terminating this Lease or releasing the Tenant, in whole or in part from the Tenant's obligation to pay the rent hereunder for the full Lease Term. Upon and after entry into possession without termination of this Lease, the Landlord may, but need not, relet the Demised Premises or any part thereof for the account of the Tenant to any person, firm or corporation other than the Tenant for such rent, for such time and upon such terms as the Landlord in the Landlord's sole discretion shall determine, and the Landlord shall not be required to accept any tenant offered by the Tenant or to observe any instructions given by the Tenant about such reletting. In any such case, the Landlord may make repairs, alterations and additions in or to the Demised Premises, and redecorate the same to the extent deemed by the Landlord necessary or desirable, and the Tenant shall, upon demand, pay the cost thereof, together with the Landlord's expenses of the reletting. If the consideration, if any, collected by the Landlord upon such reletting for the Tenant's account is not sufficient to pay monthly the full amount of the rent reserved in this Lease, together with the costs of repairs, alterations, additions, redecorating and the Landlord's expenses, the Tenant shall pay to the Landlord the amount of each monthly deficiency upon demand.

- E. If, upon Tenant's default, Landlord elects to terminate this Lease and Tenant's right to possession of the Demised Premises, Landlord shall be entitled to recover all damages provided at law.
- F. Any and all property which may be removed from the Demised Premises by the Landlord pursuant to the authority of the Lease of law, to which the Tenant is or may be entitled, may be handled, removed or stored by the Landlord at the risk, cost and expense of the Tenant, and the Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. The Tenant shall pay to the Landlord, upon demand, any and all expenses incurred in such removal and all storage charges against such property so long as the same shall be in the Landlord's possession or under the Landlord's control. Any such property of the Tenant not retaken from storage by the Tenant within thirty (30) days after the end of the Lease Term, however terminated, shall be conclusively presumed to have been conveyed by the Tenant to the Landlord under this Lease as a bill of sale without further payment or credited by the Landlord to the Tenant.
- G. The Tenant shall pay upon demand all the Landlord's costs, charges, and expenses, including the fees of counsel, agents and others retained by the Landlord, incurred in enforcing the Tenant's obligation hereunder or incurred by the Landlord in any litigation, negotiation or transaction in which the Tenant causes the Landlord, without the Landlord's fault, to become involved or concerned.

19. **DEFAULT UNDER OTHER LEASE.** If the term of any lease other than this Lease, made by the Tenant for any demised premises in this Building shall be terminated or terminable after the making of this Lease because of any default by the Tenant under such other lease, such fact shall constitute a default under this Lease.
20. **SURRENDER OF POSSESSION.** Upon the expiration or other termination of the Lease Term, Tenant shall quit and surrender to Landlord the Demised Premises, broom clean, in good order and condition, ordinary wear excepted, and Tenant shall remove all of its property. If the Tenant does not remove its property of every kind and description from the Demised Premises prior to the end of the Lease Term, however ended, the Tenant shall be conclusively presumed to have conveyed the same to the Landlord under this Lease as a bill of sale without further payment or credit by the Landlord to the Tenant and the Landlord may remove the same and the Tenant shall pay the cost of such removal to the Landlord upon demand. Tenant's obligation to observe or perform this covenant shall survive the expiration or other termination of the term of this Lease.
21. **NOTICES.** Notices shall be in writing. They shall be effectively served by Landlord upon Tenant: (a) by hand delivery to Tenant, or a representative of Tenant at the Demised Premises, or (b) by forwarding through certified or registered mail, postage prepaid, to Tenant at the Demised Premises, in which case the time of mailing shall be the time of notice.

Notices shall be effectively served by Tenant upon Landlord when addressed to Landlord and served by forwarding through certified or registered mail, postage prepaid, to Landlord at the Building or, if notified of another address by Landlord, at such latter address.

22. **RELOCATION OF TENANT.** Landlord shall have the right, upon thirty (30) days' written notice, to relocate Tenant to another location in the Building at no cost or expense to Tenant and upon the condition that the new premises designated by Landlord shall be substantially as desirable as the Demised Premises with respect to layout and location in the Building and shall not be similar in area than the Demised Premises.
23. **SECURITY DEPOSIT.** Tenant shall not be required to provide a Security Deposit to Landlord upon the execution of this Lease; provided, however, that if Tenant defaults in respect to any of the terms, provisions, covenants or conditions of this Lease including, but not limited to, payment of the Base Rent and Rent Adjustments, one-half (1/2) of the abated rent in the amount of \$30,232.50 shall become immediately due and payable to Landlord upon demand, such amount to be considered the Security Deposit, and Landlord may use, apply or retain the whole or any part of the security so deposited for the payment of any such rent in default, or for any other sum which the Landlord may expend or be required to expend by reason of Tenant's default

including, without limitation, any damages or deficiency in the reletting of the Demised Premises, whether such damages or deficiency shall have accrued before or after any re-entry by Landlord. If Tenant shall fully and faithfully comply with all the terms, provisions, covenants and conditions of this Lease, the Security Deposit, or any balance thereof, shall be returned to Tenant after the following:

- A. the time fixed as the expiration of the Lease Term;
- B. the removal of Tenant from the Demised Premises;
- C. the surrender of the Demised Premises by Tenant to Landlord in accordance with this Lease; and
- D. the time required for the Rent Adjustment due pursuant to this Lease to have been computed by Landlord and paid by Tenant.

Except as otherwise required by law, Tenant shall not be entitled to any interest on the aforesaid security. In the absence of evidence satisfactory to Landlord of an assignment of the right to receive the Security or the remaining balance thereof, Landlord may return the Security to the original Tenant, regardless of one or more assignments of this Lease. Upon a bona fide sale by Landlord of the Building to a purchaser who assumes all obligations of Landlord under tenant leases for space in the Building, including this Lease, Landlord shall be relieved from all obligation to return the Security Deposit to Tenant.

24. MISCELLANEOUS.

- A. No receipt of money by the Landlord from the Tenant after the termination of this Lease or after the service of any notice after the commencement of any suit, or after final judgment for possession of the Demised Premises shall reinstate, continue or extend the Lease Term or affect any such notice, demand or suit.
- B. No waiver of any default of the Tenant hereunder shall be implied from any omission by the Landlord to take any action on account of such default if such default persists or be repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only from the time and to the extent therein stated.
- C. The words "Landlord" and "Tenant" wherever used in this Lease shall be construed to mean plural where necessary, and the necessary grammatical changes required to make the provisions hereof apply either to corporations or individuals, men or women, shall in all cases be assumed as though in each case fully expressed.

- D. Each provision hereof shall extend to and shall, as the case may require, bind and inure to the benefit of the Landlord and the Tenant and their respective heirs, legal representatives, successors and assigns in the event this Lease has been assigned with the express written consent of the Landlord.
- E. Submission of this instrument for examination does not constitute a reservation of the option for the Demised Premises. The instrument does not become effective as a lease or otherwise until execution and delivery by both Landlord and Tenant; provided, however, the execution and delivery by Tenant of this Lease to Landlord shall constitute an irrevocable offer by Tenant to lease the Demised Premises on the terms and conditions herein contained, which offer may not be withdrawn or revoked for thirty (30) days after such execution and delivery.
- F. All amounts (unless otherwise provided herein, and other than the Base Rent and Rent Adjustments, which shall be due as hereinbefore provided) owed by the Tenant to the Landlord hereunder shall be deemed additional rent and be paid within ten (10) days from the date the Landlord renders statements of account therefor. All such amounts (including the Base Rent and Rent Adjustments) shall bear interest from the date due until the date paid at the rate of two (2%) percent above the corporate base rate of interest announced from time to time at the First National Bank of Chicago, or at the maximum legal rate of interest, whichever is lower.
- G. All riders attached to this Lease and initialed by the Landlord and the Tenant are hereby made a part of this Lease though inserted in this Lease.
- H. The headings of sections are for convenience only and do not limit or construe the contents of the sections.
- I. If the Tenant shall occupy the Demised Premises prior to the Commencement Date with the Landlord's consent, all the provisions of this Lease shall be in full force and effect as soon as the Tenant occupies the premises.
- J. Should any mortgage, leasehold or otherwise, require a modification or modifications of this Lease, which modification or modifications will not bring about an increased cost or expense to Tenant or in any other way substantially change the rights and obligations of Tenant hereunder, then and in such event, Tenant agrees that this Lease may be so modified.
- K. The Tenant represents that the Tenant has dealt directly with and only with the Broker(s) identified in the Basic Lease Provisions in connection with this Lease and Landlord shall pay all commissions and fees owing to said Broker(s). Insofar as the Tenant knows, no other broker negotiated this Lease or is entitled to any commission in connection therewith. Tenant indemnifies and holds Landlord, its beneficiaries, Owner and Owner's partners and their respective agents and

employees harmless from all claims of any other broker or brokers in connection with this Lease.

- L. The Tenant agrees that from time to time upon not less than ten (10) days' prior request by the Landlord, the Tenant will deliver to the Landlord a statement in writing certifying (a) that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and identifying the modifications), (b) the dates to which the rent and other charges have been paid, and (c) that so far as the person making the certificate knows, the Landlord is not in default under any provisions of this Lease.
- M. This Lease and the Exhibits and Riders attached hereto contain the entire agreement between Landlord and Tenant concerning the Demised Premises and there are no other agreements; either oral or written.
- N. If Tenant fails timely to perform any of its duties under this Lease or Exhibit G, Landlord shall have the right (but not the obligation), after the expiration of any grace period elsewhere under this Lease or the Work Letter expressly granted to Tenant for the performance of such duty, to perform such duty on behalf and at the expense of Tenant without further prior notice to Tenant, and all sums expended or expenses incurred by Landlord in performing such duty shall be deemed to be additional Rent under this Lease and shall be due and payable upon demand by Landlord.
- O. The Landlord's or Owner's title is and always shall be paramount to the title of the Tenant, and nothing herein contained shall empower the Tenant to do any act which can, shall or may encumber such title.
- P. The laws of the State of Illinois shall govern the validity performance and enforcement of this Lease.
- Q. If any term, covenant or condition of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.
- R. This lease is executed by the undersigned Trustee, not personally, but solely as Trustee, and it is expressly understood and agreed by the parties hereto anything herein to the contrary notwithstanding, that each and all of the covenants, undertakings, representations and agreements herein made are made and intended, not as personal covenants, undertakings, representations and agreements of the Trustee individually, or for the purpose of binding it personally, but this Lease is

executed and delivered by the Trustee, solely in the exercise of the powers conferred upon it as such Trustee under said Trust Agreement and no personal liability or personal responsibility is assumed by, nor shall at any time be asserted or enforced against said bank or the beneficiaries of said Trustee on account hereof, or on account of any covenant, undertaking, representation, warranty or agreement herein contained, either expressed or implied, all such personal liability, if any, being hereby expressly waived and released by the parties hereto or holder hereof and by all persons claiming by or through or under said parties or holder hereof. It is further understood and agreed that the Trustee is not entitled to receive any of the rents, issues or profits of or from the trust property, and this instrument shall not be construed as an admission to the contrary. It is expressly understood and agreed that any claims by the Tenant against the Landlord in case of default by Landlord in the performance of its obligations under this Lease shall be payable out of (and only out of) the Landlord's interest in the Building.

- S. Tenant hereby agrees not to look to the mortgagee, as mortgagee in possession, or successor in title to the property, for accountability for the Security Deposit, unless the Security Deposit has actually been received by said mortgagee as security for the Tenant's performance of this Lease.

IN WITNESS WHEREOF, the parties have executed this Lease on the date first above written.

LANDLORD:

LASALLE NATIONAL BANK, not personally, but solely as Trustee under Trust Agreement dated September 1, 1977 and known as Trust Number 53107

By: \_\_\_\_\_  
Its: \_\_\_\_\_

TENANT:

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Attest:

By: \_\_\_\_\_  
Its: \_\_\_\_\_

ADDENDUM TO OFFICE LEASE

THIS ADDENDUM to Office Lease is made this 1st day of August, 1985 by and between LaSalle National Bank, not personally, but as Trustee under Trust Agreement dated September 1, 1977 and known as Trust No. 53107 ("Landlord") and VASCO-Value Added Systems Corp. ("Tenant").

WHEREAS, Landlord and Tenant executed and delivered a certain Office Lease (the "Lease") dated July 22, 1985 pursuant to which Landlord leased to Tenant the Demised Premises commonly known as Suite 118-C in the St. Regis Office Center;

WHEREAS, Landlord and Tenant had agreed to include in the Lease (as Exhibit A thereto) a plan of the Demised Premises (the "Plan") depicting the size, shape and location of the Demised Premises relative to the building in which it is contained;

WHEREAS, the Plan was inadvertently omitted from the Lease; and

WHEREAS, both Landlord and Tenant are desirous of reforming the Lease to include the Plan therein.

NOW, THEREFORE, in consideration of the mutual agreements and covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties here to hereby agree and covenant as follows:

1. The foregoing recitals are hereby integrated herein. The words, terms and definitions, which are defined in the Lease, when used herein, shall have the same meaning as in the Lease.
2. The Plan which is attached hereto as Exhibit #1 is hereby incorporated into the Lease as Exhibit A thereto as if it had been included therein upon execution thereof.
3. Except as herein modified, the Lease shall, in all other respects, remain the same and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Addendum To Office Lease as of the day and year first above written.

LANDLORD: ANVAN/MIDWEST REALTY MANAGEMENT CO.,  
as agent for the sole beneficiary of  
LaSalle National Bank Trust No. 53107

By: \_\_\_\_\_  
Thomas Sloan, Vice President

TENANT: VASCO-VALUE ADDED SYSTEMS CORP.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

## SECOND ADDENDUM TO OFFICE LEASE

THIS SECOND ADDENDUM to Office Lease is made this 1st day of October, 1988 by and between LaSalle National Bank, not personally, but as Trustee under Trust Agreement dated September 1, 1977 and know as Trust No. 53107 ("Landlord") and VASCO-Value Added Systems Corp. ("Tenant").

WHEREAS, Landlord and Tenant executed and delivered a certain Office Lease (the "Lease") dated July 22, 1985 pursuant to which Landlord leased to Tenant the Demised Premises commonly known as Suite 118-C in the St. Regis Office Center;

WHEREAS, Landlord and Tenant executed and delivered a certain Addendum to Office Lease dated August 1, 1985.

WHEREAS, landlord and Tenant desire to amend the Lease and Addendum to Office Lease.

NOW, THEREFORE, in consideration of the mutual agreements and covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree and covenant as follows:

1. The foregoing recital are hereby integrated herein. The words, terms and definitions, which are defined in the Lease, when used herein, shall have the same meaning as in the Lease.
2. The lease term shall be five years.
3. The commencement date of "August 1, 1985" is deleted and "October 1, 1988" is added.
4. The expiration dated of "July 31, 1990" is deleted and "September 30, 1993" is added
5. The Base Rent of "\$60,465 per annum" and "\$5,038.75 per month" is deleted and "\$33,130.20 per annum" and "\$2,760.85 per month" is added.
6. Base Rent will commence on October 1, 1988.
7. In addition to Base Rent, Tenant payment for electricity in the amount of "\$429.97 per month" is deleted and "\$239.15 per month" is added.
8. Tenant's Proportion for purposes of Section 2 of "2.815%" is deleted and "1.566%" is added.
9. The rentable area of the Demised Premises of "4031 square feet" is deleted and "2242 square feet" is added.
10. Paragraph 23 is deleted.
11. Tenant agrees to pay to Landlord \$36,409.52 as past due rent for the period June 1, 1987 thru September 30, 1988. Monthly payments of \$758.53 will commence on October 1, 1989 for a period of 48 months. The remaining unpaid past due rent for said period in the amount of \$60,650.72 will be abated.
12. The Tenant will have the option at anytime after April 1, 1991 to cancel this lease upon 6 months prior written notice to the Landlord. In the event of a notice of



cancellation by Tenant, the remaining unpaid balance of the past due rent as described in Paragraph 11 above, will be due and payable at the time of cancellation notice.

13. Landlord will permit the Tenant to use at no expense to Tenant the areas indicated at Area B and Area C in the attached floor plan ("Exhibit D"). In the event that Landlord leases either Area B or Area C to any other Tenant, Tenant will surrender and vacate said space upon 30 days prior notice to Tenant. Landlord will construct at its expense a new demising wall and paint that portion of the demising wall located in the Tenant's demised area.
14. Except as herein amended and modified, the Lease shall in all other respects remain the same and in full force and effect including without limitation the application of all rental adjustment provisions of the Lease.

IN WITNESS WHEREOF, the parties hereto have executed this Second Addendum to Office Lease as of the day and year first above written.

LANDLORD: DRILLS PROPERTIES, INC. as Agent for SOGA, INC., the sole Beneficiary under a certain Trust Agreement dated September 1, 1977 with LASALLE NATIONAL BANK, as Trustee and known as Trust Number 53107

By: /s/ H.E. Abrahamson  
H.E. Abrahamson, President

Attest: /s/ David S. Lewis  
David S. Lewis, Asst. Secretary

TENANT: VASCO-VALUE ADDED SYSTEMS CORPORATION, an Illinois corporation

By: /s/ T. Kendall Hunt  
T. Kendall Hunt, President

Attest: /s/ Robert Anderson  
Robert Anderson, Executive Vice President

## THIRD AMENDMENT TO OFFICE LEASE

THIS THIRD AMENDMENT OF OFFICE LEASE is made as of the 1st day of November, 1992, by and between:

LASALLE NATIONAL BANK N.A., an Illinois corporation, not personally but solely as Trustee under Trust Agreement dated September 1, 1977, and known as Trust Number 53107 ("Landlord"), and,

VASCO Corp., a Delaware corporation ("Tenant").

## RECITALS

WHEREAS, Landlord and Tenant executed and delivered an Office Lease, dated July 22, 1985, for certain Demised Premises, consisting of 4,031+ square feet of gross rentable area identified as Suite 118-C in Building C, St. Regis Office Center, 1919 South Highland Avenue, Lombard, Illinois, for a Lease Term expiring September 30, 1993; and,

WHEREAS, Landlord and Tenant executed an Addendum to Office Lease, dated August 1, 1985, to include a plan of the Demised Premises in the Office Lease; and,

WHEREAS, Landlord and Tenant executed a Second Addendum to Office Lease, dated October 1, 1988 (the Office Lease, as amended, is hereinafter referred to as the "Lease"), by which (a) the Commencement and Expiration Dates of the Office Lease were changed; and, (b) Tenant's Demised Premises were reduced from 4,031+ rentable square feet to 2,242+ rentable square feet; and, (c) Tenant's Base Rent was reduced from \$60,465 per annum to \$33,130.20 per annum; and, (d) Tenant's electricity payment was reduced from \$429.97 per month to \$239.15 per month; and, (e) Tenant agreed to pay Landlord forty-eight (48) monthly installments of \$758.53 each for a portion of Tenant's past due rent; and, (f) Landlord abated the remaining portion of Tenant's past due rent in the amount of \$60,650.72; and,

WHEREAS, Landlord has permitted Tenant to continue to occupy 4,031+ rentable square feet on the Demised Premises in the period between the date on which the Second Addendum was executed and the date of this Third Amendment to Office Lease; and,

WHEREAS, Landlord and Tenant executed and delivered an Agreement ("Storage Agreement") dated June 19, 1990, by which Landlord leased to Tenant a 232+ rentable square foot portion of Suite 120-C ("Storage Space") consisting of a total 1,000+ rentable square feet; and,

WHEREAS, Landlord and Tenant desire to amend the Lease to  
(a) relocate Tenant's Demised Premises from Suite 118-C to Suite 119-C; and,

- (b) expand Tenant's Demised Premises to 5,100+ rentable square feet; and,
- (c) change Tenant's Base Rent; and,
- (d) change Tenant's Electricity Allocation; and,
- (e) change Tenant's Lease Term; and,
- (f) in certain other respects.

NOW THEREFORE, in consideration of the mutual agreements and covenants herein contained, the parties hereto agree as follows:

- (1) The foregoing recitals are hereby incorporated herein and the words, terms and definitions, which are contained in the Lease, when used in this Amendment, shall have the same meaning as in the Lease, unless otherwise defined herein.
- (2) Tenant's new lease term ("Lease Term") shall commence January 15, 1993 ("Commencement Date"), and expire January 14, 1998 ("Expiration Date").
- (3) At the Commencement Date, Suite 119-C shall become Tenant's new Demised Premises ("Demised Premises"), consisting of 5,100+ rentable square feet, and Tenant's Proportion of the total area of the Buildings shall at that date become 3.56%.
- (4) Tenant shall completely vacate Suite 118-C no later than seven (7) days after the Commencement Date. If, by seven days after the Commencement Date, Tenant fails to vacate Suite 118-C (and leave Suite 118-C in the condition required by Section 20 of the Lease), the retention of possession of Suite 118-C shall be deemed to be an unpermitted holdover and shall be governed by the provisions of Section 17 of the Lease.
- (5) At the Commencement Date, Tenant's new Suite 119-C shall be renamed Suite 118-C ("New Suite 118-C") by Landlord.
- (6) Base Rent for the New Suite 118-C on the Commencement Date shall be as follows:
  - Year 1: \$10.15/SF = \$51,765/Yr. = \$4,314/Mo.
  - Year 2: \$10.35/SF = \$52,800/Yr. = \$4,400/Mo.
  - Year 3: \$10.56/SF = \$53,856/Yr. = \$4,488/Mo.
  - Year 4: \$10.77/SF = \$54,933/Yr. = \$4,578/Mo.
  - Year 5: \$10.99/SF = \$56,032/Yr. = \$4,669/Mo.
- (7) Tenant's electricity charge shall be \$1.57 per gross rentable square foot for normal operating hours in Year 1:
  - Year 1: \$1.57/SF = \$8,007/Yr. = \$667/Mo.

Tenants electricity rate per gross rentable square foot in Years 2 through 10 shall be equal to the sum of Building's Commonwealth Edison bills for the 12 months preceding Tenant's lease year, divided by Building's gross rentable area.

- (8) Tenant shall have the options ("Renewal Option") to extend the Lease Term by five (5) years, from January 15, 1998, to and including January 14, 2003 (hereinafter referred to as the "Option Term") upon the following terms and conditions:

- (a) Tenant shall provide Landlord written notice exercising the Renewal Option at least six (6) months prior to the commencement of the Option Term; and,
  - (b) Tenant is not in default under the Lease on the date that Tenant exercises the Renewal Option or on the Commencement Date of the Options Term; and,
  - (c) Tenant has not assigned or subleased any part of the Demised Premises.
- (9) If the Renewal Option is exercised, Base Rent for the New Suite 118-C commencing January 15, 1998, shall be as follows:
- Year 6: \$11.21/SF = \$57,171/Yr. = \$4,764/Mo.
  - Year 7: \$11.43/SF = \$58,293/Yr. = \$4,858/Mo.
  - Year 8: \$11.66/SF = \$59,459/Yr. = \$4,952/Mo.
  - Year 9: \$11.89/SF = \$60,648/Yr. = \$5,054/Mo.
  - Year 10: \$12.13/SF = \$61,861/Yr. = \$5,155/Mo.
- (10) Beginning in the thirty-seventh (37th) month after the Commencement Date, Tenant and Landlord shall each have the option to terminate the Lease effective at any time during the remaining Lease Term ("Termination Option"). Should either party desire to exercise the Termination Option, they shall provide the other party with written notice thereof. The written notice shall include a stated termination date ("Termination Date") at least six (6) months after the date of the notice. Should Tenant exercise the Termination Option, Tenant shall pay Landlord, on or before the Termination Date, Landlord's unamortized costs for the New Suite 118-C. Tenant's payment to the Landlord for unamortized costs shall be equal to the product of the number of whole months remaining between the Termination Date and the Lease Expiration Date, multiplied by \$780.00.
- (11) During the five-year Lease Term, Tenant shall have a right of first offer (the "First Offer Option") to lease space contiguous to the Demised Premises (herein called "Expansion Space") located on the first floor of Building C at St. Regis Office Center, on the following terms and conditions:
- (a) At such time as Landlord desires to offer for lease to a third party (other than a current tenant of such space or any other tenant that might have an expansion option, right of first offer superior to Tenant's First Offer Option) any Expansion Space, Landlord shall first give Tenant written notice of the location and size of the Expansion Space and the date on which the Expansion Space will be available for leasing to Tenant; and,
  - (b) Tenant shall have the right, within fifteen (15) working days after Landlord gives such notice to tenant, to notify Landlord in writing that Tenant desires to lease (or does not desire to lease) the Expansion Space. A failure by Tenant to so respond within such 15-day period shall constitute a waiver by Tenant of such First Offer Option; and,
  - (c) Base Rent for the Expansion Space shall be payable at the applicable rate provided for in Paragraph 6 above.

- (12) If Tenant exercises the First Offer Option and satisfies the other terms and conditions set forth in Paragraph 11 above, Landlord agrees to pay Tenant, within ten (10) days after Tenant takes possession of the Expansion Space, an amount equal to the product of the number of rentable square feet of space in the Expansion Space, multiplied by Nine Dollars (\$9.00).
- (13) Should Tenant exercise the First Offer Option, Landlord shall change Tenant's Base Rent and Electricity Rate for the duration of the Lease Term and the Option Term in accordance with the rates outlined herein.
- (14) Within one month after the Commencement Date, Tenant shall vacate the Storage Space. The Storage Agreement shall expire one month after the Commencement Date. If Tenant fails to vacate said Storage Space by the end of one month, it shall be deemed an unpermitted holdover and Tenant will pay a rental rate of \$37.55 per day for each additional day the space is retained by Tenant.
- (15) Should Tenant require storage space, Tenant shall notify Landlord in writing, which notice shall include an estimated useable square foot requirement, a description of the items intended for storage, and an estimated storage term. Landlord shall answer Tenant's written notice within ten (10) working days and include in such notice the storage rental rate and location of the storage space.
- (16) Within ten (10) days of the Commencement Date, Landlord shall pay Tenant a cash allowance of \$1,300.00, provided Tenant has vacated Suite 118-C and is not in default of the Lease.
- (17) Landlord shall release Tenant from its obligation to pay past due rent payments in an amount equal to the product of \$758.53 multiplied by the number of full months remaining between the Commencement Date and September 30, 1993.
- (18) Landlord shall cause Tenant's New Suite 118-C to be built-out and remodeled at Landlord's sole expense in accordance with drawing attached hereto and made part hereof. Specifically, Landlord shall cause the following work to be performed at Landlord's sole expense:
  - (a) demolish approximately 30 lineal feet of existing wall; and
  - (b) construct approximately 70 lineal feet of new wall; tape, sand and ready for paint; and,
  - (c) install one (1) stainless steel kitchen sink, plus counter and cabinets, in conformity with the drawing attached hereto; and,
  - (d) install three (3) new frames and doors; supply locks and keys in accordance with Tenant's requirements and Landlord's key specifications; and,
  - (e) install fifty-five (55) duplex outlets, two (2) quadraplex outlets, thirty-six (36) telephone outlet locations and three (3) switches, all in accordance with drawing attached hereto; and,
  - (f) paint the New Suite 118-C with Tenant's choice of building standard paint; and,
  - (g) re-carpet entire the New Suite 118-C, with the exception of 636+ square feet designated as a work area, with Tenant's choice of building standard carpeting, and install new base board.

Tenant agrees that any changes to the remodeling specifications desired by Tenant after execution of this Third Amendment shall be subject to Landlord's written approval and costs for remodeling Suite 119-C outside the parameters agreed to herein shall be borne solely by Tenant.

(19) Landlord and Tenant acknowledge that Tenant engaged the following broker ("Broker") for this transaction:

John J. Pikarski  
WALSH DUNSMORE  
9501 Devon  
Suite 701  
Rosemont, Illinois 60018

Landlord shall pay Broker a commission of \$4,641 within ten (10) days of the date of full execution of this Third Amendment, and \$4,642 within ten (10) days of the Commencement Date, provided Tenant is not in default under the Lease.

(20) Except as herein amended and modified, the Lease shall continue in full force and effect, subject to the terms and provisions hereof. This Amendment shall be binding upon and inure to the benefit of the Landlord, Tenant and their respective successors and permitted assigns. The persons purporting to execute this Amendment on behalf of Tenant warrant to Landlord that they have authority to do so, and that by their signature Tenant has duly executed and entered into this Amendment.

IN WITNESS WHEREOF, the parties hereto have executed this Third Amendment to Office Lease as of the day and year first above written.

LANDLORD: SOGA, INC. an Illinois corporation, the sole Beneficiary under a certain Trust Agreement dated September 1, 1977, with LASALLE NATIONAL TRUST N.A., as Trustee and known as Trust Number 53107.

By: /s/ Philippe A. Hans  
Philippe A. Hans, its Vice President

TENANT: VASCO Corp., a Delaware corporation.

By: /s/ T. Kendall Hunt  
T. Kendall Hunt, its President

Attest: /s/ Forrest D. Laidley  
its Secretary

[DIGIPASS]  
LEASE AGREEMENT

## BETWEEN:

TOPS sa, rue Gillemont 1 B- 6120 Ham-Sur-Heure, represented by Mr Dominique COLARD, Managing Director.

Hereafter referred to as (( the lessor )).

## AND:

DIGIPASS sa, Chaussee de Courcelles, 113 B- 6041 Gosselies, represented by Mr Mario HOUTHOOFT, Managing Director.

Hereafter referred to as (( the lessee )).

## ARTICLE 1 - SUBJECT

The lessor let to the lessee a site for commercial use located in 6041 Gosselies, chaussee de Courcelles 113.

The premises include offices and caretaker accommodation with an approximate total surface of 900m<sup>2</sup>, as well as adjacent parking space. This surface is only given for information, whereas the lessee waives and claim as to the real surface of the building.  
The site has a surface of 54A.

Please note that the access way from Chaussee de Courcelles is a public way.

## ARTICLE 2 - TERM AND TERMINATION

This agreement will be in force for a period of 5 (five) years as from the date of taking the offices into use by the lessee. This one will have the opportunity to cancel this agreement at the expiry of the two first years by means of a 6 months prior written notice.

The date of taking the offices into use fixed by both parties is July 1st, 1996.

The first payment will take place at the day of signature of this agreement and the amount to be paid will be 300.000 Belgian Francs (rent for 1 month).

## ARTICLE 3 - PURPOSE

The building is exclusively leased for commercial use.

Except for the caretaker accommodation, the offices will not be used for any personal accommodation or other purpose than the above mentioned. The lessee won't have the opportunity to change the purpose of the lease above mentioned without the prior written agreement of the lessor.

Both parties agree that each lessee's activity expansion beyond to the purpose above mentioned will be considered as a major negligence and will result in the immediate termination of the agreement, without damage for the different parties in the cessation.

## ARTICLE 4 - RENT

The rent is fixed at the monthly amount of 300.000 BF VAT excluded (three hundred thousand) and is to be paid in advance, by transfer to the account nr 260-0616855-04 from TOPS sa.

This rent has been determined in accordance with the consumer price index of the month before the signature of this agreement.

It is said that every change in this index will generate a modification of the rent according to the following formula :

$$\frac{\text{BASIC RENT} \quad \times \quad \text{NEW INDEX}}{\text{BASIC INDEX}}$$

If the increase is limited by the Belgian law, the maximum increase will be implemented and later on, the lessor will have the opportunity to recover the difference.

All taxes and expenses are due by the lessee, including the tax on income from real estate.

In the event that this arrangement would not be applicable, because of a change in the law or tax regulations, the lessee would have to pay in compensation to the lessor the same amount as the one generated by this arrangement.

The amounts due by the lessee are subject to an annual interest rate of 12%.



The parties agree that in case of non-payment within 10 days and after a written reminder by post resulting in non-payment, the agreement will be cancelled at the discredit of the lessee.

#### ARTICLE 5 - REPAIRS AND MAINTENANCE

The normal repair and maintenance costs are due by the lessee.

The more substantive repairs remain at the expense of the lessor, except for those caused by the lessee.

Concerning the heating systems, the lessee will have the exclusive responsibility for any repairs and maintenance costs.

At the termination of the agreement, the lessee will have to leave the site in good order of maintenance, but he will not have to restore the deterioration caused by the use or the time.

The lessee commits himself to take care of the site during the whole term of the agreement.

#### ARTICLE 6 - ELECTRICITY - WATER - GAS

The special attention of the lessee is requested according to the maintenance of the electric heating systems, water conveyance, gas installations, etc... individually put at his disposal.

He will have to take care of the maintenance of the different measurement, control and capacity devices under his responsibility.

In case of damages to the building or to its installations, the lessee will have to inform the lessor or his representative as soon as possible.

The lessee will have to pay and support, from the date of taking the site into use and during the period of this agreement, electricity, gas, water, calorific costs ...resulting from the use, as well as the rent of the meters put at his disposal or placed in the rented building.

The lessee will have to fill out counter statements at arrival and at departure, otherwise, he will be indebted of the amounts due from the previous statements.

In case the lessee doesn't execute the works mentioned in article 6 and 7, the lessor will have the right to let them execute at the expense of the lessee.

#### ARTICLE 7 - RESTRICTIONS OF THE LESSOR'S RESPONSIBILITIES

No appeal against the owner of the building can take place in case of non-distribution of water, electricity or gas, nor at the failure of public services.

#### ARTICLE 8 - ACCESS / WORKS / CHANGES

The access to the rented building is authorized to the owner or his representative, as well as to workers and contractors necessary for maintenance, by means of a prior 24 hours notice.

The lessee is not allowed to make any change to the installations in the rented building without prior written consent from the lessor.

At the termination of the agreement, the changes made by the lessee remain in possession of the lessor, without compensation. However, the lessor can require from the lessee to return the site in its initial condition.

#### ARTICLE 9 - INSURANCES

The lessee will have to subscribe to a sufficient fire and theft insurance.

The lessee himself and his claimants renounce to any appeal against persons or societies engaged by the lessor concerning works, assets or installations in the building.

The lessee will comply with measures of precaution requested by his insurance company or the lessor's one.

#### ARTICLE 10 - DEFAULTING TERMINATION OF THE AGREEMENT

In case the agreement would be terminated at the discredit of the lessee, this would owe an amount equal to the quarter's rent during which the termination was declared as well as a compensation equal to 6 month rent and expenses, without prejudice for the repair or maintenance costs.

#### ARTICLE 11 - NON DIVISION OF THE DUTIES

The responsibilities resulting from this agreement will have to be executed jointly by the lessee and his claimants.

#### ARTICLE 12 - REGISTRATION

The registration, announcement and stamp costs and possible penalties are at the exclusive expense of the lessee.

#### ARTICLE 13 - RENTAL GUARANTEE

The lessee, as a guarantee of his engagements has to pay to the lessor prior to the date of taking into use a rental deposit of 900.000 BF(nine hundred thousand) equal to a quarter's rent. This deposit will be restituted at the termination of the agreement, and after the lessor has checked the execution of the lessee's obligations.

This deposit can be used to pay repair costs at the expense of the lessee at the termination of the agreement.

#### ARTICLE 14 - INVENTORY OF THE PREMISES

An inventory of the premises will be made prior to the date of taking into use by the lessee.

The expenses they generate are assigned as follows : 1/2 at the expense of the lessee, 1/2 at the expense of the lessor. A second inventory of the premises will be made the last day of the agreement, at the expense of the lessee.

#### ARTICLE 15 - SUBLETTING / TERMINATION OF LEASE

The lessee is not allowed to sublet or terminate his agreement without prior written notice by the lessor.

#### ARTICLE 16 - JURISDICTION

In case of contention, the Court of Charleroi will have exclusive jurisdiction.

TOPS SA

DIGIPASS SA

By: /s/ Mario Colard

By: /s/ Mario Houthoof

THE OFFICE SUITES OF CENTERPARK  
SERVICE/LEASE AGREEMENT

THIS LEASE AGREEMENT entered into this 21st day of November \_\_, 1995, ("Lease Agreement") by and between PERKINS COMMERCIAL MANAGEMENT COMPANY, INC., agent for an entity to be named later, a Maryland general partnership (hereinafter referred to as "Landlord") and Vasco Data Security, Inc. (hereinafter referred to as "Tenant").

Landlord and Tenant agree as follows:

1. Premises - See Appendix A attached hereto and made a part hereof.

2. General Service - In consideration of the rents and fees to be paid by Tenant as described in Appendix A of this Lease Agreement and the covenant herein, Landlord shall provide Tenant during the term of this Lease Agreement with the following general services:

- (a) Receptionist service from 8:30 A.M. until 5:00 P.M. during all weekdays except for national holidays.
- (b) Telephone answering service, as described in Paragraph 6 of this Lease Agreement, from 8:30 A.M. until 5:00 P.M. during all weekdays except for national holidays.
- (c) Light, electricity, heat and air-conditioning, elevator service, and toilet facilities.
- (d) Janitorial service as described in Paragraph 7 of this Lease Agreement.
- (e) Use of the conference rooms as described in Section 4 of Appendix A of this Lease Agreement.
- (f) Twenty-four (24) hour access to offices.
- (g) Coffee and tea from 8:30 a.m. until 4:30 p.m. during all weekdays except for national holidays.
- (h) Listing in building lobby directory.
- (i) Access to facsimile machine at rates set forth in Appendix B, which is attached hereto and made a part hereof.
- (j) Furnishings as per Appendix D, which is attached hereto and made a part hereof.

- (k) Enforcement of the Rules and Regulations enumerated in Appendix C, which is attached hereto and made a part hereof.

3. Typing Services - Upon the request of Tenant, Landlord shall provide Tenant during the term of this Lease Agreement with typing services at the guideline rates set forth in Appendix B attached hereto and made a part hereof. Landlord may amend those guidelines rated on a reasonable basis during the term of this Lease Agreement if there is any change in the costs or expenses incurred by Landlord in providing such typing services.

4. Photocopy Services - Upon the request of Tenant, Landlord shall provide Tenant with paper and use of a photocopying machine at the rates set forth in Appendix B attached hereto and made a part hereof. Landlord may change the above rated on a reasonable basis during the term of this Lease Agreement if there is any change in the costs or expenses incurred by Landlord in providing such photocopying services.

5. Mailing Services - Upon the request of Tenant, Landlord shall, during the term of this Lease Agreement, mail, on a daily basis, Tenant's mailbox-sized correspondence and provide Tenant with postage stamps and associated delivery services at the actual cost plus a 25% handling fee for postage or such other delivery services.

6. Telephone Answering Service - Landlord shall provide telephone answering service for a normal and reasonable number of calls on any telephone line Tenant has installed at Tenant's expense in the Premises. Tenant shall reimburse Landlord for any expenses that may be charged to the Landlord for the installation or removal of any extension of Tenant's telephone in Landlord's telephone system.

7. Janitorial Services - Landlord Shall provide Tenant with janitorial services for the Premises so as to maintain the Premises in good order and a reasonably clean condition.

8. Conference Room - See Appendix A attached hereto and made a part hereof.

9. Keys - Landlord shall provide Tenant with one (1) set of keys to the Premises and to the individual office upon the commencement of the Lease Agreement. Tenant shall not duplicate or cause to be duplicated any key furnished by Landlord without prior consent of Landlord to Tenant or duplicated by Tenant upon termination of the Lease Agreement. Tenant shall forfeit the entire security deposit upon failing to return keys to Landlord within three (3) business days after termination of the tenancy.

10. Possession and Delivery - Landlord shall deliver to Tenant physical possession of the Premises upon the commencement of the term of this Lease Agreement in a good and safe condition. At the end of the term of this Lease Agreement, Tenant shall

deliver to Landlord physical possession of the Premises in the like good and safe condition (damage by fire or other casualty not the fault of Tenant excepted) and shall remove, at Tenant's own expense, all property on the Premises not the property of Landlord.

11. Use of Premises - Tenant shall use the Premises only for business purposes in accordance with the terms of this Lease Agreement and for no other purposes unless Landlord consents to such use in writing. Tenant shall not damage or deface the Premises, conference rooms, reception area, hallways, stairways, or other approaches thereto, the building of which the Premises forms a part, or any fixtures therein or used therewith, nor suffer or permit any trade or occupation to be carried on or use made of the Premises or permit anything to be done in the Premises or the building of which it forms a part, or bring or keep anything therein which shall be disorderly, unlawful, noisy, or extra hazardous, or offensive or injurious to, or obstruct or interfere with the rights of other Tenants, or in any way injure or annoy them, or those having business with them, or conflict with them or conflict with any fire laws or regulations or with any insurance policy upon said building or any part thereof or increase the danger of fire, or affect or made void or voidable any insurance on said building, or which may render any increased or extra premium payable for such insurance, or which shall be contrary to any law or ordinance, rule or regulation from time to time established by any public authority.

12. Fixtures - Tenant may, with the prior written consent of Landlord, install in the Premises additional furniture and fixtures and other normal small office equipment such as typewriters, adding machines, portable copying machines and dictating machines necessary in the conduct of its business, and the same shall remain the property of Tenant, provided they be removed by Tenant before the expiration of this Lease Agreement or any renewal or extension thereof and provided further that Landlord may condition its consent to such installation upon Tenant's agreement to pay any incurred electricity charges by the proposed use of such equipment.

13. Landlord's Right to Entry - Landlord and the agents thereof shall have access to the Premises at all reasonable hours in order to inspect the same or adjacent premises, to submit such to any prospective tenant or to correct any Tenant's default hereunder and to prevent or repair damage or injury to the Premises, its occupants or the interests of other tenants and, further, insure that the Premises are maintained, cared for, protected, managed and/or improved in such manner as Landlord shall deem necessary and proper.

14. Security System - Tenant shall close and lock any doors and take any precautions or measures as may be required by any security system installed in the building in which the Premises forms a part.

15. Signs - Tenant shall not erect nor place any signs or objects upon the windows, doors, or outside walls of the Premises.

16. Deliveries - Tenant shall accept and make deliveries at such normal times and places as Landlord shall designate, provided that nothing shall prohibit Tenant from accepting and/or making deliveries during normal business hours.

17. Tenant Improvements - Tenant shall not make any improvements or alterations to the Premises or any fixtures, improvements, or furnishings there provided by the Landlord without the prior written consent of Landlord.

18. Employees of Landlord - No person furnishing services to Tenant pursuant to this Lease Agreement shall be deemed to be an employee of Tenant and Tenant shall have no liability for the wages or salary thereof, or for taxes and other charges incident thereto, or for the cost of workmen's compensation or unemployment compensation or any other costs or expenses in respect at such persons, other than as may be expressly stated herein and Landlord shall indemnify and hold Tenant harmless against any claims and demands or costs and expenses in connection therewith.

Tenant shall not offer or cause to be offered employment to any employee of landlord during the term of this Lease Agreement or for a period of one year after expiration of this Lease Agreement. Upon breach of the foregoing by Tenant, there shall be payable to Landlord the sum of Ten Thousand dollars (\$10,000.00) liquidation damages for each breach.

19. Liability - Landlord shall not be responsible or liable, unless - otherwise specifically herein permitted. Because of any liability claim, expense, penalty, loss, inconvenience, or damage (hereinafter in this paragraph referred to as liability) suffered by Tenant or any other person for any reason or cause whatsoever over which Landlord has no control or from any act, omission, or neglect of Tenant, or by the inference, interruption, failure, delay or suspension of any of Tenant's rights under this Lease Agreement. Tenant agrees to keep, save and hold Landlord forever harmless from any responsibility or liability as comprehended in this paragraph occasioned by any act or omission of Tenant. Tenant shall make no claim against Landlord for constructive eviction hereunder as to any matter or condition for which Landlord has no liability or responsibility under this paragraph.

20. FIRE AND CASUALTY. In the event of destruction or any part thereof, or any elevators, hallways, stairways or other approaches thereto, or the building of which the Premises are a part or any portion thereof, or any appurtenant facilities, by fire, other casualty or for any other reason whatsoever, which damage or destruction, in the opinion of Landlord, is such that it cannot be repaired or restored within a reasonable time,

Landlord, at its sole option, may declare this Lease Agreement terminated. If such damage or destruction is such that, in the opinion of Landlord, it may be restored within a reasonable time, Landlord shall undertake the restoration involved and, if the damage or destruction involved was without the fault or neglect of Tenant, then Tenant's rent shall abate in an equitable and fair manner or in the same proportion as the business operates of Tenant have abated. In no event need Landlord expend a sum of money in completing any repair or restoration hereunder which shall exceed net available insurance proceeds nor need Landlord restore or replace any fixtures, equipment, personally, or other property located or stores in or about the Premises and owned, leased, or otherwise in the possession of or under the dominion or control of Tenant, and it shall be the sole responsibility of Tenant to adequately insure himself against loss thereof occasioned by damage or destruction thereto. In the event that the Premises, or the building of which the premises are a part, or any portion thereof or any property thereon or thereabout be damaged or destroyed by fire or other cause as a result of any act omission or neglect of Tenant, Tenant shall be solely responsible to reimburse Landlord to the extent at any loss suffered by Landlord. Tenant shall give Landlord prompt notice of early accident, damage to or defect in, or about the Premises. No compensation, or claim, or diminution of rent will be allowed, or paid, by Landlord, by reason of inconvenience, annoyance, or injury to business, arising from the necessity of repairing the Premises or any portion of the building of which it is a part, however the necessity may occur.

21. Notice of Termination and Holdover - If either Tenant or Landlord does not wish or renew this Lease Agreement, either shall give notice of termination in writing to the other at least sixty (60) days before the end of the term of Agreement, in which case the Lease Agreement shall terminate on the date specified in Appendix A attached hereto and hereof. If both Tenant and Landlord fail to give such termination such failure shall be construed as an extension of the term of this Lease Agreement for sixty (60) days for each such failure to give notice. Provided, that the rent and fees for each additional one month period shall be payable in advance at the rate currently being charged by Landlord for month-to-month Lease Agreements. In every case, Tenant must give at least sixty (60) days written notice of termination.

22. Tenant's Indemnification - Tenant covenants and agrees to indemnify and save harmless Landlord from any and all liabilities, damages, costs, claims, expense, suits or actions arising out of any breach, violation or nonperformance of any covenant, condition or agreement in this Lease Agreement set forth and contained, on the part of Tenant to be kept, observed and performed or Tenant's neglect or use of the Premises or building of which it is a part or of anything therein or any nuisances caused or suffered by Tenant in the Premises or in the building of which it is a part.



23. Defaults and Remedies - If Tenant fails to keep and perform each and every covenant, condition and agreement herein to be kept and performed by Tenant, or if Tenant abandons or evidences any intention to abandon the Premises, or if the Premises become vacant or deserted without intent to return by tenant, or if the estate hereby created is taken on execution or other process of law, or if Tenant petitions to be declared or is declared bankrupt or insolvent according to law, or if a receiver or other similar officer is appointed to take charge of any part of the property of, or to wind up the affairs of Tenant and it is not discharged within thirty (30) days, or if any assignment is made of Tenant in property for the benefits of creditors, then in each and every case, for henceforth and at all times thereafter, at the sole option of Landlord Tenant's right of possession shall thereupon cease and terminate and Landlord shall be entitled to the possession of the Premises, to remove all persons and property therefrom, and to re-enter the same without further demand of rent or demand of possession of the Premises, either with or without process of law and without becoming liable to prosecution therefor. Any notice to quit, or of intention to re-enter the Premises is hereby waived by Tenant. In the event of any such re-entry or retaking herein, Tenant shall nevertheless remain in all events liable and answerable for the full rental and fees to the date of retaking or re-entry, for any and all loss or damage and for any deficiency or loss of rent or fees which Landlord may hereby sustain in respect of the balance of the therein. Landlord reserves full power, which is hereby acceded to by Tenant to let the Premises, in the event of any such re-entry or retaking herein for the benefit of Tenant in liquidation and discharge, in whole or in part, as the case may be, of the liability of Tenant under the terms and provisions of this Lease Agreement and such damages, at the option of Landlord be deferred until the expiration of the term, in which latter event the cause of action shall not be deemed to have accrued until the date of the termination of said terms. All rents and fees received by Landlord in any such reletting shall be applied; first, to the payment of such expenses as Landlord may have incurred in recovering possession of the Premises and in reletting the same; second, to the payment of any costs and expenses incurred by Landlord either for making necessary repairs to the Premises or incurring any default on the part of Tenant in any covenant or condition herein made binding upon Tenant; and, last, any remaining rent and fees shall be applied toward the payment of rent and fees due from Tenant under the terms of this Lease Agreement, with interest at the (15%) per annum, and Tenant expressly agrees to pay any deficiency then remaining Landlord may, however, at Landlord's options enforce the provisions of the Lease Agreement in full against Tenant for the full term hereof. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly installments of rent and fees herein stipulated shall be deemed to be other than on account of the earliest stipulated rent and fees nor, shall any endorsement or statement on any check or any letter accompanying any check or payment or rent or fees be deemed an accord and satisfaction, and Landlord may accept such check or payment

without prejudice to Landlord's right to recover the balance of such rent or fees, or pursue any other remedy provided in this Lease Agreement.

Upon the occurrence and continuance of an event of default by Tenant, Landlord, without notice to Tenant, may do any one or more of the following:

(a) Landlord may elect to terminate this Lease and the tenancy created hereby by giving notice of such election to Tenant, may reenter the Premises by summary proceedings or otherwise, change the lock(s) thereto and, at the expense of Tenant, remove Tenant and all other persons and property from the Premises, and may store such property in a public warehouse or elsewhere at the cost of and for the account of Tenant without resort to legal process and without Landlord being deemed guilty of trespass or becoming liable for any loss or damage occasioned thereby.

(b) Landlord may exercise any other legal or equitable right to remedy which it may have.

Notwithstanding the provisions of clause (b) above and regardless of whether an event of default shall have occurred, Landlord may exercise the remedy described in clause (a) without any notice to Tenant, in its good faith judgement, believes it would be materially injured by failure to take rapid action or if the unperformed obligation of Tenant constitutes an emergency.

24. SUBORDINATION CLAUSE - This Lease Agreement is subject and subordinate at all times to all ground or underlying leases, including any ground lease or rental agreements entered into by Landlord as lessee, and to all mortgages and/or property of which the Premises form a part, and to all renewals, modifications, consolidation, replacements and extensions thereof. This clause shall be self-operative and no further instrument of subordination shall be required by any ground or underlying lease, lessor, or mortgage or trustee. In confirmation of such subordination, Tenant shall execute promptly any certificate that Landlord may request. Tenant hereby constitutes and appoints Landlord the Tenant's attorney-in-fact, irrevocably, to execute and deliver such certificate or certificates for and on behalf of Tenant. Provided, however, that notwithstanding the foregoing any such lessor aforesaid or the party secured by any such mortgage or deed of trust shall have the right to recognize this Lease Agreement and, in the event of re-entry by any such lessor aforesaid or of any foreclosure sale under such deed of trust, this Lease Agreement shall continue in full force and effect at the option of such re-entering lessor aforesaid or of the party secured by such mortgage or deed of trust or the purchaser under any such foreclosure sale; and Tenant covenants and agrees that Tenant will, at the written request of any such party, execute, acknowledge, and deliver any such instrument that has for its purpose and effect or the subordination of this Lease Agreement

to the lien or rights of all ground or underlying leases and to all mortgages and/or deeds of trust.

25. Expenses Incurred - Tenant covenants and agrees to pay and discharge all reasonable costs, expense, and attorney's fees incurred by Landlord in enforcing any or all of Tenants covenants, conditions and agreements contained, herein whether by the institution of litigation, seeking advise of counsel, or otherwise.

26. Applicable Law - This Lease Agreement shall be construed and enforced under and in accordance with the laws of the State of Maryland.

27. Negligence - Each party to this Lease Agreement shall be solely responsible for their independent acts of negligence. Tenant shall maintain appropriate liability insurance to protect Tenant's interests against any and all claims arising out of the negligence of Tenant.

28. Severability - In the event any part of this Lease Agreement is held to be unenforceable or invalid for any reason, the balance of this Lease Agreement shall not be affected and shall remain in full force and effect during the term of this Lease Agreement.

29. Waiver - The failure of Landlord to insist upon strict performance of any of the terms or conditions of this Lease Agreement, or to exercise any option herein conferred, or the taking of any action by Landlord which under the terms or conditions of this Lease Agreement should have been taken by Tenant, in any one or more instances, or the compromise or settlement by Landlord or any proceeding instituted to recover rent or possession of the premises from Tenant, shall not be construed as a waiver or relinquishment for the future of any such terms or conditions, but the same shall be and remain in full force and effect. The acceptance by Landlord of less than all the rent and fees that may be owing Landlord with the knowledge of the existence of a default in this Lease Agreement by Tenant, or the acceptance of all or any part of the rent or fees due by Tenant, from any other person or entity shall not be considered a waiver by Landlord of the right of Landlord to insist upon the full performance by Tenant of all rental or fee payment obligations in the future.

30. Subletting - Tenant shall have no right to sublet, assign or otherwise transfer any right of Tenant under this Lease Agreement without the prior written consent of Landlord. which consent will not be unreasonably withheld.

31. Covenants in Force - All of the foregoing covenants of Tenant shall be in force without demand or notice during said term and for such further time as Tenant, or any person or persons claiming under Tenant, shall hold the Premises.

32. Rules and Regulations - Tenant agrees to abide by such rules and regulations (the "Rules and Regulations") as Landlord may set or amend from time to time governing the operations of The Office Suites of Centerpark.

IN WITNESS WHEREOF the parties have hereunto set their hands and seals this \_\_\_\_ day of \_\_\_\_\_, 199\_\_.

WITNESS: PERKINS COMMERCIAL MANAGEMENT COMPANY, INC.

By

Authorized Agent

Vasco Data Security, Inc.

ATTEST/WITNESS:

By

Tenant

## APPENDIX A

THIS APPENDIX, made this \_\_\_ day of \_\_\_\_\_, 19 \_\_\_, by and between PERKINS COMMERCIAL MANAGEMENT COMPANY, INC. ("Landlord"), and Vasco Data Security, Inc. ("Tenant") to the Lease Agreement dated the \_\_\_ day of \_\_\_\_\_, 19 \_\_.

The Lease Agreement is hereby modified and supplemented as follows. Wherever there is any conflict between this Appendix, and the Lease Agreement, the provisions of this Appendix are paramount and the Lease Agreement shall be construed accordingly.

Section 1. Premises - Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, office number(s) 14, 15, 16 in Suite 300, 4041 Powder Mill Road, Calverton, Maryland 20705 (hereinafter referred to as "Premises"). Said office is leased as a sales office, accommodating no more than one (1) person(s) each. Additional users of office space will incur additional charges as set forth in Appendix B attached hereto and made a part hereof.

Section 2. Terms. The term of this Lease Agreement shall be one (1) month and shall begin on \_\_\_\_\_, 19 \_\_, at 8:30 A.M. and end at 5:00 P.M. (local time) on \_\_\_\_\_, 1995, unless extended in accordance with the provisions of the Lease Agreement.

Section 3. Rents, Fees and Late Charges. The Tenant shall pay the Landlord the sum of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) as rent and fees for general services, payable at the office of the Landlord at 4041 Powder Mill Road, Claverton, Maryland 20705 in advance, on or before the fifth day of each month in installments of \_\_\_\_\_ Dollars (\$\_\_\_\_\_), per month without deduction, abatement, or set off of Tenant's Security Deposit or other such escrowed monies. A security deposit of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) one month's rent, shall be payable on the date of execution of this Lease Agreement. All Security Deposits will be returned ninety (90) days upon termination of this Lease. Rent checks will not be exchanged for Security Deposit Checks. It is understood that if the Premises is not returned in like condition when the lease commenced, the cost of any repairs will be deducted from the security deposit.

The Landlord shall provide the Tenant on or about the first day of each month during the term of this Lease Agreement a statement of fees for any typing, mailing, photocopying, and other services rendered to the Tenant under this Lease Agreement during the previous month. Such fees shall be payable in full at the Landlord's office immediately on or before the fifth day of each month, together with rent.

Landlord shall have the right to increase the base rent if the rent of the building is increased by the building owner,

provided that the increase not exceed seven percent(7%) for the period of the initial term of this Agreement.

In addition to seeking any other remedy or penalty under this Lease Agreement, the Landlord may impose a late charge in the amount of ten percent (10%) of any rent or fee payable under this Lease Agreement, or \$10 per day, whichever is greater, if full payment for such rent or fees is not received by Landlord before the fifth business day after it becomes payable. Such charge shall be payable in full at the Landlord's office immediately upon its imposition as provided herein. Landlord must give written notice of non-payment/late rent payments. It is further understood that if Tenant submits a check that cannot be processed through the bank because of lack of sufficient funds, there will be a 10% surcharge charged to the Tenant for each occasion.

Section 4. Conference Room. Tenant shall have the right to use the conference rooms and projection equipment during all weekdays except for national holidays in Suite 300 for business meetings during such times and in such manner as Landlord determines to be reasonable, taking into account the rights of other Tenants who use the conference rooms.

Section 5. Notice. Any notice to be furnished to the Landlord or Tenant under the terms of this Lease Agreement shall be sent to the following addresses.

As to Landlord:

PERKINS COMMERCIAL MANAGEMENT COMPANY, INC., An agent for an entity to be named later.

As to Tenant:

Vasco Data Security, Inc.  
1919 South Highland Avenue  
Lombard, Illinois 60148  
(708) 932-8844

IN WITNESS WHEREOF the parties have hereunto set their hands and seals this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_.

PERKINS COMMERCIAL MANAGEMENT  
COMPANY, INC.

TENANT  
Vasco Data Security, Inc.  
-----

By: -----

By: -----  
Authorized Agent

APPENDIX B  
SCHEDULE OF FEES FOR SPECIAL SERVICES

Secretarial Service	.....	\$21.00 per hour billed in 1/6 increments (\$3.50)
Photocopying	.....	-1 to 1000/18c/copy -over 1000/11c/copy
Postage or Other Delivery	.....	at cost + 25% handling fee
Facsimile	.....	\$2.00 per page outgoing \$2.00 per page incoming
Telephone	.....	\$30.00 per month (per-line)
Word Processing	.....	\$24.00 per hour billed in 1/6 increments (\$4.00)
Covered Parking	.....	\$60.00 per month
Security Card	.....	\$15.00/card after initial card
Surcharge for Additional Users	.....	\$150.00 per month/person

PRICES SUBJECT TO CHANGE

ADDITIONAL CHARGES:

## RULES AND REGULATIONS

- (1) Lessees will conduct themselves in a businesslike manner: proper attire will be worn at all times; and any noise will be kept to a level so as not to interfere with or annoy other tenants.
- (2) Lessee will not affix anything to the walls of the office premises without the prior written consent of the Lessor.
- (3) Lessee will not prop open any corridor doors, exit doors or door connecting corridors during or after business hours.
- (4) Lessee using public areas can only do so with consent of the Lessor, and those areas must be kept neat and attractive at all times.
- (5) All corridors, halls, elevators and stairways shall not be obstructed by Lessee or used for any purpose other than egress and ingress.
- (6) No advertisement or identifying signs or other notions shall be inscribed, painted or affixed on any part of the corridors, doors or public area.
- (7) The Lessee shall not, without the Lessor's written consent, store or operate any large business machine, reproduction equipment, heating equipment, stoves, speaker phone, radio, stereo equipment or other mechanical amplification equipment, refrigerator or coffee equipment or conduct a mechanical business



thereon, do any cooking thereon, or use or allow to be used on the premises oil, burning fluids, gasoline or kerosene, for heating, warming or lighting. No article deemed extra hazardous on account of fire, or any explosives, shall be brought onto said premises. No offensive gases, odors of liquids will be permitted.

- (8) If the Lessee requires any special wiring for business machines or otherwise, such wiring shall be done by electrician designated by the Lessor. The electrical current shall be used for ordinary lighting purposes only unless written permission to do otherwise shall first have been obtained by the Lessor at an agreed cost to Lessee.
- (9) If Lessee requires any special wiring for telephone equipment or otherwise, such wiring shall be done by the personnel designated by the Lessor. Lessee is limited to two lines for its benefit through the central telephone system which a monthly connect charge will be levied per line/extension.
- (10) The Lessor and its agents shall have the right to enter the premises at all reasonable hours for the purpose of making any repairs, alterations or additions which it shall have deemed necessary for the preservation, safety or improvement of said offices without in any way being deemed or held to have committed an eviction of the Lessee therein.
- (11) The Lessee shall give the Lessor immediate access to the premises if Lessee has given notice of intent to

vacate in accordance with the provisions of the Lease Agreement. the Lessee shall in no way hinder the Lessor from showing said premises.

(12) Lessee may not conduct business in hallways or corridors or any other areas except in its designated offices without written consent of the Lessor.

(13) Lessee will bring no animals on the premises.

(14) Lessee shall not remove furniture, fixtures or decorative material from offices without the prior written consent of the Lessor.

(15) The Lessor reserves the right to make such other reasonable rules and regulations as in its' judgment may from time to time be needed for the safety, care and cleanliness of the offices.

(16) There shall be no smoking within the Office Suites at any time. Furthermore, there is no smoking in any common area of the building (i.e. hallways and bathrooms).

reasonable rules and regulations as in its' judgment may from time to time be needed for the safety, care and cleanliness of the offices.

PERKINS COMMERCIAL MANAGEMENT  
CO. INC.

VASCO DATA SECURITY, INC.

By: -----  
initial

By: -----  
initial

APPENDIX D

FURNISHINGS

Landlord shall provide Tenant with the following furnishings during the term of the tenancy;

- 3 Desks
- 3 Desk Chairs
- 3 Side Chairs
- 2 Credenza
- 3 Lamps
- 3 Pictures
- 3 Phones

APPENDIX E

(1) Quiet Possession - So long as Lessee performs its obligations Lessor covenants to Lessee its quiet and peaceful possession of the leased space, and the right to use the same free of interference from noise, noxious or unpleasant fumes or odors or other disturbance from other tenants in the same building or center.

(2) Parking Facilities - Lessee, its employees, customers, and visitors shall have the right to use such parking facilities as may adjoin or be available to the building.

IN WITNESS WHEREOF the parties have hereunto set their hands and seals this \_\_\_\_ day of \_\_\_\_\_, 199 \_\_\_\_.

PERKINS COMMERCIAL MANAGEMENT CO., INC.

By: \_\_\_\_\_  
Authorized Agent

-----

By: \_\_\_\_\_

EMERGENCY PHONE LIST

This list is just to keep in our records in case we need to get in touch with you at a time when you cannot be reached in the office, and it is important that we reach you. Please include any car phone, home phone, other office phone, etc.

PLEASE PRINT

OFFICE PHONE # -----  
HOME ADDRESS -----  
-----  
HOME PHONE -----  
-----  
NAME OF CONTACT #1 -----  
PHONE # -----  
PHONE # -----  
-----  
NAME OF CONTACT #2 -----  
PHONE # -----  
PHONE # -----  
-----  
NAME OF CONTACT #3 -----  
PHONE # -----  
PHONE # -----  
-----

## ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT, dated as of August 20, 1996 by and between Wizdom Systems, Inc., a corporation duly organized under the laws of the State of Illinois ("Buyer"), and VASCO Corporation, a corporation duly organized under the laws of the State of Delaware ("Seller").

## W I T N E S S E T H:

WHEREAS, Seller is, among other things, engaged under the name of VASCO Performance Systems ("VPS") in the business of improving the productivity and profitability of its clients through consulting, training and intelligent application of technology (the "Business"); and

WHEREAS, Buyer wishes to purchase from Seller and Seller wishes to sell to Buyer substantially all of the assets (both tangible and intangible) of Seller used in connection with the Business.

NOW, THEREFORE, in consideration of one (1) copy of the WizdomWorks for Windows Enterprise Edition software, including upgrades and a reasonable amount of training for the term of this Agreement, and the premises and the mutual agreements hereinafter set forth, the parties hereto hereby agree as follows:

ARTICLE I  
PURCHASE AND SALE OF ASSETS

1.01 Purchase of Assets. On the terms and subject to the conditions set forth herein, at the "Closing" (as defined in Section 2.01) Buyer shall purchase from Seller, and Seller shall sell, assign, transfer, convey and deliver to Buyer, all of Seller's right, title and interest in and to all of the assets and properties owned or used by Seller in the Business including those assets described in Section 1.02 hereof, except for the Excluded Assets (as defined below); all of such assets and properties being hereinafter collectively referred to as the "Purchased Assets."

1.02 Purchased Assets. The Purchased Assets shall include, without limitation, all of Seller's right, title and interest in and to all of the following assets whether tangible or intangible:

- (a) Accounts receivable;
- (b) Name (VASCO Performance Systems) for a two year period; (Name will revert to Seller at end of two year period. Buyer agrees to include a disclaimer on all materials where VASCO Performance Systems is used (i.e. "not affiliated with VASCO Corp.))
- (c) Rights (as defined in Section 5.09 hereof);
- (d) Contracts to supply services to unaffiliated third parties;
- (e) Methodologies related to training services of VPS;
- (f) All client/project files of VPS;
- (g) Any marketing materials on hand for VPS; and
- (h) Goodwill.

1.03 Excluded Assets. The Purchased Assets shall not include:

- (a) Any and all assets of Seller not associated with the Business;
- (b) The minute books of the Seller;
- (c) Telephone number of the Seller; and
- (d) The tax returns of the Seller.

The foregoing are collectively referred to herein as the "Excluded Assets."

1.04 Instruments of Transfer. Seller shall deliver to Buyer at Closing such bills of sale, title documents and assignments and consents (where required) in form and substance satisfactory to Buyer and its counsel sufficient to vest in Buyer good and valid title to all of Seller's right, title and interest in and to the Purchased Assets free and clear of all mortgages, claims, liens, charges or encumbrances of any kind or nature whatsoever.

## ARTICLE II CLOSING

2.01 Closing. The Closing of the transactions contemplated hereby (the "Closing") shall take place at Wizdom Systems, Inc. 1300 Iroquois Road, Naperville, IL or at such other place or time as shall be mutually agreed on by the parties hereto (such time on such date or such other agreed upon time and date is called the "Closing Date").

## ARTICLE III CONSIDERATION

3.01 Purchase Price. The purchase price to be paid by Buyer for and in consideration of the sale, assignment, transfer, conveyance and delivery of the Purchased Assets shall be in the form of a royalty ("Royalty") and shall be equal to five percent (5%) of gross training revenues in excess of \$350,000 on an annual basis for a period of five (5) years from the date of this Agreement, as reported to Seller on a quarterly basis. Seller reserves the right to inspect the books and records of Buyer relating to the Business during this five year period, upon at least forty-eight (48) hours written notice to Buyer and during normal business hours. Any such inspection shall be conducted so as not to disrupt Buyer's operations.

3.02 Payment of Purchase Price. Payment of the Royalty will be made in accordance with Schedule 3.02. The \$350,000 amount shall be prorated to reflect periods of more and less than one year, respectively.

## ARTICLE IV ASSUMED OBLIGATIONS

4.01 Assumption. At the Closing, Buyer shall assume and agree to pay, perform and discharge the obligations of Seller (the "Assumed Obligations") arising from and after the Closing Date pursuant to those contracts of Seller being transferred to Buyer and specifically identified as an "Assumed Contract" on Schedule 4.01 hereof (the "Assumed Contracts"); provided however Assumed Obligations do not include any liability arising out of or from the Assumed Contracts for acts or omissions with respect to the Assumed Contracts prior to the Closing Date. Any other provision of this Agreement to the contrary notwithstanding, Buyer shall not and does not assume any liability or obligation of Seller whether or not disclosed in this Agreement other than as is set forth in this Section 4.01 or Schedule 4.01 subject to the foregoing limitation.

4.02 Representations and Warranties with Respect to the Assumed Customer Contracts. With respect to the Assumed Contracts with Andrew Corporation, Pitney Bowes, Safety Kleen Corporation, Waste Management, Inc. and United Airlines (Linda Porter Consulting) (the "Assumed Customer Contracts"), Seller represents and warrants that as of the date hereof and as of the Closing Date:

(a) on Schedule 4.02 is set forth a true and complete statement of the amounts paid to Seller by the other parties to the Assumed Customer Contracts (the "Customer") and the amount yet to be received under the Assumed Customer Contracts if Buyer performs the remaining work to be performed under such Assumed Customer Contracts;

(b) on Schedule 4.02 is set forth a true and complete statement of the amount of work that remains to be performed with respect to each of the Assumed Customer Contracts;

(c) none of the Assumed Customer Contracts is in default by either party and Seller has no knowledge of an event or omission which with notice or the lapse of time or both would become a default under any Assumed Customer Contract by any party thereto;

(d) none of the Customers have requested that Seller indemnify it as provided in the Assumed Customer Contracts; Seller has no information that would lead it to believe that a claim for indemnification under the Assumed Customer Contracts was likely; and Seller has received no information from any Customer indicating that it is considering requesting such indemnification;

(e) to the best of Seller's knowledge, none of the Customer is considering canceling, modifying or otherwise amending its Assumed Customer Contract;

(f) Seller believes its relationships with the Customers are satisfactory and the Customers are satisfied with the services that they have received from Seller under the Assumed Customer Contracts; and

(g) the Assumed Customer Contracts are all the uncompleted contracts for services to be performed by Seller relating to the Business to which Seller is a party.

4.03 Representations and Warranties with Respect to the Assumed Subcontractor Contracts. With respect to the Assumed Contracts with Howard D. Blazek, Mary Ann Winchester and Jack Root (the "Assumed Subcontractor Contracts"), Seller represents and warrants that as of the date hereof and as of the Closing Date:

(a) none of the Assumed Subcontractor Contracts is in default by either party thereto and Seller has no knowledge of an event or omission which with notice or the lapse of time or both would become a default under any Assumed Subcontractor Contract by any party thereto;

(b) to the best of Seller's knowledge, none of the other parties to the Assumed Subcontractor Contracts (the "Subcontractors") is considering canceling, modifying or otherwise amending its Assumed Subcontractor Contract;

(c) Seller believes its relationships with the Subcontractors are satisfactory and it has received no substantive complaints by the Subcontractors;

(d) to the best of Seller's knowledge, Seller's Customers under the Assumed Customer Contracts are satisfied with the services that they have received from the Subcontractors; and

(e) no amounts not disclosed herein are owed to the Subcontractors under the Assumed Subcontractor Contracts.



4.04 Consents. At the Closing, Seller shall deliver to the Buyer signed written consents of each of the other parties to the Assumed Contracts (the "Assumed Contract Consents") stating that: (i) such party consents to the assignment to Buyer of the Assumed Contract to which it is a party; (ii) to the best of such party's knowledge, there is no default or event which with the giving of notice or the lapse of time or both which would become a default under such contract; (iii) in the case of the Assumed Subcontractor Contracts, there are no amounts owed the Subcontractor under such contract or the amount owed, if any; and (iv) in the case of the Assumed Customer Contract, the amount that the Customer has paid to the Seller under such Assumed Customer Contract and the work that remained to be performed under such contract as of a date within three days of the Closing Date.

#### ARTICLE V REPRESENTATIONS AND WARRANTIES OF SELLER

The Seller hereby represents and warrants to and agree with Buyer as follows:

5.01 Organization and Good Standing. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Seller has full corporate power and authority to conduct the Business.

5.02 Authority and Compliance. Seller has full corporate power and authority to execute and deliver this Agreement and any and all documents in connection herewith and the transactions contemplated hereby. The consummation and performance by Seller of the transactions contemplated by this Agreement have been duly and validly authorized by all necessary corporate and other proceedings. This Agreement has been duly and validly executed and delivered by the Seller and constitutes a valid obligation of the Seller, enforceable against the Seller in accordance with its terms. No consent, authorization or approval of, exemption by, or filing with, any domestic governmental or administrative authority, or any court, or any third party is required to be obtained or made by Seller in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

5.03 No Conflict. The performance of this Agreement and the consummation of the transactions contemplated hereby will not result in a breach or violation of any of the terms or provisions of, or constitute a default under, (i) the articles of incorporation or by-laws or similar governing documents of Seller, (ii) any contract or other agreement or instrument to which Seller is a party or by which it is bound, or (iii) any law, order, rule, regulation, writ, injunction or decree applicable to Seller.

5.04 Compliance with Law. Seller and its use of the Purchased Assets and its conduct of the Business are in compliance in all material respects of any applicable law or ordinance, or any order, rule or regulation of any governmental agency or body to which Seller or the Purchased Assets are subject; nor has Seller failed to obtain or to adhere in all material respects to the requirements of any government license, permit or authorization necessary to the ownership of the Purchased Assets or to the conduct of the Business.

5.05 Financial Statements. Seller has provided Buyer with a 90-day pro-forma income statement of the Business (the "Financial Statement"). The Financial Statement is true and correct and presents fairly, in all material respects, the projected results of its operations for said 90-day period in conformity with generally accepted accounting principles, consistently applied. The Financial Statement is attached hereto as Exhibit 5.05 and made a part hereof.

5.06 Title to Assets. At the Closing, Seller will convey to Buyer good and valid marketable title to all of the Purchased Assets, free and clear of all liens, pledges, mortgages, security interests, licenses, and other encumbrances of any kind or nature whatsoever.

5.07 Condition of Assets. All tangible assets and properties included in the Purchased Assets are as of the date hereof and on the Closing Date will be in good operating condition and repair in all material respects (normal wear and tear excepted) and are usable in the ordinary course of the Business as previously conducted.

5.08 Absence of Certain Events. Since December 31, 1995 Seller has not:

(a) sold, assigned or transferred any of its assets or properties necessary for the operation of the Business, except in the ordinary course of business consistent with past practice;

(b) made any amendment or termination of any material contract, commitment or agreement relating to the Business to which it is a party or by which it is bound;

(c) suffered any material adverse change or received verbal or written notice of a material adverse change in their business relations with any of the major suppliers or customers of the Business which would, individually or in the aggregate, have a material adverse effect on the conduct of the Business;

(d) with respect to the employees of the Business, received notice or had knowledge of any strike or disruption or lost the services of any key employee of the Business or received notification of the threatened or imminent loss of any such employee.

5.09 Patents, Trademarks, Copyrights, etc. Except for as set forth in Section 1.02, there are no patents, patent rights, patent applications, licenses, shop rights, trademarks, trademark or any other intellectual property applications, trade names, copyrights, computer software and similar rights (collectively "Rights") currently owned or used in the conduct of the Business. The Purchased Assets include Rights and other proprietary information necessary to the conduct of the Business as currently being conducted. No patents, formulae, know-how, secrets, trademarks, trademark registrations, logos, trade names, assumed names, copyrights or computer software used in the Business including the Purchased Assets infringe on any patents, trademarks, or copyrights, or any other rights of any person. Seller has taken all reasonable measures to maintain and protect the patents, trademarks, trademark registrations, logos, trade names, assumed names, copyrights and copyright registrations and trade secrets listed in Section 1.02. Seller has not received notice of any claims which have been asserted by any person to the use of any such patents, trademarks, trademark registrations, logos, trade names, assumed names, copyrights and copyright registrations or trade secrets or challenging or questioning the validity or effectiveness of any such license or agreement.

5.10 Legal Proceedings, Etc. There are no claims, actions, suits, proceedings, arbitrations or investigations, either administrative or judicial, pending or, to the best knowledge of Seller, threatened by, or against Seller, which could harm or restrict the Buyer, the Business or the Assumed Contracts.

5.11 Disputes. There are no strikes or disruptions of work involving the employees of the Business of a concerted nature. Seller is not a party to any collective bargaining agreement with any union or other representative of employees.

5.12 Customers; Suppliers; Adverse Conditions. Since December 31, 1995 there has not been any termination or cancellation, nor has Seller received verbal or written notice of any threatened termination or cancellation of the business relationship of the Seller with (a) any of the customers of the Business, or (b) any of the major suppliers of the Business which would, either individually or in the aggregate have a material adverse effect on the Business.

5.13 Contracts and Commitments. Seller is not a party to any:

(i) Contract (as defined below) with any present or former shareholder, director, officer, employee or consultant (including, without limitation, any employment agreement);

- (ii) Contract for the future purchase of, or payment for, supplies or products involving payment of in excess of \$50,000 or for the performance of services by a third party involving payment in excess of \$25,000;
- (iii) Contract to sell or supply products or to perform services involving receipt by the Seller in excess of \$50,000 other than the Assumed Contracts;
- (iv) Representative, sales agency or distribution agreement, contract or commitment;
- (v) Contract or Contracts for the borrowing of money for a line of credit, or for a guarantee, pledge or undertaking of the indebtedness of any other person;
- (vi) Contract with respect to any Rights;
- (vii) Contract limiting or restraining in any respect Seller from engaging or competing in any lines of business or with any person; or
- (viii) any other Contract material to the operation of the Business.

As used in the Agreement, the term "Contract" includes any mortgage, indenture, agreement, contract, commitment or lease.

5.14 Employees. Schedule 5.14 hereof sets forth the name of each employee of Seller who performs services related to the Business and the job description and rate of compensation of each such employee as of the date hereof. Seller has no knowledge of any dispute between Seller and any such employee, any customer or other substantive complaints against any such employee, or any activities by such employee disruptive of the workplace.

#### ARTICLE VI COVENANTS

6.01 Confidential Information. Seller agrees with Buyer for itself only that it shall keep secret and retain in strictest confidence, and shall not use for the benefit of itself or others, all confidential matters relating to the Business.

6.02 August Billings. Buyer shall be entitled to receive all proceeds to which Seller would otherwise be entitled to receive for work performed by Seller under the Assumed Customer Contracts on or after August 1, 1996. All billings for such period shall be sent directly to Buyer; however, in the event that Customer remits payment to Seller, Seller agrees to submit payment to Buyer within three (3) business days. To the best of Seller's knowledge, such billings will be fully collectable by Buyer in the ordinary course of business, and will not be subject to any defense or setoff.

6.03 Outstanding Accounts Receivable. Buyer shall be entitled to receive all proceeds to which Seller would otherwise be entitled to received for work performed by Seller under the Assumed Customer Contracts or otherwise and which had not been received by Seller on or prior to August 19, 1996 (the "Outstanding Accounts Receivable"). Seller represents that as of the close of business on August 19, 1996 Seller had Outstanding Accounts Receivable with a face amount of \$20,768.28 outstanding and, to the best of the Seller's knowledge, such accounts receivable are collectable by Buyer in the ordinary course of business and within 60 days of the date hereof, and are not subject to any defense or setoff. At the Closing, Seller shall pay Buyer the amount of all Outstanding Accounts Receivable collected by Seller after August 19, 1996 and shall immediately forward to Buyer all amounts received with respect to such accounts receivable on or after the Closing Date. Seller shall provide

Buyer with such assistance as Buyer may reasonably request with respect to the Outstanding Accounts Receivable or the billings issued with respect to work performed under the Assumed Customer Contracts during the month of August, 1996.

6.04 Assumed Subcontractor Contracts. VASCO shall be solely responsible for paying the Subcontractors for all amounts owed the Subcontractors for services provided under the Assumed Subcontractor Contracts on or prior to August 20, 1996. VASCO shall pay all such amounts in a timely fashion.

ARTICLE VII  
CONDITIONS PRECEDENT TO THE OBLIGATIONS OF BUYER

The obligations of Buyer pursuant to this Agreement are subject to the satisfaction at the Closing of each of the following conditions, any one or more of which may be waived by Buyer.

7.01 Accuracy of Representation and Warranties. The representations and warranties of Seller contained in this Agreement shall be true on and as of the Closing Date with the same force and effect as through made on and as of the Closing Date, except as effected by transactions contemplated hereby.

7.02 Performance of Agreement. Seller shall have performed and complied with all covenants, obligations and agreements to be performed or complied with by them on or before the Closing Date pursuant to this Agreement.

7.03 Officer's Certificate. Buyer shall have received a certificate of the Chief Executive Officer of Seller, dated the Closing Date, certifying as to the fulfillment of the conditions set forth in Sections 7.01 and 7.02 hereof.

7.04 Actions, Proceedings, etc. All actions, proceedings, instruments and documents required to carry out the transactions contemplated by this Agreement and all other related legal matters shall be reasonably satisfactory to Buyer and its counsel; and Buyer shall have been furnished with such other instruments and documents as it shall have reasonably requested.

7.05 Post Closing Employment. Effective as of the Closing, Buyer shall have entered into employment agreements in the form customarily used by Buyer with those employees of Seller listed on Schedule 5.14 (the "Acquired Employees"). Such agreements shall make available to each Acquired Employee such salary as are currently provided to such Acquired Employee by Seller and the benefits Buyer customarily makes available to its own employees. Each such employee shall be credited with the seniority and accrued vacation pay such employees had with the Seller as of the Closing.

7.06 Payment. At the Closing, Seller shall pay Buyer the amount provided in Section 6.03, if any.

ARTICLE VIII  
CONDITIONS PRECEDENT TO THE OBLIGATION OF SELLER

The obligations of Seller under this Agreement are subject to the satisfaction at the Closing of each of the following conditions, any one or more of which may be waived by Seller.

8.01 Accuracy of Representation and Warranties. The representations and warranties of Buyer contained in this Agreement shall be true on and as of the Closing Date with the same force and effect as though made on and of the Closing Date, except as effected by transactions contemplated hereby.



If to Seller: VASCO Corp.  
1919 S. Highland Avenue, Suite 118-C  
Lombard, IL 60148  
Attn: Mr. Ken Hunt

with a copy to: Laidley, Sutter & Porter  
339 North Milwaukee Avenue  
Libertyville, IL 60048-2249  
Attn: Mr. Forrest D. Laidley

The above addresses may be modified by providing written notice as provided above to the other parties.

10.04 Assignability and Amendments. Seller may assign the right to receive the royalties payable under Article III without the consent of the Buyer. Except as provided above, this Agreement shall not be assignable by either party without the express written consent of the other party hereto. This Agreement cannot be altered or otherwise amended except pursuant to an instrument in writing signed by each of the parties.

10.05 Entire Agreement. This Agreement and the Exhibits and Schedules which are a part hereof and the other writings and agreements specifically identified herein contain the entire agreement between the parties with respect to the transactions contemplated herein and supersede all previous written or oral negotiations, commitments and understandings.

10.06 Waivers, Remedies. Any waiver hereunder must be in writing and signed by the party to be bound thereby. A waiver of any of the terms or conditions of this Agreement shall not in any way affect, limit or waive a party's rights under any other term or condition of this Agreement. All remedies under this Agreement shall be cumulative and not alternative.

10.07 Counterparts and Headings. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. All headings are inserted for convenience of reference only and shall not affect the meaning or interpretation of this Agreement.

10.08 Severability. If and to the extent that any court of competent jurisdiction holds any provision (or any part thereof) of this Agreement to be invalid or unenforceable, such holding shall in no way affect the validity of the remainder of this Agreement.

10.09 Binding Effects. This Agreement shall be binding upon and inure to the benefit of the parties hereto, their successors, legal representatives and assigns.

10.10 Governing Law. This Agreement shall be governed by the laws of Illinois.

VASCO CORPORATION

WIZDOM SYSTEMS, INC.

Signed: /s/ T. Kendall Hunt

Signed: /s/

Name:

Name:

Title: President

Title: CFO

SCHEDULE 3.02  
PAYMENT OF PURCHASE PRICE

Payment of the Royalty will be made on an annual basis in accordance with the following schedule:

	PERIOD COVERED -----	DATE DUE -----
Initial payment	Inception through 12/31/97	February 15, 1998
Annual payment	01/01/98 through 12/31/98	February 15, 1999
Annual payment	01/01/99 through 12/31/99	February 15, 2000
Annual payment	01/01/2000 through 12/31/2000	February 15, 2001
Final payment	01/01/2001 through 08/16/2001	October 01, 2001

SCHEDULE 4.01  
ASSUMED OBLIGATIONS/ASSUMED CONTRACTS

Assumed Obligations

- - - - -

Subcontract for WMI - Howard D. Blazek

Subcontract for WMI - Mary Ann Winchester

Subcontract for Safety-Kleen - Jack Root

Assumed Contracts

- - - - -

Services Agreement - Andrew Corp.

Services Agreement - Pitney Bowes

Services Agreement - Safety-Kleen Corporation

Services Agreement - Waste Management, Inc.

Services Agreement - United Airlines (Linda Porter Consulting)



SCHEDULE 4.02  
ASSUMED CONTRACTS - WORK REMAINING

Customer - - - - -	Hours Remaining	
	September -----	October -----
Pitney Bowes	76	-
Waste Management, Inc.	215	-
Andrew Corp.	115	115
United Airlines (Linda Porter Consulting)	56	56
Safety Kleen	70	30

With regard to the amounts paid to VPS for services already rendered, all contracts are billed based upon time and materials (with the exception of Safety Kleen which is a fixed bid). Therefore, the amount already paid is not applicable for determining the balance of the contracts. Expected remaining revenue on the above contracts is outlined on Exhibit 5.05.

SCHEDULE 5.14  
ACQUIRED EMPLOYEES

The following represents a listing of the employees to be transferred as part of this Agreement:

Name	Title	Salary (annual)
- - - - -	- - - - -	- - - - -
Chris Bryant	Project Manager	\$55,000
Mike Tillmans	Director Consulting & Development	\$65,000
Phil Vitkus	Account Executive	\$60,000

1997 VASCO DATA SECURITY INTERNATIONAL, INC. STOCK OPTION PLAN  
AS AMENDED

1. PURPOSE

The purpose of the Plan is to promote the long-term success of the Company for the benefit of the stockholders by encouraging officers and employees of VASCO to have meaningful investments in the Company so that, as stockholders themselves, those individuals will be more likely to represent the views and interests of other stockholders and by providing incentives to such officers and employees for continued service. The Company believes that the possibility of participation under the Plan will provide this group of officers and employees an incentive to perform more effectively and will assist VASCO in attracting and retaining people of outstanding training, experience and ability.

2. DEFINITIONS

- 2.1 "Authorized Plan Shares" shall have the meaning set forth in Section 6.1.
- 2.2 "Award" shall mean an award or grant made to a Participant under Section 8.
- 2.3 "Award Agreement" shall mean the agreement provided in connection with an Award under Section 10.
- 2.4 "Award Date" shall mean the date that an Award is made, as specified in an Award Agreement.
- 2.5 "Board of Directors" shall mean the Board of Directors of the Company.
- 2.6 "Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor legislation.
- 2.7 "Company" shall mean VASCO Data Security International, Inc.
- 2.8 "Common Stock" shall mean the Company's common stock, \$.001 par value per share.
- 2.9 "Dividend Equivalent" shall mean an amount equal to the amount of the cash dividends that are declared and become payable after the Award Date for the Award to which it relates and on or before the Settlement Date for such Award.
- 2.10 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.
- 2.11 "Fair Market Value" on any date shall mean the average of the high and low closing bid quotations on the Over-the-Counter Bulletin Board ("OTC BB") of a share of Common Stock for such date, or if the Common Stock is quoted as listed

on the Nasdaq Stock Market or a different national securities exchange (a "National Exchange"), the average of the highest and the lowest sales prices on the applicable National Exchange for such date, provided that if (i) no sales of Common Stock are included on the OTC BB or the National Exchange, as applicable, for such date, or (ii) in the opinion of the Committee the sales of Common Stock on such date on the OTC BB or the National Exchange, as applicable, are insufficient to constitute a representative market, then the Fair Market Value of a share of Common Stock on such date shall be deemed to be the average of the high and low closing bid quotations on the OTC BB, or the average of the highest and lowest sales prices on the applicable National Exchange, of a share of Common Stock for the next preceding day on which (x) sales of Common Stock are included and (y) sales on such day are sufficient in the opinion of the Committee to constitute a representative market.

- 2.12 "ISO" shall mean any Stock Option (included any Reload Stock Option) designated in an Award Agreement as an "Incentive Stock Option" within the meaning of Section 422 of the Code.
- 2.13 "Non-Qualified Stock Option" shall mean any Stock Option that is not an ISO.
- 2.14 "Option Price" shall mean the purchase price of one share of Common Stock under a Stock Option.
- 2.15 "Participant" shall mean a person who has been selected by the Committee to receive an Award under the Plan.
- 2.16 "Plan" shall mean this 1997 VASCO Data Security International, Inc. Stock Option Plan, as amended from time to time.
- 2.17 "Reload Stock Option" shall mean a Stock Option (i) that is awarded, either automatically in accordance with the terms of an Award Agreement in which one or more other Awards are made or by separate Award, upon the exercise of a stock option granted under this Plan or otherwise where the option price is paid by the option holder by delivery of shares of Common Stock on the Settlement Date for such exercise and (ii) that entitles such holder to purchase the number of shares so delivered for an Option Price equal to the Fair Market Value of a share of Common Stock on such Settlement Date.
- 2.18 "Rule 16b-3" shall mean Regulation Section 240.16b-3 of the rules and regulations of the Securities Exchange Commission promulgated under the Exchange Act.
- 2.19 "Settlement Date" shall mean (i) with respect to any Stock Option that has been exercised in whole or in part, the date or dates upon which shares of Common Stock are to be delivered to the Participant and the Option Price therefor paid and

(ii) with respect to Dividend Equivalents, the date upon which payment thereof is to be made, in each case, determined in accordance with the terms of the Award Agreement under which any such Award was made.

2.20 "Stock Option" or "Option" shall mean any right to purchase shares of Common Stock (including Reload Stock Option) awarded pursuant to Section 8.1.

2.21 "VASCO" shall mean the Company, any stock corporation of which a majority of the capital stock generally entitled to vote for directors is owned directly or indirectly by the Company, and any other company designated as such by the Committee, but only during the period of such ownership or designation.

### 3 TERM

The Plan shall be effective as of July 21, 1997 and shall remain in effect until terminated by the Board of Directors or the Committee. After termination of the Plan, no further Awards may be granted other than Reload Stock Options granted in accordance with the Award Agreements existing as of the date the Plan is terminated, but outstanding Awards shall remain effective in accordance with their terms and the terms of the Plan.

### 4 PLAN ADMINISTRATION

4.1 The Committee shall be responsible for administering the Plan.

4.1.1 Composition of the Committee. The Committee shall be comprised of two or more members of the Board of Directors, all of whom shall be "non-employee directors" as defined in Rule 16b-3.

4.1.2 Powers. The Committee shall have full and exclusive discretionary power to interpret the Plan and to determine eligibility for benefits and to adopt such rules, regulations and guidelines for administering the Plan as the Committee may deem necessary or proper. Such power shall include, but not be limited to, selecting Award recipients, establishing all Award terms and conditions and, subject to Section 11, adopting modifications and amendments to the Plan or any Award Agreement, including without limitation, any that are necessary to comply with the laws of the countries in which the Company or its affiliates operate.

4.1.3 Delegation. The Committee may delegate to one or more of its members or to one or more agents or advisers such non-discretionary administrative duties as it may deem advisable, and the Committee or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan.

- 4.2 The Committee may employ attorneys, consultants, accountants and other persons, and the Committee, the Company and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such person. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Participants, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan or Awards, and all members of the Committee shall be fully protected by the Company, to the fullest extent permitted by applicable law, in respect of any such action, determination or interpretation.

5 ELIGIBILITY

Awards will be limited to persons who are officers, employees, directors, consultants or advisers of VASCO, provided that bona fide services shall be rendered by consultants or advisers and such services must not be in connection with the offer or sale of securities in a capital-raising transaction. In determining the persons to whom Awards shall be made, the Committee shall, in its discretion, take into account the nature of the person's duties, past and potential contributions to the success of the Company and such other factors as the Committee shall deem relevant in connection with accomplishing the purposes of the Plan. A person who has received an Award or Awards may receive additional Award or Awards. For Purposes of this Section 5, the terms "employee" and "officer" shall also include any former employee or former officer of VASCO eligible to receive a replacement award.

6 AUTHORIZED AWARDS AND LIMITATIONS

- 6.1 Except for adjustments pursuant to Section 7, the maximum number of shares of Common Stock that shall be available for issuance under the Plan (the "Authorized Plan Shares") shall be 5,000,000.
- 6.2 If an Award expires unexercised or is forfeited, surrendered, canceled, terminated or settled in cash in lieu of Common Stock, the shares of Common Stock that were theretofore subject (or potentially subject) to such Award may again be made subject to an Award Agreement.
- 6.3 Common Stock that may be issued under the Plan may be either authorized and unissued shares, or issued shares that have been reacquired by the Company and that are being held as treasury shares. No fractional shares of Common Stock shall be issued under the Plan; provided, however, that cash, in an amount equal to the Fair Market Value of a fractional share of Common Stock as of the Settlement Date of the Award, shall be paid in lieu of any fractional shares in the settlement of Awards payable in shares of Common Stock.

## 7 ADJUSTMENTS AND REORGANIZATIONS

The Committee may make such adjustments to Awards granted under the Plan (including the terms, exercise price and otherwise) as it deems appropriate in the event of changes that impact the Company, the Company's share price or share status.

In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, extraordinary dividend, spin-off, split-up, rights offering, share combination, or other change in the corporate structure of the Company affecting the Common Stock, the number and kind of shares that may be delivered under the Plan and the number, kind and price of shares subject to outstanding Awards and any other terms of outstanding Awards shall be subject to such equitable adjustments as the Committee, in its sole discretion, may deem appropriate.

## 8 AWARDS

The Committee shall determine the type and amount of any Award to be made to any Participant. Awards may be granted singly, in combination, or in tandem. Awards may also be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for, grants under any other employee benefit or compensation plan of the Company, including any such employee benefit or compensation plan of any acquired entity.

## 8.1 Stock Options

8.1.1 Grants. Stock Options (including Reload Stock Options) granted under this Plan may be either of the following:

8.1.1.1 an ISO or

8.1.1.2 a Non-Qualified Stock Option

The Committee may grant any Participant one or more ISOs, Non-Qualified Stock Options, or both types of Stock Options, in each case with or without Reload Stock Options. Stock Options granted pursuant to this Plan shall be subject to such additional terms, conditions, or restrictions as may be provided in the Award Agreement relating to such Stock Option.

8.1.2 ISOs. Anything in this Plan to the contrary notwithstanding, no term of this Plan relating to ISOs shall be interpreted, amended or altered, nor shall any discretion or authority awarded under the Plan be exercised, as to disqualify this Plan under Section 422 of the Code, or, without the consent of the Participants affected, to disqualify any ISO under Section 422 of the Code.

- 8.1.2.1 The Option Price of an ISO shall not be less than 100% of the Fair Market Value of a share of Common Stock on the Award Date.
  - 8.1.2.2 An ISO shall not be granted to an individual who, on the date of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company. However, this rule shall not apply if at the time the ISO is granted the Option Price is at least 110% of the Fair Market Value of the Common Stock subject to the ISO and the ISO by its terms is not exercisable after the expiration of five years from the date the ISO is granted.
  - 8.1.2.3 The aggregate Fair Market Value, determined on the Award Date, of the shares of Common Stock or other stock with respect to which one or more ISOs that are exercisable for the first time by the Participant during any particular calendar year shall not exceed the \$100,000 limitation imposed by Section 422(d) of the Code.
  - 8.1.2.4 An ISO shall be granted within ten years from the date the Plan is adopted, or the date the Plan is approved by the stockholders, whichever is earlier. An ISO by its terms shall not be exercisable after the expiration of ten years from the date the ISO was granted.
- 8.1.3 Manner of Payment of Option Price. The Option Price shall be paid in full at the time of the exercise of the Stock Option and may be paid in any of the following methods or combinations thereof:
- 8.1.3.1 In United States dollars in cash, check, bank draft or money order payable to the order of the Company;
  - 8.1.3.2 By delivery of shares of Common Stock having an aggregate Fair Market Value on the date of such exercise equal to the Option Price;
  - 8.1.3.3 Participants may simultaneously exercise Stock Options and sell their shares of Common Stock acquired thereby and apply the proceeds to the payment of the Option Price pursuant to the procedures established by the Committee;
  - 8.1.3.4 In any other manner that the Committee shall approve; and
  - 8.1.3.5 Any shares of Common Stock required or permitted to be sold by an executive officer in connection with the payment of the Option Price shall be transferred to the Company.



8.1.4 Reload Stock Options. The Committee may award Reload Stock Options to any Participant either in combination with other Awards or in separate Award Agreements that grant Reload Stock Options upon exercise of outstanding stock options granted under this Plan or otherwise.

## 8.2 Dividend Equivalents

The Committee may provide in any Award Agreement in which Stock Options are awarded that such Stock Options may accrue Dividend Equivalents.

## 9 TRANSFERABILITY AND BENEFICIARIES

No Awards under the Plan shall be assignable, alienable, saleable or otherwise transferable other than by will or the laws of descent and distribution, or pursuant to a qualified domestic relations order (as defined by the Code) or Title I of the Employee Retirement Income Security Act, or the rules thereunder unless otherwise determined by the Committee.

## 10 AWARD AGREEMENTS

Awards under the Plan shall be evidenced by Award Agreements that set forth the details, conditions and limitations for each Award, which may include the term of an Award, the provisions applicable in the event the Participant's employment terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind any Award.

## 11 AMENDMENTS AND COMPLIANCE WITH RULE 16B-3

The Committee may suspend, terminate, or amend the Plan as it deems necessary or appropriate, except that, without the approval of the Company's shareholders, no such amendment shall be made for which shareholder approval is necessary to comply with any applicable tax or regulatory requirement, including for these purposes any approval requirement which is a prerequisite for exemptive relief under Section 16b of the Exchange Act.

## 12 TAX WITHHOLDING

The Company shall have the right to (i) make deductions from any settlement of an Award made under the Plan, including the delivery or vesting of shares, or require shares or cash or both be withheld from any Award, in each case in an amount sufficient to satisfy withholding of any federal, state or local taxes required by law, or (ii) take such other action as may be necessary or appropriate to satisfy any such withholding obligations. The Committee may determine the manner in which such withholding may be satisfied, and may permit shares of Common Stock (rounded up to the next whole number) to be used to satisfy required tax withholding based on the Fair Market Value of any such shares of Common Stock, as of the Settlement Date of the applicable Award.

## 13 OTHER COMPANY BENEFIT AND COMPENSATION PROGRAMS

Unless otherwise specifically determined by the Committee, settlements of Awards received by a Participant under the Plan shall not be deemed a part of the Participant's regular, recurring compensation for purposes of calculating payments or benefits from any benefit plan, severance program or severance pay law of any country. Further, VASCO may adopt other compensation programs, plans or arrangements as it deems appropriate or necessary.

## 14 UNFUNDED PLAN

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any Participant or other person. To the extent any person holds any rights by virtue of a grant awarded under the Plan, such right (unless otherwise determined by the Committee) shall be no greater than the right of an unsecured general creditor of the Company.

## 15 FUTURE RIGHTS

No person shall have any claim or right to be granted an Award under the Plan, and no Participant shall have any right under the Plan to be retained in the employment of VASCO.

## 16 GOVERNING LAW

The validity, construction and effect of the Plan, and any actions taken or relating to the Plan, shall be determined in accordance with the laws of the State of Delaware and applicable federal law.

## 17 SUCCESSORS AND ASSIGNS

The Plan shall be binding on all successors and assigns of a Participant, including without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

## 18 RIGHTS AS A SHAREHOLDER

Except as otherwise provided in any Award Agreement, a Participant shall have no rights as a shareholder of the Company until he or she becomes the holder of record of Common Stock.

## 19 LIABILITY

No award or other transaction shall be permitted under this Plan which would have the effect of imposing liability for a Participant under Section 16 of the Exchange Act. Irrespective of any other provision of this Plan or Award Agreement, any such Award or other transaction purportedly made under or pursuant to this Plan shall be void, ab initio.

CERTAIN PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THE OMITTED PORTIONS, MARKED WITH AN \*\*, HAVE BEEN SUBMITTED TO THE COMMISSION WITH THE CONFIDENTIAL TREATMENT REQUEST.

Agreement #970422-02

DISTRIBUTOR AGREEMENT

BETWEEN VASCO DATA SECURITY, INC., 1919 SOUTH HIGHLAND AVE., SUITE 118-C, LOMBARD, IL 60148, USA,

FAX: 1-630-495-0279 ("VASCO")  
and

HUCOM, INC., 1-7-7 UMESATO, SUGINAMI-KU, TOKYO, JAPAN 166, FAX: 81-3-5306-7334 ("DISTRIBUTOR")

Distributor agrees to purchase the "Product or "Products" described in the attached exhibits subject to the terms and conditions stated in:

- (a) the VASCO Standard Terms and Conditions of Sale except where specifically amended in a writing signed by a VASCO officer;
- (b) the DISTRIBUTOR Discount Schedule
- (c) the DISTRIBUTOR Agreement; and
- (d) any other exhibits attached to and made a part of this DISTRIBUTOR Agreement.
- (e) Confidential Information Disclosure Agreement

1. DISTRIBUTOR APPOINTMENT AND CERTAIN COVENANTS

VASCO hereby appoints the Distributor, effective May 1, 1997, as its Exclusive Distributor, in the territory specified in the attached Exhibit A ("Territory"), subject to the terms and conditions set forth in this Agreement, and is authorized to purchase, sell and service in the Territory the Products, consisting of authentication devices, software, and manuals as more fully described in Exhibit B ("Products"). Distributor represents, warrants and covenants that it will:

- a. Maintain adequate sales facilities and trained personnel to aggressively promote Product sales in the Territory.
- b. Be responsible for promotion, advertising and technical support of the Products it sells to its customers. Upon VASCO's request, Distributor shall furnish to VASCO evidence of compliance with this Agreement.
- c. Acknowledge and agree that its initial and continuing qualification under this Agreement is within VASCO's sole discretion.
- d. will not remove from Products or alter in any way any nameplates, trade marks or patent information affixed by VASCO and may not without written consent of VASCO use any additional marks on or in relation to the Products nor will the Distributor acquire any right in respect of the names or marks of VASCO. The use of the names and marks of VASCO and the goodwill associated therewith shall inure to the benefit of VASCO. Distributor may however print its own logo or the customer logo on the front side of the VASCO tokens, subject to VASCO's approval. The VASCO names and marks are listed in Exhibit? appended hereto and as amended from time to time by VASCO.
- e. will have the right to resell the Products as such to sub-distributors, value-added resellers ("VAR"), Original Equipment Manufacturers ("OEM") and end-user customers.
- f. will have the right to translate the documentation related to the Products from English to the Japanese language. Distributor shall reproduce all of VASCO's copyright notices on all translated documents as such notices originally appear.
- g. acknowledge and accept that this Agreement shall not prevent OEMs and VARs to sell their products, systems or applications incorporating the VASCO Products to customers in the Territory. Distributor shall be notified if VASCO has knowledge of the OEMs' or VARs' intention to sell in the Territory.
- h. will comply with all provisions of this Agreement (including the exhibits hereto).
- i. will not devise, retrofit, reverse engineer or alter the Products.

2. ORDERING PROCEDURE

- (a) Distributor initially may place an order orally or by fax provided that it submits a confirming written purchase order within ten (10) days of the date of such oral or fax order. No order shall be binding on VASCO until VASCO has accepted it in writing, and VASCO shall have no liability for any purchase order which it does not accept. Partial shipment of an order shall not constitute acceptance of the entire order absent written acceptance of the entire order.
- (b) To facilitate VASCO's production scheduling Distributor agrees to use its best efforts to submit its purchase order at least ninety (90) days before the requested delivery date.

- (c) "VASCO" specifically disclaims any terms and conditions which might appear on Distributor's written purchase order which are inconsistent with terms and conditions contained in this agreement and the attached exhibits unless specifically accepted by VASCO in writing.
- (d) All orders are subject to the additional provisions of this Agreement, including, without limitation, the Terms and Conditions of Sale (Distributor) and Exhibit C: Minimum Order, Yearly Commitment and Delivery Terms.

### 3. CANCELLATION AFTER ACCEPTANCE

If Distributor (a) cancels all or any part of any order, (b) fails to meet any obligation resulting in cancellation or rescheduling of any order or portion thereof; (c) requests a rescheduling of scheduled Product shipments which VASCO has previously accepted; or (d) requests a configuration change which VASCO has previously accepted, Distributor agrees to pay VASCO the following cancellation/rescheduling charges if both parties agree to a non-cancelable order at the time the order is placed:

CANCELLATION OR RESCHEDULE NOTICE IS RECEIVED: -----	CHARGE AS A % OF PRODUCT LIST PRICE: -----
61-90 days before the scheduled delivery date	5%
31-60 days before the scheduled delivery date	10%
0-30 days before the scheduled delivery date	15%

### 4. RETURNS

(a) Distributor shall have the right to inspect the Products upon receipt. Products shall be deemed accepted if they are not rejected within thirty (30) days after shipment or have been used or disposed of.

(b) If a Product is defective, Distributor shall have the right to return it for credit against future purchases provided that it is on the current VASCO Price List and has not been used, abused or damaged.

(c) If a Product is not defective, Distributor shall have no right to return it; however, VASCO, in its sole discretion, may consent to accept its return for credit against future purchases provided that it has not been used, abused or damaged and provided further that Distributor pays a restocking fee equal to fifteen percent (15%) of Distributor's net purchase price for that Product.

(d) To return or reject a Product, Distributor shall request a Return Material Authorization ("RMA") number from VASCO. VASCO shall provide the RMA number in writing or by fax within fifteen (15) days of receipt of the request. Within ten (10) days of receipt of the RMA number Distributor shall return the Product, freight prepaid, to VASCO in the original shipping carton with the RMA number displayed on the outside of the carton. VASCO shall have the right to refuse or accept any Products that do not bear an RMA number on the outside of the carton and to return them to Distributor freight collect.

### 5. WARRANTY DISCLAIMER

(a) VASCO makes no warranty of any kind to Distributor, whose only remedies shall be to reject the Products and return them to VASCO as provided in paragraph 4 above.

(b) VASCO grants Distributor the right to pass along to Distributor's customers VASCO's standard End User's Limited Warranty for the Products set forth in Paragraph 7 of the Standard Terms and Conditions of Sale (Distributor) attached hereto, subject to all the limitations set forth therein.

(c) NO OTHER WARRANTY IS EXPRESSED OR IMPLIED. VASCO SPECIFICALLY DISCLAIMS THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. THE REMEDIES PROVIDED IN THIS AGREEMENT, INCLUDING THE REMEDIES FOR RETURN OF DEFECTIVE GOODS, ARE DISTRIBUTOR'S SOLE REMEDIES. VASCO WILL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, WHETHER BASED IN CONTRACT, TORT OR OTHER LEGAL THEORY.

### 6. TERM AND TERMINATION

(a) Term. This Agreement shall continue in force until December 31 of the year in which the Agreement is fully executed by both parties ("Annual Expiration Date"). This Agreement shall continue in force for a term of one (1) year from the date thereof

unless terminated earlier under the provisions of this Section 6. This Agreement shall renew automatically at the annual expiration date for an additional twelve (12) month period unless either party provides sixty (60) day written notice as specified below. The terms and conditions of the Exhibits of this Agreement do not renew automatically and are subject to change at the time of the annual expiration date of the Agreement.

(b) Termination. Either party may cancel this Agreement in their sole discretion, whether or not it has been extended beyond the initial term, by giving the other party written notice sixty (60) days in advance.

(c) Limitation on Liability. If either party terminates this Agreement in accordance with any of its provisions, neither party shall be liable to the other as a result of such termination for compensation, reimbursement or damages on account of the loss of prospective profits or anticipated sales or on account of expenditures, inventory, investments, leases or commitments in connection with the business or goodwill of VASCO or Distributor pursuant to this Agreement. Termination shall not, however, relieve either party of obligations incurred before the termination. In the event of a breach of this Agreement, the nonbreaching party shall have such rights and remedies as provided under the laws of the State of Illinois, subject to the limitations on the liability of VASCO provided in this Agreement (including any exhibit hereto).

#### 7. SOFTWARE SUBJECT OF RESTRICTIONS

VASCO grants Distributor the limited right to distribute the software materials in accordance with the license terms supplied with a Product. Where the software is designed as confidential or a trade secret in its license terms, Distributor agrees to ensure that its customers safeguard the software in accordance with the highest industry standards and applicable law, using its best efforts to prevent unauthorized disclosure. Distributor shall maintain all of VASCO's copyright notices on all software materials as such notices originally appear.

#### 8. CERTAIN RESPONSIBILITIES OF DISTRIBUTOR

Distributor shall:

- (a) shall use its best efforts and diligence in promoting and initiating effectively the sales of the Products in the Territory;
- (b) maintain in each country of the Territory, adequate facilities and sufficient qualified staff for the promotion, demonstration, installation, maintenance, replacement and First Level Technical Support of the Products. First Level Technical Support means that the provision of field personnel responsible for direct contact with the customers and capable of handling the customer's inquiries regarding normal usage of the Products;
- (c) be responsible for promotion and advertising of the Products it sells to its customers and provide VASCO evidence of such efforts.
- (d) maintain sufficient and representative stocks of the Products
- (e) provide a Sales and Marketing Plan prior to the signature of this Agreement for discussion with VASCO, which will be attached under Exhibit F. Thereafter updated Sales and Marketing Plans will be provided every six months (including but not limited to a forecast of sales to prospects and customers in the Territory) to VASCO to evidence its compliance with this obligations mentioned in article 8(a), 8(b), 8(c), and 8(d).
- (f) will not without written authorization from VASCO participate directly or indirectly, in the development, manufacturing or distribution of any product which is similar to the Products listed in Exhibit B. Violation against this article will cause an immediate termination of this Agreement and the Distributor will be liable to compensate all the costs and the losses of VASCO caused by this violation.
- (g) provide VASCO with a quarterly report, to be delivered to VASCO by the 20th working day of each new quarter, listing the number of tokens and software licenses sold to the respective customers in the Territory during the previous quarter.
- (h) obtain the necessary government approvals, if so required, to distribute the Products in the Territory;
- (i) make no representations, oral or written, in connection with the Products which are not in conformity with the commercial and technical documentation.

- (j) not solicit orders from customers outside the territories without prior written consent or instruction from VASCO. However the Distributor will be allowed to execute orders from customers in the Territory for VASCO Products which are destined for the customers' location and subsidiaries outside the Territory.
- (k) shall not apply for a patent covering any of the Products listed in Exhibit B, directly or indirectly, without the prior written consent of VASCO.

#### 9. CERTAIN RESPONSIBILITIES OF VASCO

VASCO warrants and represents that it will:

- (a) provide Second Level Technical Support to Distributor for the Products still under warranty or supported by a valid Maintenance Agreement provided by VASCO. This Support means the provision of personnel which are technically knowledgeable with respect to the Products and which shall be available by fax or telephone during normal business hours to handle customer inquiries or problems which have not been resolved by First Level Technical Support, provided the Distributor's personnel have supplied VASCO's personnel with the appropriate documentation concerning the inquiry or the problem. Typical response time for telephone assistance will be within 24 hours, or the next business day after notification by Distributor;
- (b) provide Distributor copies of available commercial and technical documentation in English. New documentation is to be released when the new Products or the new versions of the Products are released.
- (c) notify Distributor of any new Products which VASCO intends to market and will give Distributor a reasonable opportunity of entering into a similar distribution agreement for said additional Products.
- (d) use its best efforts to supply the Products within the terms indicated in its order acknowledgment or within terms indicated in the public price lists.
- (e) send leads generated through promotional and advertisement activities of VASCO.
- (f) will actively support the Distributor according to the Sales and Marketing Plan agreed upon, especially in connection with the introduction of the Products in the Territory. At times mutually agreeable to VASCO and Distributor VASCO will visit the Distributor to support Promotional Campaigns, Sales and Presentations of new Products.
- (g) will not distribute information on Distributor's customers to any third party without written permission from Distributor to VASCO.

#### 10. NOTICES

Any notice required or permitted by this Agreement shall be in writing and shall be given (and will be deemed to have been given upon receipt) by delivery in person, by electronic facsimile transmission, cable, telegram, telex or other standard forms of written communication, by overnight mail or by certified or registered mail, postage prepaid, return receipt requested, addressed to the other party at the address shown at the beginning of this Agreement or to such other address for which such party gives notice hereunder.

#### 11. AMENDMENTS, MODIFICATIONS, WAIVERS, ETC.

Any alterations to, additions to, amendments, deletions, modifications or waivers of any terms and conditions contained herein and in the attached exhibits shall not be binding on the parties hereto unless agreed to in writing by the parties hereto, except for prices or other changes contemplated by this Agreement.

#### 12. TRAINING

Training for VASCO Products for up to ten (10) employees of Distributor shall be provided by VASCO, at a VASCO facility, at no charge by VASCO to the Distributor for the first training session. Subsequent training sessions, if required by DISTRIBUTOR, shall be provided at a charge by VASCO to Distributor. In all cases, any travel and living expenses incurred as a result of requested training shall be the responsibility of Distributor.

13. PROMOTIONAL MATERIALS

VASCO shall provide a minimal number (50 each) of product brochures to Distributor. Additional product brochures may be purchased by Distributor, from VASCO, at the current production cost. Other promotional items (i.e. evaluation units, promotional products, etc.) may be purchased from VASCO at the then current DISTRIBUTOR Discount price.

14. EXHIBITS

The exhibits initialed below are attached to and incorporated herein and made a part of this Agreement:

- \_\_\_\_\_ Terms and Conditions of Sale - Distributors
- \_\_\_\_\_ Proprietary Information Agreement
- \_\_\_\_\_ Exhibit A: Territory
- \_\_\_\_\_ Exhibit B: Products
- \_\_\_\_\_ Exhibit C: Minimum Order, Yearly Commitment and Delivery Terms
- \_\_\_\_\_ Exhibit D: Distributor Price List
- \_\_\_\_\_ Exhibit E: Marketing Plan and Marketing and Promotion Budget

1. ARBITRATION

Any controversy or claim arising out of or relating to this agreement or breach thereof, shall be settled by binding arbitration in Lombard, IL as administered by the American Arbitration Association under its commercial arbitration rules. The arbitration shall be conducted before a panel of three arbitrators. At least one of the arbitrators shall be knowledgeable about hardware and software distribution agreements. Judgment on the award rendered by the arbitrators may be entered in any court in Illinois having jurisdiction thereof. Provided however, any party may seek injunctive relief in competent court for violation of the attached Confidential Information Disclosure Agreement.

IN WITNESS WHEREOF, each of VASCO and Distributor has duly executed this Agreement as of the 3rd day of June, 1997.

VASCO DATA SECURITY, INC.

HUCOM, INC.

BY: /s/ T. Kendall Hunt

BY: /s/ Hideaki Sato

NAME: T. Kendall Hunt

NAME: Hideaki Sato

TITLE: Chief Executive Officer

TITLE: CEO & President

ADDRESS: 1919 South Highland Avenue  
Suite 118-C  
Lombard, IL 60148  
U. S. A.

ADDRESS: 1-7-7 SKT Bld.  
Umesato Suginami-ku  
Tokyo, Japan



EXHIBIT A

TERRITORY

The Distributor agrees to represent, on an exclusive basis, VASCO products listed in Exhibit B in Japan.

## EXHIBIT B

## PRODUCTS

The Distributor is authorized to sell the following VASCO products:

1. AccessKey II
2. Digipass V5
3. VACMan/Server Product Suite
4. Digilink
5. Initialization Software for Digipass V5
6. Robot for initialization of Digipass V5
7. VDSI/AMS (Initialization software and hardware for AccessKey II)
8. AccessKey Version 3 (when available)
9. Authenticard II (when available)
10. Other VASCO products that may become available during the term of this agreement.
11. Netscape products available through VASCO's OEM Agreement, but on a non-exclusive basis.

## EXHIBIT C

## MINIMUM ORDER, YEARLY COMMITMENT &amp; DELIVERY TERMS

## Minimum Order Quantities

The minimum order quantities for the following Products, will be as follows:

Digipass V5: 100 units

AuthentiCard: 50 units at 1st order, 100 at 2nd order and 500 as from 3rd order

## Yearly Commitment

In exchange for this exclusive Distributor Agreement, Distributor commits to purchase Products as listed in Exhibit B for a value of minimum \$500,000.00 US Dollars during the first term of the Agreement (calendar year 1997) and \$1,000,000.00 US Dollars for the second term (calendar year 1998). If, during either term of the Agreement, Distributor fails to place orders equaling or greater than the minimum order commitment for a specific term, Distributor agrees to pay VASCO any remaining amount, prior to the end of that term.

Three months prior to the end of the second term, the parties to this Agreement will agree upon the Yearly commitment for the third term of this Agreement.

If Distributor fails to meet the minimum purchase commitment for the first two terms of the agreement or a minimum of 80 percent of the Yearly Quota for subsequent terms of the Agreement, then VASCO has the right to terminate the exclusive appointment of Distributor, to terminate the Agreement or both upon 30 days written notice to Distributor.

All minimum price commitments and yearly quotas are based upon the then current Distributor Price Schedule.

## Delivery term

The delivery term for the Digipass V5 and the AuthentiCard is standard approximately 16 weeks for quantities in excess of 500 units, unless a forecast mechanism is in place. Quantities below 500 units are normally available within 2 weeks upon confirmation of order.

## EXHIBIT D

## DISTRIBUTOR PRICE LIST

The enclosed Distributor Price Lists defines transfer prices from VASCO to Distributor for orders received after the signature of this Agreement and such prices are subject to change as provided in the Standard Terms and Conditions of Sale (Distributor) attached to this Agreement. All prices are FOB Lombard, IL excluding shipping charges and taxes.

## EXHIBIT D

## DIRECT

VASCO Data Security, Inc.  
Price Listing as of May 28, 1997

Part #	Description	List Price	1 to 99	100 to 499	500 to 999	1,000 to 4,999	5,000 to 9,999	10,000 to 49,999
100-12000-0000	AccessKey II	\$ **	**	**	**	**	**	**
100-01200-1000	AKII Provisioning	\$ **	**	**	**	**	**	**
300-05000-0000	Digipass V5	\$ **	**	**	**	**	**	**
300-05000-1000	Digipass Provisioning	\$ **	**	**	**	**	**	**
100-07000-0000	CryptaPakb	\$ **	**					
300-05100-0000	Digilink	\$ **	**	**	**	**	**	**

Part #	Description	50,000 to 99,999	100,000 to 249,999	250,000 to 499,999	500,000+
100-12000-0000	AccessKey II	**	**	**	**
100-01200-1000	AKII Provisioning	**	**	**	**
300-05000-0000	Digipass V5	**	**	**	**
300-05000-1000	Digipass Provisioning	**	**	**	**
100-07000-0000	CryptaPakb				
300-05100-0000	Digilink	**	**	**	**

## OPTIONS - ACCESSKEY II

100-01200-0500	PIN Protection (per unit)	\$ **			
100-04100-0000	AMS Keycutter System	\$ **			
100-41200-0000	Evaluation Kit #1	\$ **			Includes 4 AKII's, AccessKey API software and documentation
100-41201-0000	Evaluation Kit #2	\$ **			Includes 4 AKII's, AccessKey API software, LOAN of a single key cutter and documentation

## OPTIONS - DIGIPASS V5

300-05100-1000	PC Software for initial Digipass w/ Digilink	\$ **			
300-05100-2000	Initialization Robot for Digipass V5	\$ **			PC not included
300-05100-0500	Leather Case for DP V5	\$ **			

## Notes:

- a Additional years beyond year 1.
- b Includes SmartCard, SmartCard Reader and software.

Shipping charges, handling, customs and duties will be the responsibility of the Customer and will vary based upon the size and destination of the order.

VASCO Data Security, Inc.  
Price Listing as of May 28, 1997

VACMAN PRODUCTS

NUMBER OF USERS

Part #	Description	Up to 100	Up to 500	Up to 2,500	Up to 5,000	Up to 7,500	Up to 10,000	Unlimited
n/a	Primary VACMan/Server (including one (1) copy of Netscape's Directory Server and VACMan/LDAP)	see note c ** 200-10001	** 200-10005	** 200-10025	** 200-10050	** 200-10075	** 200-10100	** 200-19999
n/a	Backup VACMan/Server	n/a	** 200-20005	** 200-20025	** 200-20050	** 200-20075	** 200-20100	** 200-29999

Part #	Description	List Price
200-15001-0200	VACMan/TACACS for Primary Server	\$ **
200-25001-0200	VACMan/TACACS for Backup Server	\$ **
200-15002-0200	VACMan/Accountant for Primary Serve	\$ **
200-25002-0200	VACMan/Accountant for Backup Server	\$ **
200-15003-0200	VACMan/LDAPa	\$ **
200-15004-0200	VACMan/Client NT	\$ **
200-15005-0200	VACMan/Client RAS	\$ **
200-15006-0200	VACMan/Client Solaris	\$ **
200-15007-0200	VACMan/Client Enterprise	\$ **
200-15008-0200	Win95 Dialer	\$ **
200-90001-0200	RADIUS SDK - NTb	\$ **
200-90002-0200	RADIUS SDK - Solarisb	\$ **

For single customer transactions only; Prices are for license only plus one set of media per transaction.

Part #	Description	1 to 9	10 to 249	250 to 499	500 to 4,999	5,000 to 9,999	10,000 to 19,999	20,000+
200-30001-0200	VACMan/Personal NT (price per user)	\$ **	**	**	**	**	**	**
200-30002-0200	Point 'n Crypt	\$ **	**	**	**	**	**	**

Netscape Software

For single customer transaction only.

Part #	Description	1 to 4	5 to 14	15 to 49	50 to 99
500-00000-0100	SuiteSpot	\$ **	**	**	**
500-01000-0100	Certificate Server	\$ **	**	**	**
500-02000-0100	Enterprise Server	\$ **	**	**	**
500-03000-0100	Directory Server	\$ **	**	**	**
500-04000-0100	FastTrack Server	\$ **	**	**	**

For single customer transactions only; Prices are for license only plus one set of media per transaction.

Part #	Description	1 to 9	10 to 249	250 to 499	500 to 4,999	5,000 to 9,999	10,000 to 19,999	20,000+
500-50000-0100	Netscape Navigator Personal Edition	\$ **	**	**	**	**	**	**
500-51000-0100	Netscape Navigator Gold Personal Edition	\$ **	**	**	**	**	**	**

Notes:  
Not yet available.  
Non-Disclosure Agreement required.  
Requires additional purchase of 25 tokens (either AccessKey or Digipass).

Shipping charges, handling, customs and duties will be the responsibility of the Customer and will vary based upon the size and destination of the order.

## Additional Services Available:

Description	List Price
Customized Platform Integration (pricing per Operating System)	**
Customized Application Integration (pricing per Operating System)	**
Software Protection Plan (SPP)a	**
TELEPHONE SUPPORT:	
5 Incidents	\$ **
10 Incidents	\$ **
20 Incidents	\$ **

a Customers covered by SPP will receive all bug fixes and functional enhancements made to the software by VASCO.

## VACMAN UPGRADE CALCULATION:

Upgrades are to be calculated as the difference in the list prices of the products being upgraded \*\* Therefore, if a customer was upgrading the Primary VACMan/Server from 2,500 users to 5,000 users, the upgrade charge would be as follows:

\*\*

When calculating the upgrade, all user-based products should be considered.

## EVALUATION PRODUCTS AND KITS:

600-10000-0200 VACMan Evaluation Software w/ 30 day license  
 600-01200-0000 AccessKey Demo Kit  
 600-05000-0000 Digipass Demo Token

VASCO Data Security, Inc.  
Price Listing as of May 28, 1997

Part #	Description	List Price	1 to 99	100 to 499	500 to 999	1,000 to 4,999	5,000 to 9,999	10,000 to 49,999
100-01200-0000	AccessKey II	\$ **	**	**	**	**	**	**
100-01200-1000	AKII Provisioning	\$ **	**	**	**	**	**	**
300-05000-0000	Digipass V5	\$ **	**	**	**	**	**	**
300-05000-1000	Digipass Provisioning	\$ **	**	**	**	**	**	**
100-07000-0000	CryptaPakb	\$ **	**					
300-05100-0000	Digilink	\$ **	**	**	**	**	**	**

Part #	Description	50,000 to 99,999	100,000 to 249,999	250,000 to 499,999	500,000+
100-01200-0000	AccessKey II	**	**	**	**
100-01200-1000	AKII Provisioning	**	**	**	**
300-05000-0000	Digipass V5	**	**	**	**
300-05000-1000	Digipass Provisioning	**	**	**	**
100-07000-0000	CryptaPakb				
300-05100-0000	Digilink	**	**	**	**

OPTIONS - ACCESSKEY II

100-01200-0500	PIN Protection (per unit)	\$ **			
100-04100-0000	AMS Keycutter System	\$ **			
100-41200-0000	Evaluation Kit #1	\$ **	Includes 4 AKII's, AccessKey API software and documentation		
100-41201-0000	Evaluation Kit #2	\$ **	Includes 4 AKII's, AccessKey API software, LOAN of a single key cutter and documentation		

OPTIONS - DIGIPASS V5

300-05100-1000	PC Software for initializing Digipass w/ Digilink	\$ **			
300-05100-2000	Initialization Robot for Digipass V5	\$ **	PC not included		
300-05100-0500	Leather Case for DP V5	\$ **			

Notes:

- a Additional years beyond year 1.
- b Includes SmartCard, SmartCard Reader and software.

Shipping charges, handling, customs and duties will be the responsibility of the Customer and will vary based upon the size and destination of the order.



VASCO Data Security, Inc.  
Price Listing as of May 28, 1997

VACMAN PRODUCTS

Part #	Description	NUMBER OF USERS						
		Up to 100	Up to 500	Up to 2,500	Up to 5,000	Up to 7,500	Up to 10,000	Unlimited
n/a	Primary VACMan/Server (including one (1) copy of Netscape's Directory Server and VACMan/LDAP)	\$ see note(c) 200-10001	** 200-10005	** 200-10025	** 200-10050	** 200-10075	** 200-10100	** 200-19999
n/a	Backup VACMan/Server	n/a	** 200-20005	** 200-20025	** 200-20050	** 200-20075	** 200-20100	** 200-29999

Part #	Description	List Price
200-15001-0200	VACMan/TACACS for Primary Server	\$ **
200-25001-0200	VACMan/TACACS for Backup Server	\$ **
200-15002-0200	VACMan/Accountant for Primary Serve	\$ **
200-25002-0200	VACMan/Accountant for Backup Server	\$ **
200-15003-0200	VACMan/LDAP(a)	\$ **
200-15004-0200	VACMan/Client NT	\$ **
200-15005-0200	VACMan/Client RAS	\$ **
200-15006-0200	VACMan/Client Solaris	\$ **
200-15007-0200	VACMan/Client Enterprise	\$ **
200-15008-0200	Win95 Dialer	\$ **
200-90001-0200	RADIUS SDK - NT(b)	\$ **
200-90002-0200	RADIUS SDK - Solaris(b)	\$ **

For single customer transactions only; Prices are for license only plus one set of media per transaction.

Part #	Description	1 to 9	10 to 249	250 to 499	500 to 4,999	5,000 to 9,999	10,000 to 19,999	20,000+
200-30001-0200	VACMan/Personal NT (price per user)	\$ **	**	**	**	**	**	**
200-30002-0200	Point 'n Crypt	\$ **	**	**	**	**	**	**

Netscape Software

			For single customer transaction only.				
Part #	Description		1 to 4	5 to 14	15 to 49	50 to 99	
500-00000-0100	SuiteSpot	\$ **	**	**	**	**	
500-01000-0100	Certificate Server	\$ **	**	**	**	**	
500-02000-0100	Enterprise Server	\$ **	**	**	**	**	
500-03000-0100	Directory Server	\$ **	**	**	**	**	
500-04000-0100	FastTrack Server	\$ **	**	**	**	**	

			For single customer transactions only; Prices are for license only plus one set of media per transaction.						
Part #	Description		1 to 9	10 to 249	250 to 499	500 to 4,999	5,000 to 9,999	10,000 to 19,999	20,000+
500-50000-0100	Netscape Navigator Personal Edition	\$ **	**	**	**	**	**	**	**
500-51000-0100	Netscape Navigator Gold Personal Edition	\$ **	**	**	**	**	**	**	**

Notes:  
 (a) Not yet available.  
 (b) Non-Disclosure Agreement required.  
 (c) Requires additional purchase of 25 tokens (either AccessKey or Digipass).

Shipping charges, handling, customs and duties will be the responsibility of the Customer and will vary based upon the size and destination of the order.

VASCO DATA SECURITY, INC.  
PRICE LISTING AS OF MAY 28, 1997

VACMAN UPGRADE CALCULATION:

Upgrades are to be calculated as the difference in the list prices of the products being upgraded \*\*. Therefore, if a customer was upgrading the Primary VACMan/Server from 2,500 users to 5,000 users, the upgrade charge would be as follows:

\*\*

When calculating the upgrade, all user-based products should be considered.

## DISTRIBUTOR

VASCO Data Security, Inc.  
Price Listing as of May 28, 1997

Part #	Description	List Price	1 to 99	100 to 499	500 to 999	1,000 to 4,999	5,000 to 9,999	10,000 to 49,999
100-12000-0000	AccessKey II	\$ **	**	**	**	**	**	**
300-05000-0000	Digipass V5	\$ **	**	**	**	**	**	**
100-07000-0000	CryptaPakb	\$ **	**					
300-05100-0000	Digilink	\$ **	**	**	**	**	**	**

Part #	Description	50,000 to 99,999	100,000 to 249,999	250,000 to 499,999	500,000+
100-12000-0000	AccessKey II	**	**	**	**
300-05000-0000	Digipass V5	**	**	**	**
100-07000-0000	CryptaPakb				
300-05100-0000	Digilink	**	**	**	**

## OPTIONS - ACCESSKEY II

100-01200-0500	PIN Protection (per unit)	\$ **			
100-04100-0000	AMS Keycutter System	\$ **			
100-41200-0000	Evaluation Kit #1	\$ **			Includes 4 AKII's, AccessKey API software and documentation
100-41201-0000	Evaluation Kit #2	\$ **			Includes 4 AKII's, AccessKey API software, LOAN of a single key cutter and documentation

## OPTIONS - DIGIPASS V5

300-05100-1000	PC Software for initializing Digipass w/Digilink	\$ **			
300-05100-2000	Initialization Robot for Digipass V5	\$ **			PC not included
300-05100-0500	Leather Case for DP V5	\$ **			

## Notes:

- a Additional years beyond year 1.  
-----  
b Includes SmartCard, SmartCard Reader and software.  
-----

Shipping charges, handling, customs and duties will be the responsibility of the Customer and will vary based upon the size and destination of the order.  
-----

## DISTRIBUTOR

## NETSCAPE SOFTWARE

For single customer transaction only.

Part #	Description	1 to 4	5 to 14	15 to 49	50 to 99
500-00000-0100	SuiteSpot	\$ **	**	**	**
500-01000-0100	Certificate Server	\$ **	**	**	**
500-02000-0100	Enterprise Server	\$ **	**	**	**
500-03000-0100	Directory Server	\$ **	**	**	**
500-04000-0100	FastTrack Server	\$ **	**	**	**

For single customer transactions only; Prices are for license only  
 plus one set of media per transaction.

Part #	Description	1 to 9	10 to 249	250 to 499	500 to 4,999	5,000 to 9,999	10,000 to 19,999	20,000+
500-50000-0100	Netscape Navigator Personal Edition	\$ **	**	**	**	**	**	**
500-51000-0100	Netscape Navigator Gold Personal Edition	\$ **	**	**	**	**	**	**

Shipping charges, handling, customs and duties will be the responsibility  
 of the Customer and will vary based upon the size and destination of the order.

EXHIBIT E

MARKETING PLAN & MARKETING AND PROMOTION BUDGET

(To be added by Distributor)

STANDARD TERMS AND CONDITIONS OF SALE  
(DISTRIBUTORS)

1. PAYMENT

VASCO may require cash in advance of delivery. If Distributor maintains credit arrangements satisfactory to VASCO, terms of payment are net thirty (30) days from date of invoice. Overdue amounts shall bear interest at the lesser of one and one-half percent (1.5%) per month or the highest legal rate. On international orders, payment shall be in U.S. dollars and effected by wire transfer.

2. PRICES AND TAXES

(a) All prices are stated in U.S. dollars, FOB origin. VASCO may revise prices at any time. VASCO shall use its best efforts to give Distributor at least thirty (30) days notice before it increases prices. Such increases shall apply to all purchase orders which VASCO receives or accepts after the effective date of the increase. Price decreases may occur without notice. Such decreases shall apply to all unfilled orders which VASCO has accepted before the effective date of the decrease.

(b) Prices are exclusive of, and Distributor is responsible for, all excise, sales, use, or like taxes or duties. Distributor shall pay any such tax, fee, or charge in addition to the prices quoted or invoiced unless Distributor supplies VASCO with satisfactory tax exemption certificates.

3. SHIPMENT AND DELIVERY

VASCO will normally ship freight collect FOB Lombard, Illinois via United Parcel Service, unless Distributor requests otherwise. International orders will be shipped via VASCO's selected air carrier unless Distributor requests otherwise, and Distributor is responsible for all customs, excise and duty related fees and expenses. If VASCO pays any shipping charges, they will be listed as a separate invoice item. VASCO will use reasonable efforts to deliver the Products within the times Distributor requests, but VASCO shall not be liable for any failure to do so.

4. TITLE AND RISK OF LOSS

Risk of loss and damage to the Products shall pass to Distributor upon their delivery to a carrier (FOB) 1919 South Highland Avenue, Suite 118-C, Lombard, Illinois). VASCO shall retain a purchase money security interest in and title to the Products until payment in full. Distributor agrees to execute any documents necessary to perfect such security interest. In no event shall title to any Software pass to Distributor.

5. PROPRIETARY INFORMATION

The Products contain valuable proprietary programs and data. VASCO retains for itself or its suppliers all title and proprietary rights in and to all designs, engineering details, software residents in Read-Only Memories (ROMS), and other program data contained in any Product.

Distributor shall treat any information disclosed to it hereunder which is identified as confidential or proprietary in strict confidence and shall not disclose such information to third parties or use it for any purpose other than the purpose for which it was disclosed to Distributor.

6. PATENT AND COPYRIGHT INDEMNITY

VASCO, except as otherwise provided below, shall defend or settle any claim, suite or proceeding against Distributor or Distributor's customer so far as it is based on an allegation that any Product of VASCO's standard manufacture, design and composition infringes a United States patent or registered copyright when used as VASCO contemplated and provided that VASCO shall have sole control of any such action or settlement negotiations. Distributor agrees that VASCO at its sole option shall have no obligations under this paragraph unless Distributor or its customer notifies VASCO promptly in writing of such claim, suit or proceeding and gives VASCO authority to proceed as contemplated herein, and, gives VASCO proper and full information and assistance to settle and/or defend any such claim, suit or proceeding. If a Product, or any part thereof, is held to infringe and its use is enjoined, VASCO will, at its option either:

(a) Procure for Distributor, at VASCO's expense, the right to continue using the Product;

(b) replace or modify the Product so it shall be non-infringing; or

(c) direct Distributor to return such Product to VASCO and refund to Distributor or Distributor's customer the purchase price originally paid less a use credit equal to the applicable VASCO lease charges for the period of use.

VASCO shall only resort to option (c) after having exerted reasonable effort to remedy the situation by first utilizing option (a) or (b). VASCO has no liability for any claim, suit or action pursuant to this Paragraph based upon or arising out of compliance with Distributor's designs, specifications or instructions; modification of the Product; or the combination operation or use of the Product with products or items not furnished by VASCO. THE FOREGOING STATES VASCO'S ENTIRE LIABILITY AND OBLIGATIONS AND DISTRIBUTOR'S EXCLUSIVE REMEDY WITH RESPECT TO ANY CLAIM, SUIT OR ACTION ALLEGING INFRINGEMENT OF ANY INTELLECTUAL PROPERTY RIGHTS.

7. LIMITED PRODUCT WARRANTY

Distributor may pass on to its customer the following standard limited warranty for the Products, including the limitations set forth therein. The hardware Products and all components thereof are warranted against defects in materials and/or workmanship for one (1) year from purchase by Distributor's customer or fifteen (15) months from VASCO's initial shipment to Distributor, whichever is less. The software and firmware Products which VASCO has designated for use with a hardware Product, when properly installed on that hardware Product, are warranted not to fail to execute their programming instructions due to defects in materials and workmanship. This warranty is contingent upon proper use of the Product in the

application for which it is intended and is voided if the Products are modified without VASCO's approval or are subjected to unusual physical or electrical stress. When a Product is returned validly to VASCO under this warranty, VASCO at its option shall repair or replace the defective Product or components at no charge. VASCO will furnish repair parts and replacement Products on an exchange basis. Such parts and replacement Products may be either reconditioned or new. VASCO will return the Products promptly at its expense by a carrier or method of delivery of its choosing after their repair or replacement.

VASCO does not warrant that the software, firmware or hardware shall operate uninterrupted or without error. The Warranty will be void on Products which have been subjected to abuse, misuse, accident, alteration, neglect, unauthorized repair or installation. VASCO shall make the final determination as to the existence and cause of any alleged defect. Custom products and products produced to Distributor's specifications are not warranted except as VASCO specifically agrees to in writing in a custom product agreement.

This warranty is the only warranty VASCO makes with respect to the goods delivered hereunder. It may be modified or amended only by a written instrument signed by a duly authorized officer of VASCO and accepted by Distributor.

THE WARRANTY AND LIMITATION IS IN LIEU OF ALL WARRANTIES WITH RESPECT TO THE PRODUCT WHETHER EXPRESS, IMPLIED OR STATUTORY INCLUDING WITHOUT LIMITATION THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. IN NO EVENT SHALL VASCO BE LIABLE FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES.

#### 8. LIMITATION OF LIABILITY

VASCO shall not be liable for any loss, damages or penalty resulting from delay in delivery when such delay is due to causes beyond VASCO's reasonable control, including but not limited to supplier delay, force majeure, act of God, labor unrest, fire, explosion or earthquake. In any such event the delivery date shall be deemed extended for a period equal to the delay.

VASCO'S LIABILITY UNDER, FOR BREACH OF, OR ARISING OUT OF THIS AGREEMENT AND/OR SALE SHALL BE LIMITED TO REFUND OF THE PURCHASE PRICE. IN NO EVENT SHALL VASCO BE LIABLE FOR DISTRIBUTOR'S COST OF PROCURING SUBSTITUTE GOODS. IN NO EVENT SHALL VASCO BE LIABLE FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL OR OTHER DAMAGES WHETHER OR NOT VASCO HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH LOSS, HOWEVER CAUSED, WHETHER FOR BREACH OR REPUDIATION OF AGREEMENT, BREACH OF WARRANTY, NEGLIGENCE OR OTHERWISE. THIS EXCLUSION ALSO INCLUDES ANY LIABILITY WHICH MAY ARISE OUT OF THIRD PARTY CLAIMS AGAINST DISTRIBUTOR. THE ESSENTIAL PURPOSE OF THIS PROVISION IS TO LIMIT VASCO'S POTENTIAL LIABILITY ARISING OUT OF THIS AGREEMENT AND/OR SALE.

#### 9. PROPERTY RIGHTS

(a) Property Rights. Distributor agrees that VASCO or its suppliers own all right, title and interest in the product lines that include the Products now or hereafter subject to this Agreement and in all of VASCO's or its suppliers' patents, trademarks, service marks, trade names, inventions, copyrights, know-how and trade secrets relating to the design, manufacture, operation or service of the Products.

(b) Sale Conveys no Right to Manufacture or Copy. VASCO offers the Products for sale and sells them subject in every case to the condition that such sale does not convey any license, expressly or by implication, to manufacture, duplicate or otherwise copy or reproduce any of them. Distributor shall take appropriate steps as VASCO may request to inform its customers of and assure their compliance with the restrictions contained in this Subparagraph 9(b).

#### 10. SOFTWARE LICENSE

Programs provided hereunder are licensed to Distributor pursuant to the terms and conditions of VASCO's Program License Agreement, including but not limited to ownership by VASCO or VASCO's suppliers, restriction to use by Distributor on a single system, restrictions on transfer and copying, and limitations of liability. Distributor acknowledges receipt and review of such license, which is included in the Product package, and agrees to be bound by its terms.

#### 11. TRADEMARKS AND TRADENAMES

(a) Use. During the term of this Agreement Distributor shall have the right to indicate to the public that it offers for purchase VASCO's Products. Distributor may not use the trademarks, service marks and trade names that VASCO or its supplier may adopt from time to time [the "Trademark(s)"] without VASCO's prior written consent, which consent will be granted in VASCO's sole discretion. Distributor shall not alter or remove any Trademark applied to the Products at the factory. Nothing herein shall grant to Distributor any right, title or interest in the Trademarks. At no time during or after the term of this Agreement shall Distributor challenge or assist others to challenge the Trademarks or the registration thereof or attempt to register any trademarks, service marks or trade names confusingly similar to those of VASCO or its suppliers.

(b) Approval of Representations. Distributor shall submit the design, color and other details of all representations of the Trademarks to VASCO for approval prior to their permitted use unless they are exact copies of those which VASCO uses.

#### 12. SUBSTITUTIONS AND MODIFICATION

VASCO shall have the right to make substitutions and modifications in the specifications of the Products it sells provided that such substitutions or modifications will not affect materially overall Product performance.



13. ASSIGNMENT

Distributor may assign this contract upon written approval of VASCO, which shall not be unreasonably withheld

## 14. BANKRUPTCY

If Distributor shall become bankrupt, insolvent, compromises with its creditors, commences to be wound up or suffers a receiver to be appointed, VASCO shall have the right to cancel this Agreement without judicial intervention or declaration of Distributor's default and without prejudice to any right or remedy which shall have accrued or shall accrue thereafter to VASCO.

## 15. DISTRIBUTOR'S ACCEPTANCE--ENTIRE AGREEMENT

The terms and conditions set forth herein and in any applicable Distributor Agreement (such as DISTRIBUTOR, Distributor, OEM or Manufacturer's Representative) shall constitute this entire DISTRIBUTOR agreement between VASCO and the Distributor. VASCO shall not be bound by any terms of Distributor's order which add to, modify or are inconsistent with the terms set forth in the Distributor Agreement and this document. Distributor's acceptance of these terms will be made by written acceptance of this Agreement.

No trade usage or prior course of dealing shall modify, supplement, qualify or be used to interpret this Agreement unless such usage or dealing expressly has been made a part hereof.

## 16. MISCELLANEOUS

Paragraph headings are provided for convenience of reference only and shall not limit or modify any term hereof. Stenographic and clerical errors are subject to correction.

The agreement between the parties is made, governed by, and shall be construed in accordance with the law of the State of Illinois.

CONFIDENTIAL INFORMATION DISCLOSURE AGREEMENT

It is understood and agreed that the following shall govern the oral and/or written disclosure of CONFIDENTIAL INFORMATION by VASCO DATA SECURITY, INC. ("VASCO") to HUCOM, INC. ("HUCOM") concerning the VASCO SmartCard Reader, AccessKey, Digipass and software products.

The CONFIDENTIAL INFORMATION is disclosed in confidence so that HUCOM may evaluate and use CONFIDENTIAL INFORMATION for the purpose of assisting VASCO in the commercial exploitation thereof. In consideration of the disclosure, HUCOM agrees to treat, and will treat, the CONFIDENTIAL INFORMATION disclosed to it as confidential until such time as the CONFIDENTIAL INFORMATION becomes publicly available through no act or failure to act on the part of HUCOM as evidenced by written documentation.

HUCOM further agrees not to make any use of the CONFIDENTIAL INFORMATION other than for the above-mentioned purpose(s) and will not disclose CONFIDENTIAL INFORMATION to any other person without the prior written consent of VASCO, except that if HUCOM is a corporation, CONFIDENTIAL INFORMATION may be disclosed to a person within the company on a need-to-know basis. If no satisfactory arrangement is concluded between the parties, or if otherwise requested by VASCO, HUCOM agrees to return to VASCO any written disclosure of CONFIDENTIAL INFORMATION provided by VASCO plus any copies, notes, summaries or other materials derived from the CONFIDENTIAL INFORMATION.

With respect to the subject matter set forth above, this Agreement constitutes the entire agreement between the parties and supersedes any previous oral or written representations, understandings or agreements as to the above subject matter.

VASCO DATA SECURITY, INC.

HUCOM, INC.

T. Kendall Hunt

Hideaki Sato

-----  
NAME

-----  
NAME

Chief Executive Officer

CEO & President

-----  
TITLE

-----  
TITLE

/s/ T. Kendall Hunt

/s/ Hideaki Sato

-----  
SIGNATURE

-----  
SIGNATURE

6/3/97

6/3/97

-----  
DATE

-----  
DATE

## EXHIBIT F

## VASCO TRADEMARKS

Following is a list of the trademarks for VASCO Corporation and its subsidiaries:

1. VASCO
2. ACCESSKEY
3. AUTHENTICARD
4. DIGIPASS
5. VACMAN
6. CRYPTAPAK

Further to the Distributor Agreement dated 3rd of June, 1997.

VASCO Data Security Inc. hereby agreed to integrate the CyberGuard Firewall into its VACMan product within 3 months of period from this date.

VASCO Data Security, Inc.

HUCOM, Inc.

By:

By:

Name: T. Kendall Hunt  
-----

Name: Hideaki Sato  
-----

Title: Chairman & CEO  
-----

Title: CEO & President  
-----

CERTAIN PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THE OMITTED PORTIONS, MARKED BY AN \*\*, HAVE BEEN SUBMITTED TO THE COMMISSION WITH THE CONFIDENTIAL TREATMENT REQUEST

NON-EXCLUSIVE DISTRIBUTOR AGREEMENT

AGREEMENT effective the 1st day of May 1994

BETWEEN:

VASCO Data Security, Inc.  
1919 S. Highland Avenue, Suite 118-C  
Lombard, Illinois 60148 U.S.A.  
Phone 630-932-8844  
Fax 630-495-0279

(hereinafter called "Producer")

AND:

Concord-Eracom Nederland BV  
Hoekenrode 8  
NL-1102 BR Amsterdam  
Phone 31-20-6913781  
Fax 31-20-6971073

EURO VAT No. NL-9238657B01

(hereinafter called "Distributor")

NOW THEREFORE IT IS AGREED AS FOLLOWS:

#### Article 1. - Definition

The following words shall have the indicated meaning when used herein:

- i) "Product" - those Products which the Producer has manufactured for re-sale or purchased for re-sale, which are in Schedule 1 of this Agreement and which are designated therein by the Producer's trade mark or trade name to be used under this Agreement and by the use which the Product shall be sold under this Agreement.
- ii) "Territory" - the Territory outline or defined in Schedule 2 of this Agreement.
- iii) "Annual Period" - successive one (1) year periods the first of which commences on the effective date of this Agreement.
- iv) "Price" - that amount of money designated as set out in Schedule 3 of this Agreement or as may be otherwise designated by the Producer from time to time which is to be paid to the Producer for the Product, not including any charges for taxes, duties or other Government fees. The price as at the date of commencement of this Agreement shall be as designated in Schedule 1.

#### Article 2. - Agency & Distributorship

The Producer grants to the Distributor the non-exclusive right to distribute and sell the Product in the named Territory.

#### Article 3. - Future Changes

The Producer reserves the right to modify Schedule 1 of this Agreement by adding thereto or deleting therefrom any items at any time upon thirty (30) days advance written notice to the Distributor.

#### Article 4. - New Products

The Producer shall inform the Distributor of improvements in the Product or new goods acquired or produced by the Producer for resale. Such goods or improved Products may be added to Schedule 1 in accordance with Article 3.

#### Article 5. - Price and Delivery

- a. The price for the Product shall be denominated in U.S. Dollars and as designated in Schedule 3 hereof or otherwise as the Producer shall designate in writing. The

Producer reserves the right to modify such price at its sole discretion. However the Producer must give the Distributor three months' notice before any such price modification becomes effective. During any such three month period prior to modification of price, the Distributor may not order the Product from the Producer at a greater volume than that being ordered during the previous three month period, unless the Producer should consent to orders in excess of such volumes.

b. Payments shall be made as follows:

- a)
  - i) by Letter of Credit or Telegraphic Transfer (terms net 30 days) of cleared funds to Producer where product is to be delivered outside the United States.
- c. The Distributor shall accept delivery of the Product when the carrying vessel reaches the Territory and shall then be responsible for transporting the Product at the Distributor's risk and peril. The Distributor shall assume responsibility for all customs clearance charges. All freight and shipping insurance shall be "F.O.B."
- d. The Producer undertakes to execute orders from the Distributor with reasonable care but is not responsible to the Distributor for any delay in delivery, whatever the reason for such delay shall be, except as agreed by way of a separate letter of understanding.

#### Article 6. - Obligation of the Distributor

Throughout the duration of this Agreement, the Distributor shall:

- a. Sell: Use its maximum efforts to sell, use and promote the use of the Product through Territory.
- b. Sales Network: Develop a sales network for the Product.
- c. Not sell outside Territory: Not sell the Product directly or indirectly outside the Territory or for use outside the Territory without having previously obtained in each case the written authorization of the Producer. To this end, the Distributor undertakes to ensure that its buyers do not sell outside the Territory nor export the Product either directly or indirectly.
- d. Maintain Office: Maintain and operate at the Distributor's expense an Office in the Territory in a business like matter.
- e. Maintain Stocks: Maintain stocks of a sufficient quantity for supplying so as not to delay customer ordering the product in the ordinary course of business.
- f. Inform of Competitors: Inform the Producer of any goods and the sellers thereof, which compete with the Producer.



- g. Not Compete: Not sell materials or goods which compete or are likely to compete with the Product unless the written Agreement of the Producer is obtained prior to each such sale. Distributor shall be required to provide specifications and pricing of competitive products to Producer; Producer shall have the Right of First Refusal to provide Producer's similar product(s) at competitive prices.
- h. Not Tamper with Labels: Not change, modify, obliterate or remove the Producer's labels, marks or trademarks on the Product and on its packaging; if it is necessary to repack the Product, the Distributor shall ensure that the original trademarks appear on the packaging. The Distributor may attach a label recording that the Product is supplied by the Distributor, the exception being if Distributor advises the Producer to produce under brand name and/or private label.
- i. Fully informed Producer: Fully inform the Producer at all times and in any case upon request from the Producer of the Price charged by the Distributor for the Product, who the customers are, to whom the Distributor sells the Product and the quantity of the Product sold to each customer.
- j. Export Licensing and Security: Fully comply with Producer's reasonable instructions concerning export licensing and security from time to time for products.
- k. Maintain Repair Personnel: The Distributor will provide and maintain competent personnel and reasonable and necessary test demonstration equipment and repair facilities to repair and maintain the Product in good working order and condition, the cost of which shall be borne by the customer after the expiration of the warranty period.
- l. Advertising and Technical Documentation: Communicate to the Producer for approval by the Producer before printing, distribution or use, the advertising and technical documentation the Distributor shall supply and use concerning the Product including all labeling used with the Product; and once such approval has been obtained, not to change such documents and labeling without the prior written consent of the Producer.
- m. Not Legal Representative: Be in no way the legal representative of the Producer and have no right or authority to assume any obligations or make any representation of any kind which are or might be binding upon the Producer, except in the express terms of this Agreement and this Agreement shall not permit or empower the Distributor to undertake financial or other responsibility or to contract or incur liabilities of any kind in the name of or as representative for or on behalf of the Producer or to pledge the credit of the Producer in any way.

- n. Not Assign: Not to assign, to transfer or in any manner make over this Agreement or any right or obligation hereunder to any person or persons or organization whatsoever without the consent in writing of the Producer.
- o. Sale/Market Plan: To furnish to the Producer within one (1) month of the date of the expiration of each year of the term of this Agreement the following:
  - i. A sale/market plan or strategy for the subsequent yearly period.
  - ii. A report on the success or failure of the preceding twelve (12) month period sale/market plan or strategy with comments reasonably to the best of the Distributor's ability on the reasons for such success or failure.

#### Article 7. - Promotions and Advertising Materials

The Producer in its discretion may elect to provide the Distributor with promotion and advertising materials including trade literature free on the effective date hereof. The Producer may agree to be responsible for the cost of the lodgement of advertisements as may be mutually agreed upon in an international computer publication circulating in the Territory and may schedule access as may be mutually agreed upon in advance to demonstrate equipment. The Producer may contribute part of all of the expenses as may be from time to time mutually agreed upon incurred in trade exhibitions and advertisements in trade journals during the currency of this Agreement.

#### Article 8. - Software Tools

The Producer may from time to time to provide software tools to aid Distributor in integrating Producer's products into Distributor's products. These software tools will be consigned on the following basis:

- i. Ownership of a copyright thereto shall be retained in all times by the Producer.
- ii. The Distributor may not sell, lease or part with possession of the software tools.
- iii. The Distributor shall maintain the software tools in good order and condition.
- iv. The Distributor shall return the software tools to the Producer upon termination of this Agreement.

#### Article 9. - Trade Mark

If at some time in order to sell the Product it should be necessary to register a Trade Mark in the Distributor's name, the Distributor shall undertake to co-operate in the transfer of this Trade Mark to the Producer or any persons or companies designated by the Producer immediately upon termination of this Agreement for one or more of these items in Schedule 1. Producer and Distributor undertake to take immediate steps under the direction of the Producer to effectively oppose any infringements of Trade Marks. The Distributor hereby renounces forever any claim to any right, title, or interest to any Trade Mark registered in the Producer's name or transferred to the Producer now or in the future.

#### Article 10. - Arbitration

Any dispute about the interpretation or the execution of this Agreement, whatever its nature or importance, shall be submitted to three arbitrators and resolved finally by them in accordance with the rules for cancellation and arbitration of the International Chamber of Commerce. The place of arbitration shall be nominated by the Producer.

#### Article 11. - Termination

- a. Either party may terminate this Agreement upon the expiration of any Annual Period with at least thirty (30) days prior written notice. Such termination shall impose no obligation or liability on either party except as provided in this Article 9.
- b. The Producer may terminate this Agreement at any time upon the occurrence of any of the following, each of which shall constitute an event of default:
  - i. Failure to Observe Agreement - the Distributor's failure to observe any of the terms or conditions of this Agreement,
  - ii. Distributors Insolvent - the Distributor becomes insolvent, bankrupt, or upon any proceedings being commenced by or against the Distributor under any laws having to do with the relief of debtors,
  - iii. Change of Ownership - change in ownership or control of the Distributor's business, whether voluntary or by operation of law,
- iv. Transfer - transfer or assignment or attempted transfer or any or all the rights herein granted the Distributor. The waiver of any default in any instance shall be deemed a waiver for said instance only,
- v. Failure to Maintain Security & Licenses - the Distributor's failure to maintain the level of security reasonably required by the Producer from time to time concerning products the subject of security/export license controls.

c. If this Agreement should be terminated by the Distributor:

- i. Undertakes to resell and return to the Producer the Product and its inventories which are still in good condition, at the Price at which it bought it from the Producer. The Product which has deteriorated or is more than three months old shall be resold at a reduced price reflecting fair market value. No custom product may be returned to Producer.
- ii. Shall pay the Producer, within a period of thirty (30) days, all sums due. If any goods are returned pursuant to Clause 11 c. above, the Producer will pay the Distributor as provided in Clause 11 c. within thirty (30) days after the Producer's receipt of such return Product.
- iii. Upon demand of the Producer shall make available to the Producer a list of his customers in the six months preceding the termination and shall deliver to the Producer copies of all unfilled orders (whether or not such orders have been partly filled or remain totally unfilled). In the event that the proceeds received by the Producer from completing such orders (should the Producer elect without any legal obligation so to do to complete such orders) then in so far as any damages accruing to the Producer for breach by the Distributor of this Contract do not exceed the profits so made such excess profits shall be returned to the Distributor.
- iv. Undertakes to transmit any orders it receives thereafter to the Producer who shall wherever practicable, but without obligation to do so, honor such orders.

#### Article 12. - Support and Service Training by Producer

Customer engineering and service training will be supplied by the Producer as mutually agreed upon. All travel and living expenses of customers or their employees or distributors undergoing such training will be the responsibility of the customer or distributor. If training by the Producer is given away from the Producer's premises, the Producer will be reimbursed for the actual and reasonable travel and living expenses its employees incur in getting to, remaining at and returning from the training site.

#### Article 13. - Representations and Warranties

In soliciting orders for the Producer, the Distributor shall not make representations or offer warranties other than those contained in sale literature supplied by the Producer to the Distributor. Contracts prepared by the Distributor for signature by customers shall contain a similar disclaimer respecting representations or warranties binding upon the Producer. The Distributor agrees to indemnify and hold harmless the Producer from any

representations or warranties binding upon the Producer made by the Distributor in excess of those contained in the Producer's sales literature. In all cases, the Distributor will make it clear to customers that the Producer's warranty in respect of deficiencies in materials and workmanship shall not exceed 3 months from the delivery of the Product to the customer.

Article 14. - Assignment

This Agreement shall ensure to and be binding upon the parties hereto, their successors and assigns providing that the Producer's consent shall be required to an Assignment of the Distributor's interest in the Agreement.

Article 15. - Trade Secrets

The Distributor understands that all trade secrets and confidential information which are divulged to the Distributor by the Producer are the property of the Producer. The Distributor agrees to keep all such information confidential and shall not make disclosures to anyone of such information except as authorized by the Producer.

DISTRIBUTOR:

PRODUCER:

By /s/ John K. Knorr  
-----

By: /s/ T. Kendall Hunt  
-----

Name: -----

Name: -----

Position: Managing Director  
-----

Position: President  
-----

Witness: -----

Witness: -----

SCHEDULE I  
PRODUCTS

The Distributor is authorized to sell the following Products:

1. ACCESS KEY I
1. ACCESS KEY II
1. ACCESS KEY III (In development)
1. KEYPAD (Discontinued, phaseout anticipated June 1, 1994)
1. KEYCUTTER SYSTEM
1. RELATED ACCESSORIES
1. INTERNATIONAL SMART CARD READER

NOTE:

Unite pricing for the above products will be negotiated based on, combined, firm Open Purchase Order commitments by both Concord-Eracom and Eracom Pty.

SCHEDULE II  
TERRITORY

The Distributor agrees to represent, on a non-exclusive basis, Products listed in Schedule I primarily in Europe, the Middle East, and South America.

SCHEDULE III  
PRICING

Description -----	Open P.O. Quantity -----	# Months From -----	Price Per Unit -----
		Order -----	
1. Access Key II	1 or >	12	**
- Standard Keys	20,000 or >	12	**
and/or	40,000 or >	12	**
- ABN-AMRO Keys	50,000 or >	12	**
2. International Smart Card Reader	1 or >	18	**
Model #301	10,000 or >	18	**
- 200,000 - 500,000 insertions	20,000 or >	18	**
- Landed contacts design	30,000 or >	18	**
20,000 - 40,000 insertions	40,000 or >	18	**
per card	50,000 or >	18	**

## NOTE:

Concord-Eracom will place firm Open Purchase Orders for Access Key II and for the International Smart Card Reader at quantity levels it can sell over the time periods above. The quantity levels can be combined with orders from both Eracom Pty. and Concord-Eracom. Each order shall specify the total unit commitment and shall be accompanied by a shipping schedule over the term of the Open Purchase Order.



CONVERTIBLE  
LOAN AGREEMENT

This Convertible Loan Agreement is made on August 4, 1997

- BETWEEN: VASCO DATA SECURITY EUROPE S.A., a  
societe anonyme existing under the laws of the Kingdom of  
Belgium having its registered office at 32 Jettelaan, 1081  
Brussels and registered with the Register of Commerce of  
Brussels under number 614.370,  
  
hereinafter referred to as "VDSE";
- AND: BANQUE PARIBAS BELGIQUE S.A., a societe  
anonyme existing under the laws of Belgium, having its  
registered office at 162 Emile Jacquainlaan, 1000 Brussels,  
  
hereinafter referred to as "Paribas";
- AND: Mr. T. Kendall Hunt, domiciled at 11735 Briarwood Court,  
Burr Ridge, Illinois 60525, United States of America,  
  
hereinafter referred to as Pledgor;
- AND VASCO Corp., a Delaware Corporation having its executive  
office at 1919 S. Highland Avenue, Suite 118-C, Lombard,  
Illinois 60148, United States of America,  
  
hereinafter referred to as "Corporation";

WHEREAS VDSE pursuant to a resolution of its Board of Directors has decided to issue a convertible loan due September 30, 2002 having a principal amount of USD 3,400,000 (three million four hundred thousand US Dollars) (hereinafter referred to as the "Loan", or the "Convertible Loan").

WHEREAS VDSE has outstanding an obligation to Digiline International S.A. in the principal amount of USD 3,400,000 (three million four hundred thousand US dollars) pursuant to the agreement called "Heads of Agreement" dated as of May 13, 1996 (the "Digiline Debt") which amount is guaranteed by Paribas (the "Bank Guarantee").

WHEREAS Paribas in lieu of the Bank Guarantee is willing to provide for the payment of the Digiline Debt pursuant to the Convertible Loan and to substitute the Convertible Loan for the Bank Guarantee.

WHEREAS subject to the terms and conditions of the present agreement, Paribas is willing to subscribe to the Convertible Loan.

NOW THEREFORE, IT HAS BEEN AGREED AS FOLLOWS:

1. ISSUE AND SUBSCRIPTION

VDSE agrees to issue the Convertible Loan on a date between August 20 and September 30, 1997 ("the Subscription date") at a price equal to 100 per cent of its principal amount. On the terms and conditions set forth in this Agreement, Paribas hereby agrees to subscribe to the Convertible Loan having terms and conditions as set forth in this Agreement.

2. REPRESENTATIONS AND WARRANTIES

VDSE represents and warrants to Paribas that to the best of its knowledge:

- (1) it is duly incorporated and validly existing under the laws of the Kingdom of Belgium and that it has full corporate power to conduct its business and to execute, deliver and comply with the provisions of this Agreement;
- (2) all necessary consents, authorizations, notifications, registrations and filings required in connection with the obligations and liabilities of the company under the terms and conditions of the Loan and the present Agreement have been obtained or made and are in full force and effect;

- (3) the execution and delivery of and compliance with the terms and conditions of the Loan have been duly authorized by VDSE and will not conflict with or constitute a breach of or a default under any indenture, agreement or other instrument to which VDSE is a party or by which it is bound, its Articles of Association or any law, administrative regulation or court decree applicable to VDSE;
- (4) no events exist which, had the Loan been issued, would (or with the giving of notice or lapse of time or both, could) constitute an event of default under the Loan;
- (5) no litigation, arbitration or administrative proceedings are presently current or pending or threatened, to the knowledge of VDSE, which would or might have a material adverse effect on VDSE or on the ability of VDSE to perform its obligations under this Agreement;
- (6) it has not taken any corporate action nor have any other steps been taken or legal proceedings been started or threatened against VDSE to obtain relief from its creditors under any applicable bankruptcy, insolvency or other law now or hereafter in effect or for ordering its winding-up, liquidation, dissolution or reorganization or for the appointment of a receiver, liquidator, sequestrator (or other similar officer) of it or of any or all of its assets or revenues;
- (7) it is not in breach of or in default under any agreement to which it is a party or which is binding on it or any of its assets to an extent or in a manner which might have a material adverse effect on its ability to perform its obligations under this Agreement.

### 3. TERMS AND CONDITIONS OF THE LOAN

#### 3.1. Principal Amount and Maturity

The principal amount of the Loan is 3,400,000 USD (three million four hundred thousand US Dollars).

The Loan is issued for a period of 5 years commencing on the Subscription date and ending on September 30, 2002.

Paribas subscribes to the Loan by issuing bank cheques at the request of VDSE to the order of Digiline International S.A. for a total amount of 3,400,000 USD (three million four hundred thousand US Dollars).

### 3.2. Interest

3.2.1 The Loan will bear interest at the rate of 3.25 % (three and a quarter percentage points) per annum from and including the Subscription date. Accrued interest shall be payable annually on September 30 in each year, for the first time on September 30, 1998, and/or on the Conversion Date as provided for in Article 8 hereafter. When interest is required to be calculated for a period other than one year, it shall be calculated on the basis of a 360 days year, consisting of 12 months of 30 days each, and in case of an incomplete month, the number of days elapsed in such incomplete month.

3.2.2 In the event of the completion of the Offering (as defined in Section 8) and if pursuant to Section 3.3 the Loan is repaid within seven days of receipt by VDSE of the Payment Notice (as defined in Section 3.3), VDSE shall pay additional interest in cash at the time of the repayment of the Loan as follows:

- (I) If the Loan is repaid before or on June 30, 1998, the sum of USD 340,000 (three hundred forty thousand US Dollars);
- (II) If the Loan is repaid between July 1, 1998 and December 31, 1998, both dates inclusive, the sum of USD 510,000 (five hundred ten thousand US Dollars); or
- (III) If the Loan is repaid on January 1, 1999 or later, the sum of USD 680,000 (six hundred eighty thousand US Dollars)

### 3.3. Repayment

Unless previously repaid (upon occurrence of an event of default as described under Article 7 or upon conversion of the Loan at the option of PARIBAS as provided for in Article 8), VDSE shall repay the Loan at par on September 30, 2002; provided, however, that in the event of the completion of the Offering (as defined in Section 8) PARIBAS may at its option, by written notice ("Payment Notice") delivered to VDSE within seven days after the receipt of proceeds by the Corporation at the closing of the Offering, require VDSE to repay in cash the Loan at par from the proceeds of the Offering within seven days of the receipt of the Payment Notice. At the time of the repayment of the Loan at par, VDSE shall also pay pursuant to subsection 3.2.1 any accrued and unpaid interest at the rate of 3,25% for the period ending on the repayment date of the principal and, if applicable, shall also pay the additional interest under subsection 3.2.2.

### 3.4. Payments

Each payment by VDSE under this Agreement shall be made in US Dollars on the date that payment is due, to Paribas by deposit to the account no 10921348 maintained at Citibank N.A. New York or to such other account as Paribas may have last designated by written notice to the VDSE.

### 3.5. Register

VDSE shall hold a register of bondholders at its offices. It will provide Paribas with a certificate of inscription in this register.

VDSE will issue on first demand of Paribas nominative securities evidencing the Loan and mandates Paribas to ensure the materiality of these securities.

## 4. USE OF PROCEEDS

VDSE shall use the proceeds of the Loan to pay all amounts it is due to pay to DIGILINE INTERNATIONAL S.A. - with registered office at Luxembourg, rue Aldringen 14 - pursuant to the agreement called "Heads of Agreement" entered into between VDSE and Digiline International S.A. dated as of May 13, 1996. This "Heads of Agreement" sets forth the terms and conditions of the acquisition by VDSE of 100 % of the shares of S.A. Digipass, a company with registered office at 32 Jettelaan, 1081 Brussels, presently called VASCO DATA SECURITY N.V./S.A..

It is understood that upon receipt by Digiline International S.A. of such payment Paribas will be automatically liberated of all its obligations and liabilities under the USD 3,400,000 (three million four hundred thousand US Dollars) Bank Guarantee, related to the above mentioned Heads of Agreement, delivered to Digiline International S.A. by Paribas on behalf and for the account of VDSE on June 27, 1996. The bank guarantee and all rights and obligations in connection therewith (including all ancillary agreements) shall be cancelled and of no further force and effect.

## 5. CONDITIONS PRECEDENT

- 5.1. The obligation of Paribas to subscribe to the Loan is subject to the condition that Paribas receives on or before the fifth banking day before the subscription date an irrevocable written acceptance by DIGILINE INTERNATIONAL S.A., confirming that:

- (i) upon receipt by DIGILINE INTERNATIONAL S.A. of USD 3,400,000 (three million four hundred thousand US Dollars) from VDSE, Paribas will automatically be liberated of all its obligations and liabilities under the USD 3,400,000 (three million four hundred thousand US Dollars) Bank Guarantee related to the above mentioned Heads of Agreement delivered to Digiline International S.A. by Paribas on behalf and for the account of VDSE on June 27, 1996.
- (ii) therefore Digiline International S.A. agrees that the amount of USD 3,400,000 (three million four hundred thousand US Dollars) it is due to receive from VDSE will only be used to satisfy all amounts VDSE is due to pay to Digiline International S.A. pursuant to the above mentioned Heads of Agreement.

5.2. The obligation of Paribas to subscribe the Loan is subject to the further conditions that:

- (i) Banque Paribas S.A., London Branch, is designated as global co-ordinator, lead-manager and bookrunner of the stock offering and listing on EASDAQ and/or NASDAQ of VDSE's parent company VASCO CORP. which is expected to take place by the end of the fourth quarter of 1997.
- (ii) Paribas shall have received a legal opinion on the validity and enforceability of the collateral arrangements, in form and substance satisfactory to it.

## 6. COLLATERAL

As security for the prompt and complete payment when due of all amounts payable by VDSE under the Loan, Mr. T. Kendall Hunt, domiciled at 11735 Briarwood Court, Burr Ridge, Illinois 60525, United States of America, shall pledge in favour of Paribas 1,416,666 (one million four hundred sixteen thousand six hundred sixty-six) shares of VASCO CORP., a company existing under the laws of the State of Delaware with executive office at 1919, S. Highland Avenue Suite 118-C, Lombard, Illinois 60148, United States of America.

Throughout the duration of the Loan the market value of the pledged shares must at least be equal to 125 % of USD 3,400,000 (three million four hundred thousand US Dollars).

If at any time the average market value of the pledged shares over 5 continuous trading days, calculated in good faith by Paribas, is less than 125 % of USD 3,400,000 (three million four hundred thousand US Dollars), Mr. T. Kendall Hunt shall within one calendar week on simple demand by PARIBAS evidenced by written request by Paribas, pledge additional Vasco Corp. shares in aggregate countervalue (or amount) so as to ensure that the above ratio is respected.

If the average market value of the pledged shares over 5 (five) continuous trading days is in excess of 150% of USD 3,400,000 PARIBAS will waive its pledge on all securities in excess of 150% of USD 3,400,000 upon simple and first written demand by the Pledgor.

Pursuant to the pledge agreement Mr. T. Kendall Hunt grants to Paribas a first lien on and a first and prior security interest in and right of set off against the collateralized assets.

If at any time the Company has fully satisfied all its obligations under the Loan, Paribas shall return all the collateralized assets.

Unless an event of default has occurred, the Pledgor shall be entitled to receive (and to the extent the same come into possession of Paribas or its agents, Paribas shall remit to the order of the Pledgor) any dividends or interest paid in cash in respect of collateralized assets. Paribas shall have no liability, however, for any failure by it to collect such payments not forwarded to it by the payor thereof.

## 7. EVENTS OF DEFAULT

### 7.1 Events of Default

If one or more of the following events of default (each an "Event of Default") shall occur and be continuing, Paribas shall be entitled to the remedies set forth in subsection 7.2.:

- (i) VDSE fails to pay any amount payable hereunder as and when such amount becomes payable pursuant to this Agreement and such unpaid amounts remain unpaid for 10 days after the respective due date; or
- (ii) VDSE commits any breach of or default in the due performance or observance of any of its obligations or undertakings contained in this Agreement other than those referred to in subsection 7.1. (i), if that breach or default is not remedied on or before the tenth day after it occurs (or before any later date determined in good faith by PARIBAS which reasonably allows VDSE to remedy the default); or
- (iii) any representation, warranty or statement made or deemed made by VDSE in this Agreement or any other document delivered in connection with this Agreement proves to have been incorrect, incomplete or misleading in any material respect as of the date on which it was made; or

- (iv) any other indebtedness of the VDSE in respect of a sum in excess of BEF 10,000,000 (ten million Belgian Francs) or the equivalent in any other currency is not paid when due for payment, after application of the applicable grace periods, except for nonpayments as to which its creditor has consented or has waived the payment; or
- (v) any mortgage, charge, pledge, lien, hypothecation, title retention, right in rem or any other security interest of VDSE (being material to the undertaking or assets of VDSE) becomes enforceable in respect of a sum in excess of BEF 10,000,000 (ten million Belgian Francs) or the equivalent in any other currency and the person or persons entitled to benefit thereof shall initiate legal collection to enforce the same; or
- (vi) all or any substantial part of the property of VDSE shall be condemned, seized or otherwise appropriated in a manner which Paribas reasonably considers may have a material adverse effect on the business of VDSE or VDSE shall be prevented from exercising normal managerial control over any substantial part of its property by any person acting under the authority of any government, in a manner which Paribas considers may have a material adverse effect on the business of VDSE; or
- (vii) there shall have occurred the liquidation or bankruptcy of VDSE or any order is made or resolution, tax or regulation passed or other action taken for or with a view to the dissolution, termination, liquidation or bankruptcy of VDSE (other than for the purposes of and followed by an amalgamation or reconstruction the terms of which have been approved in writing by Paribas); or



- (viii) any court, tribunal or other authority makes an order for the appointment of any administrator, receiver, liquidator, curator, sequestrator, trustee or other similar officer of VDSE or of all or any material part of the assets of VDSE; or
- (ix) VDSE stops payment generally or ceases or threatens to cease to carry on its business or admits in writing its inability to pay its debts as they fall due or makes a general assignment for the benefit of creditors or enters into a general arrangement or composition with or for the benefit of creditors or a general moratorium (however declared or promulgated) is imposed or threatened on the payment of indebtedness of VDSE; or
- (x) all or any material part of the assets of VDSE are attached, levied or distrained upon or become subject to any order of court or other process and such attachment, levy, distraint, order or process remains in effect and not discharged for 60 days; or
- (xi) this Agreement or any of the provisions hereof, with material effect to the liabilities of both parties, shall at any time for any reason cease to be in full force and effect, be declared to be void or shall be repudiated or the validity or enforceability hereof or thereof shall at any time be contested by VDSE or VDSE shall deny that it has any or any further liability or obligation under this Agreement; or
- (xii) the Pledgor does not fulfill his obligations under the pledge agreement, drawn up in Brussels on July 15, 1997.

## 7.2. Default Remedies

Paribas may at any time after the occurrence of an Event of Default that is not remedied under Art. 7.1 and so long as the same is continuing, by notice in writing to VDSE declare that the Loan and all interest accrued and all other sums payable pursuant to this Agreement have become immediately due and payable whereupon the same shall become immediately due and payable.

If the principal is not paid at the agreed due date, additional interest shall automatically be due to Paribas on the sums not paid in time, as from the due date in question and up to the actual date of payment, calculated at the interest rate of the Loan plus 0,50% per annum.

## 8. CONVERSION RIGHT

Paribas has the optional right to convert the Loan into shares (hereinafter called the "Shares" or "Share") of VDSE's parent company VASCO CORP (hereinafter called the "Corporation"), a company existing under the laws of the State of Delaware with executive office at 1919 S. Highland Avenue Suite 118-C, Lombard, Illinois 60148, United States of America.

If Paribas decides to exercise its right of conversion, VDSE will be obliged to repay the Loan to Paribas not by way of cash reimbursement but by transfer and delivery to Paribas of a number of Shares of the Corporation that is sufficient to reimburse completely Paribas claim out of the Loan. After transfer and delivery of these Shares in accordance with this clause VDSE will be liberated of its obligations under this Convertible Loan Agreement.

The Corporation undertakes to provide VDSE with a sufficient number of Shares in order for VDSE to be able fulfill its obligation to transfer and deliver these Shares.

Paribas can exercise its right of conversion on any day falling in the period commencing with and including the earlier of the date of the Share Offering of the Corporation on EASDAQ and/or NASDAQ (the "Offering") so as to allow Paribas to include the Shares it converts the Loan into, in the Offering, and January 1, 1999, and terminating with and including August 31, 2002, i.e. one month before the maturity date of the Loan.

Subject to the structuring of the Offering, VDSE accepts that the Shares Paribas has converted the Loan into, can be included in the Offering.

If the conversion takes place after the Offering, the Loan will be converted in Shares listed on NASDAQ and/or EASDAQ.

Paribas will give notice of exercise of its right of conversion by sending registered letters to that effect to the Corporation and to VDSE. In these registered letters the number of Shares to be transferred and delivered will be calculated at the applicable conversion rate as determined below, varying according to the time and circumstances (whether the Offering has taken place or not) of Paribas exercise of its right of conversion.

The conversion rate will be at a price per Share equal to the Offering Price.

If the Offering does not occur before January 1, 1999, Paribas has the right to convert the Loan into Shares of the Corporation at the average closing market price of the Corporation's Shares traded 'over the counter' during the 20 trading days prior to the date of the notice of exercise of the right of conversion, less a discount of 10 %.

If the number of Shares calculated at the conversion rate, is not a whole number, the number will be rounded up to the next higher whole number.

The date of acknowledgement by the Corporation of the receipt of the notice of exercise is the conversion date, i.e. date on which property of the Shares is transferred to Paribas.

The Corporation undertakes to fulfil within the shortest possible delays the formalities completing the transfer of title of the Shares. The transfer of title of the Shares must give Paribas full, free and clear property on the Shares. The Shares will therefor be free of any charge, lien, security interest, attachment or any other such encumbrance.

In the event the public offering referred to in this section is a public offering by a new company ( Newco ) specifically set up by VASCO CORP. for the purpose of this public offering, references herein to the Offering shall mean the "Offering" by Newco and references to the "Shares" will mean the shares of Newco.

#### 9. ASSIGNMENT

This agreement shall be binding upon and inure to the benefit of all parties and their respective successors and assigns; provided however that VDSE may not assign or transfer any of its obligations or rights hereunder without the prior written consent of Paribas.

Paribas may at any time assign or transfer to any third party all or any of its rights or obligations hereunder, but if in part for a minimum principal amount of the countervalue in USD of BEF 10,000,000 (ten million Belgian Francs).

Paribas will however never directly or indirectly assign its right to convert the Loan, or after conversion transfer the Shares, to any person or company outside of its group without written notice to VDSE stating its intention to assign or transfer, the identity of the potential beneficiary (which can be a broker or a market maker) and the conditions of assignment or transfer.

In the event that the transfer of Shares (or the assignment of the right to convert the Loan) by Paribas is for a number of Shares (or for a right to convert the Loan into a number of Shares) in excess of 1% (one percentage point) of the total number of shares of the Corporation at the moment of the above mentioned written notice, VDSE or any company or person of its group will have two weeks to exercise a right of first refusal of the assignment or transfer on the conditions specified in the notice mentioned in this section. This right of first refusal is not applicable when the Shares that Paribas converts the Loan into, are included in the Offering.

#### 10. NOTICES AND COMMUNICATIONS

Each notice and communication to be made under this Agreement shall be made by registered letter.

Any notice or communication to be made by one person to another person pursuant to this Agreement shall (unless that other person has by 10 days prior written notice specified another address) be made to that other person at the address identified above in the preamble to this Agreement and shall be deemed to have been made when left at that address.

## 11. GOVERNING LAW AND JURISDICTION

This Agreement is governed by and construed in all respects in accordance with the law of the Kingdom of Belgium.

The parties hereto irrevocably agree that the courts of Brussels shall have exclusive jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with this Agreement and for such purposes irrevocably submit to the jurisdiction of such courts.

The submission to the said jurisdiction shall not (and shall not be construed so as to) limit the right of Paribas to take proceedings to obtain protective or conservatory relief for the protection of assets or for the enforcement of any judgement obtained by Paribas in any other court of competent jurisdiction nor shall the taking of such proceedings in any one or more jurisdictions, preclude the taking of such proceedings in any one or other jurisdiction, whether concurrently or not.

IN WITNESS whereof the parties have executed this Agreement on August 4, 1997 in four originals, each party recognizing to have received its original.

VASCO DATA SECURITY EUROPE  
S.A.

BANQUE PARIBAS BELGIQUE S.A.

By : /s/ Forrest D. Laidley  
name : Forrest D. Laidley  
title : Director

By : /s/ Jacques Janssens  
name : Jacques Janssens  
title : Director

By :  
name : Robert E. Anderson  
title : Director

By : /s/ G. Milants  
name : G. Milants  
title : Senior Investment Banker

VASCO Corp.

The Pledgor

By : /s/ Mario Houthoof

/s/ T. Kendall Hunt

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name : Houthoof, Mario  
title : Agent and Officer

## [BANQUE PARIBAS BELGIQUE LETTERHEAD]

## PLEDGE AGREEMENT

Agreement dated as of July 15, 1997 by and between:

BANQUE PARIBAS BELGIQUE S.A., having its registered office at 1000 Brussels, boulevard Emile Jacqmain 162, box 2, hereinafter referred to as "PARIBAS",  
and T. Kendall HUNT, domiciled at 11735 Brearwood Court, Burr Ridge, Illinois 60525, United States of America, hereinafter referred to as the "Pledgor":

Witnesseth:

Whereas PARIBAS has subscribed to a Convertible Loan due 30th September 2002 having a principal amount of USD 3,400,000 (three million four hundred thousand US Dollars) issued by VASCO DATA SECURITY EUROPE S.A., a societe' anonyme existing under the laws of the Kingdom of Belgium, having its registered office at 1081 Brussels, Jettelaan 32, and registered with the Register of Commerce of Brussels under number 614.370.

Whereas therefore the Pledgor agrees to pledge to PARIBAS the securities described below to ensure for the latter the due completion and reimbursement of the above mentioned Convertible Loan.

Now, therefore, in consideration of the mutual promises and undertakings hereinafter set forth. PARIBAS and the Pledgor hereby agree as follows:

1. As security for payment to PARIBAS of all sums in general of whatsoever nature which VASCO DATA SECURITY EUROPE S.A. owes or could owe at present or in the future to PARIBAS with regard to the abovementioned Convertible Loan, the Pledgor pledges to PARIBAS, who accepts, the securities described in the attachment hereto, which PARIBAS declares having received. The Pledgor hereby grants to Paribas a first lien on and a first and prior security interest in and right of set off against the collateralized assets.  
The Pledgor will fulfill all formalities under the legal system applicable to the securities to ensure this Pledge Agreement has full force and effect.

Throughout the duration of the Convertible Loan the market value of the pledged shares must at least be equal to 125 % of USD 3,400,000 (USD three million four hundred thousand). If at any time the average market value of the pledged shares over 5 (five) continuous trading days, calculated in good faith by PARIBAS, is less than 125 % of USD 3,400,000, Mr. T. Kendall Hunt shall within one calendar week on simple and first written demand by PARIBAS pledge additional Vasco Corp. shares in aggregate countervalue (or amount) so as to ensure that the above ratio is respected.

If the average market value of the pledged shares over 5 (five) continuous trading days is in excess of 150% of USD 3,400,000, PARIBAS will waive its pledge on all securities in excess of 150% of USD 3,400,000 upon simple and first written demand by the Pledgor.

The recourse by PARIBAS against the Pledgor under this Agreement is limited to the securities pledged or to be pledged to PARIBAS under this Agreement.

The Pledgor affirms that he is (and will be for the additional collateral) the sole owner of the pledged securities (or the securities to be pledged) and states that they are (and will be for the additional collateral) fully paid up and free of any commitments, encumbrances, liens, pledges, seizure and/or charges.

The numbers of the non-fungible securities are indicated in the PARIBAS books to which the Pledgor declares that he submits entirely.

The fungible securities may remain deposited at the Caisse Interprofessionnelle de Depots et de virements de Titres (C.I.K.) S.A. in accordance with Decree no 62 of 10th November 1967.

2. PARIBAS shall detach and/or collect on the due date under the conditions provided for in its Regulations governing Operations, the coupons of the securities handed over as a pledge and shall credit the proceeds, after collection, to the current account of the Pledgor, or offset these proceeds against the claims covered by this pledge.
3. PARIBAS shall be entitled to replace by securities of the same type, those of the securities included in the pledge which become due for payment or which give rise to an exchange or conversion transaction, the Pledgor giving all the necessary authorizations now for these operations to be carried out on his behalf and at his cost.
4. The Pledgor may at any time have all or part of the securities forming part of the pledge realised, without substitution of debt, through PARIBAS, to use the proceeds thereof to buy other securities approved by PARIBAS. The securities thus acquired being automatically allocated to securing the commitments of the Pledgor, shall automatically take the place of the pledged securities thus realised and shall consequently be subject to the same clauses and stipulations as those they replace. The selling and buying transactions for reinvestment shall be adequately evidenced by the PARIBAS statements, by its correspondence or even simply by its book-keeping.
5. All the securities which come to form part of the pledge, pursuant to clauses 1, second paragraph, or 4 above, shall be the subject of a supplementary pledge agreement which the Pledgor shall undertake to return signed to PARIBAS, at the latter's first request, and which shall be appended to this agreement.

6. If the Pledgor does not settle the balance due at the first request addressed to him by registered letter and/or should PARIBAS call on the pledge formed by the present, PARIBAS shall be entitled to have the securities handed over as a pledge, sold in accordance with the law and shall apply the proceeds, in preference to any other use, to the full or partial repayment of all the sums due.

Upon selling said securities, PARIBAS would act in good faith and with respect of the interests of the Pledgor, a.o. by reasonably trying to sell at a good price, and by not selling more securities than needed to pay the outstanding amounts as defined sub 1.

7. For as long as the securities remain pledged in favour of PARIBAS, the latter may not be called on to release them for whatsoever reason, in particular by general meetings of shareholders or bond holders.

However, it may, if the Pledgor so requests, deliver to him a declaration stating that it holds the securities in question as a pledge.

8. All unavoidable costs to which this deed, its execution or lack of execution, its production for legal proceedings or before any other authority gives rise, are payable by the Pledgor.

9. For the execution of this agreement and all its consequences, the parties elect domicile as follows, i.e.: PARIBAS at its present or future registered office and the Pledgor at his domicile mentioned below, unless the Pledgor previously notified in writing a new domicile to Paribas:

11735 Briarwood Court, Burr Ridge, Illinois 60525, United States of America,

where all notifications, summons, formal notice and all acts of whatsoever nature in general may be validly served upon them.

10. Belgian legislation alone shall be applicable for the application, interpretation and execution of this deed and the Brussels courts alone shall be competent, unless PARIBAS wishes, if it prefers, to bring proceedings before the courts of the legal or elected domicile of the undersigned of the second party.

Drawn up in Brussels on July 15, 1997, in 2 copies, with each party recognising having received its copy.

/s/ T. Kendall Hunt

/s/

The Pledgor T. KENDALL HUNT

BANQUE PARIBAS BELGIQUE S.A.



## STATEMENT OF SECURITIES DEPOSITED AS PLEDGE

Number	Specification and numbers of non-fungible securities	Coupons attached
1,416,666 one million four hundred sixteen thousand six hundred and sixty-six	Shares of VASCO Corp., a Delaware Corporation having its executive office at 1919 S. Highland Avenue, Suite 118-C, Lombard, Illinois, 60148, United States of America	

June 20, 1997

PRIVATE AND CONFIDENTIAL

VASCO CORP.  
1919 S. Highland Avenue  
USA - Lombard, IL. 60148

Attn: Mr. T. Kendall Hunt, Chairman & CEO

Dear Sir,

LETTER OF ENGAGEMENT

We are writing this letter to confirm the basis upon which Banque Paribas S.A., London branch (or "Paribas") is willing to advise and, subject to market conditions, satisfactory due diligence and documentation and no material adverse change in financial position, to act as Global Co-ordinator, Lead Manager, Bookrunner and Underwriter for an international offering of equity shares (the "Offering") for VASCO CORP. or of a new corporation ("NewCo") to be organised by VASCO CORP. (VASCO CORP. and NewCo are referred to herein as the "Company") on the terms (the "Term Sheet") attached hereto. The final terms of the Offering will be agreed between the parties in the light of prevailing market conditions at the relevant time.

1. ACCESS: It is a condition of our engagement that the Company will provide Banque Paribas S.A. with all such information as Banque Paribas S.A. may reasonably require or as any competent regulatory authority may require and that the Company provides such information in good faith believing it to be true, accurate and complete in all material respects. The Company authorises Banque Paribas S.A. to utilize such information in connection with the provision of the services envisaged herein. The Company agrees that Banque Paribas S.A. shall have such access to the directors and other staff of the companies comprising the Company, its subsidiaries and affiliates (the "Group") as Banque Paribas S.A. deems appropriate and, with prior approval, the external advisors of the Company, its subsidiaries and affiliates as Banque Paribas S.A. may deem appropriate.

In addition, the Company agrees (subject to any legal or regulatory requirements) to keep Banque Paribas S.A. informed of any material developments or proposals in relation to the business or operations of the Group, in particular where these may have any effect on the Offering, for the period up to and including the closing of the Offering and thereafter for a period of six months following the closing of the Offering.

2. CONFIDENTIALITY AND CONFLICTS: Banque Paribas S.A. recognises that information received by it during the course of its engagement is of a confidential nature and unless otherwise agreed by the Company neither Paribas nor any Connected Person

(as defined in paragraph 4) of Paribas shall disclose any such information to any third party, provided always that in addition to any other right or obligation by virtue of which Paribas or any Connected Person may be entitled or bound by law to disclose information, Paribas will be entitled, at its discretion, if requested or required to do so, to disclose any information known to it or any Connected Person and/or to produce any documents relating to the Group's business or affairs to any government or regulatory agency or authority. Paribas may also disclose any such information for the purposes of defending any claim or action against it in respect of the Offering. Paribas will promptly notify the Company of any such disclosure of information or production of documents and make available to the Company copies of any such documents. Paribas will, where reasonably practicable, seek to impose a confidentiality requirement on the recipient in any case where the information is not subject to statutory restrictions on disclosure.

Neither Banque Paribas S.A. nor any Connected Person will have any duty to disclose to the Company any information which comes to their notice (or the notice of any Connected Person) in the course of carrying on any other business or as a result of or in connection with the provision of services to other persons.

Banque Paribas S.A. is part of a wide-ranging financial services group (involved in, inter alia, commercial banking, portfolio investment, capital markets activities, trading and research) in which different parts of the group act independently of each other. Accordingly, while Paribas shall, pursuant to this letter, act on behalf of the Company and in its best interest as a client, another part of Paribas' business or a Connected Person may be acting on behalf of other clients in ways which conflict with the interests of the Company.

As a result of the potential conflicts of interest and in order to preserve the confidentiality of client information, Banque Paribas S.A. operates comprehensive sets of rules and procedures to ensure respect for confidential information.

3. DOCUMENTS AND ANNOUNCEMENTS: Banque Paribas S.A. may ask the Company for certain confirmations relating to information contained in a document, prospectus, information memorandum, offering circular or announcement if the Company asks Paribas to issue or approve it, whether or not it is an investment advertisement, and Paribas may require further information from the Company in order to issue or approve any such document or announcement. Paribas will require the Company and/or the directors of the Company to accept full responsibility for any such information in any such document or announcement relating to the Company or any of its subsidiaries or affiliates.

Banque Paribas S.A. retains the right to refuse to issue or approve a particular document or announcement and to require the Company to cease to distribute a document or announcement which, in Paribas' opinion, has any connection with or potential effect on the proposed Offering if at any time Paribas becomes aware of information which, in its opinion, renders the document or announcement untrue or misleading in a material respect.

Please note that any written or oral opinion, report or advice provided by Banque Paribas S.A. or any Connected Person in connection with its engagement is exclusively for the information of the Board of Directors and senior management of the

Company and may not be disclosed to any third party or circulated or referred to publicly without our prior consent other than such disclosure as may be required by governmental and regulatory bodies in Belgium. Paribas shall be named as Global Co-ordinator and Lead Manager to the Offering in any announcements, circulars or communications regarding the Offering in the manner and place in which it is normal or a requirement for Global Co-ordinators or Lead Managers to an offering to be so named.

The Company agrees that it will not publish, or arrange for the publication of, any documents or announcements in relation to the Offering which refers, either expressly or by implication, to Banque Paribas S.A. without the prior approval of the entitled entity of Banque Paribas S.A.

Banque Paribas S.A. reserves the right to place advertisements in financial and other newspapers and journals at its own expense describing Paribas' services pursuant to this letter once the Offering has been completed and announced. All other public announcements or disclosures will be issued only after approval by the Company.

4. **INDEMNITY:** It is a further condition of our engagement that neither Banque Paribas S.A. nor any Connected Person of Banque Paribas S.A. shall be liable for any losses, claims, damages, liabilities, expenses, actions, demands, proceedings, enquiries, investigations, judgements, decisions or reports ("Liabilities") incurred, brought or threatened to be brought or entered or enforced or conducted against the Company or any Connected Person thereof by reason of, or arising, directly or indirectly out of, the carrying out by Paribas of services pursuant to this letter provided the same do not arise from Paribas' or, as the case may be, any Paribas Connected Person's gross negligence or wilful default.

The Company will indemnify and hold Banque Paribas S.A. and each of its Connected Persons harmless from and against any and all Liabilities incurred, brought or threatened to be brought or entered or enforced or conducted against Banque Paribas S.A. or any of its Connected Persons which arise out of matters or transactions contemplated by or consequent upon Paribas' or its engagement under the terms of this letter except to the extent that those Liabilities arise out of the wilful default or gross negligence of Banque Paribas S.A. or, as the case may be, such Connected Person.

In the event of any claim being made or threatened, Paribas will keep the Company informed as to the progress of such claim and will consult with the Company or its advisors in relation to the handling of such claim including any proposed settlement or compromise thereof, provided that Banque Paribas S.A. will at all times have full discretion in respect of any such claim.

In this letter "Connected Person" of a party means each of the following of such party: any holding company of such party, subsidiaries and subsidiary undertakings of such party or any holding company together with the respective associates, affiliates, directors, officers, employees and agents of each of them.

5. **EXPENSES AND FEES:** It is agreed that the Company shall, subject to any required regulatory approvals for such reimbursement but without regard to the consummation of any transaction, be responsible for and, to the extent payments are made by

Banque Paribas S.A., reimburse Banque Paribas S.A. at such times as Banque Paribas S.A. shall request, for the costs and expenses, together with any applicable value added tax or like charge ("VAT") specified in the Term Sheet. The expenses, if not paid or reimbursed earlier, shall be paid or reimbursed in cash upon demand.

All payments or reimbursements by the Company hereunder shall be made without the withholding or deduction of any tax or like charge; and if the Company shall be required to deduct or withhold such a tax or like charge or if such tax or like charge is imposed on Banque Paribas S.A. solely on account of services performed hereunder, the Company shall pay the net amount to Banque Paribas S.A. after such deduction, withholding or imposition.

6. **TERMINATION:** The Company may terminate the services of Banque Paribas S.A. or Banque Paribas S.A. may terminate its services, at any time with or without cause, effective upon receipt of written notice to the other party to that effect, it being understood that paragraphs 4, 5 and 7 will survive any such termination. Subject to the agreed limit on the reimbursement of expenses and fees specified in the Term Sheet, Banque Paribas S.A. shall be entitled in the event of termination to immediate payment in full of all reasonable expenses and fees incurred or accrued as at the time of termination. If Banque Paribas S.A. terminates this Agreement without cause Banque Paribas S.A. shall pay its own expenses and shall not be entitled to reimbursement.
7. **EXCLUSIVITY:** It is a further condition that the Company will not appoint any other Global Co-ordinator, Global Bookrunner and Financial Advisor in relation to the engagement hereunder or, prior to completion of the engagement or six months following the earlier termination thereof, in respect of any international offering of equity shares (with or without warrants) convertible bonds or any other instrument convertible or exercisable into equity shares without the prior written agreement of Banque Paribas S.A.
8. **GOVERNING LAW:** The terms of this letter shall be governed by and construed in accordance with the laws of the United States, State of New York. In signing the enclosed copy of this letter you will be irrevocably and unconditionally submitting to the jurisdiction of the New York courts in relation to any matters arising in connection with the Offering and this letter.

Please indicate your confirmation of the exclusive appointment on the terms set out herein of Paribas as Global Co-ordinator, Lead Manager, Bookrunner and Underwriter for an international offering of equity shares on your behalf by signing and returning the attached copy letter.

We are delighted to accept such appointment and look forward to working with you on this assignment.

Yours faithfully

BANQUE PARIBAS S.A.

By: /s/ Mr. Bijan-Daniel KHEZRI

I hereby confirm your appointment on the terms set out above.

VASCO CORP.

By: /s/ Mr. T. Kendall HUNT

THE LETTER OF ENGAGEMENT (THE "LETTER") DATED JUNE 20, 1997 BETWEEN BANQUE PARIBAS S.A. AND VASCO CORP. SHALL BE AMENDED BY DELETING IN ITS ENTIRETY THE TERM SHEET ATTACHED THERETO AND REPLACING SUCH WITH THE TERM SHEET SET FORTH BELOW. EXCEPT AS HEREIN PROVIDED, THE LETTER SHALL REMAIN UNCHANGED AND IN FULL FORCE AND EFFECT.

TERM SHEET

INDICATIVE TERMS AND CONDITIONS  
FOR AN INITIAL PUBLIC OFFERING ON EASDAQ AND NASDAQ  
OF EQUITY SHARES OF  
VASCO CORP.

These indicative terms are subject to market conditions, satisfactory due diligence and documentation and no material adverse change in the financial condition of the Issuer.

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Issuer	VASCO Corp. or "NewCo"
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Offering	: newly issued shares (capital increase): <...> sale of existing shares by shareholders: <...> private placement in Europe/Rest of the World and private offering in the US
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Size	: USD 60,000,000
-----	
Greenshoe Option	: 15%, i.e. USD 9,000,000, over-allotments to allow Paribas to stabilise the market after allocation, in accordance with the EASDAQ and NASDAQ Stabilisation Rules, exercisable within 30 days from the date of admission to trading on EASDAQ and NASDAQ. 7% fees will be paid on the greenshoe to the extent exercised. Paribas alone will be in charge of all stabilisation policy.
-----	
Offering Price	: Determined in light of bookbuilding
-----	
Governing Law	: United States, State of New York
-----	
Listing	: EASDAQ and NASDAQ
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Total Commissions	7.00 %
-----	
A. Management Fee	: 1.50 % (50% of the management fee for Paribas as praecipium; the other half will be allocated to Paribas, the US Co-Lead Manager, Generale de Banque and the US Co-Manager pro rata their participation in the underwriting)
B. Underwriting Fee	1.50 %
C. Selling Fee	4.00 %
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Offering Expenses for the account of the Issuer	
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A. Administrative Expenses	: including, but not limited to: - fees and expenses related to the Belgian Banking and Finance Commission and the EASDAQ listing - fees and expenses related to the Securities and Exchange Commission and the NASDAQ listing - costs related to Issuer's legal counsel, notary, accounting and other advisory, principally but not exclusively for the offering prospectus (which will only be published in English) and comfort

	letters/legal opinions
B. P.R., Roadshow and Other Publicity Expenses	: including, but not limited to: costs and expenses related to press advertisements and tombstones, printing, public meetings, road shows, press meetings and other P.R. activities,...
C. Underwriters' expenses	including, but not limited to: legal and other advisory expenses; out-of-pocket expenses (e.g. travel expenses)
D. Syndicate	Expenses B and C in excess of US\$500,000 will be for the account of the syndicate.
-----	
Retainer Fee	Paribas will be paid a non-refundable retainer fee of US \$50,000 by the time this term-sheet is signed. This retainer fee will be deducted from the success fees of the offering if and when the offering takes place.
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Financial Advisor	Paribas is acting as Senior Financial Advisor. Paribas will be solely in charge of structuring the offering.
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Syndication	: -Global Co-ordinator/Global Bookrunner/Lead Manager: Paribas -US Co-Lead (US International): US House -Co-Lead Manager (Europe): Generale de Banque, -US Co-Manager (US): US House
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Underwriting	The underwriting percentages will be split as follows: (US\$ amounts if total deal pre-greenshoe is US\$60m) o Paribas (40.00%) USD 24,000,000 o US Co-Lead (35.00%) USD 21,000,000 o Generale de Banque (20.00%) USD 12,000,000 o US Co-Manager (5.00%) USD 3,000,000 The greenshoe, to the extent exercised, would be underwritten only by Paribas and the commissions on the greenshoe paid to Paribas
-----	
Selling and Underwriting	: Upon agreement on the offering price, the offering of the shares shall, subject to market conditions, satisfactory due diligence and documentation and no material adverse change in the financial condition of the Issuer, be underwritten by Paribas and the other underwriters pursuant to a Subscription Agreement between the Issuer and the Underwriters.
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Bookbuilding	: The shares will be offered by method of bookbuilding. The Global Book will be run by Paribas alone. The Issuer will have access to the book at all times.
-----	
Lock-ups	: No further offering or sale of shares in the Issuer for a period of 1 year following the transaction without the prior consent of Paribas except pursuant to warrants, options and convertible debt in existence at the closing date of the Offering.
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Timing	: The transaction is expected to take place in the fourth quarter of 1997 (closing beginning of December).
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Obligations of Paribas	: The obligations of Paribas will consist in assisting VASCO CORP. in, among others:  - ASSISTING with the review of the international



offering prospectus

- DETERMINING, in consultation with the Issuer, the appropriate price range for the offering
- STRUCTURING the Offering (including size, timing and syndicate structure)
- INVITING THE SYNDICATE
- DRAFTING of the subscription agreement,
- ADVISING VASCO Corp. to its obligations under the NASDAQ and EASDAQ regulations;
- SPONSORING the EASDAQ listing
- CO-ORDINATING the EASDAQ and NASDAQ listing processes
- ASSISTING VASCO Corp. in the preparation of the required documentation for the EASDAQ listing (comprising application and the offering prospectus) in accordance with the applicable regulations
- CONTACTING, with the assistance of outside counsel where necessary, the relevant authorities with respect to the EASDAQ-listing (EASDAQ and Commissie voor het Bank- en Financiewezen) and assisting VASCO Corp. in obtaining any necessary approvals, rulings, or relief with respect to the EASDAQ-listing;
- ASSISTING VASCO Corp. in the preparation of the required documentation for the NASDAQ listing (comprising application and the offering prospectus) in accordance with the applicable regulations
- CONTACTING, with the assistance of outside counsel where necessary, the relevant authorities with respect to the NASDAQ-listing (NASDAQ and the Securities and Exchange Commission) and assisting VASCO Corp. in obtaining any necessary approvals, rulings, or relief with respect to the NASDAQ-listing;
- PREPARING and undertaking the appropriate filings with the above-mentioned authorities;
- MANAGING THE SYNDICATE of underwriters;
- ORGANISING, in Europe, after a preliminary prospectus has been prepared and prior to the roadshow (see below), a set of WARM-UP MEETINGS with targeted institutional investors,

- 
- ORGANISING the marketing and sales efforts for the the Offering, in particular the Europe/Rest of the World (ex US) tranche, including roadshows and one-on-ones (schedule and venues to be determined) and preparation of marketing documents;
  - DETERMINING THE OFFERING PRICE after discussions with the Issuer and the US Lead Manager
  - after fixing the price, UNDERWRITING the offering and/or sale of the shares together with the syndicate of underwriters;
  - acting as MARKET MAKER; Paribas will invite the other underwriters to take up the engagement to act as Market Maker.
  - STABILISING THE SHARE PRICE in the after-market within a period of 30 days after allocation;
  - UNDERTAKING TO PUBLISH research reports on VASCO Corp. at the time of the offering and on a regular basis thereafter. Paribas will require research reports from all syndicate members.

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Obligations of parties

All obligations of the parties are subject to, and are to be performed in compliance with, applicable laws, rules and regulations.

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THIS TERM SHEET MAY BE EXECUTED IN ANY NUMBER OF COUNTERPARTS, ALL OF WHICH TAKEN TOGETHER SHALL CONSTITUTE ONE AND THE SAME INSTRUMENT AND ANY OF THE PARTIES HERETO MAY EXECUTE THIS TERM SHEET BY SIGNING ANY SUCH COUNTERPART

BANQUE PARIBAS S.A.  
By: Bijan - Daniel Khezri

VASCO CORP.  
By T. Kendall Hunt

August 29, 1997

## FINANCING AGREEMENT

This Financing Agreement is made as of June 27, 1997

between

generale bank  
Montagne du Parc, 3  
1000 Brussels

hereafter referred to as the "Bank"

and

vasco corp,  
1919 South Highland Avenue, Suite 118-C,  
Lombard, Illinois 60148

hereinafter referred to as the "Company"

whereas the Company envisages to increase its equity by an amount of USD 60,000,000 by a Secondary Public Offering ("SP0") in the fourth quarter of 1997 on Easdaq and/or Nasdaq of new Common Shares of the Company or of a new Delaware corporation to be formed by the Company to effect a reorganization of the Company through a stock exchange of at least 80% of the Company's outstanding common stock ("Newco"), whereupon these Common Shares will be admitted for trading and traded on Easdaq and/or Nasdaq;

whereas the Board of Directors of the Company in view of the above approved on May 19th, 1997 a resolution on the negotiating on finalizing of a bridge credit facility in the form of convertible notes and stock warrants which are convertible into Common Shares of the Company or will be convertible in shares of common stock of Newco.

THEREFORE it is agreed as follows :

article 1. - definitions

Terms defined in this Agreement.

"Agreement" means this Financing Agreement between the Bank and the Company.

"Annex" means an annex to this Agreement which forms an integral part of this Agreement.

"Bank" means Generale Bank, Montagne du Parc 3, 1000 Brussels.

"Common Shares" means the common stock shares of the Company as outstanding on the date of signature of this Agreement (or Common Shares of Newco) as described on page 60 of the Form S-4 registration statement for the Securities and Exchange Commission (draft dated 3/31/97)).

"Company" means vasco corp. 1919 South Highland Avenue, Suite 118-C, Lombard, Illinois 60148 or any successor company which has assumed all rights and obligations of vasco corp. including the rights and obligations under or in connection with this Agreement, the Convertible Notes, and the Stock Warrants; reference to any knowledge of the Company refers equally to knowledge of the officers of the Company

"Convertible Notes" means the amended and restated notes convertible in common stock of the Company issued by the Company, dated July 1, 1997, numbered from 1 to 5 and whereof an unsigned example is annexed to this Financing Agreement, Annex 1.

"Easdaq" means the European Association of Securities Dealers Automated Quotation recognized by the Belgian royal decree of June 30, 1996 (Official Gazette of July 7, 1996).

"Financing Agreement" means this amended and restated agreement between the Company and the Bank.

"Nasdaq" means the National Association of Securities Dealers Automated Quotation operated by Nasdaq Stock Market, Inc., a subsidiary of the National Association of Securities Dealers, Inc.

"Stock Warrants" means the common stock purchase warrants represented by certificates numbered W9706001, W9706002, W9706003 and W9706004 signed by the Company's Secretary and President on June 16, 1997 (a copy of which is annexed to this Agreement, Annex II), certifying that the Bank is holder of a total of 40.000 common stock purchase warrants each of which giving the right to the Bank to purchase one share of Common Stock of the Company.

"Taxes" has the meaning assigned to it in article 4.5 of this agreement.

#### article 2. - subscription of convertible Notes and the stock warrants

2.1. The Company agreed to issue the Convertible Notes, one unsigned copy of which is annexed to this Agreement (Annex I), and the Stock Warrants, a copy of all four certificates is annexed to this Agreement (Annex II).

The Convertible Notes are in the original aggregate principal amount of USD 2,500,000.

2.2. The certificates representing the Stock Warrants are in the possession of the Bank. The Convertible Notes shall be delivered to the Bank on the date of signature of this Agreement and Generale Bank hereby acknowledges receipt of the Convertible Notes and Stock Warrants.

2.3. In consideration of the deliverance of the Convertible Notes and the Stock Warrants the Bank shall pay at the latest three business days after the date of signature of this Agreement the Company USD 2.500.000 less the out-of-pocket expenses as referred to in article 5.5. by crediting by wire transfer its account no. 41500 124 2445 with First National Bank of Chicago.

#### article 3. - conditions precedent

This Agreement is subject to the delivery to the Bank of a legal opinion by the Company's external legal counsel, which Generale Bank hereby acknowledges have been satisfied will be satisfied upon receipt of a legal opinion in the form of Annex III.

## article 4 - representations and warranties

### 4.1. Corporate status.

The Company is duly organized, validly existing and in good standing under the laws of Delaware and has full corporate power to carry on its business as it is now conducted.

The statutory books and records of the Company have been kept substantially in accordance to all legal requirements, are intact and in the possession or control of the Company which has substantially complied with all statutory procedures in connection with the management of the Company and the holding of general shareholders meetings and Board meetings except where failure to maintain would not have a material adverse effect on the financial conditions of the Company ("Material Adverse Effect").

### 4.2. Financial Statements.

The balance sheet of the Company as of December 31, 1996 and the related statements of income for the fiscal year then ended, with the related notes, a copy of which is annexed to this Agreement (Annex IV), have been delivered to the Bank on June 18, 1997, and

(i) were prepared in accordance with US GAAP accounting rules and applied in all material respects on a consistent basis throughout the said period, and

(ii) fairly present the financial position and results of the Company as at the balance sheet date and for the period thereby covered, as confirmed in the fax received from KPMG dated June 17, 1997, a copy of which is annexed to this Agreement (Annex V).

The financial statements for the year ending 1996 make adequate provision for all material liabilities of the Company as of that date in accordance with US GAAP accounting rules consistently applied.

The financial statements of the Company have been prepared in conformity with the US GAAP accounting rules on a consistent basis throughout the period covered and fairly present the financial position of the Company as of such date.

Assuming the payment to the Company of the USD 2.500.000 pursuant to this Agreement, since December 31, 1996, there have not been any material adverse change in the business, prospects and financial condition or results of operations, of the Company and the Company is not aware of any circumstance which could give rise to such.

### 4.3. Absence of Undisclosed Liabilities.

The Company has no material debts, liabilities or obligations, whether accrued, absolute, contingent, unrecorded or undisclosed, whether due or to become due, except for debts, liabilities or obligations, (i) specifically reflected in, reserved against or accrued in the audited financial statements and (ii) those incurred in the ordinary course of business since December 31, 1996.

### 4.4. Absence of Certain Changes.

Except as set forth in article 4.4. hereunder, as well as the Netscape OEM agreement and the Hucom agreement, since December 31, 1996 the Company has not

(a) given any material discharge or release of any material obligations of third parties to it, for which no substantially equal benefit was received by it;

(b) mortgaged, pledged or subjected to any encumbrance any of its material assets;

(c) waived or released any material right other than in the ordinary course of business;

(d) sold, assigned, transferred, conveyed, licensed, sub-licensed, leased or agreed to acquire any material asset other than in the ordinary course of business;

(e) made any material capital expenditures or entered into any commitment therefore, except in the ordinary course of business;

(f) incurred any material debt, liability or obligation other than normal trade debts or obligations incurred in the ordinary course of business other than with respect to the potential SPO and the renegotiation of the USD 3.4 million bank guarantee with Paribas Belgique;

(g) incurred or inflicted any damage, destruction or loss to any physical property owned or used in and material to its business and not fully adequately covered by insurance.

#### 4.5. Tax Matters.

"Taxes" as referred to in this Agreement shall mean all forms of taxation by any taxing authorities, whether national or local including, without limiting the generality of the foregoing, corporate income tax, real and personal property tax, registration tax, value added tax, customs duties and parafiscal, social security payments and similar charges. With respect to any period on or before the signature date of this Agreement, the Company has :

(i) filed all returns, reports and declarations required to be filed with respect to Taxes;

(ii) paid all such Taxes due to all taxing and social security authorities, and there is no further liability for any such Taxes and no interest or penalties accrued or accruing with respect thereto;

(iii) made adequate provisions for Taxes not yet due and attributable to all periods ended on or before the date of this Agreement in accordance with applicable accounting law and rules, except to the extent the amount thereof will not have a Material Adverse Effect.

#### 4.6. Litigation.

There are

(a) no material litigation or other material proceedings pending against the Company;

(b) to the best of the knowledge of the Company no material threatened litigation or administrative action and material claims asserted or threatened against the Company;

(c) no litigation or other proceedings or administrative actions or claims pending, or, to the best of the knowledge of the Company, threatened against the Company before any court or governmental entity, which would materially adversely affect the ability of the Company to consummate the transaction contemplated by this Agreement;

(d) to the best of the knowledge of the Company no consumer complaints have been lodged or threatened against the Company which could result in a Material Adverse Effect.

In each of the subparagraphs (a) through (d), there exists, to the best of the knowledge of the Company, no circumstances (other than those described in the March 31, 1997 draft of the Form S-4) which it is aware of which might give rise to material litigation or other material proceedings against the Company.

4.7. No obligations of the Company conflicting with this Agreement.

Neither the issue of the Convertible Notes and the Stock Warrants, nor the execution and delivery of this Agreement, nor the consummation of the transaction contemplated hereby, will

(a) violate any provision of the organizational documents of the Company or any statute, ordinance, regulation, order, judgment, directive or decree of any court or governmental authority applicable to the Company;

(b) to the best of the knowledge of the Company, violate any provision of law applicable to the Company;

(c) to the best of the knowledge of the Company, result in a breach of or the termination of or constitute a default under any material agreement to which the Company is a party.

4.8. Trademarks and other Intangibles.

The Company is the sole owner of or has right to use all trade names, trademarks, service marks, corporate names and logos, patents, copyrights or designs that are used in and are material to its business.

The Company is not aware of any litigation, proceeding or claim whatsoever, pending or threatened, which is likely to jeopardize the registration or validity of the above trade names, trademarks, service marks, corporate names and logos, patents, copyrights or designs it uses, except to the extent the lack of registration or validity would not have a Material Adverse Effect.

4.9. No further Consents.

Assuming the Bank is acquiring the Convertible Notes and Stock Warrants for their own account and shall not distribute them unless such distribution is registered under applicable law or exception from registration is available, no consent, approval or authorization of, or registration, qualification, designation or filing with, any governmental authority on the part of the Company is required in connection with:

- (i) the issue of the Convertible Notes and Stock Warrants;
- (ii) the execution and delivery of this Agreement;
- (iii) the conversion of the Convertible Notes in Common Stock Shares;
- (iv) the issue of Common Shares in consideration of the exercise of the Stock Warrants;

4.10. Disclosure.

Neither this Agreement nor any document certificate or statement furnished to the Bank by or on behalf of the Company in connection with this Agreement or transaction contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading.

There is no fact known to the Company which constitutes a Material Adverse Effect or in the future may cause a Material Adverse Effect which has not been disclosed to the Bank.

The Company has not knowingly withheld from the Bank any information or data which would in the reasonable opinion of the Bank materially affect the Bank's decision to enter into this Agreement or any of its terms.

#### 4.11. Contracts.

There are no

(a) contracts (other than contracts that are not material to the Company's financial position or results) signed by the Company which are immediately subject to termination as a result of an introduction of the shares of the Company on a stock exchange or a change of ownership of part or all of the shares of the Company;

(b) agreements under which the Company has transferred the security ownership of or granted a pledge or other security interest in any of the assets which would be material to the business of the Company, other than in the ordinary course of business.

#### 4.12. Compliance with laws.

The Company has substantially complied with all laws and regulations and enforceable judgments of courts or arbitration tribunals with competent jurisdiction applicable to the Company or its business and assets, the violation of which, or the remedy of a violation of which, individually or in the aggregate have a material adverse effect on the business, or financial condition of the Company.

#### 4.13. Indemnification.

The Company hereby agrees to hold the Bank harmless against any and all claims, actions, suits, proceedings, demands, assessments, judgments and indemnify the Bank for all damages and costs, including but not limited to interest, penalties and reasonable auditors' and attorney's fees, incurred by the Bank and caused by the incorrectness when made of any of the representations and warranties of the Company as set forth above.

#### article 5. - undertakings

5.1. The Company undertakes to take all corporate actions necessary or useful to authorize the SPO and listing of its Common Shares on Easdaq and/or Nasdaq.

5.2. The Company will use its best efforts to take all other actions, including but not limited to consents of authorities and shareholders, necessary or useful to authorize the SPO and listing of its Common Shares on Easdaq and/or Nasdaq.

5.3. The Company undertakes to co-operate fully with the Bank and disclose all relevant information and the Bank undertakes to co-operate with the Company in order to facilitate the preparatory work for the admission to trading of the Company's Common Shares on Easdaq and/or Nasdaq in the fourth quarter of 1997.

5.4. The Company and its officers undertakes that the rights and obligations of VASCO CORP. under or in connection with this Financing Agreement and the issuance of shares under the Convertible Notes and Stock Warrants shall be assumed in their entirety by Newco. The Company and its officers undertakes that Newco shall deliver an express written undertaking in this regard. Furthermore, following



such undertaking, Newco will deliver a legal opinion from Newco's external legal counsel to the effect that all of the Company's rights and obligations under the Financing Agreement and with respect to issuance of Newco shares of Common Stock pursuant to the Convertible Notes and the Stock Warrants have been assumed by Newco. The Company further undertakes to cause the officers of Newco, who the Company anticipates will be the same people who are officers of the Company, to cause Newco to assume all of the obligations set forth in this Article 5.4.

5.5. The Company undertakes to pay up to the sum of USD 10.000 (ten thousand) all reasonable out-of-pocket expenses, including legal fees of the Bank, in connection with the preparation and execution of this Financing Agreement.

#### article 6. - further assurances

Each of the parties hereto shall take such further actions as may be reasonably requested by the other party hereto to carry out and consummate the transactions contemplated in this Agreement.

#### article 7. - assignment

With the exception of an assignment in accordance with article 5.4. of this Agreement, no parties may assign any of its rights under and/or in connection with this Agreement without the prior written consent of the other party.

#### article 8. - severability and waiver

##### 8.1. No implied waivers - Remedies cumulative.

No failure to exercise and no delay in exercising any right, power or privilege hereunder shall operate as a waiver thereof or exclude a further exercise of these same rights, power or privilege. Nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. No waiver shall be effective unless it is in writing.

The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

##### 8.2. Amendments and waivers.

Any provision of this Agreement may be amended only if the parties so agree in writing.

Any waiver under any provision of this Agreement must be in writing.

##### 8.3. Partial invalidity.

The illegality or unenforceability of any provision of this Agreement under the law of any jurisdiction shall not affect its legality, validity or enforceability under the law of any other jurisdiction nor the legality, validity or enforceability of any other provision.

#### Article 9. - Governing law and jurisdiction

9.1. This Agreement is governed by, and shall be construed in accordance with, the laws of Belgium.

9.2. The Courts of Brussels shall have the non-exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Agreement.

This Agreement has been executed in two originals as of the day and year first before written and each party acknowledges receipt of one signed original.

generale bank

vasco corp.

By: /s/ F. Vanderhoydonck

By: /s/ T. Kendall Hunt

-----  
name: Francis VANDERHOYDONCK  
title: Director Corporate Investment  
Banking

-----  
name: T.Kendall HUNT  
title: Chairman & CEO

I.O. O. Van Marke

By: /s/ O. Van Marke

-----  
name: Marc Antoine de SCHOUTHEETE

title: Head of Corporate Finance

Annex I. - Unsigned copy of Convertible Note









Corporate & Investment Banking

Mr. T. Ken Hunt  
Chairman & CEO  
VASCO CORP.  
1919 South Highland Avenue, Suite 118-C  
Lombard, IL 60148  
USA

Brussels, 26 June, 1997.

Dear Sir,

Further to our recent telephone conversations and referring to your fax dated 9, 12 and 13 June 1997, we are glad to send you a new proposal of mandate describing the role of Generale Bank as co-lead manager for the Secondary Public Offering as more fully described herein ("SPO") of Vasco Corp. or of a new Delaware corporation to be formed by Vasco Corp. (the "Issuer") on Easdaq and Nasdaq.

As described in your fax dated 9 June, the underwriting team (the "Syndicate") would consist of three members : 1) a Principal Lead Manager (the "Principal"), being Banque Paribas, London Branch; 2) a Co-Principal Lead Manager (the "Co-Principal") being an international, US-based investment banker, and 3) a Co-Lead Manager (the "Co-Lead"), being Generale Bank. This team would cooperate in a simultaneous offering on the Easdaq and Nasdaq exchanges, raising up to USD 60 million.

In this context and assuming that the Principal will act as sponsor in the meaning described in the Easdaq Rule Book on chapter V, we propose the following framework for the role of Generale Bank, the timing of the introduction and the costs involved.



## 1. ROLE OF GENERALE BANK AS CO-LEAD MANAGER

### 1.1 PREPARATION OF THE OPERATION

Generale Bank will assist the Issuer, the Principal and the Co-Principal in all aspects of the operation related to the Belgian market, such as contacts with the Banking and Financing Commission, marketing (see below), ....

### 1.2 MARKET MAKER

Generale Bank will operate as market maker, which includes :

1. Research : after the SPO, Generale Bank will publish regularly research reports on the company.
2. Active market making in stocks during Easdaq market hours (09:30-16:30).
3. Displaying bid/ask prices reasonably related to the market conditions.

### 1.3 SELLING AND UNDERWRITING

Generale Bank wishes to actively participate in the Syndicate that will organize the underwriting and the selling of this operation.

As offered in your fax dated 12 June, Generale Bank intends to underwrite 20 % of the underwriting responsibility, or USD 12 million of a USD 60 million offering, after a bookbuilding process.

The Issuer will guarantee to Generale Bank it will receive at least 20 % of the offered shares for the final allotment to the investors, whatever the result of the bookbuilding may be.

The Issuer will recommend that the offered shares are evenly distributed in Europe and the US, in order to promote good investors' bases on the Easdaq and Nasdaq exchanges.

### 1.4 MARKETING

In co-ordination with the Issuer, the Principal and the Co-Principal, Generale Bank will act as lead-manager and will take all necessary actions relating to the marketing of the operation in Belgium:

- \* organization of road shows in Belgium to ensure a suitable presentation of the activities of the company to the financial community;
- \* the communication with the press, ....;
- \* the publication of tombstones in the financial press;
- \* the mailing of the prospectus to selected investors;
- \* the organization of meetings with a limited number of financial analysts;
- \* etc...

## 2. TIMING OF THE INTRODUCTION

The objective is to organize the SPO in the fourth quarter of 1997, provided no major event imposes a delay or makes the SPO impracticable to complete (major crash on the main stock markets, unexpected incident in the activities of the Issuer which has a material adverse effect on the Issuer's financial position, failure to consummate the exchange offer as foreseen in the S4 registration document to be filed with the Securities and Exchange Commission, ...) or anything which, in the reasonable opinion of the underwriters, is likely to jeopardize a successful SPO.

## 3. COSTS AND COMMISSIONS INVOLVED

Subject to any limitations that may be imposed by Nasdaq, Easdaq, the National Association of Securities Dealers, any state securities laws or any other laws, rules or regulations, the following commissions will apply:

1. The Issuer will pay to Generale Bank a management commission of 0.7 % of the total amount raised by the Syndicate for the Issuer.
2. The commissions due to the Bank regarding the underwriting and selling will be split as follows :
  - \* 1.5 % underwriting commission based on the amount underwritten by the Bank for the Issuer;
  - \* 4.0 % selling commission based on the placed amount by the Bank for the Issuer and taking into consideration point 1.3. hereabove.

These commissions are normally paid by the Principal, unless otherwise specified in its mandate. In that last case they would be paid directly by the Issuer to the Bank.

The above mentioned commissions do not include the following expenses :

- \* the remuneration of the Market Authority;
- \* the remuneration of the Belgian Banking and Finance Commission;
- \* the remuneration of the legal advisers of the Issuer;
- \* the remuneration of the auditors of the Issuer;
- \* the costs incurred by the Issuer for the exchange offer;
- \* the cost of establishing and printing the prospectus;
- \* the marketing expenses of the Issuer;
- \* the costs of the Issuer related to road shows approved by the Issuer taking place out of the buildings of Generale Bank;
- \* the cost of the publication of tombstones approved by the Issuer announcing the SPO in the newspapers;

- \* Generale Bank shall be responsible for all its expenses (whatever internal or out-of-pocket) unless prior written approval for payment is obtained from the Issuer.

The Issuer and the Principal have agreed that the budget for the Syndicate concerning the items mentioned above will not exceed USD 500,000.

In case the SPO is cancelled on the sole decision of the Issuer, a fee will be calculated in relation to the time spent by the Bank at that time and on the basis of BEF 50,000 per man and per working day, but in no event shall the fee exceed BEF 2 million.

If you agree on this mandate, may we ask you to return us a copy of this document duly signed.

We are at your disposal for any further information you might need.

Looking forward to hearing from you very soon, we remain,

Sincerely yours,

/s/ Marc Antoine de SCHOUTHEETE  
Head of Corporate Finance

/s/ Francis VANDERHOYDONCK  
Director Corporate & Investment Banking

The foregoing mandate is acceptable to Vasco Corp. and is consistent with the arrangements made with Banque Paribas, London Branch, concerning the SPO.

Date : June , 1997

VASCO Corp.  
-----  
/s/ Mario HOUTHOOFT  
Agent & Officer

EXHIBIT B

DESCRIPTION OF DEPOSIT MATERIAL

Deposit Account Number

Depositor Company Name: Shiva Corporation

DEPOSIT TYPE:	Initial	Supplemental	Replacement
If Replacement:	Destroy Deposit	Return Deposit	

ENVIRONMENT:			
Host System CPU/OS	Version	Backup	
Source System CPU/OS	Version	Compiler	
Special Instructions:			

DEPOSIT MATERIAL:	
Exhibit B Name	Version

Item label description	Media	Quantity
------------------------	-------	----------

27

September 9, 1997

LH

For Depositor, I certify that  
the above described Deposit  
Material was sent to DSI

By

Print Name

Date

28

September 9, 1997

For DSI, I received the above  
described Deposit Material  
subject to the terms on the  
reverse side of this Exhibit:

By

M. Elizabeth Potthoff

Date of Acceptance

ISE

EX. B#



NUMBER: W9706001

\*\*10,000\*\* SHARES

VASCO CORP.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

## COMMON STOCK PURCHASE WARRANTS

This Certifies that GENERALE BANK, MONTAGNE DU PARC, 3 1000 BRUSSELS (the "holder") is the owner of 10,000 Common Stock Purchase Warrants (the "Warrants"), each Warrant giving the holder the right to purchase one (1) fully paid and non-assessable share of Common Stock, \$.001 par value, of VASCO CORP. (the "Company") at any time through JUNE 30, 2000, (the "exercise date") at an exercise price of \$4.00 per Warrant and subject to the terms, conditions and limitations set forth herein. These Warrants are exercisable at the option of the holder.

As of Midnight of the exercise date, any unexercised Warrants issued herein will automatically and without notice terminate and become null and void, unless extended by action of the Board of Directors. Any exercise of these Warrants shall be in writing, addressed to the Secretary of the Company at its principal place of business, using the form attached hereto, and shall be accompanied by payment in full by check.

In the event, at the time of exercise of the Warrants, there does not exist a Registration Statement on an appropriate Form under the Securities Act of 1933, as amended (the "Act"), which Registration Statement shall have become effective and shall be current with respect to the underlying shares being purchased, and in the opinion of counsel to the Company such underlying shares will upon issuance be "restricted" securities within the meaning of Rule 144 under the Act, you will represent and warrant to the Company (i) that, upon exercise of the Warrants, you are purchasing the underlying shares for investment only and not with a view to the resale or distribution thereof and (ii) that any subsequent resale or distribution of any such underlying shares shall be made either pursuant to (x) a Registration Statement on an appropriate Form under the Act, which Registration Statement shall have become effective and shall be current with respect to the underlying shares being sold, or (y) a specific exemption from the registration requirements of the Act, but in claiming such exemption, you shall, prior to any offer for sale or sales of such underlying shares, obtain a favorable written opinion from counsel for, or approved by the Company, as to the applicability of such exemption.

THESE WARRANTS AND THE UNDERLYING SHARES OF VASCO CORP. COMMON STOCK HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED WITHOUT SUCH REGISTRATION OR A SPECIFIC EXEMPTION FROM REGISTRATION AS REFLECTED IN A WRITTEN OPINION FROM LEGAL COUNSEL ACCEPTABLE TO THE COMPANY AS TO THE APPLICABILITY OF SUCH EXEMPTION.

In the event that prior to the exercise date, at least 80% of the Company's outstanding common stock is exchanged (the "Stock Exchange") for shares of Common Stock of a new Delaware corporation ("Newco") formed by the Company, these Warrants shall be for shares of Newco Common Stock and all references herein to the Company or VASCO Corp. shall refer to Newco and all references herein to Common Stock of the Company shall refer to Common Stock of Newco of the same class as the shares of Common Stock of Newco issued in the Stock Exchange.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its authorized officers, and its Corporate Seal, to be hereunto affixed this JUNE 16, 1997.

-----  
Secretary-----  
President

(Apply Corporate Seal)

SCHEDULE I  
to Exhibit 10.21

Name	Issue Date	Expiration Date	Warrant Price	Warrants Issued
Generale Bank	06/16/97	06/30/2000	4.00	10,000
Generale Bank	06/16/97	06/30/2000	6.00	10,000
Generale Bank	06/16/97	06/30/2000	8.00	10,000
Generale Bank	06/16/97	06/30/2000	10.00	10,000



NUMBER: WC1021

\*\*5,883 SHARES

VASCO CORP.  
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

## COMMON STOCK PURCHASE WARRANTS

This Certifies that FORREST D. LAIDLEY, 339 N. Milwaukee Avenue, Libertyville, IL 60048-2249 (the "holder") is the owner of 5,883 Common Stock Purchase Warrants (the "Warrants"), each Warrant giving the holder the right to purchase one (1) fully paid and non-assessable share of Common Stock, \$.001 par value, of VASCO CORP. (the "Company") at any time through OCTOBER 31, 2000, (the "exercise date") at an exercise price of \$6.00 per Warrant and subject to the terms, conditions and limitations set forth herein. These Warrants are exercisable at the option of the holder. In the event of a Secondary Public Offering (the "Offering"), the Company has the right to call these Warrants at the exercise price 30 days prior to the Offering. Surrender of the Warrants and \$6.00 per Warrant prior to or simultaneous to but no later than the closing of the Offering will entitle the holder to one (1) share of free tradeable, registered, non-restricted share of Common Stock of the Company. The Company will permit "cashless exercise" (credit of the intrinsic value of the herein Warrants against the Offering price) of the Warrants upon request of the holder immediately prior to the Offering, based on the Offering price, with adjustment for commissions and expenses.

As of Midnight of the exercise date, any unexercised Warrants issued herein will automatically and without notice terminate and become null and void, unless extended by action of the Board of Directors. Any exercise of these Warrants shall be in writing, addressed to the Secretary of the Corporation at its principal place of business, using the form attached hereto, and shall be accompanied by payment in full by check.

In the event, at the time of exercise of the Warrants, there does not exist a Registration Statement on an appropriate Form under the Securities Act of 1933, as amended (the "Act"), which Registration Statement shall have become effective and shall be current with respect to the underlying shares being purchased, and in the opinion of counsel to the Company such underlying shares will upon issuance be "restricted" securities within the meaning of Rule 144 under the Act, you will represent and warrant to the Company (i) that, upon exercise of the Warrants, you are purchasing the underlying shares for investment only and not with a view to the resale or distribution thereof and (ii) that any subsequent resale or distribution of any such underlying shares shall be made either pursuant to (x) a Registration Statement on an appropriate Form under the Act, which Registration Statement shall have become effective and shall be current with respect to the underlying shares being sold, or (y) a specific exemption from the registration requirements of the Act, but in claiming such exemption, you shall, prior to any offer for sale or sales of such underlying shares, obtain a favorable written opinion from counsel for, or approved by the Company, as to the applicability of such exemption.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its authorized officers, and its Corporate Seal, to be hereunto affixed this 31st day of October, 1995.

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Secretary/President  
(Apply Corporate Seal)

SCHEDULE I  
to Exhibit 10.22

Name	Issue Date	Expiration Date	Warrant Price	Warrants Issued
Richard M. Vaden, Jr.	10/31/95	10/31/2000	6.00	638
Stephen D. Clark	10/31/95	10/31/2000	6.00	5,844
Jeffrey A. Krogh	10/31/95	10/31/2000	6.00	2,942
Calvin C. Remmers & Nancy A. Remmers	10/31/95	10/31/2000	6.00	4,157
Linda Bilut	10/31/95	10/31/2000	6.00	300
Bernhardt Braa Wiggen, TTEE, FBO Bernhardt Braa Wiggen U/A 12/27/94	10/31/95	10/31/2000	6.00	4,724
Kevin P. Wiggen	10/31/95	10/31/2000	6.00	1,200
Bernhardt B. Wiggen	10/31/95	10/31/2000	6.00	7,568
David W. Sutter	10/31/95	10/31/2000	6.00	5,883
Forrest D. Laidley	10/31/95	10/31/2000	6.00	5,883
Sally J. Krogh	10/31/95	10/31/2000	6.00	2,941
B.B. Wiggen and B.A. Wiggen	10/31/95	10/31/2000	6.00	75,000
Bonnie D. Wiggen	10/31/95	10/31/2000	6.00	7,219
Merrill Lynch IRA #208-84178	10/31/95	10/31/2000	6.00	5,800
Smith Barney Shearson IRA# 576-61214-1-596	10/31/95	10/31/2000	6.00	7,568
Carol E. Dill, Trustee U/A 7/14/89	10/31/95	10/31/2000	6.00	1,750

NUMBER: W9705009  
SHARES

\*\*16,000\*\*

VASCO CORP.  
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

COMMON STOCK PURCHASE WARRANTS

This Certifies that EUGENE WONG, 460 CHERRY LANE ROAD 1, MENDHAM, NJ 07945-2712 (the "holder") is the owner of 16,000 Common Stock Purchase Warrants (the "Warrants"), each Warrant giving the holder the right to purchase one (1) fully paid and non-assessable share of Common Stock, \$.001 par value, of VASCO CORP. (the "Company") at any time through MARCH 31, 2000, (the "exercise date") at an exercise price of \$5.19 per Warrant and subject to the terms, conditions and limitations set forth herein. These Warrants are exercisable at the option of the holder. In the event of a Secondary Public Offering (the "Offering"), the Company has the right to call these Warrants at the exercise price upon notice given 30 days prior to the Offering. Surrender of the Warrants and payment of \$5.19 per Warrant prior to or simultaneous to but no later than the closing of the Offering will entitle the holder to one (1) share of freely tradable, registered, non-restricted Common Stock of the Company. The Company will allow a "cashless exercise" as permitted under Section 9 of the Second Amendment to the Registration Rights Agreement dated March 7, 1997, which amended the Registration Rights Agreement dated as of October 19, 1995, as amended on July 1, 1996 (the "Registration Rights Agreement"). These Warrants have been issued in consideration of the holder having executed the said Second Amendment to the Registration Rights Agreement dated March 7, 1997.

As of Midnight of the exercise date, any unexercised Warrants issued herein will automatically and without notice terminate and become null and void, unless extended by action of the Board of Directors. Any exercise of these Warrants shall be in writing, addressed to the Secretary of the Company at its principal place of business, using the form attached hereto, and shall be accompanied by payment in full by check.

In the event, at the time of exercise of the Warrants, there does not exist a Registration Statement on an appropriate Form under the Securities Act of 1933, as amended (the "Act"), which Registration Statement shall have become effective and shall be current with respect to the underlying shares being purchased, and in the opinion of counsel to the Company such underlying shares will upon issuance be "restricted" securities within the meaning of Rule 144 under the Act, you will represent and warrant to the Company (i) that, upon exercise of the Warrants, you are purchasing the underlying shares for your own account and not with a view to the resale or distribution thereof and (ii) that any subsequent resale or distribution of any such underlying shares shall be made either pursuant to (x) a Registration Statement on an appropriate Form under the Act, which Registration Statement shall have become effective and shall be current with respect to the underlying shares being sold, or (y) a specific exemption from the registration requirements of the Act, but in claiming such exemption, you shall, prior to any offer for sale or sales of such underlying shares, obtain a favorable written opinion from counsel for, or approved by the Company, as to the applicability of such exemption.

THESE WARRANTS AND THE UNDERLYING SHARES OF VASCO CORP. COMMON STOCK HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED WITHOUT SUCH REGISTRATION OR A SPECIFIC EXEMPTION FROM REGISTRATION AS REFLECTED IN A WRITTEN OPINION FROM LEGAL COUNSEL ACCEPTABLE TO THE COMPANY AS TO THE APPLICABILITY OF SUCH EXEMPTION. THESE WARRANTS HAVE BEEN ISSUED PURSUANT TO THE REGISTRATION RIGHTS AGREEMENT AND ARE SUBJECT TO ALL PROVISIONS THEREOF.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its authorized officers, and its Corporate Seal, to be hereunto affixed this 7th day of March, 1997.

\_\_\_\_\_  
Secretary

\_\_\_\_\_  
President

(Apply Corporate Seal)

SCHEDULE I  
to Exhibit 10.23

Name	Issue Date	Expiration Date	Warrant Price	Warrants Issued
Frank Brenner	03/07/97	03/31/2000	5.19	5,336
Gita Brenner	03/07/97	03/31/2000	5.19	5,336
Monte Engler	03/07/97	03/31/2000	5.19	17,336
Richard Groberg	03/07/97	03/31/2000	5.19	800
Irwin Schlass Enterprises, Inc.	03/07/97	03/31/2000	5.19	16,000
Bear Stearns, Custodian				
FBO Stephen Raphael IRA	03/07/97	03/31/2000	5.19	39,216
Jack P. Schleifer	03/07/97	03/31/2000	5.19	33,320
Myron Weinblatt	03/07/97	03/31/2000	5.19	8,000
Eugene Wong	03/07/97	03/31/2000	5.19	16,000

NUMBER: WC4006

\*\*833\*\* SHARES

VASCO CORP.  
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

## COMMON STOCK PURCHASE WARRANTS

This Certifies that JAMES P. ROACHE, 730 N. Wabash, Chicago, Illinois 60611 (the "holder") is the owner of 833 Common Stock Purchase Warrants (the "Warrants"), each Warrant giving the holder the right to purchase one (1) fully paid and non-assessable share of Common Stock, \$.001 par value, of VASCO CORP. (the "Company") at any time through JUNE 1, 2001, (the "exercise date") at an exercise price of \$4.50 per Warrant and subject to the terms, conditions and limitations set forth herein. The shares of Common Stock underlying these Warrants shall have "piggy back registration rights" and will therefore be included in the next registration statement to be filed with the SEC. The effective date of these warrants is August 13, 1996.

As of Midnight of the exercise date, any unexercised Warrants issued herein will automatically and without notice terminate and become null and void, unless extended by action of the Board of Directors. Any exercise of these Warrants shall be in writing, addressed to the Secretary of the Corporation at its principal place of business, using the form attached hereto, and shall be accompanied by payment in full by check.

In the event, at the time of exercise of the Warrants, there does not exist a Registration Statement on an appropriate Form under the Securities Act of 1933, as amended (the "Act"), which Registration Statement shall have become effective and shall be current with respect to the underlying shares being purchased, and in the opinion of counsel to the Company such underlying shares will upon issuance be "restricted" securities within the meaning of Rule 144 under the Act, you will represent and warrant to the Company (i) that, upon exercise of the Warrants, you are purchasing the underlying shares for investment only and not with a view to the resale or distribution thereof and (ii) that any subsequent resale or distribution of any such underlying shares shall be made either pursuant to (x) a Registration Statement on an appropriate Form under the Act, which Registration Statement shall have become effective and shall be current with respect to the underlying shares being sold, or (y) a specific exemption from the registration requirements of the Act, but in claiming such exemption, you shall, prior to any offer for sale or sales of such underlying shares, obtain a favorable written opinion from counsel for, or approved by the Company, as to the applicability of such exemption.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its authorized officers, and its Corporate Seal, to be hereunto affixed this 13th day of August, 1996.

---

Secretary/President  
(Apply Corporate Seal)

SCHEDULE I  
TO EXHIBIT 10.24

Name	Issue Date	Expiration Date	Warrant Price	Warrants Issued
Hutson, Richard W.	08/13/96	09/28/2001	4.50	2,499
Mini-Flix, Inc.	08/13/96	09/28/2001	4.50	833
Parrish, Charles E.	08/13/96	09/28/2001	4.50	833
Wright, Jeffrey A.	08/13/96	09/28/2001	4.50	833
Graham, William M.	08/13/96	09/28/2001	4.50	833
Roache, James P.	08/13/96	09/28/2001	4.50	833
Flynn, John F. & Stephanie B.	08/13/96	09/28/2001	4.50	1,666
Parrish, Charles D.	08/13/96	09/28/2001	4.50	833
Clark, Stephen D.	08/13/96	09/28/2001	4.50	1,666
Anderson, John B.	08/13/96	09/28/2001	4.50	833
Remmers, Calvin C. & Nancy A.	08/13/96	09/28/2001	4.50	600
Seibert, Mary Jo	08/13/96	09/28/2001	4.50	833
McMurrrough, Marilyn & Mark	08/13/96	09/28/2001	4.50	4,165
Graham, Michael R. TTEE	08/13/96	09/28/2001	4.50	833
FBO Michael R. Graham				
Wiggen, Ralph E.	08/13/96	09/28/2001	4.50	833
Wiggen, Patricia A. TTEE FBO	08/13/96	09/28/2001	4.50	563
Patricia A. Wiggen U/T/A/D				
Wiggen, Bernhardt Braa TTEE FBO				
Bernhardt Braa Wiggen U/T/A/D	08/13/96	09/28/2001	4.50	840
Wiggen, Bonnie D.	08/13/96	09/28/2001	4.50	11,250
Wiggen, Michael B.	08/13/96	09/28/2001	4.50	3,750

NUMBER: WC3001

\*\*25,000\*\* SHARES

VASCO CORP.  
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

## COMMON STOCK PURCHASE WARRANTS

This Certifies that GUY DENUDT, Bd. De Smet de Naeyer, 555, B-1020 Bruxelles, BELGIUM (the "holder") is the owner of 25,000 Common Stock Purchase Warrants (the , "Warrants"), each Warrant giving the holder the right to purchase one (1) fully paid and non-assessable share of Common Stock, \$.001 par value, of VASCO CORP. (the "Company") at any time through DECEMBER 31, 2001, (the "exercise date") at an exercise price of \$7.00 per Warrant and subject to the terms, conditions and limitations set forth herein. The shares of Common Stock underlying these Warrants shall have "piggy back registration rights" and will therefore be included in the next registration statement to be filed with the SEC. The effective date of these warrants is June 27, 1996.

As of Midnight of the exercise date, any unexercised Warrants issued herein will automatically and without notice terminate and become null and void, unless extended by action of the Board of Directors. Any exercise of these Warrants shall be in writing, addressed to the Secretary of the Corporation at its principal place of business, using the form attached hereto, and shall be accompanied by payment in full by check.

In the event, at the time of exercise of the Warrants, there does not exist a Registration Statement on an appropriate Form under the Securities Act of 1933, as amended (the "Act"), which Registration Statement shall have become effective and shall be current with respect to the underlying shares being purchased, and in the opinion of counsel to the Company such underlying shares will upon issuance be "restricted" securities within the meaning of Rule 144 under the Act, you will represent and warrant to the Company (i) that, upon exercise of the Warrants, you are purchasing the underlying shares for investment only and not with a view to the resale or distribution thereof and (ii) that any subsequent resale or distribution of any such underlying shares shall be made either pursuant to (x) a Registration Statement on an appropriate Form under the Act, which Registration Statement shall have become effective and shall be current with respect to the underlying shares being sold, or (y) a specific exemption from the registration requirements of the Act, but in claiming such exemption, you shall, prior to any offer for sale or sales of such underlying shares, obtain a favorable written opinion from counsel for, or approved by the Company, as to the applicability of such exemption.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its authorized officers, and its Corporate Seal, to be hereunto affixed this 27th day of June, 1996.

---

SecretaryPresident  
(Apply Corporate Seal)

SCHEDULE I  
TO EXHIBIT 10.25

Name	Issue Date	Expiration Date	Warrant Price	Warrants Issued
Denudt, Guy	06/27/96	12/31/01	7.00	162,500
Houthoof, Mario A.	06/27/96	12/31/01	7.00	162,500



NUMBER: WC2018

\*\*4,445\*\* SHARES

VASCO CORP.  
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

## COMMON STOCK PURCHASE WARRANTS

This Certifies that FIRST ANALYSIS SECURITIES CORPORATION (FEIN: 36-3158137), 233 South Wacker Drive, Suite 9500, Chicago, IL 60606 (the "holder") is the owner of 4,445 Common Stock Purchase Warrants (the "Warrants"), each Warrant giving the holder the right to purchase one (1) fully paid and non-assessable share of Common Stock, \$.001 par value, of VASCO CORP. (the "Company") at any time through JUNE 1, 2001, (the "exercise date") at an exercise price of \$4.50 per Warrant and subject to the terms, conditions and limitations set forth herein. The shares of Common Stock underlying these Warrants shall have "piggy back registration rights" as set forth in a Registration Rights Agreement dated May 28, 1996 by and between Company and Holder. The effective date of these warrants is June 27, 1996.

As of Midnight of the exercise date, any unexercised Warrants issued herein will automatically and without notice terminate and become null and void, unless extended by action of the Board of Directors. Any exercise of these Warrants shall be in writing, addressed to the Secretary of the Corporation at its principal place of business, using the form attached hereto, and shall be accompanied by payment in full by check.

In the event, at the time of exercise of the Warrants, there does not exist a Registration Statement on an appropriate Form under the Securities Act of 1933, as amended (the "Act"), which Registration Statement shall have become effective and shall be current with respect to the underlying shares being purchased, and in the opinion of counsel to the Company such underlying shares will upon issuance be "restricted" securities within the meaning of Rule 144 under the Act, you will represent and warrant to the Company (i) that, upon exercise of the Warrants, you are purchasing the underlying shares for investment only and not with a view to the resale or distribution thereof and (ii) that any subsequent resale or distribution of any such underlying shares shall be made either pursuant to (x) a Registration Statement on an appropriate Form under the Act, which Registration Statement shall have become effective and shall be current with respect to the underlying shares being sold, or (y) a specific exemption from the registration requirements of the Act, but in claiming such exemption, you shall, prior to any offer for sale or sales of such underlying shares, obtain a favorable written opinion from counsel for, or approved by the Company, as to the applicability of such exemption.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its authorized officers, and its Corporate Seal, to be hereunto affixed this 27th day of June, 1996.

---

Secretary/President  
(Apply Corporate Seal)

SCHEDULE I  
to Exhibit 10.26

Name	Issue Date	Expiration Date	Warrant Price	Warrants Issued
Kyoto Securities, Ltd.	06/27/96	06/30/01	4.50	166,943
First Analysis Securities Corp.	06/27/96	06/30/01	4.50	4,445
Steven Bouck	06/27/96	06/30/01	4.50	3,555
Michael Simplenski	06/27/96	06/30/01	4.50	889

## CONVERTIBLE NOTE 1

\$500,000

July 1, 1997

VASCO Corp., a Delaware corporation ("VASCO" or "Maker") promises to pay to Generale de Banque ("Generale Bank" or "Holder"), the principal sum of USD Five Hundred Thousand Dollars (USD 500,000) (the "Principal Amount"). This Convertible Note shall mature and is payable in full on September 30, 1998 (the "Maturity Date"), subject to the terms and conditions of this Convertible Note. This Convertible Note is one of five Convertible Notes dated the date hereof and each in the principal amount of USD Five Hundred Thousand Dollars (USD 500,000) together with the interest on such principal sum, at the fixed interest rate described below, payable as more fully set forth below.

## 1. Interest.

1.1 Interest shall be calculated on the unpaid principal balance of this Convertible Note, at an interest rate of three and one-quarter percent (3.25%) per annum. VASCO may withhold from such payments amounts which may be required by the tax laws of the United States as in effect from time to-time.

1.2 In the event of the completion of an SPO (as defined in Section 3) and pursuant to Section 2 the Principal Amount of this Convertible Note is repaid, either in cash or by conversion into shares, within seven days of the closing of the SPO, VASCO shall pay additional interest in cash at the time of the repayment of this Convertible Note as follows:

- (i) If this Convertible Note is repaid (in cash or by conversion) on or before December 31, 1997, the sum of USD 55.556 (USD Fifty-Five Thousand Five Hundred Fifty-Six);
- (ii) If this Convertible Note is repaid (in cash or by conversion) between January 1, 1998 and March 31, 1998, both dates inclusive, the sum of USD 88.235 (USD Eighty-Eight Thousand Two Hundred Thirty-Five);  
or
- (iii) If this Convertible Note is repaid (in cash or by conversion) between April 1, 1998 and September 30, 1998, both dates inclusive, the sum of USD 125.000 (USD One Hundred Twenty-Five Thousand).

## 2. Payment.

If this Convertible Note has not been previously converted, this Convertible Note shall be payable in full on the Maturity Date in an amount equal to One Hundred Sixteen percent (116%) of the Principal Amount hereof (the "Maturity Amount"); provided, however, that in the event of the completion of an SPO (as defined in Section 3), Generale Bank may at its option, by written notice ("Payment Notice") delivered to VASCO within seven days after the receipt of proceeds by VASCO at the closing of the SPO, require VASCO to repay, within seven days after receipt by VASCO of the Payment Notice, the Principal Amount of this Convertible Note either (A) in cash or (B) in that number of Common Shares of VASCO determined by dividing the Principal Amount by the per share offering price of the SPO, and in the event either option (A) or option (B) is exercised VASCO shall pay in cash plus (i) any accrued but unpaid interest pursuant to Subsection 1.1 and (ii) the additional interest under Subsection 1.2. Interest only payments in arrears shall be made every three (3) months beginning on September 30, 1997. Except for the limited right set out in Section 3 (d)(ii), Maker shall not have the right to make prepayment in whole or in part.

## 3. Conversion.

(a) Subject to and upon compliance with the provisions of this Convertible Note, at the option of the Holder, or any subsequent holders in due course of this Convertible Note, the Principal Amount of this Convertible Note in whole and not in part may at any time as from the date a Secondary Public Offering ("SPO") occurs (including such date) until the close of business on the Maturity Date of this Convertible Note be converted into that number of Common Shares of VASCO, which shall have all of the rights and preferences as attached to the Common Shares of VASCO under the Delaware General Corporation Law at the time of conversion, by dividing the Principal Amount of this Convertible Note by the Conversion Price which shall be the price of the SPO as determined by the underwriters of the SPO on Easdaq and/or Nasdaq.

(b) In order to exercise the conversion privilege set out above, the Holder shall surrender this Convertible Note to VASCO at any time during usual business hours at the address set out below along with written notice to VASCO at such office that the Holder elects to convert this Convertible Note and stating the name or names in which the certificate or certificates for shares of Common Shares which shall be issuable upon such conversion shall be issued and, if applicable, the Conversion Price elected. As promptly as practicable after the date of such notice and the surrender of this Convertible Note as provided above, VASCO shall issue and deliver at its office or pursuant to its written order, a certificate or certificates with the number of full shares of common stock issuable upon such conversion in accordance with this Section 3, VASCO shall not be required to issue fractions of a share or script representing fractional shares upon conversion. If any fraction of a share would, except for provisions of this sentence, be issuable upon the conversion of this Convertible Note, VASCO shall pay a cash adjustment in respect to such fraction equal to the value of such fraction based upon the then Conversion Price. Such conversion shall be deemed to have been effective at the close of business on the date of conversion and the person or persons in whose name or names and each certificate or certificates

for shares of common stock shall have been issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby on such date; provided, however, that any such surrender on any date when the stock transfer books of VASCO shall be closed shall constitute the person or persons in whose name or names the certificate or certificates for such shares are to be issued as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open and the Convertible Note surrendered shall not be deemed to have been converted until such time for all purposes, but such conversion shall be at the Conversion Price in effect at the close of business on the date of such surrender.

(c) If this Convertible Note has not been converted prior to or paid in full on September 30, 1998 and Maker fails to pay this Convertible Note prior to November 1, 1998, then after October 31, 1998 and before payment of the Maturity Amount, if an SPO has not been completed the Holder shall have the right to convert this Convertible Note into Common Shares of VASCO by dividing the Principal Amount by the Conversion Price as follows:

(i) If Maker has listed its Common Shares on the NASDAQ and/or EASDAQ and/or other U.S. national stock exchange, then Holder may convert this Convertible Note at a Conversion Price corresponding to the Market Price of VASCO Common Shares traded in the United States, where the "Market Price" represents the average market price of VASCO's Common Shares traded in the United States during the twenty (20) trading days immediately prior to the Conversion Date; in addition, if this Convertible Note is so converted, VASCO shall pay to the Holder, upon the surrender of this Convertible Note for conversion, the sum of USD 250,000 (USD Two Hundred Fifty Thousand) as special interest, or at the Holder's option the Holder may receive the special interest in that number of VASCO Common Shares determined by dividing USD 250,000 (USD Two Hundred Fifty Thousand) by the Market Price (as defined above).

(ii) If Maker has not listed its Common Shares on the NASDAQ and/or EASDAQ and/or other U.S. national stock exchange, then Holder may convert this Convertible Note at a Conversion Price of USD One Dollar (USD \$1.00).

(d) The Conversion Price shall be subject to adjustment from time to time as follows.

(i) In case at any time VASCO shall subdivide its outstanding shares of common stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision shall be proportionately reduced and conversely, in case the outstanding share of common stock shall be combined into a small number of shares, the Conversion Price in effect immediately prior to such combination shall be proportionately increased.

(ii) If VASCO proposes any capital reorganization or reclassification of the capital stock of VASCO or consolidation or merger of VASCO with another corporation or the sale of all or substantially all of its assets to another corporation (a "Transaction") then as a condition to the Transaction, VASCO shall, no later than thirty (30) days prior to the closing date of the

Transaction, provide notice to Holder of all terms of conversion of this Convertible Note pursuant to the Transaction; and VASCO shall, not later than forty-eight (48) hours prior to closing of the Transaction, notify Holder of the date and time of closing. Prior to closing of the Transaction, Holder shall have the right to convert all amounts owed pursuant to this Convertible Note into shares pursuant to other provisions of this Convertible Note. If Holder, after receiving the notices required by this Section, as of closing of the Transaction has not elected to convert amounts owed pursuant to this Convertible Note into shares, VASCO may, at its election, tender to Holder the Maturity Amount plus all accrued but unpaid interest pursuant to this Convertible Note, and then this Convertible Note shall be deemed assigned by Holder to VASCO. If the Transaction does not close, VASCO shall not have the right to so purchase this Note. If the Transaction does close and within one hundred twenty (120) days after the closing VASCO shall not have acquired this Convertible Note pursuant to the terms herein, VASCO, or its successor shall have no right to so acquire this Convertible Note.

(iii) Upon any adjustment of the Conversion Price, then and in each such case, VASCO shall give written notice thereof, to the Holder, which notice shall state the Conversion Price resulting from such adjustment and the increase or decrease, if any, and the number of shares purchasable at such price upon the exercise of this Convertible Note setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

(iv) In case at any time:

(a) there should be any capital reorganization, or reclassification of the capital stock of VASCO or consolidation or merger of VASCO or sale of all or substantially all the assets to another corporation; or

(b) there should be a voluntary/involuntary dissolution, liquidation or winding up of VASCO;

Then in any one or more of said cases, VASCO shall give with notice to the Holder of the date on which the books of VASCO shall close or a record shall be taken for such reorganization, classification, consolidation, merger, sale, dissolution, liquidation or winding up shall take place.

(v) The issue of certificates on conversions of this Convertible Note shall be made without charge to the converting Holder for any U.S. transfer tax in respect of the issue thereof. Notwithstanding the above, to the extent that any federal withholding tax is required by the tax laws of the United States to be paid by VASCO, VASCO may withhold such amounts from obligations paid pursuant to this Convertible Note.

(vi) VASCO shall at all times reserve and keep available out of its authorized but unissued stock, for the purpose of affecting the conversion of this Convertible Note, such number of its duly authorized shares of its common stock as shall from time to time be sufficient to affect

the conversion of this entire Convertible Note. Notwithstanding anything herein to the contrary, in no event shall the number of shares of common stock issuable on conversion of this Convertible Note exceed Five Hundred Thousand (500,000) Common Shares, subject to adjustment pursuant to Section 3 (d)(i).

(e) In the event that prior to the conversion of this Convertible Note, at least 80% of VASCO's outstanding Common Shares is exchanged (the "Stock Exchange") for shares of common stock of a new Delaware corporation ("Newco") formed by VASCO, this Convertible Note shall be convertible into Common Shares of Newco and all references herein to VASCO, VASCO Corp. or the Maker shall refer to Newco and all references herein to Common Shares of VASCO Corp. or of VASCO shall refer to Common Shares of Newco of the same class as the shares of common stock of Newco issued in the Stock Exchange.

#### 4. Manner of Payments.

All payments by Maker under this Convertible Note shall be (a) made in lawful money of the United States of America, (b) credited first to any accrued interest under this Convertible Note and second to the principal balance under this Convertible Note, and (c) deemed paid by Maker upon delivery as provided herein. Payments under this Convertible Note shall be made by swift transfer to the account specified by the Holder.

#### 5. Expenses, Notices and Attorney's Fees.

In the event that Holder shall bring an action to enforce any rights hereunder, VASCO shall pay all of Holder's expenses incurred in connection with such action including, but not limited to, reasonable attorney's fees and expenses and costs of appeal. Should VASCO fail to timely pay any amount due hereunder, Holder shall deliver to VASCO at 1919 South Highland Avenue, Suite 118-C, Lombard, Illinois, 60148, notice of such failure to pay. If within fifteen (15) days following receipt of such notice, VASCO shall fail to timely perform any obligation pursuant hereto, VASCO shall be deemed in default of its obligations pursuant to this Convertible Note. Notice to Holder shall be sent to:

Generale Bank  
Corporate Investment Banking  
att. of Mr. F. Vanderhoydonck  
Montagne du Parc, 3  
B-1000 Brussels

#### 6. Headings.

The headings of the paragraphs of this Convertible Note have been included only for convenience and shall not be deemed in any manner to modify or limit any of the provisions of this Convertible Note. or be used in any manner in the interpretation of this Convertible Note.

7. Interpretation.

Whenever the context so required in this Convertible Note, all words used in the singular shall be construed to have been used in the plural (and vice versa), each gender shall be construed to include any other gender, and the word "person" shall be construed to include a natural person, a corporation, a firm, a partnership, a joint venture, a trust, an estate or any other entity.

8. Partial Invalidity.

Each provision of this Convertible Note shall be governed by the laws of the State of Illinois, and is valid and enforceable to the fullest extent permitted by law. If any provision of this Convertible Note or the application of such provision to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Convertible Note, or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected by such invalidity or unenforceability, unless such provision or such application of such provision is essential to this Convertible Note.

DATED AND EFFECTIVE as of the day and year above written.

VASCO CORP., a Delaware corporation,

By: /s/ T. Kendall Hunt  
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name: T Kendall HUNT  
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title: Chairman & CEO  
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STATEMENTS OF RIGHTS TO WARRANTS  
AND  
FORM OF EXERCISE

(a) In case, prior to the expiration of this Warrant by exercise or by its terms, the Corporation shall issue any shares of its Common Stock as a stock dividend or subdivide the number of outstanding shares of its Common Stock into a greater number of shares, then in either of such cases, the then applicable purchase price per share of the shares of Common Stock purchasable pursuant to this Warrant in effect at the time of such action shall be proportionately reduced and the number of shares at that time purchasable pursuant to this Warrant shall be proportionately increased; and conversely, in the event the Corporation shall contract the number of outstanding shares of Common Stock by combining such shares into a smaller number of shares, then, in such case, the then applicable purchase price per share of the shares of Common Stock purchasable pursuant to this Warrant in effect at the time of such action shall be proportionately increased and the number or shares of Common Stock purchasable pursuant to this Warrant shall be proportionately decreased. If the Corporation shall, at any time during the term of this Warrant, declare a dividend payable in cash on its Common Stock and shall, at substantially equal to the dividend, all Common Stock so issued shall, for the purpose of this Warrant, be deemed to have been issued as a stock dividend. Any dividend paid or distributed upon the Common Stock shall be treated as a dividend paid in Common Stock to the extent that shares of Common Stock are issuable upon conversion thereof.

(b) In case, prior to the expiration of this Warrant by exercise or by its terms, the Corporation shall be recapitalized by reclassifying its outstanding Common Stock, (other than a change in par value to no par value), or the Corporation or a successor corporation shall consolidate or merge with or convey all or substantially all of its or of any successor corporation's property and assets to any other corporation or corporations (any such other corporations being included within the meaning of the term "successor corporation" herein before used in the event of any consolidation or merger of any such other corporation with, or the sale of all or substantially all of the property of any such other corporation to, another corporation or corporations), then, as a condition of such recapitalization, consolidation, merger or conveyance, lawful and adequate provisions shall be made whereby the holder of this Warrant shall thereafter have the right to purchase, upon the basis and on the terms and conditions specified in this Warrant, in lieu of the shares of Common Stock of the Corporation theretofore purchasable upon the exercise of this Warrant, such shares of stock, securities or assets of the other corporation as to which the holder of this Warrant would have been entitled had this Warrant been exercised immediately prior to such recapitalization, consolidation, merger or conveyance; and in any such event, the rights of the Warrant holder to any adjustment in the number of shares of Common Stock purchasable upon the exercise of this Warrant, as hereinbefore provided, shall continue and be preserved in respect of any stock which the Warrant holder becomes entitled to purchase.

(c) In case the Corporation at any time while this Warrant shall remain unexpired and unexercised shall sell all or substantially all of its property or dissolve, liquidate or wind up its affairs, lawful provision shall be made as part of the terms of any such sale, dissolution, liquidation or winding up, so that the holder of this Warrant may thereafter receive upon exercise hereof in lieu of each share of Common Stock of the Corporation which he would have been entitled to receive, the same kind and amount of any securities or assets as may be issuable,

distributable or payable upon such sale, dissolution, liquidation or winding up with respect to each share of Common Stock of the Corporation; provided, however, that in any case of any such sale or of dissolution, liquidation or winding up, the right to exercise this Warrant shall terminate on a date fixed by the Corporation. Such date so fixed shall be no earlier than 3 P.M. New York City Time, on the forty-fifth (45th) day next succeeding the date on which notice of such termination of the right to exercise this Warrant has been given by mail to the registered holder of this Warrant at its address as it appears on the books of the Corporation.

(d) Upon any exercise of this Warrant by the Warrant holder, the Corporation shall not be required to deliver fractions of one share, but adjustment in the purchase price payable by the Warrant holder shall be made in respect of any such fraction of one share on the basis of the purchase price per share then applicable upon exercise of this Warrant.

(e) In the event that, prior to the expiration of this Warrant by exercise or by its terms, the Corporation shall determine to take a record of its stockholders for the purpose of determining stockholders entitled to receive any dividend, stock dividend, distribution or other right whether or not it may cause any change or adjustment in the number, amount, price or nature of the securities or assets deliverable upon the exercise of this Warrant pursuant to the foregoing provisions, the Corporation shall give at least ten (10) days' prior written notice to the effect that it intends to take such record to the registered holder of this Warrant at its address as it appears on the books of the Corporation, said notice to specify the date as of which such record is to be taken, the purpose for which such record is to be taken, and the effect which the action which may be taken will have upon this Warrant.

(f) The Corporation may deem and treat the registered holder of the Warrant at any time as the absolute owner hereof for all purposes, and shall not be affected by any notice to the contrary.

(g) This Warrant shall not entitle any holder thereof to any of the rights of a stockholder, and shall not entitle any holder thereof to any dividend declared upon the Common Stock unless the holder shall have exercised the within Warrant and purchased the shares of Common Stock prior to the record date fixed by the Board of Directors for the determination of holders of Common Stock entitled to exercise any such rights or receive said dividend.

The undersigned hereby irrevocably elects to exercise the within Warrant to the extent of purchasing \_\_\_\_\_ of the shares of Common Stock of said Corporation called for thereby and makes payment of \$ \_\_\_\_\_ in payment of the purchase price thereof. Please issue the shares of stock so purchased in accordance with the instructions given below.

Signature: \_\_\_\_\_

INSTRUCTIONS FOR REGISTRATION OF STOCK  
ON THE BOOKS OF THE COMPANY

(Please Print in Block Letters)

Name \_\_\_\_\_

Address \_\_\_\_\_

Social Security  
or Employer I. D. Number \_\_\_\_\_

ASSIGNMENT

(To Be Executed By the Registered Holder  
to Effect a Transfer of the Within Warrant)

FOR VALUE RECEIVED

hereby sells, assigns and transfers unto

-----

(Name)

(Address)

the right to purchase Common Stock evidenced by the within Warrant, to the  
extent of \_\_\_\_\_ shares of Common Stock, and does hereby irrevocably  
constitute and appoint

-----  
-----

to transfer the said right on the books of the Corporation, with full power of  
substitution.

Dated: \_\_\_\_\_, 19 \_\_\_\_.

-----  
(Signature)

-----

NOTICE: The signature to this assignment must correspond with the name as  
written upon the face of the within Warrant in every particular, without  
alteration or enlargement, or any change whatsoever and must be  
guaranteed by a bank, other than a savings bank or trust company,  
having an office or correspondent in New York, or by a firm having  
membership on a registered national securities exchange and an  
office in New York, New York.

CERTAIN PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THE OMITTED PORTIONS, MARKED BY AN \*\*, HAVE BEEN SUBMITTED TO THE COMMISSION WITH THE CONFIDENTIAL TREATMENT REQUEST.

AGREEMENT BETWEEN  
VASCO DATA SECURITY AND S.I. ELECTRONICS  
FOR THE PRODUCTION, PACKAGING, TESTING AND DELIVERY  
OF THE DIGIPASS V5.1 TOKEN

Article 1 - Definitions	-4-
Article 2 - Scope	-4-
Article 3 - Order and Delivery Mechanism	-4-
Article 4 - Delivery Conditions	-4-
Article 5 - Prices and Payment	-5-
Article 6 - Housing Colour/Logo/Packaging	-6-
Article 7 - Digipass V5.1 delivery batch acceptance test	-7-
Article 8 - Warranty and epidemics	-7-
Article 9 - Liability and insurance	-8-
Article 10 - Cancellation/Late Delivery and Penalties	-9-
Article 11 - Confidentiality	-10-
Article 12 - Property of intellectual rights	-10-
Article 13 - Effective date and termination	-11-

This agreement is made by and between

- - VASCO DATA SECURITY NV/SA, 113 Chaussee de Courcelles, B-6041 Charleroi, Belgium, hereinafter referred to as VASCO

and

- - S.I. ELECTRONICS LIMITED, Unit 5, 12th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong, hereinafter referred to as "SIE"

whereas

1. VASCO desires SIE to produce, package, test and ship tokens such as the DIGIPASS V5.1.
2. SIE is willing and able to produce, package, test and ship tokens such as the Digipass V5.1 for VASCO.

THEREFORE, NOW, THE PARTIES HEREBY DECLARE AND AGREE AS FOLLOWS

#### ARTICLE 1 - DEFINITIONS

The following singular terms are used in this AGREEMENT in either singular or plural with capital letters. In this AGREEMENT, these terms are understood to have the following meanings:

- 1.1 Agreement means the agreement embodied in this document together with its Attachments thereto, which form an integral part of the AGREEMENT and any further agreement made subsequently between the parties in connection therewith or in pursuance thereof.
- 1.2 Third party means any party other than VASCO or SIE.
- 1.3 The Digipass V5.1 token means the object as described in Attachment \_\_\_\_, hereinafter referred to as Digipass V5.1

#### ARTICLE 2 - SCOPE

- 2.1 The AGREEMENT contains the general terms and conditions upon which SIE is prepared to guarantee the production, packaging, testing and delivery of the Digipass V5.1 and other tokens for VASCO.
- 2.2 SIE accepts that it will not produce the Digipass V5.1, or similar products for other

customers without the written consent of VASCO.

ARTICLE 3 - ORDER AND DELIVERY MECHANISM

- 3.1 VASCO will pass order(s) for the production and delivery of Digipass V5.1 tokens. Each order will contain a SHIPMENT SCHEDULE stipulating:
  - a. one or more production and delivery batches of 10,000 units;
  - b. specific reference for each delivery batch (e.g. lot and serial number assignment mechanism as proposed in our fax on January 19, 1997);
  - c. shipment dates of the respective delivery batches from Hong Kong;
  - d. transportation method (by sea or by air) for each delivery batch;
  - e. delivery condition for each delivery batch (DDP or DDUP Brussels Brucargo);
  - f. packaging methods;
  - g. serial numbers of the Digipass V5.1 to be delivered in a specific delivery batch.

3.2 Order or order amendments issued by VASCO will be confirmed within seven (7) calendar days by SIE. The shipment schedule as described in the order can only be amended in conformity with article 3.4 below.

3.3 SIE will keep VASCO informed on its stock of EPSON processors on a monthly basis, so that VASCO can provide sufficient epson processors in time.

3.4 Order amendments/increase or delay of production quantity. At the occasion of each increase or delay of the production quantity VASCO will send the Order and Delivery Schedule for confirmation to SIE.

- \* Production Increase or advancing production SIE will be able to increase the production capacity with respectively \*\* tokens if Vasco informs hereto respectively 14 days, 21 days, 28 days, or 35 days before the actual shipment date, provided sufficient EPSON processors are in stock.  
Note that:
  - VASCO is not allowed to increase production beyond \*\* tokens per month.
  - a new order will be issued in case total order and production quantity is increased.
- \* Delaying production (maximum 3 months from the scheduled shipment date)

within 30 days	:	No rescheduling possible
Within 30 to 60 days	:	50% of original PO quantity
Over 60 days	:	100% of original PO quantity

Note that VASCO has to amend the Last Shipment Date and Expiry Date of the Letter of Credit prior to delaying production, if due to such delay the delivery would no longer be covered by the standby L/C.

3.5 VASCO has to inform SIE latest 2 calendar weeks before shipment date about

(a) shipment method (by sea or by air) and (b) delivery condition (duty unpaid or duty paid), if this is not yet stipulated in the order or if VASCO desires to change the shipment method and/or delivery condition as stipulated in the shipment schedule.

#### ARTICLE 4 - DELIVERY CONDITIONS

- 4.1 SIE will ship the Digipass V5.1 DDP or DDU Brussels Brucargo, depending on the instructions given by VASCO in the shipment schedule or later on by fax.
- 4.2 SIE will inform VASCO upon date of shipment in Hong Kong and estimated date of delivery in Brussels Brucargo, latest two days prior to shipment.
- 4.3 SIE will ship the Digipass V5.1 tokens with the following documents:
  - a. Original Invoice in 3 copies
  - b. Packing list stipulating
    - number of master cartons
    - individual number of each master carton
    - serial number range of the tokens in each master carton
  - c. adequate insurance
  - d. Clean on board marine bill of lading issued by the carrier to order, marked freight collect, showing notify VASCO DATA SECURITY  
OR  
Airwaybill, copy no. 3, issued and signed by the carrier marked freight collect, showing notify VASCO DATA SECURITY.
  - e. Copy of SGS certificate of inspection certifying quantity, quality and serial number range of the Digipass V5.1 tokens.
  - f. Original GSP Form A document
- 4.4 SIE will ship the Digipass V5.1 tokens in the packaging as stipulated in the order.

#### ARTICLE 5 - PRICES AND PAYMENT

- 5.1 SIE guarantees the prices for the Digipass V5.1 as stipulated in Attachment 1 for a period for 36 months following the signature of the Agreement.
- 5.2 In order to cover the payment of the orders, VASCO will establish a standby Letter of Credit with the condition of L/C payment at sight against remittance of following documents:
  1. Beneficiary's signed statement that applicant has failed to make payment within 14 days upon the actual shipment date mentioned in the AWB OR B/L.
  2. Photocopy certified conform of original B/L  
OR AWB made out to the order of VASCO.
  3. Original and copy OF COMMERCIAL INVOICE  
UNPAID.
  4. Original and copy of PACKING LIST.



5. Copy of certificate of inspection issued by SGS.
  6. Copy of the GSP Form A certificate of \_\_\_\_\_ origin issued by the competent authority and bearing the reference number.
- 5.3 100% of cash payment by T/T remittance against full set of original documents including invoice, packing list, B/L or AWB, SGS certificate and copy of GSP FormEA document sent by Federal Express. VASCO will pay for the goods within latest 14 days upon actual shipment dated mentioned in B/L or AWB.
- 5.4 Standby L/C payment negotiation will only be proceeded if VASCO failed to pay within 14 days upon the actual shipment date.
- 5.5 Prices mentioned in original invoice will be DDP Brussels Brucargo by air. If a specific delivery is executed DDU and/or by sea in accordance with the VASCO instructions, then SIE will provide a credit note for the difference between the price DDP Brussels Brucargo by air and the price DDU and/or by sea as stipulated in Attachment 1.

#### ARTICLE 6 - HOUSING COLOUR/LOGO/PACKAGING

- 6.1 The Packaging conditions for the Digipass V5.1 are described in the attachment 2 Packaging
- 6.2 The colour of the Digipass V5.1 housing can be customised without extra charge in case or orders of minimum \*\* units.
- 6.3 SIE can print a customised logo on the Digipass V5.1 without extra charge provided VASCO informs SIE latest one month prior to shipment date stipulated in the order unless otherwise specified.

#### ARTICLE 7 - DIGIPASS V5.1 TOKEN DELIVERY ACCEPTANCE TEST

- 7.1 Under the responsibility of SGS, a THIRD PARTY neutral organisation, an acceptance test, as described in Attachment 3, shall be carried out before shipment. SGS will issue a SGS Certificate if the test results for the inspected TOKEN batch meet the AQL of the SGS Acceptance Protocol as defined in Attachment 3.
- 7.2 A TOKEN batch delivered in packaging as described in Attachment 2, with all documents mentioned in article 4, including the SGS Certificate of Inspection will be accepted by VASCO.
- 7.3 If the packaging/cartons are damaged, VASCO will make a claim for the insurance, refuse to accept the goods and verify within a reasonable time whether

the Digipass V5.1 in the damaged packaging/cartons are defective. If the Digipass V5.1 tokens are defective, warranty as specified in Article 8, is applicable.

- 7.4 If VASCO accepts the goods as such, only claims related to the contents of the cartons remain possible. Missing Digipass V5.1 tokens have to be notified in writing to SIE within two months upon the receipt of the Digipass V5.1. For claims related to visual conformity and functionality, warranty is applicable.

#### ARTICLE 8 - WARRANTY AND EPIDEMICS

- 8.1 Warranty of the Digipass V5.1 token batch covers only defects resulting from manufacturing or development inadequacies or transportation to the delivery address or the use of unsuitable materials by SIE. The warranty period is 14 months upon physical delivery in Brussels Brucargo of the Digipass V5.1.
- 8.2 The Digipass V5.1 are tested and guaranteed on the aspects as described in Attachment 3. For each of these aspects, possible defects are classified in three categories, see Attachment 4: critical defects, major defects and minor defects. Critical defects will always result in replacement of the defective TOKENS. Major defects noticed during first personalisation will be replaced, provided this notification reaches SIE not later than 3 months after physical delivery of the tokens to VASCO. In other situations major and minor defects will only result in replacement in case these defects are of epidemic nature.
- 8.3 VASCO shall notify the defect to SIE in writing, including a complete description of the defect within the warranty period. Defective Digipass V5.1 will only be returned freight collect for evaluation purposes. Both parties will decide upon return and/or replacement of the defective products within three weeks after receipt by SIE of the notification from VASCO. VASCO certifies to undertake all possible effort to prevent the use of the Digipass V5.1 outside their specifications.
- 8.4 SIE will undertake all possible efforts to replace defective TOKENS as soon as possible. The replacement Digipass V5.1 tokens will be delivered duty paid Brussels Brucargo within latest 45 calendar days upon the VASCO's written notification including problem description to SIE. Should problems arise with above mentioned replacement of defective Digipass V5.1, both parties will in this case review the situation by mutual consulting, and work out a solution.

- 8.5 An epidemic covers only those defects resulting from manufacturing or development or the use of unsuitable materials by SIE. An epidemic occurs for any of the Digipass V5.1, when a failure level, during personalisation and in the field cumulatively exceeds over the period of one year, on a specific parameter of failure mode the levels indicated in Attachment 4 on any single delivery batch and this within maximum twenty four months upon physical delivery to VASCO of these Digipass V5.1 tokens.
- 8.6 In the event that in the tokens supplied by SIE based on the conditions of Agreement and the purchase orders thereof, there should develop an epidemic, SIE shall take appropriate actions to remedy such defects in agreement with VASCO and in accordance with reasonable standards applicable to the individual circumstances.
- 8.7 In such event, shipment of undelivered tokens related to purchase orders will be postponed at VASCO's request (provided these TOKENS have not yet passed SGS test procedures), until the cause of the epidemic has been corrected. If within sixty calendar days after VASCO's notice regarding the epidemic, SIE has not proposed a solution, VASCO will be entitled to cancel pending purchase orders without any liabilities for such cancellation.
- 8.8 VASCO shall notify the epidemic to SIE in writing including a complete description of the defect within the epidemic period.

#### ARTICLE 9 - LIABILITY AND INSURANCE

- 9.1 SIE shall ensure that if the delivery term(s) cannot be achieved in accordance with the delivery term(s) stipulated in the order(s) issued by VASCO and agreed upon by SIE, this will be reported forthwith to VASCO.
- 9.2 SIE warrants that the Digipass V5.1 is in conformity with agreed specifications and free from faults in manufacture and materials.

#### ARTICLE 10 - CANCELLATION/LATE DELIVERY AND PENALTIES

- 10.1 Cancelling an order by VASCO for reasons not related to a serious default made by SIE in its obligations, will entitle SIE to the following payments:

Cancellation from scheduled shipment date		
- 0 - 30 days	:	100% of FOB unit price
- 31 - 50 days	:	70% of FOB unit price
- 51 - 75 days	:	50% of FOB unit price
- over 75 days	:	no charge

**10.2 Late delivery by SIE**

The terms and conditions related to late delivery of order(s) for Digipass V5.1 tokens are the following:

- a. SIE has a grace period of 20 business days following the delivery date as defined by VASCO and confirmed by SIE.
- b. VASCO may claim penalties for late delivery up to 0.5 percent per full business week of delay beyond the grace period. This penalty may only be calculated on Digipass V5.1 tokens which are delayed beyond the grace period.
- c. Penalties for late delivery may not exceed 12% of the FOB value of the Digipass V5.1 delayed beyond the grace period. If no Digipass V5.1 tokens have been supplied within 3 months following the expiry of the period for a specific delivery, then VASCO has the right to cancel the order for this delivery.

**ARTICLE 11 - CONFIDENTIALITY**

- 11.1 SIE undertakes to take adequate precautions to ensure confidentiality in relation to all data which may come to the knowledge of SIE or persons contracted by SIE in connection with the execution of this AGREEMENT while carrying on activities on behalf of VASCO.

**ARTICLE 12 - PROPERTY ON INTELLECTUAL RIGHTS**

- 12.1 SIE agrees that Vasco owns all right, title and interest in the product lines that include the Products now or hereafter subject to this Agreement and in all of Vasco's patents, trademarks, service marks, tradenames, inventions, copyrights, know-how and trade secrets relating to the design, manufacture, operation or service of the Products.

This Agreement is subject in every case to the condition that it does not convey any license, expressly or by implication, to manufacture, reverse assemble, reverse compile, duplicate, or otherwise copy or reproduce any of the Vasco Products for Third Parties directly or indirectly, in the absence of express written agreement of the contrary. H.I.W. Associates shall take appropriate steps as Vasco may request to inform its customers of and assure their compliance with the restrictions contained in this Subparagraph of article 12.

- 12.2 SIE is will supply to VASCO all drawings, specifications and other documents, production files and materials necessary to start up a second source for the production of the Digipass V5.1, and this within three months upon signature of the Agreement.

- 12.3 Patent and copyright indemnity Vasco, except as otherwise provided below, shall defend or settle any claim or proceeding against SIE so far as it is based on an allegation that any Product of Vasco's standard manufacture, design and composition infringes patents or registered copyright when used as Vasco contemplated and provided that Vasco shall have sole control of any such action or settlement negotiations. SIE agrees that VASCO at its sole option shall have no obligations under this paragraph unless SIE notifies VASCO promptly in writing of such claim, suit or proceeding and gives VASCO authority to proceed as contemplated herein, and, gives VASCO proper and full information and assistance to settle and/or defend any such claim, suit or proceeding. The foregoing states VASCO's entire liability and obligations and Purchaser's exclusive remedy with respect to any claim or action alleging infringement of any intellectual property rights.
- 12.4 Trademarks and Tradenames Nothing in this Agreement shall grant SIE any right, title or interest in the Trademarks. At no time during or after the term of this Agreement shall SIE challenge or assist others to challenge the Trademarks or the registration thereof or attempt to register any trademarks, service marks or tradenames confusingly similar to those of Vasco.

#### ARTICLE 13 - EFFECTIVE DATE AND TERMINATION

- 13.1 The effective date of the AGREEMENT shall be January 21, 1997. The AGREEMENT shall initially continue in force until January 21, 1999 and shall, subject to Article 13.2, thereafter be extended for periods of one calendar year each.
- 13.2 Each party may terminate the AGREEMENT with effect from January 21, 1997 or from each subsequent anniversary of the AGREEMENT by giving the other party six months notice by registered mail to that effect, provided, however, that the terms and conditions of the AGREEMENT shall continue to govern any delivery of TOKENS.

#### ARTICLE 14 - MISCELLANEOUS

- 14.1 This Agreement consisting of fourteen articles and the Attachments listed and checked below constitutes the entire understanding between the parties and supersedes any prior proposal, representation or written agreement.
- 14.2 This Agreement and any alterations to, additions to, amendments, deletions, modifications or waivers of any terms and conditions contained herein and in the attached exhibits shall be binding only if the Managing Directors of both parties have agreed to them in writing.

- 14.3 Both VASCO and SIE are not entitled to assign or transfer to a third party without written consent of each other, the rights and benefits as well as the duties and obligations under this Agreement.
- 14.4 If any provision of this Agreement shall be unlawful, void, or for any reason unenforceable, it shall be deemed severable from, and shall in no way affect the validity or enforceability of the remaining provisions of the Agreement.
- 14.5 Any notice required or permitted by this Agreement shall be in writing and shall be sent by certified or registered mail, postage prepaid, return receipt requested, addressed to the other party at the address shown at the end of this Agreement or to such other address for which such party gives notice hereunder. Such notice shall be deemed to have been given three (3) days after deposit in the mail.
- 14.6 In case of a conflict between any of the Articles of this Agreement and the Attachments to this Agreement, the Agreement will prevail.
- 14.7 SIE is not liable for any delay in effecting deliveries due to force majeure. A force majeure impediment is taken to mean an unforeseen event which occurs after acceptance of orders, and which is beyond the reasonable control of Vasco such as strike, blockade, war, mobilization, riot, war, natural disaster, refusal of license by government or other stipulations or restrictions by the authorities.
- 14.8 This agreement shall be governed and is construed according to the laws of the Kingdom of Belgium. Only the Court of Brussels shall have jurisdiction over all litigations which may arise under this Agreement.
- 14.9 Each of the parties hereto hereby agree to hold all confidential information and trade secrets of the other party in confidence during and after the term of this Agreement. The Distributor agrees to use confidential information provided by Vasco solely for the performance of this Agreement, and to take all necessary measures to prevent inadvertent or unauthorized disclosure to third parties by its own authorized personnel.

Vasco agrees to use all information received by the Distributor's customers in confidence during and after the term of this Agreement. No customer name or information shall be distributed to any third party without written permission from the Distributor to Vasco.



## NON DISCLOSURE AGREEMENT

BETWEEN

S.I. ELECTRONICS LIMITED, Unit 5, 12th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong, Simon Yeung, hereinafter called "SIE"

AND

VASCO DATA SECURITY NV/SA., 113 Chaussee de Courcelles, B-6041 Charleroi, Belgium, represented by Mario Houthoof, hereinafter called "VASCO".

Whereas, VASCO wishes to transmit and/or has transmitted to SIE proprietary information (hereinafter referred to as INFORMATION) relating to VASCO's plans to produce the Digipass V5.1. and similar products

Whereas, SIE wishes to evaluate whether it is (a) in the possibility to and (b) interested to manufacture the product described in the INFORMATION in respect of VASCO's technical and cost requirements.

Now, therefore, the parties hereto agree as follows:

1. The receiving party agrees that for a period of five (5) years from the date of the Agreement, it shall take reasonable steps to prevent disclosure of such INFORMATION it receives from the disclosing party, provided that:
  - a) INFORMATION is supplied in tangible form and clearly marked by the disclosing party as being confidential or proprietary.
  - b) INFORMATION otherwise disclosed, is identified in writing by the disclosing party to the recipient within 14 days (fourteen) after the date of disclosure as being confidential or proprietary. Information thus disclosed shall in any case be treated as confidential by the recipient for such period of 14 (fourteen) days.
  - c) any such writing disclosed to SIE are first provided to Mr. Simon Yeung or any other person approved by SIE and VASCO.



2. The receiving party shall use at least the same degree of care to avoid disclosure of the INFORMATION as it employs with respect to its own confidential proprietary information.
3. The disclosing party agrees that the receiving party shall have no obligation with respect to any such INFORMATION which:
  - a) is or becomes available to the public otherwise than by breach of this Agreement by the receiving party, or
  - b) is proved to be made known to the receiving party independently of the disclosing party without obligations of confidentiality or non-use, or
  - c) can be proved to have been in the possession of the receiving party prior to execution of this Agreement or to have been developed subsequently independently by the receiving party, or
  - d) is explicitly approved for release by the disclosing party.
4. All tangible forms of the INFORMATION such as written documentation, delivered pursuant to this Agreement shall be and remain the property of the disclosing party and all such tangible INFORMATION shall be promptly returned upon written request, or destroyed at the disclosing party's option.
5. This Agreement and any discussions thereunder shall not limit either party's development and marketing of products or systems involving technology or ideas of similar nature to that disclosed, nor will this Agreement prevent either party from undertaking similar efforts or discussions with third parties including competitors of the disclosing party, provided that the obligations thereunder are not violated.
6. It is understood by both parties that such INFORMATION may relate to products that are under development or planned for development. The disclosing party makes no warranties regarding the accuracy of this INFORMATION. The disclosing party accepts no responsibility for any expenses, losses, or action incurred or undertaken by the receiving party as a result of the receipt of the INFORMATION. It is further understood by the receiving party that the disclosing party does not warrant or represent that it will introduce any product to which the INFORMATION disclosed here is related.
7. Nothing contained in this Agreement shall be construed as granting or conferring any rights by license or otherwise, expressly, impliedly, or otherwise for any invention, discovery or improvement made, conceived or acquired prior to or after the date of this Agreement.

8. This Agreement shall come into effect upon the last signature hereto and shall remain in force indefinitely unless one of the two parties considers that the purpose of the Agreement cannot be achieved. In this case, the Agreement can be terminated by a ninety (90) days written notice.

9. MISCELLANEOUS

9.1 Amendments to this Agreement shall be valid only if agreed upon by an instrument in writing duly signed by both parties and expressly called amendment.

9.2 In the event that any provision of this Agreement should be held to be invalid or unenforceable, the remaining provisions shall not be affected hereby. Should an individual provision of this Agreement be held invalid or unenforceable, the parties hereto shall agree on a new provision corresponding to the ineffective provision which it is replacing.

9.3 This Agreement shall be governed by the laws of Belgium.

9.4 In the event of differences between the parties in connection with the Agreement or any agreement or arrangement incidental thereto, the parties agree that the place of jurisdiction shall be at the registered place of business of the defendant party.

For S.I. ELECTRONICS LTD.

For VASCO DATA SECURITY NV/SA

Signed: For and on behalf of  
S.I. Electronics Limited

Signed: /s/ Mario Houthoof

Name: /s/ Simon Yeung

Name: Houthoof Mario

Title: Simon Yeung  
Managing Director

Title: Managing Director

Date: 23 Jan., 97

Date 23/01/97

Production and Delivery Agreement between VASCO Data Security and S.I.  
Electronics 17/01/97 R11

		or Charleroi	or Charleroi
transport by air	**,-	TBA	**,-
transport by sea	**,-	TBA	**,-

If due to optimisations proposed by VASCO in production, packaging or shipment, the costs are reviewed, then the unit price will be adapted accordingly.

The CPU or processor used in the Digipass V5.1 is to be consigned to SIE by VASCO.

The "TBA" prices for DDU in the above table will be defined in common agreement between VASCO and SIE based on the actual costs incurred at the occasion of DDU deliveries in the future.

## ATTACHMENT 2. LOGISTICS &amp; PACKAGING

## 1. Serial Numbers

The serial number range of the Digipass V5.1 tokens delivered to VASCO will be mentioned on the packing list.

The first serial number of a Digipass V5.1 in each external box will be composed as follows: xxxxxx00.

The Digipass V5.1 tokens will be sorted in ascending (serial number) order in the packaging as mentioned in Packaging/Option 2 below.

## 2. Packaging

For the start VASCO will have the possibility to opt for two different packaging methods. VASCO has to inform SIE about the choice for one of the two packaging options.

Option 1 (packaging in use today)  
- 100 per master carton

Option 2  
All tokens are supplied in bulk format to Vasco, as follows:  
- 200 per master carton  
- in complete series of 10,000 ranging from xxxx0000 to xxxx0000 +9999 (for this purpose SIE will need to print the labels instead of receiving labels from Europe, because today a bad label means a missing number).  
- sorted  
- in bubble bag  
- without cardbox or wallet  
- Cartons with cardboxes or wallets are sent separately (if so required) in quantity requested by Vasco.

For both option 1 and 2, SIE will  
- print the barcode labels  
- provide packing list as stipulated in the agreement  
- put labels on the carton mentioning CARTON NUMBER, NUMBER OF TOKEN INSIDE and RANGE OF SERIAL NUMBERS and VASCO DATA SECURITY.

## Second phase

Once VASCO will have developed a standard master carton for all VASCO tokens, including the Digipass V5.1, the option 2 will be replaced by the newly defined packaging.

## ATTACHMENT 3. SGS ACCEPTANCE TEST

## 1. AQL (Acceptance Quality Level)/Classification of defects

The AQL for a delivery batch or lot inspected in accordance with the MIL-STD-105E GENERAL INSPECTION Level II shall be classified as:

1. Critical defects (CF) 0,4%
2. Major defects (M) 1%
3. Minor defects (m) 2,5%

## 2. Procedure if defects are detected during inspection by SGS

1. If number of defects exceeds AQL, the complete batch is rejected and has to be reworked by SIE, and submitted for inspection at a later time.
2. If the number of defects is below the AQL, the defective tokens are reported (serial number and nature of defect) and replaced. The replacement tokens have the highest serial number and are packed in a separate box. However, in case under or over shipments within specified tolerance are allowed, defective tokens will not be replaced.

## 3. DESCRIPTION OF PRODUCT AND PACKAGING

## Description of packaging (Option 1)

Inside the 100-pieces external box, two internal boxes with 50 pieces each are found. Inside each 50-pieces internal box, 50 white carton boxes are found.

Inside each white carton box, one finds a plastic bubble bag containing a Digipass V5.1 token (=unit) combined with a black plastic wallet. The serial number on the back of the unit has to be within the range indicated on the 100-pieces external box.

## Description of packaging (Option 2)

Inside the 200-pieces external box, two internal boxes with 100 pieces each are found. Inside each 100-pieces internal box, 100 one finds a plastic bubble bag containing a Digipass V5.1 token (=unit). The serial number on the back of the unit has to be within the range indicated on the 200-pieces external box.

## Description of boxing

Tokens are packaged in 100-pieces (Option 1) or a 200-pieces (Option 2) boxes. Outside the 100-pieces or 200-pieces boxes, following indications are present:

On both LONG side of the box

- Indication "FRAGILE" or "HANDLE WITH CARE" or equivalent international symbol.
- Indication of "DIGIPASS" or "VASCO DATA SECURITY"
- Indication of "BRUSSELS" or "BELGIUM"
- N of the box in the shipment.

On both SHORT sides of the box

- Indication "FRAGILE" or "HANDLE WITH CARE" or equivalent international symbol.
- Indication of "MODEL NO. V5-1"
- Range of Serial numbers as present inside the box. This range should be within the range of serial numbers mentioned in the up to date SHIPMENT SCHEDULE which forms an integral part of the VASCO order.

Each external carton is closed with plastic tape and secured in both directions with an additional plastic cord.

A pallet has a maximum height of \_\_\_\_\_ boxes.

Around and on top of the pallet is a plastic film in order to protect against humidity during the transport or storage.

## Description of unit (see reference unit)

Black plastic unit, similar to a pocket calculator, equipped with a rubber keyboard and a LCD display. Another colour for the unit (e.g. blue) is only allowed if specified explicitly on the documents.

On the back, two battery doors can be seen together with the following labels or printing:

- plastic glued label with bar code and printed serial number.
- printed CE logo.
- printed dp logo on the small battery door.

## 4. FRI (Final Random Inspection)

The following elements are to be reviewed while carrying out an operational test and appearance and conformity check. The SGS certificate will indicate which units are not conform to the AQL in regards to one or more of the elements.

## Testing of package

- |                     |    |
|---------------------|----|
| 1. clean appearance | M  |
| 2. presence of unit | CF |
| 3. quality          | m  |

## Testing of boxing

- |                                 |   |
|---------------------------------|---|
| 1. Sturdiness of box            | M |
| 2. Conformity of pallet         | m |
| 3. Protection with plastic film | M |

## Appearance and conformity of unit

- |   |    |
|---|----|
| 1. Presence of logo and labels                            | CF |
| 2. Appearance of unit                                     | M  |
| 3. Appearance of keyboard                                 | M  |
| 4. Presence printing on the buttons                       | CF |
| 5. Serial number corresponds with indication on the box   | M  |
| 6. Appearance of _____ top and bottom part of the plastic | M  |

## Operational test

- Take a unit out of the enclosure  
Without activating the unit, one has to see on the LCD 12 grey rectangles, each existing out of 7 by 5 dots. If some lines of dots are missing, the token is rejected.
- Press the ON/OFF button.  
The unit displays "V5.1" on the last 4 position of the LCD. The displayed text is black while the background rectangles remain grey.
- Press the T button.  
All dots on the display should be black, giving 12 black rectangles, each existing out of 7 by 5 dots. If some lines of dots are missing, the token is rejected.
- Press the ON/OFF button.  
On should see again on the LCD 12 grey rectangles.
- SGS Instructions

Hereby enclosed is the Agreement between SIE and SOCIETE GENERALE DE SURVEILLANCE S.A.

For each shipment, SIE will send SGS an inspection order containing:

- the AQL as mentioned in section 1;
- the replacement procedure as described in section 2;
- the FRI as described in section 3;
- the FRI as described in section 4;
- the then valid SHIPMENT SCHEDULE applicable for the delivery batch to be investigated by SGS.

1. Classification of Defects during warranty & epidemics period
  1. The tokens are warranted on two aspects (see Table Warranty & Epidemics Defects):
    - visual conformity
    - functional conformity
  2. For each of these aspects, possible defects are classified in three categories (see Table Warranty and Epidemics Defects):
    - Type A defects: critical defects
    - Type B defects: major defects
    - Type C defects: minor defects
  3. Depending on the category, different tolerance levels (see Table Warranty & Epidemics Defects) are used during warranty and epidemic period.



## TABLE WARRANTY AND EPIDEMICS DEFECTS

Classification -----	TYPE A DEFECTS -----		TYPE B DEFECTS -----		TYPE C DEFECTS -----	
	Defects which results in impossibility to use the token		Defects which seriously affect the possibility to use the token		Defects which to a minor extent affect the possibility to use the token	
	Warranty (1 year)	Epidemic (2 years)	Warranty (1 year)	Epidemic (2 years)	Warranty (1 year)	Epidemic (2 years)
Visual Conformity during first personalisation (1)						
- - presence logo (2)	replace	>3%				
- - presence label	replace	>3%				
- - appearance unit						
major discrepancies			replace	>15%		
minor discrepancies					no replacement	>25%
- - traces of glue			replace	>15%		
- - scratches on LCD			replace	>15%		
Visual Conformity after personalisation						
- - presence logo (2)			no replacement	>15%		
- - presence label			no replacement	>15%		
- - appearance unit						
major discrepancies			no replacement	>15%		
minor discrepancies					no replacement	>25%
- - traces of glue					no replacement	>25%
- - scratches on LCD					no replacement	>25%
Functionality						
- - buttons blocked	replace	>10%				
- - LCD broken	replace	>10%				
- - enclosure breakdown	replace	>10%				
- - battery problem	replace	>10%				
- - functional failures	replace	>10%				

(1) notification not later than 3 months upon physical delivery

(2) Only if SIE was instructed to print a logo

ATTACHMENT 5

STAND-BY LETTER OF CREDIT:

This draft is based on a L/C that covers deliveries over a period of 6 months.

BY ORDER OF VASCO DATA SECURITY, WE HEREBY ISSUE OUR IRREVOCABLE STAND-BY LETTER OF CREDIT NR. \_\_\_\_\_ IN FAVOUR OF SIE

DATE OF ISSUE: ASAP

DATE AND PLACE OF EXPIRY  
21 DAYS AFTER LATEST DATE OF SHIPMENT

LATEST DATE OF SHIPMENT:  
2 WEEKS AFTER LATEST DATE FORESEEN IN CONTRACT FOR SHIPMENT  
(E.G. 2 WEEKS AFTER END OF FIRST SIX MONTH PERIOD)

CURRENCY US DOLLAR  
UNIT PRICE \*\*  
MAX. AMOUNT: \*\*

PAYMENT AT SIGHT AGAINST REMITTANCE OF FOLLOWING DOCUMENTS:

- 1/ BENEFICIARY'S SIGNED STATEMENT THAT VASCO HAD FAILED TO MAKE PAYMENT WITHIN 15 DAYS UPON THE ACTUAL SHIPMENT DATE MENTIONED IN AIRWAYBILL (in case of shipment by air) OR BILL OF LADING (in case of shipment by sea).
- 2/ PHOTOCOPY CERTIFIED CONFORM OF ORIGINAL BILL OF LADING OR AIRWAYBILL MADE OUT TO ORDER OF VASCO
- 3/ ORIGINAL COMMERCIAL INVOICE UNPAID
- 4/ ORIGINAL PACKING LIST INDICATING NUMBER OF CARTONS, SERIAL NUMBER RANGE OF THE DIGIPASS V5.1 TOKENS PER CARTON AND LOT ASSIGNMENT NUMBER
- 5/ COPY OF CERTIFICATE OF INSPECTION ISSUED BY SGS
- 6/ COPY OF GSP FORM A DOCUMENT STATING ORIGIN OF GOODS

DOCUMENTS TO BE PRESENTED TO \_\_\_\_\_

PARTIAL SHIPMENTS ALLOWED

TRANSSHIPMENTS ALLOWED

DISPATCH FROM HONG KONG

SHIPMENT OF \*\* DIGIPASS V5 TOKENS DDP BRUSSELS BRUCARGO BELGIUM

## AGREEMENT

DIGILINE S.A.R.L. - FRANCE  
BP103 Quartier Ranjarde  
F - 13210 - SAINT REMY DEPROVENCE  
hereinafter referred as to "distributor"

and

DIGIPASS S.A., Belgium  
hereinafter referred to as "DIGIPASS"

Whereas DIGIPASS makes token security products, security Software and initialisation robot, and whereas Distributor desires to sell such products in France (The Territory), and whereas the Parties are in the option that it is in the interest of both Parties that those products will be marketed in the Territory by Distributor, the parties hereto agree as follows:

## Article 1

## Appointment as distributor

1. DIGIPASS appoints Distributor as its exclusive right for the duration of this agreement in the territory for its DIGIPASS token security products as described in Annex 1, hereinafter to be referred to as "the Products". Distributor shall refrain outside the Territory from seeking customers for the Products, establishing any branch and from maintaining any distribution department except for what is authorised according to. The Parties may later agree on the inclusion of other products herein. In such case, possibly Articles shall be subject to renegotiation
2. Distributor shall use its best efforts and diligence in promoting and initiating effectively the sales of the Products to all potential customers in the Territory.
3. Distributor shall, during the term of this agreement, refrain from participating, directly or indirectly, in the manufacture, distribution, representation, or promotion of any product which is competitive with, or intended to serve the same purpose as, any of the Products.  
  
Violation against this Article 1.3 will cause an immediate termination of this agreement and the Distributor will be liable to compensate all the costs and losses of DIGIPASS caused by this violation.
4. Parties will give each other all information at their disposal which may be of interest for the development of the market of the Products.

5. Distributor agrees to establish and maintain a sufficient and representative stock of the Products to provide adequate facilities and qualified personnel in sufficient number for the demonstration, installation, replacement and service, of the Products.
6. The Distributor will not without DIGIPASS consent in writing assign or transfer in any manner the benefits of this agreement.
7. The distributor will not remove from the products or alter in any way any nameplates or trade marks affixed by DIGIPASS and may not without previous written consent of DIGIPASS use any additional marks on or in relation to the Products nor will the Distributor acquire any right in respect of the DIGIPASS's names or marks. After the termination of this agreement the Distributor will not use names or marks used by DIGIPASS or any word so nearly resembling such names or marks as to be likely to cause confusion or deception and will take all reasonable steps to ensure that its servants agents or officers will also not use any such name mark or word.
8. The Distributor shall not (unless otherwise and in writing agreed by DIGIPASS) advertise the Products outside the Territory or establish any branch or depot for distribution of the Products outside the Territory.
9. The Distributor shall not without DIGIPASS's prior written consent in each case sell the Products or offer the Products for sale outside the Territory and the Distributor shall refer to DIGIPASS all and any enquiries for such sales outside the Territory.
10. The Distributor will prepare and submit a Sales and Marketing Plan within two (2) months of the date of this agreement for discussion with DIGIPASS and thereafter at six monthly intervals to submit the the current Sales Forecasts.

## Article 2

### Orders and delivery times

1. Distributor will order the Products in accordance with DIGIPASS's production capacity and lead times. DIGIPASS will acknowledge orders within 7 working days from receipt, indicating delivery time and other pertinent data, DIGIPASS will deliver all orders within four months after order date.

## Article 3

### Prices and payment

1. The prices of the Products ex works DIGIPASS are given in Annex 2.
2. These prices are based on cost of labour and materials at the time of signature of this agreement and may be adjusted twice each year on April 1st and October 1st. In case of

changes of no less than five (5) % in DIGIPASS production costs, adjustments may be made at other points in time by mutual agreement. If no agreement is reached, DIGIPASS shall have the right to terminate the agreement forthwith, but shall be obliged to deliver all acknowledged orders.

3. Payment of all invoices will be made by Distributor within eight (8) days from their date. 50% will be invoiced at the order, 50% will be invoiced at the date of shipment. DIGIPASS is entitled to ask for payment against a letter of credit.

#### Article 4

##### Quality and warranty

1. DIGIPASS will make adjustments at Distributor's cost in the Products which are or may become necessary to satisfy mandatory Territory regulations other than those defined on the day of the agreement. If such adjustments will bring major changes to the Products or specifications given in Annex 1, DIGIPASS has the right to adjust the prices given in Annex 2 and lead times (art 2.1.) of the first delivery of Products including such adjustment.

2. Head end  
DIGIPASS guarantees that all Products are in conformity with the agreed specifications and with the approved samples and that they are free from faults in manufacture and materials. If any defect might appear due to faulty manufacture or material within 12 months from the date of delivery from DIGIPASS - DIGIPASS will repair or replace the defective Product or part thereof at its cost.

Distributor will send the defective Product or part of its cost to DIGIPASS, and DIGIPASS will return the repaired or replacing Product or part at its cost to Distributor.

Remarks or claims concerning any shipment of Products shall be made to DIGIPASS no later than 45 days from date of shipment or 30 days from date of delivery at Distributor, whichever date appears last, and before any such Products have been further delivered by Distributor to its customers.

DIGIPASS will not be liable for defects which have been apparently caused by accident or negligence in transportation, storage or handling after the Products have been delivered ex-works.

3. The warranty and quality provisions of other than DIGIPASS made equipment and of software shall be separately agreed on after vspecification of such equipment or software in each case.
4. DIGIPASS hereby disclaims all other warranties, either express or implied, as to materials and workmanship of the Products. DIGIPASS shall not be liable to Distributor for special, indirect, incidental or consequential damages which may arise in connection with this agreement.

## Article 5

## Service and spare parts

1. Distributor will establish the necessary facilities for prompt and qualified service of the Products.
2. DIGIPASS will provide Distributor with complete service documentation in 5 copies. Each party will name one representative who will be responsible for communication on technical matters.

All documentation and communication will be in English.

## Article 6

## Industrial property rights

1. DIGIPASS shall defend on the cost of Distributor any suit brought by and any third party patentee against Distributor as far as such suit is based on a claim that a Product delivered by DIGIPASS as such infringes patents owned by such third party, on the condition that Distributor gives DIGIPASS prompt notice in writing of any such suit for infringement, full authority at DIGIPASS's option to settle or conduct the defense thereof and full assistance and cooperation in said defense. No costs or expense shall be incurred for the account of DIGIPASS without its prior written consent. In the event that Products delivered by DIGIPASS are as such held to constitute infringement of third party patent rights, DIGIPASS shall, by its own election and at its own expense, arrange for a licence under such third party patent rights, replace the infringing products by non-infringing products, or shall against return of such products grant Distributor a credit for the price actually paid thereof, less reasonable depreciation.

DIGIPASS shall not be liable for any infringement which is the result of adaptations made by Distributor, or by DIGIPASS to comply with specific requirements of Distributor. DIGIPASS may prematurely with instant effect terminate this agreement in event of a suit above-mentioned and shall not be liable towards the Distributor for any other damages occurred to Distributor for such termination.

2. The application of DIGIPASS's trademarks to the Products shall not give Distributor in any way by implication or otherwise any title to such trademarks or to related trademarks. Distributor shall apply DIGIPASS's trademarks only to goods that will be sold and delivered by Distributor under the terms of this Agreements.

## Article 7

## Duration

1. This agreement shall be in force for an initial period until 1st of May 1993 and shall thereafter be in force for consecutive three (3) years period if not terminated by notice given by either of the Parties three (3) months before the end of the initial or any consecutive period.
2. Neither Party will be due any compensation to the other one, when terminating the Agreement in accordance with subclause 1 of this Article, or with Article 1.2 or 3.2

The termination of this Agreement in accordance with the Article 1.3 makes the Distributor liable to compensate all the costs and losses caused by this termination.

## 7.3 Default

If either Party hereto is in breach of this agreement, the Party aggrieved by such default may give the other Party written notice on such default. If the defaulting Party fails or refuses to remedy such default within thirty (30) days from this date of said notice, this agreement may be terminated by a second written notice and said termination shall be effected as of the date of the second notice of default. Defaults under this agreement shall be deemed to include, but shall not be limited to the occurrence of the following events

- (a) non-compliance by Distributor with the stipulated payment terms, or
- (b) either party assigns or purports to assign, transfer of hypothecate this agreement, or
- (c) if either Party fails to fulfil any its obligations under this agreement,
- (d) if terminated for default pursuant to this paragraph, the termination date shall be the date of the second notice of default,

Termination for changes in circumstances.

Either Party is entitled to terminate this agreement with immediate effect

- (a) if ownership or control of other Party is transferred to a third party, or
- (b) if the other Party is adjudged bankrupt, files or has filed against any petition under any bankruptcy or insolvency law, has a receiver appointed for its business or property or makes a general assignment for the benefit of its creditors.

Article 8

General

1. Each of the parties hereto hereby agrees to hold all confidential information and trade secret of the other party in confidence during and after the term of this agreement. Distributor agrees to use the confidential information provided by DIGIPASS solely for the performance of this agreement, and to take all the necessary measures to prevent inadvertent or unauthorized disclosure to third parties by its own or authorized personnel.
2. DIGIPASS shall not be liable for any delay in effecting deliveries due to force majeure. A force majeure impediment is taken to mean an unforeseen event which occurs after the signing of the agreement and which is beyond the reasonable control of DIGIPASS such as strike, blockade, war, mobilization or riot, natural disaster, refusal of licence by Government or other governmental agency or other stipulation or restriction by the authorities.

Article 9

Law and jurisdiction

This agreement shall be read and construed and have effect according to the laws of Belgium and as a contract in Belgium.

In witness whereof the parties have caused this agreement to be duly signed on their behalf.

Signed by /s/

-----  
For and on behalf of Digiline France  
-----

Signed by /s/ Dominique Colard

-----  
For and on behalf of Digiline Digipass  
-----  
-----



## ANNEXE 1

## LIST OF PRODUCTS

- 1.0. DIGIPASS token security products
- 2.0. INITIALISATION OF THE DIGIPASS DONE BY DIGIPASS S.A.
- 3.0 INITIALISATION ROBOT
- 4.0. PC DIGIPASS SOFTWARE

## ANNEXE 2

## PRICES

## 1.0. DIGIPASS TOKEN SECURITY PRODUCTS

100 pces to 999 pces	:	884 BFr/pce
1000 pces to 4999 pces	:	677 BFr/pce
5000 pces to 10000 pces	:	631 BFr/pce
10000 pces and more	:	583 BFr/pce

## 2.0. INITIALISATION OF THE DIGIPASS DONE BY DIGIPASS S.A.

30 BFr/pce

## 3.0 INITIALISATION ROBOT

490 000 BFr

## 4.0. PC DIGIPASS SOFTWARE

100 000 BFr per client licence

CERTAIN PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THE OMITTED PORTIONS MARKED BY AN \*\*, HAVE BEEN SUBMITTED TO THE COMMISSION WITH THE CONFIDENTIAL TREATMENT REQUEST

[VASCO LOGO]

Advanced  
Authentication  
Technologies(TM)

PURCHASE ORDER  
VASCO DATA SECURITY, INC.

SHIP TO and Bill To: VASCO Data Security, Inc.  
1919 South Highland Avenue  
Suite 118-C  
Lombard, IL 60148  
  
TEL: (708) 932-8844  
FAX: (708) 495-0279

PURCHASE ORDER: V6G2201  
DATE: July 22, 1996

X CONFIRMING  
TAXABLE  
X RESALE (#1912-8541)

VENDOR: National Electronic & Watch Co. LTD.  
15/F Shing Dao IND. BLDG.  
232 Aberdeen Main Road  
Aberdeen, Hong Kong  
  
TEL: 852-2554-1151  
FAX: 852-2873-1737

VENDOR PO #:

ITEM	QTY	PART NUMBER/DESCRIPTION	UNIT PRICE (usd)	TOTAL (usd)
S15	TBD	Access Key II in Black Gray Color	**	
		Consigned Materials:		
		1 - CMOS DIE Micronix MX921		
		1 - DL4148		
		1 - Filter (same as S2)		
		4 - Photo diode (same as s2)		
		1 - Serial NBR Label		
		11 - FS-30-7.7-30 Dome Switch or 1-Modified Keypad if available		
S15	TBD	Access Key II in Green Color	**	
		Consigned Materials:		
		1 - CMOS DIE Micronix MX921		
		1 - DL4148		
		1 - Filter (same as S2)		
		4 - Photo diode (same as s2)		
		1 - Serial NBR Label		
		09 - FS-30-7.7-30 Dome Switch or 1-Modified Keypad if available		
	**	<-----TOTAL----->		\$1,390,000.00

## INSTRUCTIONS/COMMENTS:

A modified keypad design currently under investigation may be implemented during the course of production against this PO. Once the modification is accepted, a running change should take place. Since materials used in the production of these two units is identical, specific quantities of each unit required do not need to be stated. A total of \*\* units (S15GRN and S15BLK) will be manufactured against this PO.

**Delivery Schedule:** \*\* S15 GRN per week beginning the week of 10 August. The delivery schedule can be modified by VDSI with a 30 day notice and is subject to availability of VDSI supplied consigned materials. NEWCO will give VDSI 60 days notice of projected inventory shortages of consigned materials with the exception of the CMOS DIE which requires 14 week notification.

**Payment:** 20% value of one month's production as deposit. Each shipment to be paid by T/T 1 week prior to shipment. Failure of NEWCO to ship units within that one week time frame will change payment terms to payment upon receipt of units by VDSI.

**Packing:** 5 pcs. packed in one bar, 25 pcs. per one polyfoam box, 100 pcs. per outer carton.

**Costs of unit:** VDSI reserves the right to amend this PO in 50K increments within 12 months in order to receive the lower unit cost for all remaining undelivered units.

**Req. Pass Rate:** The fallout rates for consigned materials provided to NEWCO by VDSI shall be:

MX921 -	3%
CD1705 -	2%
Filters -	2%
Domes -	2%
DL4148 -	2%
S/N Labels -	2%

VDSI will accept a 2.0% yield loss not including yield loss due to defective consigned materials. VDSI requires all defective consigned materials to be returned to VDSI for inspection within 30 days of detection. NEWCO will credit VDSI for all returned product for repair or replacement under the following schedule:

- o VDSI will ship all returned keys to NEWCO for repair or replacement.
- o NEWCO will credit VDSI for the cost of NEWCO labor.
- o NEWCO will purchase from VDSI any consigned materials necessary to repair or replace the units.

o Upon completion of the repair or replacement of the units, NEWCO will ship the units and invoice VDSI for the cost of NEWCO labor.

THE CURRENT PO WILL NOT BE FINALIZED UNTIL PAST DEFECTIVE MATERIAL ISSUES HAVE BEEN RESOLVED WITH APPROPRIATE CREDITS GIVEN.

APPROVED: /s/ Signed  
(Buyer) -----

VASCO Data Security, Inc.  
John C. Haggard  
President

DATE: 7-22-96

APPROVED: \_\_\_\_\_  
(Seller)

National Electronics & Watch Co., LTD.  
Ricky Wai  
Managing Director

DATE: \_\_\_\_\_

NATIONAL ELECTRONICS & WATCH CO., LTD.  
 EXPORTERS, IMPORTERS AND MANUFACTURERS

15/F SHING DAO IND. BLDG. TEL: 2554 1151 BANKERS  
 232 ABERDEEN MAIN ROAD FAX: 2873 1737 BANK OF AMERICA N.T & S.A  
 ABERDEEN, HONG KONG TELEX: 83212 TARLY HX SANWA BANK

ORDER CONFIRMATION NO. ( 13771 )

To: VASCO DATA SECURITY, INC. Date : 06/AUGUST/96  
 1919 S HIGHLAND AVENUE,  
 SUITE 118-C LOMBARD, Your Order : V6G2201  
 IL 60148,  
 U.S.A.

This document is an Order Confirmation for the following merchandise(s).  
 Please confirm and accept it by signing the duplicate copy and returning to us.

Model Number	Quantity (PCS.)	Description	Unit Price	Amount FOB H.K.
815	**	ACCESS KEY 11 IN GREEN AND BLACK CASE.	USD	USD
815	**	CONSIGNED MATERIALS: CMOS DIE-MICRONIX MX921 X1 IN4148 DIODE X1 FILTERS X1 PHOTODIODE X1 SERIAL NBR LABEL X1 FS-30-7.7-30 DOME SWITCH X9 OR MODIFIED KEYPAD IF AVAILABLE	**	1390,000.00
REMARK:		N.E.W. REQUIRED SPARE FOR YIELD LOSS OF CONSIGNED MATERIALS :- CMOS MX921 3% FILTER 2% DIODE IN4148 2% PHOTODIODE 2% SERIAL NBR LABEL 2% DOME SWITCH 2%		
	** PCS. ==			TOTAL ->1,390,000.00 =====

Packing : 5 PCS. PACKED IN ONE BAR, 25 PCS. PER ONE POLYFOAM BOX, 100  
 PCS. PER INNER & 200 PCS. PER OUTER CTN.

Spare Parts/Unit : NIL

Delivery Schedule : \*\* PCS. Delivery Schedule to be determined by  
 availability of batteries. All other mat'ls should  
 be immediately obtained for production.

Payment : 20% VALUE OF MONTHLY ORDER AS DEPOSIT. BALANCE VALUE  
 SHOULD BE PAID BY T/T UPON 2 WEEKS NOTIFICATION OF  
 SHIPMENT.

Documentation : NIL

Others :

REMARKS : THE ABOVE DELIVERY SCHEDULE IS SUBJECT TO YOUR CONSIGNED  
 MATERIALS TO BE DELIVERED TO N.E.W. 2 WEEKS PRIOR TO EACH  
 CONFIRMED SHIPMENT. CUSTOMER WILL ADV THE ACTUAL QTY  
 REQUESTED FOR GREEN AND BLACK CASE

Seller: National Electronics & Watch Co., Ltd. Buyer:

Signed \_\_\_\_\_ Signed \_\_\_\_\_  
 Authorized Signature & chop  
 Date :

CERTAIN PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THE OMITTED PORTIONS, MARKED BY AN \*\*, HAVE BEEN SUBMITTED TO THE COMMISSION WITH THE CONFIDENTIAL TREATMENT REQUEST.

PURCHASE ORDER

PAGE: 1

VASCO DATA SECURITY, INC.  
1919 S. Highland Avenue  
Suite 118-C  
Lombard, IL 60148

P.O. NUMBER: V970107  
ORDER DATE: 02/28/97

(630) 932-8844

VENDOR NO: MIC4622

VENDOR:  
Micronix Integrated Systems  
145 Columbia, Suite 200  
Aliso Viego CA 92656-1490

SHIP TO:  
VASCO DATA SECURITY, INC.

CONFIRM TO:  
Mike Crossley

REQUIRED DATE	SHIP VIA	F.O.B	TERMS
02/28/97		California	NO TERMS

ITEMS NO.	UNIT	ORDERED	RECEIVED	BACK ORD	UNIT COST	AMOUNT
-----------	------	---------	----------	----------	-----------	--------

7500-0000	EACH	**	0	0	**	106,500.00
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MX921 CUSTOM CHIP

WHSE: 000

50% prepayment due immediately, balance payment due 45 days after order placement. VDSI retains the right to issue an additional order for a minimum of \*\* MX921 within 150 days of current order placement and reduce the unit cost to \*\* each for all MX921 not yet received.

NET ORDER:	106,500.00
SALES TAX:	.00
FRIEGHT:	.00
ORDER TOTAL:	106,500.00

## AGREEMENT

This Agreement dated as of August 25, 1997 is by and between VASCO Data Security International, Inc., a Delaware corporation ("International") and VASCO CORP., a Delaware corporation ("VASCO").

WHEREAS, in connection with a proposed reorganization of VASCO, International is undertaking an offer to exchange International shares, warrants and options for VASCO shares, warrants and options (the "Exchange Offer") pursuant to a registration statement to be filed under the Securities Act of 1933, as amended (the "Registration Statement"); and

WHEREAS, VASCO and International desire that upon consummation of the Exchange Offer certain obligations of VASCO be assumed by International.

NOW, THEREFORE, the parties agree as follows:

1. Substitution of Shares. Effective upon the

consummation of the Exchange Offer, shares of Common Stock of International shall be substituted for shares of VASCO Common Stock which may be acquired pursuant to the Exchange Offer. Upon consummation of the Exchange Offer VASCO and International shall enter into such agreements as may be necessary or appropriate to effect the substitution of rights to acquire shares of International Common Stock for rights to acquire shares of VASCO Common Stock, including without limitation, the following agreements (as defined in the Registration Statement): New VASCO Option Agreements, New VASCO Convertible Note Agreements and New VASCO Warrant Agreements. Further, upon consummation of the Exchange Offer VASCO and International shall enter into such amendments to VASCO registration rights agreements, including without limitation, the Registration Rights Agreement dated October 7, 1995, as amended, with Irwin Schloss Enterprises Inc. and eight other investors, and VASCO agreements with Generale Bank, Banque Paribas Belgique, S.A., Banque Paribas S.A.,



Osprey Partners, Kyoto Securities, Ltd., Mario Houthoof, Guy Denuit and others to substitute International shares of Common Stock for shares of VASCO Common Stock and make other changes in the agreements, all as approved by T. Kendall Hunt.

2. Assumption of Obligations. Effective upon consummation of the Exchange Offer, all rights and obligations of VASCO under the Financing Agreement dated as of June 27, 1997 between Generale Bank and VASCO (the "Financing Agreement") and the issuance of shares under the related Convertible Notes and Stock Warrants shall, without further action, be assumed in their entirety by International. This Agreement shall constitute International's express written undertaking of such rights and obligations and, following consummation of the Exchange Offer, International shall deliver to Generale Bank a copy of this Agreement, or such other written undertaking as International deems appropriate, as evidence of International's assumption pursuant to Article 5.4 of the Financing Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement.

VASCO CORP.

By: /s/ T. Kendall Hunt  
-----  
Its: President

VASCO Data Security International, Inc.

By: /s/ T. Kendall Hunt  
-----  
Its: President

## CONVERTIBLE NOTE

\$373,750

June 1, 1996

VASCO Corp., a Delaware corporation ("VASCO" or "Maker") promises to pay to Mario Houthoof, an individual ("Holder"), the principal sum of Three Hundred Seventy-three Thousand, Seven Hundred and Fifty Dollars (\$373,750.00), together with the interest on such principal sum at the fixed interest rate described below, payable as more fully set forth below:

1. Interest. Interest shall be calculated on the unpaid principal balance at an interest rate of eight percent (8%) percent per annum. VASCO may withhold from such payments amounts which may be required by the tax laws of the United States as in effect from time to time. At Holder's option, Holder may elect to receive, in lieu of cash, interest payments payable in shares of VASCO's common stock by notifying VASCO in writing prior to any interest payment date. Should Holder elect to receive interest payments payable in VASCO's common stock, and should VASCO be obligated to withhold from such interest payments amounts under the tax laws of the United States, Holder agrees that it shall notify VASCO in writing of its election (i) to make payment of such amounts required to be withheld, in which case, it shall, as a condition to delivery of shares payable for interest pay to VASCO an amount necessary to pay such withholding or (ii) to receive a lesser number of shares valued in the same manner as set out below in this paragraph in which case VASCO shall be obligated to make such withholding payments as required by the tax laws of the United States. In the event that, and from time to time, Holder shall elect to receive interest payments in the form of shares, such interest payments shall be calculated based upon a conversion price equal to the average closing price of VASCO common shares as reported on the National Association of Security Dealers Electronic Bulletin Board or NASDAQ during the previous twenty (20) trading days.

2. Payment. Subject to the conversion provisions herein, this Convertible Note shall be payable in full including principal, accrued interest, fees, charges and other accrued amounts on May 30, 1998. Interest only payments in arrears shall be made every three (3) months beginning on September 30, 1996. In addition to the limited right set out in Section 3(d)(B), Maker shall have the right to make prepayment in whole or in part.

3. Conversion.

(a) Optional Conversion. Subject to and upon compliance with the provisions of this Agreement, at the option of the Holder, any portion of the principal, accrued interest and other amounts due and payable hereunder, may at any time and

from time-to-time at or before the close of business on the maturity date of this Convertible Note be converted at the conversion price, as hereinafter provided, in effect at the date of the conversion. During the period beginning upon the date of this Convertible Note, and continuing until the final maturity date of this Agreement, May 30, 1998, the conversion price shall be Seven Dollars (\$7.00) per share.

(b) Conversion Procedure In order to exercise the conversion privilege set out above, the Holder shall surrender this Convertible Note to VASCO at any time during usual business hours at the address set out below along with written notice to VASCO at such office as the Holder elects to convert this Convertible Note or a specified portion thereof, and stating the name or names in which the certificate or certificates for shares of common stock which shall be issuable upon such conversion shall be issued. Should Holder elect to convert a portion of amounts due and payable pursuant to this Convertible Note, the interest converted into shares of VASCO's common stock shall only be such interest calculated upon the portion of the principal so converted. As promptly as practicable after the date of such notice and the surrender of this Convertible Note as provided above, VASCO shall issue and deliver at its office or pursuant to written order, a certificate or certificates with the number of full shares of common stock issuable upon such conversion in accordance with this provision, VASCO shall not be required to issue fractions of a share or script representing fractional shares upon conversion. If any fraction of a share would, except for provisions of this sentence, be issuable upon the conversion of any this Convertible Note, VASCO shall pay a cash adjustment in respect to such fraction equal to the value of such fraction based upon the then conversion price. Such conversion shall be deemed to have been effective at the close of business on the date of conversion and the person or persons in whose name or names and each certificate or certificates for shares of common stock shall have been issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby on such date; provided, however, that any such surrender on any date when the stock transfer books of VASCO shall be closed shall constitute the person or persons in whose name or names the certificate or certificates for such shares are to be issued as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open and the Convertible Note surrendered shall not be deemed to have been converted until such time for all purposes, but such conversion shall be at the conversion price in effect at the close of business on the date of such surrender.

In case this Convertible Note shall be surrendered for conversion of only a portion of the principal and other accrued amounts thereof, VASCO shall execute and deliver to the Holder, at the expense of VASCO, a new Convertible Note in the denomination equal to the unconverted portion of the Convertible Note so surrendered.

(c) Adjustments. Upon each adjustment of the conversion price, the

Holder shall thereafter be entitled to purchase at the conversion price resulting from such adjustment, the number of shares obtained by multiplying the conversion price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the conversion price resulting, from such adjustment. The conversion price shall be subject to adjustment from time to time as follows.

A. In case at any time VASCO shall subdivide its outstanding shares of common stock into a greater number of shares, the conversion price in effect immediately prior to such subdivision shall be proportionately reduced and conversely, in case the outstanding share of common stock shall be combined into a small number of shares, the conversion price in effect immediately prior to such combination shall be proportionately increased.

B. If VASCO proposes any capital reorganization or reclassification of the capital stock of VASCO or consolidation or merger of VASCO with another corporation or the sale of all or substantially all of its assets to another corporation (a "Transaction") then as a condition to the Transaction, VASCO shall, no later than ninety (90) days prior to the closing date of the Transaction, provide notice to Holder of all material terms of the Transaction; and VASCO shall, no more than forty-eight (48) hours prior to closing of the Transaction, notify Holder of the date and time of closing. Prior to closing of the Transaction, Holder shall have the right to convert all amounts owed pursuant to this Convertible Note into shares pursuant to other provisions of this Convertible Note. If Holder, after receiving the notices required by this Section, as of closing of the Transaction has not elected to convert amounts owed pursuant to this Convertible Note into shares, VASCO may, at its election, tender to Holder all amounts of principal plus all accrued interest and other amounts owed pursuant to this Convertible Note, and then this Convertible Note shall be deemed assigned by Holder to VASCO. If the Transaction does not close, VASCO shall not have the right to so purchase this Note, If the Transaction does close and VASCO shall not have acquired this Convertible Note pursuant to the terms herein, VASCO, or its successor shall have no right to so acquire this Convertible Note.

C. Upon any adjustment of the conversion price. then and in each such case, VASCO shall give written notice thereof, to the Holder, which notice shall state the conversion price resulting from such adjustment and the increase or decrease, if any, and the number of shares purchasable at such price upon the exercise of this Convertible Note setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

D. In case at any time:

- (1) there should be any capital reorganization, or

reclassification of the capital stock of VASCO or consolidation or merger of VASCO or sale of all or substantially all the assets to another corporation; or

(2) there should be a voluntary/involuntary dissolution, liquidation or winding up of VASCO;

THEN in any one or more of said cases, VASCO shall give with notice to the Holder of the date on which (a) the books of VASCO shall close or a record shall be taken for such dividend, distribution or subscription rights, or (b) such reorganization, classification, consolidation, merger, sale, dissolution, liquidation or winding up shall take place as the case may be

E. The issue of certificates on conversions of this Convertible Note shall be made without charge to the converting Holder for any tax in respect of the issue thereof. Notwithstanding the above, to the extent that any federal withholding tax is required by the tax laws of the United States to be paid by VASCO, VASCO may withhold such amounts from obligations paid pursuant to this Convertible Note.

F. VASCO shall at all times reserve and keep available out of its authorized but unissued stock, for the purpose of affecting the conversion of this Convertible Note, such number of its duly authorized shares of its common stock: as shall from time to time be sufficient to affect the conversion of this entire Convertible Note.

G. All shares of VASCO common stock issued to Holder as a consequence of the conversion rights set out herein shall benefit from and shall be subject to the registration rights granted to Holder in a separate written document entitled "Agreement," dated March 1, 1996, by and among VASCO, Holder, VASCO DATA SECURITY EUROPE SA/NV, and MARIO HOUTHOOFT.

4. Manner of Payments. All payments by Maker under this Convertible Note shall be, unless Holder shall have elected to receive interest in the form of shares of common stock pursuant to the provisions of Section 1 above, (a) made in lawful money of the United States of America, (b) credited first to any accrued interest under this Convertible Note and second to the principal balance under this Convertible Note, and (c) deemed paid by Maker upon delivery as provided herein. Payments under this Convertible Note shall be made by check drawn to "Mario Houthooft," Checks shall be mailed or delivered to Holder's address set out below until further written notice of a substituted address.

5. Expenses, Notices and Attorney's Fees. In the event that Holder shall bring an action to enforce any rights hereunder, VASCO shall pay all of Holder's expenses incurred in connection with such action including, but not limited to, reasonable

attorney's fees and expenses and costs of appeal. Should VASCO fail to timely pay any amount due hereunder, Holder shall deliver to VASCO at 1919 South Highland Avenue, Suite 118-C, Lombard, Illinois, 60148, notice of such failure to pay. If within fifteen (15 days following receipt of such notice, VASCO shall fail to timely perform any obligation pursuant hereto, VASCO shall be deemed in default of its obligations pursuant to this Convertible Note. Notice to Holder shall be sent to:

Mario Houthoof  
Klein Begijnhofstraat 5  
B-9020 Melle, BELGIUM

6. Headings. The headings of the paragraphs of this Convertible Note have been included only for convenience and shall not be deemed in any manner to modify or limit any of the provisions of this Convertible Note. or be used in any manner in the interpretation of this Convertible Note.

7. Interpretation. Whenever the context so required in this Convertible Note, all words used in the singular shall be construed to have been used in the plural (and vice versa), each gender shall be construed to include any other gender, and the word "person" shall be construed to include a natural person, a corporation, a firm, a partnership, a joint venture, a trust, an estate or any other entity.

8. Partial Invalidity. Each provision of this Convertible Note shall be valid and enforceable to the fullest extent permitted by law. If any provision of this Convertible Note or the application of such provision to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Convertible Note, or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected by such invalidity or unenforceability, unless such provision or such application of such provision is essential to this Convertible Note.

DATED AND EFFECTIVE the day and year above written.

VASCO CORP., a Delaware corporation,

By: /s/ T. Kendall Hunt  
-----  
Its: President  
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## CONVERTIBLE NOTE

\$373,750

June 1, 1996

VASCO Corp., a Delaware corporation ("VASCO" or "Maker") promises to pay to Guy Denudt, an individual ("Holder"), the principal sum of Three Hundred Seventy-three Thousand, Seven Hundred and Fifty Dollars (\$373,750.00), together with the interest on such principal sum at the fixed interest rate described below, payable as more fully set forth below:

1. Interest. Interest shall be calculated on the unpaid principal balance at an interest rate of eight percent (8%) percent per annum. VASCO may withhold from such payments amounts which may be required by the tax laws of the United States as in effect from time to time. At Holder's option, Holder may elect to receive, in lieu of cash, interest payments payable in shares of VASCO's common stock by notifying VASCO in writing prior to any interest payment date. Should Holder elects to receive interest payments payable in VASCO's common stock, and should VASCO be obligated to withhold from such interest payments amounts under the tax laws of the United States, Holder agrees that it shall notify VASCO in writing of its election (i) to make payment of such amounts required to be withheld, in which case, it shall, as a condition to delivery of shares payable for interest pay to VASCO an amount necessary to pay such withholding or (ii) to receive a lesser number of shares valued in the same manner as set out below in this paragraph in which case VASCO shall be obligated to make such withholding payments as required by the tax laws of the United States. In the event that, and from time to time. Holder shall elect to receive interest payments in the form of shares, such interest payments shall be calculated based upon a conversion price equal to the average closing price of VASCO common shares as reported on the National Association of Security Dealers Electronic Bulletin Board or NASDAQ during the previous twenty (20) trading days.

2. Payment. Subject to the conversion provisions herein, this Convertible Note shall be payable in full including principal, accrued interest, fees, charges and other accrued amounts on May 30, 1998. Interest only payments in arrears shall be made every three (3) months beginning on September 30, 1996. In addition to the limited right set out in Section 3(d)(B), Maker shall have the right to make prepayment in whole or in part.

3. Conversion.

(a) Optional Conversion. Subject to and upon compliance with the provisions of this Agreement, at the option of the Holder, any portion of the principal, accrued interest and other amounts due and payable hereunder, may at any time and

from time-to-time at or before the close of business on the maturity date of this Convertible Note be converted at the conversion price, as hereinafter provided, in effect at the date of the conversion. During the period beginning upon the date of this Convertible Note, and continuing until the final maturity date of this Agreement, May 30, 1998, the conversion price shall be Seven Dollars (\$7.00) per share.

(b) Conversion Procedure In order to exercise the conversion privilege set out above, the Holder shall surrender this Convertible Note to VASCO at any time during usual business hours at the address set out below along with written notice to VASCO at such office as the Holder elects to convert this Convertible Note or a specified portion thereof, and stating the name or names in which the certificate or certificates for shares of common stock which shall be issuable upon such conversion shall be issued. Should Holder elect to convert a portion of amounts due and payable pursuant to this Convertible Note, the interest converted into shares of VASCO's common stock shall only be such interest calculated upon the portion of the principal so converted. As promptly as practicable after the date of such notice and the surrender of this Convertible Note as provided above, VASCO shall issue and deliver at its office or pursuant to written order, a certificate or certificates with the number of full shares of common stock issuable upon such conversion in accordance with this provision, VASCO shall not be required to issue fractions of a share or script representing fractional shares upon conversion. If any fraction of a share would, except for provisions of this sentence, be issuable upon the conversion of any this Convertible Note, VASCO shall pay a cash adjustment in respect to such fraction equal to the value of such fraction based upon the then conversion price. Such conversion shall be deemed to have been effective at the close of business on the date of conversion and the person or persons in whose name or names and each certificate or certificates for shares of common stock shall have been issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby on such date; provided, however, that any such surrender on any date when the stock transfer books of VASCO shall be closed shall constitute the person or persons in whose name or names the certificate or certificates for such shares are to be issued as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open and the Convertible Note surrendered shall not be deemed to have been converted until such time for all purposes, but such conversion shall be at the conversion price in effect at the close of business on the date of such surrender.

In case this Convertible Note shall be surrendered for conversion of only a portion of the principal and other accrued amounts thereof, VASCO shall execute and deliver to the Holder, at the expense of VASCO, a new Convertible Note in the denomination equal to the unconverted portion of the Convertible Note so surrendered.

(c) Adjustments. Upon each adjustment of the conversion price, the



Holder shall thereafter be entitled to purchase at the conversion price resulting from such adjustment, the number of shares obtained by multiplying the conversion price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the conversion price resulting, from such adjustment. The conversion price shall be subject to adjustment from time to time as follows.

A. In case at any time VASCO shall subdivide its outstanding shares of common stock into a greater number of shares, the conversion price in effect immediately prior to such subdivision shall be proportionately reduced and conversely, in case the outstanding share of common stock shall be combined into a small number of shares, the conversion price in effect immediately prior to such combination shall be proportionately increased.

B. If VASCO proposes any capital reorganization or reclassification of the capital stock of VASCO or consolidation or merger of VASCO with another corporation or the sale of all or substantially all of its assets to another corporation (a "Transaction") then as a condition to the Transaction, VASCO shall, no later than ninety (90) days prior to the closing date of the Transaction, provide notice to Holder of all material terms of the Transaction; and VASCO shall, no more than forty-eight (48) hours prior to closing of the Transaction, notify Holder of the date and time of closing. Prior to closing of the Transaction, Holder shall have the right to convert all amounts owed pursuant to this Convertible Note into shares pursuant to other provisions of this Convertible Note. If Holder, after receiving the notices required by this Section, as of closing of the Transaction has not elected to convert amounts owed pursuant to this Convertible Note into shares, VASCO may, at its election, tender to Holder all amounts of principal plus all accrued interest and other amounts owed pursuant to this Convertible Note, and then this Convertible Note shall be deemed assigned by Holder to VASCO. If the Transaction does not close, VASCO shall not have the right to so purchase this Note, If the Transaction does close and VASCO shall not have acquired this Convertible Note pursuant to the terms herein, VASCO, or its successor shall have no right to so acquire this Convertible Note.

C. Upon any adjustment of the conversion price. then and in each such case, VASCO shall give written notice thereof, to the Holder, which notice shall state the conversion price resulting from such adjustment and the increase or decrease, if any, and the number of shares purchasable at such price upon the exercise of this Convertible Note setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

D. In case at any time:

(1) there should be any capital reorganization,  
or

reclassification of the capital stock of VASCO or consolidation or merger of VASCO or sale of all or substantially all the assets to another corporation;  
or

(2) there should be a voluntary/involuntary dissolution, liquidation or winding up of VASCO;

THEN in any one or more of said cases, VASCO shall give with notice to the Holder of the date on which (a) the books of VASCO shall close or a record shall be taken for such dividend, distribution or subscription rights, or (b) such reorganization, classification, consolidation, merger, sale, dissolution, liquidation or winding up shall take place as the case may be

E. The issue of certificates on conversions of this Convertible Note shall be made without charge to the converting Holder for any tax in respect of the issue thereof. Notwithstanding the above, to the extent that any federal withholding tax is required by the tax laws of the United States to be paid by VASCO, VASCO may withhold such amounts from obligations paid pursuant to this Convertible Note.

F. VASCO shall at all times reserve and keep available out of its authorized but unissued stock, for the purpose of affecting the conversion of this Convertible Note, such number of its duly authorized shares of its common stock: as shall from time to time be sufficient to affect the conversion of this entire Convertible Note.

G. All shares of VASCO common stock issued to Holder as a consequence of the conversion rights set out herein shall benefit from and shall be subject to the registration rights granted to Holder in a separate written document entitled "Agreement," dated March 1, 1996, by and among VASCO, Holder, VASCO DATA SECURITY EUROPE SA/NV, and GUY DENUDT.

4. Manner of Payments. All payments by Maker under this Convertible Note shall be, unless Holder shall have elected to receive interest in the form of shares of common stock pursuant to the provisions of Section 1 above, (a) made in lawful money of the United States of America, (b) credited first to any accrued interest under this Convertible Note and second to the principal balance under this Convertible Note, and (c) deemed paid by Maker upon delivery as provided herein. Payments under this Convertible Note shall be made by check drawn to "Guy Denudt," Checks shall be mailed or delivered to Holder's address set out below until further written notice of a substituted address.

5. Expenses, Notices and Attorney's Fees. In the event that Holder shall bring an action to enforce any rights hereunder, VASCO shall pay all of Holder's expenses incurred in connection with such action including, but not limited to, reasonable

attorney's fees and expenses and costs of appeal. Should VASCO fail to timely pay any amount due hereunder, Holder shall deliver to VASCO at 1919 South Highland Avenue, Suite 118-C, Lombard, Illinois, 60148, notice of such failure to pay. If within fifteen (15 days following receipt of such notice, VASCO shall fail to timely perform any obligation pursuant hereto, VASCO shall be deemed in default of its obligations pursuant to this Convertible Note. Notice to Holder shall be sent to:

Guy Denudt  
Bd. De Smet de Naeyer 555  
B-1020 Bruxelles, BELGIUM

6. Headings. The headings of the paragraphs of this Convertible Note have been included only for convenience and shall not be deemed in any manner to modify or limit any of the provisions of this Convertible Note. or be used in any manner in the interpretation of this Convertible Note.

7. Interpretation. Whenever the context so required in this Convertible Note, all words used in the singular shall be construed to have been used in the plural (and vice versa), each gender shall be construed to include any other gender, and the word "person" shall be construed to include a natural person, a corporation, a firm, a partnership, a joint venture, a trust, an estate or any other entity.

8. Partial Invalidity. Each provision of this Convertible Note shall be valid and enforceable to the fullest extent permitted by law. If any provision of this Convertible Note or the application of such provision to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Convertible Note, or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected by such invalidity or unenforceability, unless such provision or such application of such provision is essential to this Convertible Note.

DATED AND EFFECTIVE the day and year above written.

VASCO CORP., a Delaware corporation,  
By: /s/ T. Kendall Hunt  
-----  
Its: President  
-----

WARRANT

NO SALE, OFFER TO SELL OR TRANSFER OF THE SECURITIES  
REPRESENTED BY THIS WARRANT OR THE SHARES ISSUABLE UPON  
EXERCISE THEREOF SHALL BE MADE UNLESS A REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933, AS AMENDED, WITH RESPECT TO  
SUCH SECURITIES IS THEN IN EFFECT OR AN EXEMPTION FROM THE  
REGISTRATION REQUIREMENT OF SUCH ACT IS THEN APPLICABLE TO  
SUCH SALE, OFFER TO SELL OR TRANSFER.

VOID AFTER 3 P.M., NEW YORK CITY TIME, MAY 31, 1999

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No. WC002

Warrant to purchase 200,000 shares of Common Stock of

VASCO CORP.  
1919 SOUTH HIGHLAND AVENUE, SUITE 118-C  
LOMBARD, IL 60148-4855

This certifies that for value received OSPREY PARTNERS (hereinafter call the "holder") as registered owner of this Warrant, is entitled at any time or from time to time on or before 3 P.M. New York City Time, May 31, 1999, but not thereafter, to subscribe for, purchase and receive, 200,000 fully paid and non-assessable shares of the Common Stock of VASCO CORP. (hereinafter called the "Corporation" or "Company"), at the price of \$0.25 per share, upon presentation and surrender of this instrument and upon payment of the purchase price of said shares of said Common Stock, to the Corporation, at the principal office of the Corporation, provided that upon the occurrence of any of the events specified in the Statement of Rights to Warrants and Form of Exercise annexed hereto and hereby made a part hereof as fully as if set forth at length herein, the rights granted hereby shall be adjusted as therein specified. Upon the exercise of this Warrant, the Form of Exercise annexed hereto must be duly executed and the accompanying instructions for registration of stock must be filled in. If the subscription rights represented hereby shall not be exercised on or before 3:00 PM, New York City Time, May 31, 1999, this Warrant shall become and be void and all rights represented hereby shall cease.

Subject to the provisions of the Securities Act of 1933, as amended, and the rules and regulations thereunder, this Warrant may be assigned in whole or in part by the execution by the holder of the form of Assignment attached hereto. In the event of any assignment made as aforesaid, the Corporation, upon request and upon surrender of this instrument at the office of the Corporation, accompanied by payment of all transfer taxes payable in connection therewith, will transfer this Warrant on the books of the Corporation and execute and deliver a new Warrant of Warrants of like tenor to said assignee or assignees, expressly evidencing the right to purchase the aggregate number of shares of the Common Stock purchasable hereunder.

This Warrant may be exercised in whole or in part. In case of the exercise hereof in part only, the Corporation, upon surrender of this instrument at the Office of the Corporation, together with all other documents required hereunder with respect to such exercise, will casue to be delivered to the holder a new Warrant of like tenor in the name of the holder evidencing the right of the holder to purchase the number of shares of Common Stock purchasable hereunder as to which the Warrant has not been exercised.

This Warrant is subject to "piggyback" rights of registration, and shall be included in any future Registration Statement that may be filed with the SEC.

WITNESS the signature of the duly authorized officers of the Corporation.

VASCO CORP.

By: /s/ T. Kendall Hunt  
-----  
President

By: /s/ Forrest D. Laidley  
-----  
Secretary

Date of Original Issuance: June 1, 1992  
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NOTE: (4/15/96)

On January 19, 1996 VASCO CORP. and OSPREY PARTNERS agreed that 200,000 shares of the original Warrant WC001 for 400,000 shares are considered vested in OSPREY PARTNERS, and such Warrant to purchase up to 200,000 shares is hereby extended two (2) years to May 31, 1999. The remaining 200,000 shares of original Warrant WC001 are hereby considered canceled.

## REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT ("Agreement") is dated as of October 19, 1995, between the undersigned purchasing shareholders (the "Investor(s)"), and VASCO Corp., a corporation incorporated under the Laws of the State of Delaware (the "Company"). Capitalized terms not otherwise defined herein have the meanings set forth in Section 9.

## W I T N E S S E T H:

WHEREAS, the Investors have on the date hereof agreed to purchase from the Company units ("Units") in the amounts as set forth in Schedule A hereof, with such agreement to purchase being represented by a subscription offer letter from the Company to each Investor dated October 18, 1995 and the execution and the return of said letters to the Company by the Investors on October 19, 1995.

WHEREAS, each Unit consists of two (2) shares of Common Stock, par value \$.001 of the Company ("The Shares") and one (1) warrant to purchase Common Stock with each warrant giving the holder the right to purchase one (1) fully paid and nonassessable Share of Common Stock, \$.001 par value, of the Company at any time through October 31, 2000 (the "exercise date") at an exercise price of \$6.00 per warrant ("The Warrants").

WHEREAS, in order to induce the Investors to purchase the Units, the Company has agreed to deliver to the Investors as stated in the October 18, 1995 offer letter from the Company to the Investors, "freely tradable, registered, non-restricted VASCO Common Stock."

WHEREAS, the Company cannot meet its obligation at this time to deliver freely tradable, registered, non-restricted VASCO Common Stock, the Company has agreed to furnish this Registration Rights Agreement as a means of fulfilling its obligations to the Investors.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Additional Shares. The Company agrees that if on the valuation date as defined below the Company stock price as determined on the valuation date according to the valuation method set forth below is less than \$3.50 per share, the Company will agree to deliver to each Investor an additional number of shares ("The Additional Shares"), as determined below, to the Investors promptly following the valuation date. The valuation date shall be the 16th business day following the day on which the registration statement and prospectus provided for in Section 2 hereof are declared effective by the Securities and Exchange Commission, for this purpose counting the day that the registration statement is declared effective as day number one (1). The valuation method for determining the number of Additional Shares, if any, which should be issued to the Investors shall be determined by taking the last reported closing price on the National Association of Securities Dealers (NASD) Automated Quotation System for each of the fifteen (15) business days prior to the valuation date and dividing by fifteen (15). This fifteen day average for purposes of the formula set forth below is "The Valuation Price". If The Valuation Price is less than \$3.50 per share, then the Company shall issue The Additional number of Shares to the Investors based on the following formula: the difference between \$3.50 and The Valuation Price multiplied by the number of Shares underlying the Units on Schedule A subscribed for by each Investor divided by The Valuation Price. The Shares which may be issued pursuant to this Paragraph shall be included as part of the Registrable Securities (the "Registrable Securities") under this Agreement. If the Company Shares at the time it is necessary to apply this Section do not trade on the National Association of Securities Dealers Automated Quotation System, the parties will mutually agree on the appropriate daily market pricing determination method.

## 2. Registration.

(a) Primary Registration. If at any time prior to July 1, 1996 the Company proposes to file a registration statement (the "Registration Statement") under the Securities Act with respect to its Common Stock or securities convertible or exchangeable into its Common Stock (other than a registration statement (i) on Form S-4 or Form S-8 or any successor forms to such Forms, (ii) filed in connection with an exchange offer or an offering of its common stock or of securities convertible or exchangeable into its common stock made solely to its existing stockholders in connection with a rights offering or solely to employees of the Company, or (iii) filed in connection with an offering for any consideration other than cash), whether or not for its own Account, then the Company shall give written notice of such proposed filing to the Investors at least 10 days before the anticipated filing date. The Company shall include in such registration all Registrable Securities which consists of all The Shares represented by the Units listed on Schedule A hereof and all The Additional Shares but not The Shares underlying The Warrants unless the Investors make such an election to register

The Warrant Shares. If the Company undertakes the registration of the Shares to accommodate an underwritten offering then the Investors agree to be bound by the terms of the underwriting agreement negotiated in good faith by the Company and the underwriters; and if the Investors choose not to be included in such underwritten offering then the Investors agree not to sell any of their Shares for a period of 90 days from the date of such underwritten offering.

(b) Registration of The Additional Shares. The Company agrees to register The Additional Shares contemporaneously with The Shares as required by this Section 2 by mutually agreeing with the Investors at the time the Registration Statement is filed as to the number of shares to be covered by the Registration Statement taking into account the market price of the Company's stock at the time the Registration Statement is filed and an estimate of what the stock price might be at the time the Registration Statement is declared effective. Notwithstanding the foregoing sentence, in no event shall the Company register any amount less than 200% of The Shares underlying the Units on Schedule A even though it may not be necessary for the Company to issue any of The Additional Shares pursuant to this Agreement. In the event that the Securities and Exchange Commission does not permit the registration of The Additional Shares and The Additional Shares are owing to the Investors pursuant to this Agreement, the Company will pay to each Investor in cash the difference between \$3.50 and The Valuation Price as determined in Paragraph 1 (provided The Valuation Price is less than \$3.50) multiplied by the number of Shares underlying The Units indicated for each Investor on Schedule A. The cash payment required in the previous sentence shall be made and determined on the same time schedule that The Additional Shares would have been issued to the Investors pursuant to Paragraph 1.

(c) Registration Expenses. The Company will pay all Registration Expenses incurred in connection with any registration.

3. Failure to Register. In the event that a Registration Statement covering The Shares is not declared effective by the Securities and Exchange Commission by July 1, 1996, or if on July 1, 1996 the shareholders cannot sell their Shares due to the 90-day lock-up provision of Section 2(a), then the Company shall be required to either (i) at each Investor's option promptly repurchase the Units listed on Schedule A hereof from the Investor for a price of \$7.00 per Unit, or (ii) if all Investors demand that all The Shares underlying the Units listed on Schedule A be registered, promptly undertake to register The Shares and The Additional Shares in accordance with Section 4 of this Agreement assuming the Shares are not already registered at that time.

4. Registration Procedures. The Company will, as expeditiously as possible:



(a) prepare and file with the Commission the requisite Registration Statement to effect the registration of the Registrable Securities and use its best efforts to cause such Registration Statement to become effective, provided that as far in advance as practicable before filing such Registration Statement or any amendment thereto, the Company will furnish to each Investor copies of reasonably complete drafts of all such documents proposed to be filed (including exhibits), and any such Investor shall have the opportunity to object to any information pertaining solely to such Investor that is contained therein and the Company will make the corrections reasonably requested by such Investor with respect to such information prior to filing any such Registration Statement or amendment. The Company shall use its best efforts to keep the Registration Statement continuously effective under the Securities Act, until (A) all Registrable Securities are salable pursuant to Rule 144 as promulgated by the Securities and Exchange Commission pursuant to the Securities Act of 1933 or (B) if sooner, the date immediately following the date that all Registrable Securities covered by the Registration have been sold pursuant thereto (the "Effectiveness Period"); provided that the Effectiveness Period shall be extended to the extent required to permit dealers to comply with the applicable prospectus delivery requirements of Rule 174 and as otherwise provided herein;

(b) prepare and file with the Commission such amendments and supplements to such Registration Statement and any prospectus used in connection therewith as may be necessary to maintain the effectiveness of such Registration Statement and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities covered by such Registration Statement, in accordance with the intended methods of disposition thereof, until the earlier of (i) such time as all of such securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such Registration Statement or (ii) such time as the Company is no longer required to keep the Registration Statement effective;

(c) promptly notify the Investor and the underwriter or underwriters, if any:

(i) when such Registration Statement or any prospectus used in connection therewith, or any amendment or supplement thereto, has been filed and, with respect to such Registration Statement or any post effective amendment thereto, when the same has become effective;

(ii) of any written request by the Commission or any other federal or state governmental authority

for amendments or supplements to such Registration Statement or prospectus;

(iii) of the notification to the Company by the Commission of its initiation of any proceeding with respect to the issuance by the Commission of, or of the issuance by the Commission of, any stop order suspending the effectiveness of such Registration Statement;

(iv) of the receipt by the Company of any notification with respect to the suspension of the qualification of any Registrable Securities for sale under the applicable securities or blue sky laws of any jurisdiction;

(v) of the issuance by the Commission, any state securities commission, any other governmental agency or any court of any stop order, order or injunction suspending or enjoining the use or the effectiveness of a Registration Statement or the initiation of any proceedings for that purpose;

(vi) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose; and

(d) If a registration is filed pursuant to Section 2 hereof, enter into such agreements and take all such other reasonable actions in connection therewith (including those reasonably requested by the managing underwriters, if any, or the holders of a majority in aggregate principal amount of the Registrable Securities being sold) in order to expedite or facilitate the disposition of such Registrable Securities, and in such connection, whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration, (i) make such representations and warranties to the holders of such Registrable Securities and the underwriters, if any, with respect to the business of the Company and its subsidiaries (including with respect to businesses or assets acquired or to be acquired by any of them), and the Registration Statement, prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, in form, substance and scope as are customarily made by issuers to underwriters in underwritten offerings, and confirm the same if and when requested; (ii) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures no less favorable to the selling holders and the underwriters, if any, than those set forth in Section 6 hereof (or such other

provisions and procedures acceptable to holders of a majority in aggregate principal amount of Registrable Securities covered by such Registration Statement and the managing underwriters, if any); and (iii) deliver such documents and certificates as may be reasonably requested by the holders of a majority in aggregate principal amount of the Registrable Securities being sold, their holders Counsel and the managing underwriters, if any, to evidence the continued validity of the representations and warranties made pursuant to clause (i) above and to evidence compliance with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company;

(e) furnish to each seller of Registrable Securities covered by such Registration Statement such number of conformed copies of such Registration Statement and of each amendment and supplement thereto (in each case including all exhibits and documents incorporated by reference), such number of copies of the prospectus contained in such Registration Statement (including each preliminary prospectus and any summary prospectus) and any other prospectus filed pursuant to the Securities Act relating to such Investor's Registrable Securities, and such other documents, as such seller may reasonably request to facilitate the disposition of its Registrable Securities;

(f) use its best efforts to register or qualify all Registrable Securities covered by such Registration Statement under such other securities or blue sky laws of such jurisdictions as each Investor thereof shall reasonably request, to keep such registration or qualification in effect for so long as such Registration Statement remains in effect, and take any other action which may be reasonably necessary or advisable to enable such Investor to consummate the disposition in such jurisdictions of the Registrable Securities owned by such Investor, except that the Company shall not for any such purpose be required (i) to qualify generally to do business as a foreign corporation in any jurisdiction wherein it would not but for the requirements of this paragraph (g) be obligated to be so qualified, (ii) to subject itself to taxation in any such jurisdiction or (iii) to consent to general service of process in any jurisdiction;

(g) use its best efforts to cause all Registrable Securities covered by such Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable each Investor thereof to consummate the disposition of such Registrable Securities;

(h) furnish to the Investor a signed counterpart, addressed to such Investor (and the underwriters, if any), of

(I) an opinion of counsel for the Company, dated the effective date of such Registration Statement (or, if such registration includes an underwritten Public Offering, dated the date of any closing under the underwriting agreement), reasonably satisfactory in form and substance to such Investor, and

(ii) a "comfort" letter, dated the effective date of such Registration Statement (and, if such registration includes an underwritten Public Offering, dated the date of any closing under the underwriting agreement) and updates thereof, signed by the independent public accountants who have certified the Company's financial statements included in such Registration Statement,

in each case covering substantially the same matters with respect to such Registration Statement (and the prospectus included therein) and, in the case of the accountants' letter, with respect to events subsequent to the date of such financial statements, as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to the underwriters in underwritten Public Offerings of securities and, in the case of the accountants' letter, such other financial matters, as such Investor (or the underwriters, if any) may reasonably request;

(i) notify each holder of Registrable Securities covered by such Registration Statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which any prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and at the request of any such Investor promptly prepare and furnish to such Investor a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(j) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve (12) months, but not more than eighteen (18) months, beginning with the first full calendar month after the effective date of such Registration Statement, which

earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 promulgated thereunder;

(k) make available for inspection by the Investor to any underwriter participating in any disposition pursuant to such Registration Statement and any attorney, accountant or other agent retained by any such seller or underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of the Company (collectively, the "Records") as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors, employees and accountants to supply all information reasonably requested by any such Inspector in connection with such Registration Statement. Records which the Company determines, in good faith, to be confidential and which it notifies the Inspectors are confidential shall not be disclosed by the Inspectors unless (i) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in the Registration Statement, (ii) the release of such Records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction or administrative agency or is necessary to respond to inquiries of regulatory authorities, (iii) disclosure of such information is required by law (including any disclosure requirements pursuant to Federal securities laws in connection with the filing of any Registration Statement or the use of any prospectus referred to in this Agreement), (iv) the information in such Records has been made generally available to the public, or (v) such information becomes available from a source other than the Company and such source is not bound by a confidentiality agreement. The seller of Registrable Securities agrees by acquisition of such Registrable Securities that it will, upon learning that disclosure of such Records is sought in a court of competent jurisdiction, give notice to the Company and allow the Company, at the Company's expense, to undertake appropriate action to prevent disclosure of the Records deemed confidential;

(l) provide a transfer agent and registrar for all Registrable Securities covered by such Registration Statement not later than the effective date of such Registration Statement; and

(m) use its best efforts to cause all Registrable Securities covered by such Registration Statement to be listed, upon official notice of issuance, on any securities exchange on which any of the securities of the same class as the Registrable Securities are then listed.

The Company may require each holder of Registrable Securities as to which any registration is being effected to, and each such Investor, as a condition to including Registrable

Securities in such registration, shall, furnish the Company with such information and affidavits regarding such Investor and the distribution of such securities as the Company may from time to time reasonably request in writing in connection with such registration.

Each holder of Registrable Securities agrees by acquisition of such Registrable Securities that upon receipt of any notice from the Company of the happening of any event of the kind described in Paragraph (i), such Investor will forthwith discontinue such Investor's disposition of Registrable Securities pursuant to the Registration Statement relating to such Registrable Securities until such Investor's receipt of the copies of the supplemented or amended prospectus contemplated by Paragraph (i) and, if so directed by the Company, will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, then in such Investor's possession of the prospectus relating to such Registrable Securities current at the time of receipt of such notice. In the event the Company shall give any such notice, the period referred to in paragraph (b) shall be extended by a number of days equal to the number of days during the period from and including the giving of notice pursuant to Paragraph (i) and to and including the date when each holder of any Registrable Securities covered by such Registration Statement shall receive the copies of the supplemented or amended prospectus contemplated by Paragraph (i).

#### 5. Indemnification.

(a) Indemnification by the Company. The Company shall, to the full extent permitted by law, indemnify and hold harmless each seller of Registrable Securities included in any Registration Statement filed pursuant to this Agreement, its directors and officers, and each other Person, if any, who controls any such seller within the meaning of the Securities Act, against any losses, claims, damages, expenses or liabilities, joint or several (together, "Losses"), to which such seller or any such director or officer or controlling Person may become subject under the Securities Act or otherwise, insofar as such Losses (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any such Registration Statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, or any state (or "blue sky") securities filing, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, in the light of the circumstances under which they were made) not misleading, and the Company will reimburse such seller and each such director, officer and controlling Person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such Loss (or action or proceeding in respect thereof); provided that the

Company shall not be liable in any such case to the extent that any such Loss (or action or proceeding in respect thereof) arises out of or is based upon (x) an untrue statement or alleged untrue statement or omission or alleged omission made in any such Registration Statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement or state securities filing in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such seller specifically stating that it is for use in the preparation thereof or (y) such seller's failure to send or give a copy of the final prospectus to the Persons asserting an untrue statement or alleged untrue statement or omission or alleged omission at or prior to the written confirmation of the sale of Registrable Securities to such Person if such statement or omission was corrected in such final prospectus. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such seller or any such director, officer or controlling Person, and shall survive the transfer of such securities by such seller. The Company shall also indemnify each other Person who participates (including as an underwriter) in the offering or sale of Registrable Securities, their officers and directors and each other Person, if any, who controls any such participating Person within the meaning of the Securities Act to the same extent as provided above with respect to holders of Registrable Securities.

(b) Indemnification by the Sellers. Each holder of Registrable Securities which are included or are to be included in any Registration Statement filed pursuant to this Agreement, as a condition to including Registrable Securities in such Registration Statement, shall, to the full extent permitted by law, indemnify and hold harmless the Company, its directors and officers, and each other Person, if any, who controls the Company within the meaning of the Securities Act, against any Losses to which the Company or any such director or officer or controlling Person may become subject under the Securities Act or otherwise, insofar as such Losses (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any such Registration Statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, or any state (or "blue sky") securities filing, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, in the light of the circumstances under which they were made) not misleading, if such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such seller specifically stating that it is for use in the preparation of such Registration Statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement or state securities filing; (provided that the maximum aggregate amount which may be

recovered from any holder of Registrable Securities pursuant to the indemnification provided for in this Section 6(b) in connection with any registration and sale of Registrable Securities shall be limited to the total proceeds received by such Investor from the sale of such Registrable Securities), or (ii) the seller's failure to send or give a copy of the final prospectus to the Persons asserting an untrue statement or alleged untrue statement or omission or alleged omission at or prior to the written confirmation of the sale of Registrable Securities to such person if such statement or omission was corrected in the final prospectus. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any such director, officer or participating or controlling Person and shall survive the transfer of such securities by such seller. Such Investors shall also indemnify each other Person who participates (including as an underwriter) in the offering or sale of Registrable Securities, their officers and directors and each other Person, if any, who controls any such participating Person within the meaning of the Securities Act to the same extent as provided above with respect to the Company. The Investor shall not be required to indemnify any underwriter who participates in the offering or sale of Registrable Securities.

(c) Notices of Claims, etc. Promptly after receipt by an Indemnified Party of notice of the commencement of any action or proceeding involving a claim referred to in the preceding paragraph (a) or (b) of this Section 5, such Indemnified Party will, if a claim in respect thereof is to be made against an Indemnifying Party pursuant to such paragraphs, give written notice to the latter of the commencement of such action, provided that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under the preceding paragraphs of this Section 5, except to the extent that the Indemnifying Party is actually prejudiced by such failure to give notice. In case any such action is brought against an Indemnified Party, the Indemnifying Party shall be entitled to participate in and to assume the defense thereof, jointly with any other Indemnifying Party similarly notified to the extent that it may wish, with counsel reasonably satisfactory to such Indemnified Party, and after notice from the Indemnifying Party to such Indemnified Party of its election so to assume the defense thereof, the Indemnifying Party shall not be liable to such Indemnified Party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof other than reasonable costs of investigation; provided that the Indemnified Party may participate in such defense at the Indemnified Party's expense; and provided, further that the Indemnified Party or Indemnified Parties shall have the right to employ one counsel to represent it or them if, in the reasonable judgment of the Indemnified Party or Indemnified Parties, it is advisable for it or them to be represented by separate counsel by reason of having legal defenses which are different from or in addition to those available to the



Indemnifying Party, and in that event the reasonable fees and expenses of such one counsel shall be paid by the Indemnifying Party. If the Indemnifying Party is not entitled to, or elects not to, assume the defense of a claim, it will not be obligated to pay the fees and expenses of more than one counsel for the Indemnified Parties with respect to such claim, unless in the reasonable judgment of any Indemnified Party a conflict of interest may exist between such Indemnified Party and any other Indemnified Parties with respect to such claim, in which event the Indemnifying Party shall be obligated to pay the fees and expenses of such additional counsel for the Indemnified Parties. No Indemnifying Party shall consent to entry of any judgment or enter into any settlement without the consent of the Indemnified Party which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. No Indemnifying Party shall be subject to any liability for any settlement made without its consent, which consent shall not be unreasonably withheld.

(d) Contribution. If the indemnity and reimbursement obligation provided for in any paragraph of this Section 6 is unavailable or insufficient to hold harmless an Indemnified Party in respect of any Losses (or actions or proceedings in respect thereof) referred to therein, then (unless, and except to the extent that, such unavailability or insufficiency results from defenses or limitations provided by this Section 5) the Indemnifying Party shall contribute to the amount paid or payable by the Indemnified Party as a result of such Losses (or actions or proceedings in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and the Indemnified Party on the other hand in connection with statements or omissions which resulted in such Losses, as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Indemnifying Party or the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The parties hereto agree that it would not be just and equitable if contributions pursuant to this paragraph were to be determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the first sentence of this paragraph. The amount paid by an Indemnified Party as a result of the Losses referred to in the first sentence of this paragraph shall be deemed to include any legal and other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any Loss which is the subject of this paragraph.

(e) Fraudulent Misrepresentation. No Indemnified Party guilty of fraudulent misrepresentation (within the meaning

of Section 11(f) of the Securities Act) shall be entitled to indemnification or contribution from the Indemnifying Party if the Indemnifying Party was not guilty of such fraudulent misrepresentation.

(f) Other Indemnification. Indemnification similar to that specified in the preceding paragraphs of this Section 5 (with appropriate modifications) shall be given by the Company and each seller of Registrable Securities with respect to any required registration or other qualification of securities under any federal or state law or regulation of any governmental authority other than the Securities Act. The provisions of this Section 6 shall be in addition to any other rights to indemnification, contribution or other remedies which an Indemnified Party may have pursuant to law, equity, contract or otherwise.

(g) Indemnification Payments. The indemnification required by this Section 5 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or Losses are incurred.

6. Covenants Relating to Rule 144. The Company will file reports in compliance with the Exchange Act, and will, at its expense, forthwith upon the request of any holder of Registrable Securities, deliver to such Investor a certificate, signed by the Company's principal financial officer, stating (a) the Company's name, address and telephone number (including area code), (b) the Company's Internal Revenue Service identification number, (c) the Company's Commission file number, (d) the number of Shares of each class of Stock outstanding as shown by the most recent report or statement published by the Company, and (e) whether the Company has filed the reports required to be filed under the Exchange Act for a period of at least ninety (90) days prior to the date of such certificate and in addition has filed the most recent annual report required to be filed thereunder.

7. Piggyback Registration of The Warrant Shares. If at any time the Company proposes to file a registration statement under the Securities Act with respect to its Common Stock or securities convertible or exchangeable into its Common Stock (other than a registration statement (i) on Form S-4 or Form S-8 or any successor forms to such Forms, (ii) filed in connection with an exchange offer or an offering of its common stock or of securities convertible or exchangeable into its common stock made solely to its existing stockholders in connection with a rights offering or solely to employees of the Company, or (iii) filed in connection with an offering for any consideration other than cash), whether or not for its own account, then the Company shall, at such time, promptly give each Investor written notice of such registration which shall describe (including those jurisdictions where registration or qualification under the securities or blue sky laws is intended) and, upon the written request of any Investor given within 10 days after the date of any such notice, proceed to include in such registration The Shares underlying The

Warrants as have been requested by any such Investor to be included in such registration. Any Investor shall in its request describe briefly the proposed disposition of such Shares underlying The Warrants. The Company shall in each instance use its best efforts to cause any shares of Registrable Securities (for which any Investor has requested registration thereof pursuant to this Section) to be registered under the Act and qualified under the securities or blue sky laws of any jurisdiction requested by a prospective seller, all to the extent necessary to permit the sale or other disposition thereof (in the manner stated in such request) by a prospective seller of the securities so registered. There shall be no limit to the number or duration of times the shareholder may request, and have, registration of The Warrant Shares pursuant to this Section so long as The Warrants or The Shares underlying The Warrants are owned by any of the Investors and such Investor cannot rely on Rule 144 for the disposition of The Warrant Shares.

#### 8. Other Registration Rights.

No Existing Agreements. The Company represents and warrants to the Investor that there is not in effect on the date hereof any agreement by the Company pursuant to which any holders of securities of the Company have a right to cause the Company to register or qualify such securities under the Securities Act or any securities or blue sky laws of any jurisdiction that would conflict or be inconsistent with any provision of this Agreement.

#### 9. Definitions.

(a) Except as otherwise specifically indicated, the following terms will have the following meanings for all purposes of this Agreement:

"Agreement" means this Registration Rights Agreement, as the same shall be amended from time to time.

"Business Day" means a day other than Saturday, Sunday or any other day on which banks located in the State of New York are authorized or obligated to close.

"Commission" means the United States Securities and Exchange Commission, or any successor governmental agency or authority.

"Company" has the meaning specified in the preamble hereto.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Indemnified Party" means a party entitled to indemnity in accordance with Section 5.

"Indemnifying Party" means a party obligated to provide indemnity in accordance with Section 5.

"Inspectors" has the meaning ascribed to it in Section 5(k).

"Losses" has the meaning ascribed to it in Section 6(a).

"Managing Underwriter" means, with respect to any underwritten Public Offering, the underwriter or underwriters managing such Public Offering.

"NASD" means the National Association of Securities Dealers, Inc.

"Person" means any natural person, corporation, general partnership, limited partnership, proprietorship, other business organization, trust, union or association.

"Public Offering" means any offering of common stock of the Company ("Common Stock"), Preferred Stock or warrants to purchase Common Stock or Preferred Stock to the public, either on behalf of the Company or any of its security holders, pursuant to an effective registration statement under the Securities Act.

"Records" has the meaning ascribed to it in Section 5(i).

"Registrable Securities" means (i) The Shares and The Additional Shares, (ii) any additional shares of Common Stock or preferred stock of the Company issued or distributed to the Investor by way of a dividend, stock split or other distribution in respect of The Shares, (iii) any additional shares of Common Stock or preferred stock of the Company acquired by the Investor by way of any rights offering or similar offering made in respect of The Shares and (iv) any additional shares of Common Stock issued or issuable to the Investor upon conversion, exercise or exchange of any capital stock, right, option, warrant, evidence of indebtedness or other security of any type whatsoever that shall have been issued pursuant to or with respect to the Subscription Agreement or The Shares. As to any particular Registrable Securities, once issued such securities shall cease to be Registrable Securities when (i) a registration statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities shall have been disposed of in accordance with such registration statement, (ii) they shall have been distributed to the public pursuant to Rule 144, or (iii) they shall have ceased to be outstanding.

"Registration Expenses" means all expenses incident to the Company's performance of or compliance with its obligations under this Agreement to effect the registration of Registrable

Securities in a Requested Registration, including, without limitation, all registration, filing, securities exchange listing and NASD fees, all registration, filing, qualification and other fees and expenses of complying with securities or blue sky laws, all word processing, duplicating and printing expenses, messenger and delivery expenses, the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance, premiums and other costs of policies of insurance against liabilities arising out of the Public Offering of the Registrable Securities being registered and any fees and disbursements of underwriters customarily paid by issuers or sellers of securities, but excluding underwriting discounts and commissions and transfer taxes, if any, in respect of Registrable Securities, which shall be payable by each holder thereof, pro rata on the basis of the number of Registrable Securities of each such holder that are included in a registration under this Agreement.

"Rule 144" means Rule 144 promulgated by the Commission under the Securities Act, and any successor provision thereto.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Senior Executive Officer" means, as to the Company, its Chairman, President, Chief Financial Officer, Treasurer or Controller or any person performing any of such functions, whether or not holding such title.

"Shares" has the meaning specified in the preamble hereto.

(b) Unless the context of this Agreement otherwise requires, (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; and (iv) the term "Section" refers to the specified Section of this Agreement. Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

## 10. Miscellaneous.

(a) Notices. All written communications provided for hereunder shall be sent by registered or certified mail or nationwide overnight delivery service (with charges prepaid) or delivered by hand to the following addresses or such other address as the appropriate party may specify to each other party hereto in writing:

If to Investor(s), to:

Investor's address of record with the transfer agent or any address which may be specified by the Investor in the future.

If to the Company, to:

VASCO Corp.  
1919 S. Highland Ave.  
Suite 118-C  
Lombard, IL 60148  
Attention: Mr. Michael B. Wiggen  
Chief Financial Officer  
Telephone: 708-495-0755  
Telecopy: 708-495-0279

provided, however, that any such communication to the Company shall be in writing and may also, at the option of the Investor, be delivered by any other means to the Company at the address specified above in this Section or to any Senior Executive Officer of the Company. Any notice or other communication given under this Section will be deemed effective two days after deposit in the United States Mail if mailed as aforesaid and otherwise upon receipt. With respect to any other holder of Registrable Securities, such notices, requests and other communications shall be sent to the addresses set forth in the stock transfer records regularly maintained by the Company.

(b) Entire Agreement. This Agreement supersedes all prior discussions and agreements between the parties with respect to the subject matter hereof.

(c) Amendment. This Agreement may be amended, supplemented or modified only by a written instrument (which may be executed in any number of counterparts which may include a facsimile transmission) duly executed by or on behalf of each of the Company and Persons owning sixty-six and two-thirds percent (66 2/3%) or more of the Registrable Securities.

(d) Waiver. Subject to paragraph (e) of this Section, any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or

condition. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same term or condition of this Agreement on any future occasion.

(e) Consents and Waivers by Holders of Registrable Securities. Any consent of Investors holding Registrable Securities pursuant to this Agreement, and any waiver by such Investors of any provision of this Agreement, shall be in writing (which may be executed in any number of counterparts) and may be given or taken by Persons owning sixty-six and two-thirds percent (66 2/3%) or more of the Registrable Securities, and any such consent or waiver so given or taken will be binding on all Investors holding Registrable Securities.

(f) No Third Party Beneficiary. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto, their respective successors or permitted assigns and any other holder of Registrable Securities, and it is not the intention of the parties to confer third-party beneficiary rights upon any other Person other than any Indemnified Person.

(g) Successors and Assigns. This Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and their respective successors and assigns. The registration rights of the Investor as set forth herein are assignable, in whole or in part, by the Investor to one or more transferees of Registrable Securities, provided that written notice of such assignment is furnished to the Company; provided, however, that the Investor will not assign any rights under this Agreement to any Person that competes directly or indirectly with the Company without the prior written consent of the Company.

(h) Headings. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

(i) Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely affected thereby, (i) such provision will be fully severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (iii) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (iv) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

(j) Remedies. Except as otherwise expressly provided for herein, no remedy conferred by any of the specific provisions of this Agreement is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise. The election of any one or more remedies by any party hereto shall not constitute a waiver by any such party of the right to pursue any other available remedies.

Damages in the event of breach of this Agreement by a party hereto or any other holder of Registrable Securities would be difficult, if not impossible, to ascertain, and it is therefore agreed that each such Person, in addition to and without limiting any other remedy or right it may have, will have the right to an injunction or other equitable relief in any court of competent jurisdiction, enjoining any such breach, and enforcing specifically the terms and provisions hereof and the Company and each holder of Registrable Securities, by its acquisition of such Registrable Securities, hereby waives any and all defenses it may have on the ground of lack of jurisdiction or competence of the court to grant such an injunction or other equitable relief. The existence of this right will not preclude any such Person from pursuing any other rights and remedies at law or in equity which such Person may have.

(k) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to a contract executed and performed in such State, without giving effect to conflict of laws principles.

(l) Counterparts. This Agreement may be executed in any number of counterparts, which may be in the form of a facsimile transmission, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officer of each party hereto as of the date first above written.

COMPANY:

VASCO CORP.

By:

-----  
Michael B. Wiggen  
Chief Financial Officer



INVESTORS:

IRWIN SCHLASS ENTERPRISES, INC.

By: /s/ Irwin Schlass

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Irwin Schlass  
President

MONTE ENGLER

By: /s/ Monte Engler

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Monte Engler

EUGENE WONG

By: /s/ Eugene Wong

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Eugene Wong

STEPHEN RAPHAEL

By: /s/ Stephen Raphael

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Stephen Raphael

RICHARD GROBERG

By: /s/ Richard Groberg

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Richard Groberg

GITA BRENNER

By: /s/ Gita Brenner

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Gita Brenner

FRANK BRENNER

By: /s/ Frank Brenner

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Frank Brenner

MIKE WEINBLATT

By: /s/ Mike Weinblatt

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Mike Weinblatt

JACK SCHLEIFER

By: /s/ Jack Schleifer

-----  
Jack Schleifer

## Schedule A

## SUBSCRIPTION ALLOCATION SCHEDULE

SUBSCRIBER -----	UNITS -----	AMOUNT -----
Irwin Schlass Enterprises, Inc.	6,000	\$20,400.00
Monte Engler	6,500	\$22,100.00
Eugene Wong	6,000	\$20,400.00
Stephen Raphael	14,705	\$49,997.00
Richard Groberg	300	\$ 1,020.00
Gita Brenner	2,000	\$ 6,800.00
Frank Brenner	2,000	\$ 6,800.00
Mike Weinblatt	3,000	\$10,200.00
Jack Schleifer	12,495	\$42,483.00
	-----	-----
TOTAL	53,000	\$180,200.00

FIRST AMENDMENT  
TO THE REGISTRATION RIGHTS AGREEMENT

WHEREAS, Irwin Schlass Enterprises, Inc., Monte Engler, Eugene Wong, Stephen Raphael, Richard Groberg, Gita Brenner, Frank Brenner, Mike Weinblatt and Jack Schleifer (collectively the "Investors") entered into a certain Registration Rights Agreement dated as of October 19, 1995 with Vasco Corp. relating to the registration of shares of Vasco Corp. pursuant to the Securities Act of 1933; and

WHEREAS, Vasco Corp. has not registered the shares which are the subject of the Registration Rights Agreement as of the date of this Amendment.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in the Amendment, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree to amend the Registration Rights Agreement dated as of October 19, 1995 as follows:

1. The Investors, at this time, will forego any right to demand registration pursuant to Paragraph 3 of the Registration Rights Agreement until March 31, 1997.
2. Wherever in the Registration Rights Agreement the date July 1, 1996 appears, the date March 31, 1997 shall be substituted in its place.
3. Wherever in the Registration Rights Agreement the dollar amount/price \$3.50 appears, the dollar amount/price \$7.00 shall be substituted in its place. And wherever in the Registration Rights Agreement the dollar amount/price \$7.00 appears, the dollar amount/price \$14.00 shall be substituted in its place.
4. For clarification purposes, wherever the words "Shares underlying the Units" appear, the words "Shares comprising the Units" shall be substituted in their place.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered by the duly authorized officer of each party hereto as of this 1st day of July, 1996.

COMPANY:

VASCO CORP.

By: /s/ Michael B. Wiggen

-----  
Name: Michael B. Wiggen  
Title: VP Operations

SECOND AMENDMENT  
TO THE REGISTRATION RIGHTS AGREEMENT

WHEREAS, Irwin Schlass Enterprises, Inc., Monte Engler, Eugene Wong, Stephen Raphael, Richard Groberg, Gita Brenner, Frank Brenner, Mike Weinblatt and Jack Schleifer (the "Investor(s)") entered into a certain Registration Rights Agreement dated as of October 19, 1995 (the "Registration Rights Agreement") and a First Amendment to the Registration Rights Agreement dated as of July 1, 1996 (the "First Amendment") with VASCO Corp. (the "Company") relating to the registration of shares of VASCO Corp. pursuant to the Securities Act of 1933; and

WHEREAS, the Company has not registered The Shares which are the subject of the Registration Rights Agreement as of the date of this Second Amendment to the Registration Rights Agreement (the "Second Amendment").

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Second Amendment, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree to amend the Registration Rights Agreement and the First Amendment as follows:

1. The First Amendment to the Registration Rights Agreement shall be null and void in its entirety except for any provisions which may be restated in this Second Amendment.
2. All capitalized terms in this Second Amendment, unless otherwise indicated, shall have the same meaning as set forth in the Registration Rights Agreement.
3. Wherever in the Registration Rights Agreement the dollar amount/price \$3.50 appears, the dollar amount/price \$7.00 shall be substituted in its place. And wherever in the Registration Rights Agreement the dollar amount/price \$7.00 appears, the dollar amount/price \$14.00 shall be substituted in its place.
4. For clarification purposes, wherever the words "Shares underlying the Units" appear in the Registration Rights Agreement, the words "Shares comprising the Units" shall be substituted in their place.
5. Wherever the word "Warrant(s)" appears in the Registration Rights Agreement, the words "New Warrant(s)" as defined herein, shall be substituted in its place so that the New Warrants and the shares underlying the New Warrants shall have the same rights under the Registration Rights Agreement which the original Warrants and the shares underlying the original Warrants had in the Registration Rights Agreement.

6. The Investors, at this time, will forego any right to demand registration pursuant to paragraph 3 of the Registration Rights Agreement and the First Amendment thereto until March 31, 1998.
7. Wherever in the Registration Rights Agreement the date July 1, 1996 appears, the date March 31, 1998 shall be substituted in its place.
8. At each Investors election, the Company shall repurchase 1/3 of the Units held by each Investor (which shall consist of two shares and one warrant), rounding down to the nearest whole Unit, at a price of \$14.00 per Unit. Each Investor shall make such election by March 31, 1997, and the Company shall remit said payments for the redemption to each Investor promptly after the Units have been delivered to the Company. No Investor shall be obligated to have his Units redeemed.
9. Each Investor shall deliver all warrants associated with any Units which have not been redeemed by the Company pursuant to the previous paragraph, and in return each Investor shall receive four (4) warrants to purchase shares of VASCO common stock at any time after March 31, 1997 and no later than March 31, 2000, for a purchase price of \$5.19 per share. Each warrant shall provide for the exercise of a warrant by a cash payment and shall also contain a provision providing for the cashless purchase of the warrants on a formula as set forth below, provided that in the event of a cashless exercise, all warrants held by the Investor are exercised. The cashless option provision shall be as follows:

$$X = Y (A - B) \\ \text{-----} \\ A$$

Where X = the number of shares of common stock to be issued to Investor.

Where Y = the number of shares of common stock purchasable under the warrant(s) (at the date of such calculation).

Where A = the fair market value of one share of the Company's common stock as determined by the last traded price prior to the date of such calculation.

Where B = the exercise price (as adjusted to the date of such calculation).

Notwithstanding the value for X which is reached after applying the above formula, in no event shall X equal more than 25% of Y.

10. Notwithstanding whether or not the Investors made the election as set forth in paragraph 8, each Investor shall have the right to cause the Company to repurchase any of The

Shares which they may hold after March 31, 1997 if any time after the date hereof the Company raises financing equal to or greater than \$5,000,000 in a debt or equity private placement or public offering. Notwithstanding any election which the Investors may make pursuant to this paragraph to have the Company repurchase the remaining Shares, the Investors will be entitled to retain the New Warrant(s).

- 11. Nothing herein shall restrict the right of any Investor to sell any of The Shares comprising the Units or any shares underlying the New Warrants in any transaction permitted by law or regulation. However, once any of The Shares have been sold, any rights associated with The Shares comprising the Units created by the Registration Rights Agreement or this Second Amendment thereto, shall be extinguished.
- 12. This Second Amendment shall be binding on the successors and assigns of the parties hereto.

IN WITNESS WHEREOF, this Second Amendment has been duly executed and delivered by the duly authorized officer of each party hereto as of this 7th day of March, 1997.

COMPANY:

VASCO CORP.

By: /s/ T. Kendall Hunt  
-----  
Name:  
Title:

INVESTORS:

/s/ Irwin Schlass  
-----  
IRWIN SCHLASS ENTERPRISES, INC.  
By Irwin Schlass, President

/s/ Irwin Schlass  
-----  
MONTE ENGLER  
By his Attorney in fact, Irwin Schlass

/s/ Irwin Schlass  
-----  
EUGENE WONG  
By his Attorney in fact, Irwin Schlass

/s/ Irwin Schlass  
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STEPHEN RAPHAEL  
By his Attorney in fact, Irwin Schlass

/s/ Irwin Schlass

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RICHARD GROBERG  
By his Attorney in fact, Irwin Schlass

/s/ Irwin Schlass

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GITA BRENNER  
By her Attorney in fact, Irwin Schlass

/s/ Irwin Schlass

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FRANK BRENNER  
By his Attorney in fact, Irwin Schlass

/s/ Irwin Schlass

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MIKE WEINBLATT  
By his Attorney in fact, Irwin Schlass

/s/ Irwin Schlass

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JACK SCHLEIFER  
By his Attorney in fact, Irwin Schlass



CORRECTION RIDER TO THE SECOND AMENDMENT TO THE REGISTRATION RIGHTS AGREEMENT

On this 19th day of March, 1997, the parties hereto agree to correct the Second Amendment to the Registration Rights Agreement dated March 7, 1997. For clarification, consistent with the parties intent, the words "for each such warrant" and "the New Warrants" shall be inserted into the first sentence of Paragraph 9 so the sentence reads: "Each Investor shall deliver all warrants associated with any Units which have not been redeemed by the Company pursuant to the previous paragraph, and in return for each such warrant, each Investor shall receive four (4) warrants, the New Warrants, to purchase shares of VASCO common stock at any time after March 31, 1997 and no later than March 31, 2000, for a purchase price of \$5.19 per share."

Acknowledged and Agreed:

COMPANY: VASCO CORP.  
By: /s/ T. Kendall Hunt  
-----  
Name:  
Title:

INVESTORS:  
  
/s/ Irwin Schlass /s/ Irwin Schlass  
-----  
IRWIN SCHLASS ENTERPRISES, INC. MONTE ENGLER  
By Irwin Schlass, President By his Attorney in fact, Irwin Schlass

/s/ Irwin Schlass /s/ Irwin Schlass  
-----  
EUGENE WONG STEPHEN RAPHAEL  
By his Attorney in fact, Irwin Schlass By his Attorney in fact, Irwin Schlass

/s/ Irwin Schlass /s/ Irwin Schlass  
-----  
RICHARD GROBERG GITA BRENNER  
By his Attorney in fact, Irwin Schlass By her Attorney in fact, Irwin Schlass

/s/ Irwin Schlass /s/ Irwin Schlass  
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FRANK BRENNER MIKE WEINBLATT  
By his Attorney in fact, Irwin Schlass By his Attorney in fact, Irwin Schlass

/s/ Irwin Schlass  
-----  
JACK SCHLEIFER  
By his Attorney in fact, Irwin Schlass

NUMBER: #####

\*\*\*\*\* SHARES

VASCO CORP.  
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

COMMON STOCK PURCHASE WARRANTS

This Certifies that \_\_\_\_\_ (the "holder") is the owner of #### Common Stock Purchase Warrants (the "Warrants"), each Warrant giving the holder the right to purchase one (1) fully paid and non-assessable share of Common Stock, \$.001 par value, of VASCO CORP. (the "Company") at any time through OCTOBER 31, 2000, (the "exercise date") at an exercise price of \$6.00 per Warrant and subject to the terms, conditions and limitations set forth herein. These Warrants are exercisable at the option of the holder. In the event of a Secondary Public Offering (the "Offering"), the Company has the right to call these Warrants at the exercise price 30 days prior to the Offering. Surrender of the Warrants and \$6.00 per Warrant prior to or simultaneous to but no later than the closing of the Offering will entitle the holder to one (1) share of free tradeable, registered, non-restricted share of Common Stock of the Company. The Company will permit "cashless exercise" (credit of the intrinsic value of the herein Warrants against the Offering price) of the Warrants upon request of the holder immediately prior to the Offering, based on the Offering price, with adjustment for commissions and expenses.

As of Midnight of the exercise date, any unexercised Warrants issued herein will automatically and without notice terminate and become null and void, unless extended by action of the Board of Directors. Any exercise of these Warrants shall be in writing, addressed to the Secretary of the Corporation at its principal place of business, using the form attached hereto, and shall be accompanied by payment in full by check.

In the event, at the time of exercise of the Warrants, there does not exist a Registration Statement on an appropriate Form under the Securities Act of 1933, as amended (the "Act"), which Registration Statement shall have become effective and shall be current with respect to the underlying shares being purchased, and in the opinion of counsel to the Company such underlying shares will upon issuance be "restricted" securities within the meaning of Rule 144 under the Act, you will represent and warrant to the Company (i) that, upon exercise of the Warrants, you are purchasing the underlying shares for investment only and not with a view to the resale or distribution thereof and (ii) that any subsequent resale or distribution of any such underlying shares shall be made either pursuant to (x) a Registration Statement on an appropriate Form under the Act, which Registration Statement shall have become effective and shall be current with respect to the underlying shares being sold, or (y) a specific exemption from the registration requirements of the Act, but in claiming such exemption, you shall, prior to any offer for sale or sales of such underlying shares, obtain a favorable written opinion from counsel for, or approved by the Company, as to the applicability of such exemption.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its authorized officers, and its Corporate Seal, to be hereunto affixed this 31st day of October, 1995.

-----  
Secretary

-----  
President

(Apply Corporate Seal)

## PURCHASE AGREEMENT

This Purchase Agreement and its Exhibit A ("Form of Warrant"), Exhibit B ("Registration Rights Agreement"), Exhibit C ("Convertible Note"), and Exhibit D ("Legal Opinion of Company Counsel") are made as of May 28, 1996, by and between VASCO CORP., a Delaware corporation ("Company") with its principal office at 1919 South Highland, Lombard, Illinois 60148 ("Company") and KYOTO SECURITIES, LTD., a Bahamian corporation ("Purchaser").

IN CONSIDERATION of the mutual covenants contained in this Agreement, the Company and the Purchaser agree as follows:

## SECTION 1.

## Authorization and Sale of Shares of Common Stock, and Warrants

1.1 Authorization of Sale of Shares of Common Stock and Warrants. Subject to the terms and conditions of this Purchase Agreement, the Company has authorized the private placement sale to the Purchaser of up to \$3,000,000 worth of the Company's common stock, par value \$0.001 per share (the "Shares of Common Stock"), consisting of up to 666,666 Shares of Common Stock, at a price per share of \$4.50 per share, and a total of 100,000 Common Stock warrants ("Warrants").

(a) Each Common Stock Warrant authorizes the purchase of one (1) Share of Common Stock of the Company at an exercise price of \$4.50 per share for up to five (5) years after closing of this Offering ( "Closing").

(b) The Company's Shares of Common Stock; the Shares of Common Stock to be issued upon exercise of the Warrants ("Warrant Shares"); the shares of Company Common Stock to be issued upon the conversion of all or a portion of the Convertible Note issued to Purchaser pursuant to the terms of this Purchase Agreement ("Note Conversion Shares"); and the shares of Company Common Stock received by Purchaser in lieu of cash interest payments as identified in Section 2.1 (a) herein ("Note Interest Shares") are restricted from sale, through any transaction on any exchange or market where the Company's Shares of Common Stock are listed or traded, until June 7, 1998, except in a private transaction, or in accordance with the Registration Rights Agreement referred to in Section 1.2 below, and will bear the following legend:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as Amended, or the securities law of any state and thus may not be offered for sale, sold, transferred or otherwise disposed of through any transaction on any exchange or market where the Company's Shares of Common Stock are listed or traded, until June 7, 1998, unless registered under the Securities Act of 1933, as Amended, and the securities laws of the applicable State, or in accordance with a Registration Rights Agreement, dated May 28, 1996, on file with the Company, or unless exemptions from such registration are available."

(c) The certificates representing the Warrants (the "Warrant Certificates") shall be in substantially the form attached hereto as Exhibit A. The Warrants are exercisable immediately into the restricted Shares of the Common Stock of the Company.

1.2 Sale of Shares of Common Stock and Warrants. The Company agrees to sell to the Purchaser, and Purchaser agrees to buy from the Company, upon the terms and conditions hereinafter set forth, 666,666 Shares of Common Stock at a price of \$4.50 per Share of Common Stock, including 100,000 Warrants for a total purchase price for both Shares and Warrants of three million dollars (\$3,000,000.00). The Company will grant to Purchaser certain registration rights ("Registration Rights") for all Shares of Common Stock and Warrants issued pursuant to this Purchase Agreement as set forth in Exhibit B hereto.

1.3 Payment Schedule. The Purchaser agrees to make the following Non-refundable Deposit and Purchase Payments, in accordance with the following payment schedule:

(a) At the time of the execution of this Purchase Agreement, Purchaser will make a non-refundable cash deposit, by wire transfer, to the Company in the amount of \$250,000 ("Non-refundable Deposit") to an account designated by the Company in consideration of Purchaser's agreement to the terms and conditions of this Purchase Agreement, and Purchaser's undertaking to provide all of the funds identified herein on or before the dates specified for the purchase of the Shares of Common Stock, Warrants, and the Note, defined in Section 2 below.

(i) This deposit is irrevocable by the Purchaser and is solely in consideration of the parties hereto executing this Purchase Agreement, and it shall immediately become the property of the Company. After the execution and receipt of the Non-refundable Deposit by the Company, Purchaser will have no further claim of any kind on Non-refundable Deposit funds, except as set forth below.

(ii) However, in the event that Purchaser makes all of the Purchase Payments specified in Section 1 herein required by this Purchase Agreement and fulfills all of the terms and conditions set forth in Section 2 below regarding the purchase of the Note, as defined therein, the Non-refundable Deposit shall be applied against the Purchase Payment for the last 55,555 Shares of Common Stock purchased pursuant to this Purchase Agreement.

(b) On or before June 7, 1996, Purchaser will make a cash deposit, by wire transfer, to an account designated by the Company, in the amount of no less than \$1,000,000 to be applied against the purchase of the Company's Shares of Common Stock ("First Purchase Payment"). The Company agrees to deliver to Purchaser within 10 business days of receipt of the First Purchase Payment, certificates, representing the exact number of 222,222 Shares and 33,333 Warrants purchased by Purchaser, registered in the Purchaser's name, or its nominee.

(c) On or before June 30, 1996, Purchaser will make a cash deposit, by wire transfer, to an account designated by the Company, in an amount equal to \$1,750,000 ("Second Purchase Payment"). This Second Purchase Payment will be applied against the purchase of the remaining 444,444 Shares of Common Stock and remaining 66,667 Warrants covered by this Purchase Agreement. The Company agrees to deliver to Purchaser within 10 business days of receipt of the First Purchase Payment, certificates, representing the exact number of Shares and Warrants purchased by Purchaser, registered in the Purchaser's name, or its nominee.

SECTION 2.  
Authorization and Sale of 9%, Convertible Note

2.1 Authorization of Sale of 9% Convertible Note. Subject to the terms and conditions of this Purchase Agreement, the Company has authorized the private placement sale to the Purchaser of a \$5,000,000 Convertible Note, attached hereto as Exhibit C, which will pay interest at the rate of 9% per year, payable quarterly with a term of 5 years and one (1) day ("Note"). To the extent that any of the terms and conditions of this Purchase Agreement are in conflict with any of the terms and conditions of the Note, the terms and conditions of the Note shall control.

(a) The Purchaser will have the ongoing option to elect at each interest payment due date to pay the interest payment due in either cash or stock. If the payment is in Note Interest Shares, they will be restricted in accordance Section 1.1(b) above, and the value of said Note Interest Shares will be determined as set forth in paragraph 2.1(d) below.

(b) The conversion price for the Common Shares underlying the Note during the first twelve (12) months from date of issuance ("First Year") will be \$15.00.

(i) The Company may force conversion of the Note during the First Year if, during any 20 day trading period, the average closing price of the Company's Common Stock as reported on the National Association of Securities Dealer's NASDAQ market ("NASDAQ") is at or above \$22.50 per share.

(ii) At any time during the First Year, Purchaser may elect to convert the Note at a price of \$15.00 per Common Share underlying the Note.

(iii) At the end of the First Year, the conversion price will be \$12.00 per Common Share underlying the Note for the remaining term of the Note.

(c) If at any time during the term of the Note, Company shall propose to publicly offer shares of its common stock at a gross price of \$22.50 per share, or less ("Low Offering Price"), Purchaser shall have the following redemption rights ("Purchaser Redemption Rights"): (i) at such time as the Company proposes to make a Low Price Offering, Company shall notify Purchaser of such proposal: (ii) at any time up to and including the completion and closing of the Low Price Offering, including the receipt of proceeds from such offering, Purchaser shall have the right to send notice to the Company of its election to have the Note and all amounts payable thereunder paid to Purchaser ("Redemption Notice"): and (iii) within five (5) business days of the Redemption Notice, the Company shall pay to Purchaser all amounts due and owing pursuant to the Note.

(d) If Purchaser shall have had a Purchase Redemption Right pursuant to Subsection C above, and if Purchaser shall not have exercised such right and the time for exercise of such right shall have elapsed, then the Company shall have the following rights: at any time during the term of the Note, the Company may force an automatic conversion of the Note at a price of \$15.00 per Common Share underlying the Note, if the Company files a registration statement that: (a) becomes

effective with the Securities Exchange Commission allowing a public offering of the Common Stock of the Company at an effective offering price of \$15.00, or above; and (b) generates proceeds to the Company in excess of \$5,000,000. Nothing contained in this Section 2.1 (d) shall limit or terminate any right of Purchaser to convert the Note at any time into shares of the Company's common stock pursuant to the other provisions of this Purchase Agreement or the provisions of the Note.

(e) The determination of the average trading price of the Shares of Common Stock of the Company shall be defined as the average NASDAQ, or NASDAQ "Bulletin Board" closing price for the prior 20 trading days from the date of such determination.

2.2 Sale of Convertible Note. The Company agrees to sell to the Purchaser, and Purchaser agrees to buy from the Company, the Note attached hereto as Exhibit C.

2.3 Payment Schedule. The Purchaser agrees to purchase the Note for the following ("Note Payments") in accordance with the following note schedule.

(a) On or before June 7, 1996, Purchaser, at its own cost, will provide the Company with a \$5,000,000 (U.S. Funds) letter of credit ("Letter of Credit") or guarantee of equal credit worthiness, satisfactory to the Company, in order for the Company to comply with the terms and conditions of the Heads of Agreement, as identified in Section 4 herein. However, the Letter of Credit may not be drawn upon before July 24, 1996.

(b) On or before July 24, 1996 ("Final Funding Date"), Purchaser will purchase the Note for \$5,000,000 and Company will release the Letter of Credit to Purchaser.

(c) If the Letter of Credit is drawn upon, such draw shall constitute full and final payment by Purchaser for the Note.

### SECTION 3.

#### Sale of Additional Shares of Common Stock

3.1 Subsequent Sales of Shares of Common Stock. At any time on or after the date hereof, the Company may sell additional Shares of Common Stock with 15% Warrant Coverage, as defined herein, to such persons and upon such terms as may be approved by the Board of Directors of the Company.

### SECTION 4.

#### Representations and Warranties of the Company

The Company represents and warrants to the Purchaser as follows:

(a) The Company has provided Purchaser with documents, records and books pertaining to this investment, including the Company's December 31, 1995 year-end Consolidated Financial

Statements as set forth in Form 10-SB, ("December 31, 1995 Audited Financials"), First Quarter unaudited summary financials ("First Quarter Results"), the Company's Form 10-SB, filed with the Securities and Exchange Commission on May 10, 1996 ("Registration Statement"); and the Company's confidential 1996-7 projected income statements ("Confidential Company Projections").

(b) The "December 31, 1995 Audited Financial Statements and the related statement of income, accumulated deficit and cash flow for the year then ended (together with the notes thereto, if any): (A) are in accordance with the books and records of the Company; (B) are complete and correct. (C) present fairly the financial position and results of operations of the Company as of the date and for the period indicated; and (D) have been prepared in accordance with generally accepted accounting principles consistently applied. Also, as of the date of this Subscription Agreement, the Company has released its First Quarter unaudited summary financials.

(c) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with full corporate power and authority to own, lease and operate its properties and conduct its business as described in the Company's Registration Statement; the Company is duly qualified to do business as a foreign corporation in good standing in each jurisdiction where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to so qualify would not have a material adverse effect on the Company.

(d) The Company has full power and authority (corporate and otherwise) to enter into this Purchase Agreement and to perform the transactions contemplated hereby. Each of this Purchase Agreement, Registration Rights Agreement, and the Warrant Certificates has been duly authorized, executed and delivered by the Company and is a valid and binding agreement on the part of the Company, enforceable against the Company in accordance with its terms, except as rights may be limited or by equitable principles and except as enforcement hereof may be limited to applicable bankruptcy, insolvency, reorganization or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; the execution and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby and thereby will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, (i) any lease, contract or other agreement or instrument to which the Company is a party or by which its properties are bound, or (ii) the Certificate of Incorporation or By-Laws of the Company or (iii) any, law, order, rule, regulation, writ, injunction or decree of any court or governmental agency or body binding on the company; and the Company is not required to obtain or make (as the case may be) any consent, approval, authorization, order, designation or filing by or with any court or regulatory, administrative or other governmental agency or body is required for the consummation by the Company of the transactions herein contemplated, except such as may be required under the Securities Act of 1933, as amended (the "Act") and state securities laws. The Company has reserved, from its authorized but unissued Common Stock, a sufficient number of shares of Common Stock to provide for the exercise of the Warrants in accordance with the terms of the Warrant Certificates.

(e) The authorized capital stock of the Company is as stated in the Registration Statement under the caption "Capitalization," and, as of the date hereof, the Company has outstanding 15,793,575 shares of Common Stock, all of which are validly issued, fully paid and non-assessable and which represent all of the outstanding shares of capital stock of the Company.

(f) The shares of Common Stock to be purchased from the Company hereunder, and the shares of Common Stock issuable upon the exercise of the Warrants, have been duly authorized for issuance and, when issued and delivered to the Purchaser by the Company against payment therefor in accordance with the terms of this Agreement will be duly and validly issued and fully paid and nonassessable.

(g) Subsequent to the respective dates as of which information is given in the Registration Statement and which information supplied to the Purchaser under subparagraph 4(a) above, there has not been (i) any material adverse change, or any development which, in the Company's reasonable judgment, is likely to cause a material adverse change, in the business, properties or assets described or referred to in the Registration Statement, or the results of operations, condition (financial or otherwise), business or operations of the Company or its future prospects, (ii) any transaction which is material to the Company, except transactions in the ordinary course of business, (iii) any obligation, direct or contingent, which is material to the Company, incurred by the Company, except obligations incurred in the ordinary course of business, (iv) any change in the capital stock or outstanding indebtedness of the Company or (v) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company.

(h) The Company presently has two wholly owned subsidiaries: VASCO Data Security, Inc. ("VDSI") and VASCO Data Security Europe ("VDSE"). In addition, the Company owns a 15% interest in Lintel Security SA/NV ("Lintel"). The Company has agreed to acquire another 36% interest on or before July 1, 1996, resulting in a 51% ownership. The Company is required to acquire the remaining 49% of Lintel subject to the occurrence of certain events and criteria, including profitability and certain product sales volumes achieved through December 31, 2001. Except for these holdings, the Company does not presently have any other subsidiaries, nor does it presently own any capital stock or other proprietary interest, directly or indirectly, in any corporation, association, trust, partnership, joint venture or other entity. The Subsidiaries are corporations duly organized, validly existing and in good standing under the laws of the applicable jurisdiction of their incorporation and have all requisite corporate power and authority to own and lease their properties, and to carry on their business as presently conducted and as proposed to be conducted.

(i) The Company covenants that the specific use of the proceeds of the Note is to secure a \$5,000,000 (U.S. Funds) guaranteed payment No. 1 as set forth in, and in accordance with the terms and conditions of a certain Heads of Agreement, dated May 13, 1996, by and among, VASCO CORP., VASCO DATA SECURITY EUROPE S.A. and DIGILINE INTERNATIONAL LUXEMBOURG, DIGILINE S.A., DIGIPASS S.A., and DOMINIQUE COLARD and TOPS S.A.



("Heads of Agreement"). If the Company fails to apply the note proceeds in accordance with Payment No. 1 of the Heads of Agreement, the Company shall redeem the Note by January 10, 1996.

SECTION 5.  
Representations and Warranties of the Purchaser

The Purchaser, its agents, nominees, successors, and assigns hereby represent and warrant to the Company as follows:

(a) The Purchaser hereby acknowledges: (a) that it, and all of the investors are "accredited investors;" as that term is defined in the 1933 Act; (b) that now or hereafter all investors in the Purchaser are non-United States citizens; (c) that a portion of the Note interest payments it receives from the Company may be subject to tax withholding under United States Income Tax laws. Purchaser further acknowledges that this transaction has not been scrutinized by the Commission or any officer of any jurisdiction.

(b) The Purchaser acknowledges that all documents, records and books pertaining to this investment, including the Company's December 31, 1995 Audited Financials, First Quarter Results, the Company's Form 10-SB, filed with the Securities and Exchange Commission on May 10, 1996 ("Form 10-SB"); and the Company's confidential 1996-7 projected income statements ("Confidential Company Projections") have been made available to the Purchaser and the Purchaser understands that the books and records of the Company will be available prior to its execution hereof, upon reasonable notice, for its inspection during reasonable business hours at the Company's principal office. The Purchaser further acknowledges that it has signed a confidentiality agreement ("Confidentiality Agreement") with the Company as it pertains to certain information deemed to be confidential by the Company, including, but not limited to, the Confidential Company Projections.

(c) The Purchaser further acknowledges, represents and warrants that it understands that neither the Shares of Common Stock, nor the Common Stock underlying the Warrants have been registered under the Securities Act of 1933, as amended (the "Act"), or any state securities, laws, and such securities are being offered and sold under the exemption from registration provided by Rules 505 and 506 promulgated by the Commission under the Act. The Purchaser is aware of the risks associated with an investment in the unregistered securities of the Company; and confirms it has read and understands The Registration Rights Agreement, identified as Exhibit B hereto.

(d) This Agreement has been duly authorized, executed and delivered by the Purchaser and constitutes a valid and legally binding obligation of the Purchaser, individually, and as agent for a yet to be formed investment fund, enforceable personally, and in accordance with its terms, except as may be limited by applicable laws or equitable principles and except as enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws relating to or affecting creditors' rights generally or by general equitable principles. Purchaser is an accredited investor as such term is defined in Regulation D.

SECTION 6.  
Commission Schedule

6.1 The Commission Schedule for Shares of Common Stock and Warrants. The Company agrees to pay to the parties identified below in this Section 6, commissions for the purchase of the Shares of Common Stock with 15% Warrant Coverage as follows:

(a) For the first \$2,000,000, the Company will pay a total of 7% in cash and 7% in Warrants, for a total of \$140,000 in cash and 31,111 Warrants, as follows:

(i) To Purchaser, 5% cash, or \$100,000 and 5% Warrants, or 22,222 Warrants;

(ii) To Company's investment banker, First Analysis Securities Corporation ("First Analysis"), 2% cash, or \$40,000, and 2% Warrants, or 8,889 Warrants.

(b) For the next \$1,000,000, the Company will pay to Purchaser only, a total of 7% in cash and 7% in Warrants, for a total of \$70,000 in cash and 15,555 Warrants.

(c) Purchaser shall have no obligation for the above representative's commissions.

6.2 Commission for the Purchase of the Note. For the purchase of the Note, as defined below, the Company agrees to pay to Purchaser only, a 7% commission, payable in the amount of 55,555 Shares of Common Stock, and 7% Warrants. The exact number of Warrants issued will be based upon the actual conversion price, as determined in Section 2 to this Purchase Agreement, and as set forth immediately below:

(i) If the conversion price is at \$15.00, the number of Warrants will be 23,333;

(ii) If the conversion price is at \$12.00, the number of Warrants will be 29,166.

(c) Purchaser shall have no obligation for the above representative's commissions.

SECTION 7.  
Conditions to Closing of Purchaser

The Purchaser's obligation to purchase the Shares of Common Stock with Warrants, and the Note in the stated amounts and on or before the dates specified herein is subject to fulfillment or waiver, as of the Purchase Payment Dates or Final Funding Date specified herein, of the following conditions:

(a) The representations and warranties made by the Company herein shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the date of each payment with the same force and effect as if they had been made on and as of said date.

(b) All covenants, agreements and conditions contained in this Purchase Agreement to be performed by the Company on or prior to the Final Funding Date shall have been performed or complied with in all respects.

(c) The Purchaser shall have received a legal opinion of Laidley, Sutter & Porter, counsel to the Company, insubstantially the form of Exhibit D.

SECTION 8.  
Conditions to Closing of Company

The Company's obligation to sell and issue the Shares of Common Stock, Warrants, and the Note is subject to the fulfillment or waiver, as of the Purchase Payment dates or Final Funding date specified herein, of the following conditions:

(a) The representation made by each Purchaser in Section 4 hereof shall be true and correct when made, and shall be true and correct on the Closing Date.

(b) All covenants, agreements and conditions contained in the Agreement to be performed by the Purchaser on or prior to the Closing Date shall have been performed or complied with in all material respects.

SECTION 9.  
Miscellaneous

7.1. Waivers and Amendments. The terms of this Agreement (including, without limitation, the Warrant Certificates) may be waived or amended only with the written consent of the Company and Purchaser. The failure by any party at any time to enforce or to require the performance of any provision of this Purchase Agreement shall in no way be construed to be a waiver of any such provision and shall not affect the rights of such party hereunder thereafter to enforce or require the performance of such provision in accordance with the terms of this Agreement.

7.2 Governing Law. This Agreement shall be governed in all respects by the laws of the State of Illinois, without regard to the conflict of laws rules thereof.

7.3. Successors and Assigns. This Agreement may not be assigned by a Purchaser without the written consent of the Company.

7.4. Entire Agreement. This Agreement, which includes Exhibits A, B, C, & D attached hereto, constitutes the full and entire understanding and agreement between the parties with regard to the subjects thereof.

7.5 Notices, etc. All notices and other communications required or permitted under this Agreement shall be in writing and may be sent by personal delivery, by telecopy, overnight delivery service or U.S. Mail, in which event it shall be mailed first-class, certified or registered, postage prepaid. All such notices and communications must be addressed to the Company or the Purchaser, as the case may be, at their respective addresses and telecopy number set forth herein, or at such other address or telecopy number as the Company or the Purchaser shall have furnished to the other party in writing. All notices and other communications shall be effective upon the earlier of actual receipt thereof and (A) in the case of notices and communications sent by personal delivery or telecopy, three hours after such notice or communication arrives at the applicable addresses or was successfully sent to the applicable telecopy number (B) in the case of notices and communications sent by overnight delivery service, at noon (local time) on the first business day following the day such notice or communication was sent, and (C) in the case of notices and communications sent by U.S. mail, five days after such notice or communication shall have been deposited in the U.S. mail.

7.6 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

7.7. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

7.8 Further Assurances. Each party to this Agreement shall do and perform or cause to be done and performed all such further acts and things and shall execute and deliver all such other agreements, certificates, instruments and documents as the other party hereto may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the Transactions contemplated hereby.

7.9. Expenses. The Company and each Purchaser shall bear its own expense incurred on its behalf with respect to this Purchase Agreement and the transactions contemplated hereby, including fees of legal counsel.

7.10. Survivability. The respective representations and covenants of the parties hereto shall survive the Closing of the transactions contemplated hereby, including issuance of the Shares of Common Stock and the Common Stock underlying the Warrants.

7.11. Information. The Company shall furnish to each Purchaser, upon the request of such Purchaser, any publicly-available filing made by the Company with the Securities and Exchange Commission and such other publicly-available information as may be reasonably requested by the Purchaser for so long as the Purchaser is the holder of any Warrant purchased hereunder.

The foregoing agreement is hereby executed as of the date first above written.

COMPANY:  
VASCO CORP.

a Delaware Corporation.

By: /s/ T. Kendall Hunt  
-----  
Title: President

PURCHASER:  
KYOTO SECURITIES, LTD.  
a Bahamian corporation

By: /s/ Charles P. Villeneuve  
-----  
Title: President

By: /s/ Charles P. Villeneuve  
-----  
Charles P. Villeneuve

EXHIBIT A

Number: \*\* \_\_\_\_\_ \*\* Shares

VASCO  
Incorporated under the laws of the State of Delaware

COMMON STOCK PURCHASE WARRANTS  
-----

This certifies that \_\_\_\_\_ (the "holder") is the owner of \_\_\_\_\_ Common Stock Purchase Warrants (the "warrants"), each Warrant giving the holder the right to purchase one (1) fully paid and non-assessable share of Common Stock, \$.001 par value, of VASCO (the "Company") at any time through June 1, 2001, (the "exercise date") at an exercise price of \$4.50 per Warrant and subject to the terms, conditions and limitations set forth herein. The shares of Common Stock underlying these Warrants shall have 'piggy back registration rights" as set forth in a Registration Rights Agreement dated May 28, 1996 by and between Company and Holder. The effective date of these Warrants is May 28, 1996.

As of Midnight of the exercise date, any unexercised Warrants issued herein will automatically and without notice terminate and become null and void, unless extended by action of the Board of Directors. Any exercise of these Warrants shall be in writing, addressed to the Secretary of the Corporation at its principal place of business, using the form attached hereto, and shall be accompanied by payment in full by check.

In the event, at the time of exercise of the Warrants, there does not exist a Registration Statement on an appropriate Form under the Securities Act of 1933, as amended (the "Act"), which Registration Statement shall have become effective and shall be current with respect to the underlying shares being purchased, and in the opinion of counsel to the Company such underlying shares will upon issuance be "restricted" securities within the meaning of Rule 144 under the Act, you will represent and warrant to the Company (i) that, upon exercise of the Warrants, you are purchasing the underlying shares for investment only and not with a view to the resale or distribution thereof and (ii) that any subsequent resale or distribution of any such underlying shares shall be made either pursuant to (x) a Registration Statement on an appropriate Form under the Act, which Registration Statement shall have become effective and shall be current with respect to the underlying shares being sold, or (y) a specific exemption from the registration requirements of the Act, but in claiming such exemption, you shall, prior to any offer for sale or sales of such underlying shares, obtain a favorable written opinion from counsel for, or approved by the Company, as the applicability of such exemption.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its authorized officers, and its Corporate Seal, to be hereunto affixed this \_\_\_\_ day of \_\_\_\_\_, 1996.

\_\_\_\_\_  
Secretary

\_\_\_\_\_  
President

(Apply Corporate Seal)

EXHIBIT B  
Registration Right Agreement

This Agreement by and between VASCO CORP. ("Company") and KYOTO SECURITIES, LTD., a Bahamian corporation ("Purchaser") is made as of May 28, 1996.

Definitions: As used in this Registration Rights Agreement, the following defined terms shall have the following meanings:

"Purchase Agreement" shall mean that certain Purchase Agreement by and between VASCO CORP. and Kyoto Securities, Ltd., dated May 28, 1996.

"Shares" shall mean 666,666 shares of VASCO Common Stock issued to Purchaser pursuant to the Purchase Agreement.

"Warrants" shall mean 100,000 Warrants to purchase VASCO Common Stock pursuant to the terms of the Purchase Agreement

"Warrant Shares" shall mean 100,000 shares of VASCO Common Stock to be issued upon exercise of the Warrants.

"Note Conversion Shares" shall mean shares of VASCO Common Stock to be issued upon conversion of all or a portion of the principal and interest of the Convertible Note issued to Purchaser pursuant to the terms of the Purchase Agreement.

"Convertible Note" to be issued to Purchaser pursuant to the terms of the Purchase Agreement.

The Company agrees to register all Shares, Warrants, Warrant Shares, and Note Conversion Shares (collectively "Payment Shares") under the following terms:

- A. If, at any time commencing from the date of this Agreement until June 1, 2001, the Company proposes to file a registration statement for the public sale of Shares of its Common Stock, written notice of such proposal, will be given to Purchaser at least 60 days prior to the filing of such registration statement. The term "Registration Statement" as used in this Section shall be deemed to include any form which may be used to register a distribution of securities to the public. Company agrees that on written notice received from Purchaser, within 20 days after Purchaser's receipt of the notice to file a registration statement, Company shall afford the holders of Payment Shares the opportunity to have the Payment Shares included in such Registration Statement. The registration rights set out in this Paragraph A shall apply each and every time the Company proposes to file a registration statement for the public sale of shares of its Common Stock, until June 1, 2001.

- B. Notwithstanding the provisions of this Agreement, Company shall have the right, at any time after it shall have given written notice to Purchaser pursuant to this Agreement, to elect to offer none, or only a portion of the Payment Shares in such Registration Statement, if, in the good faith and reasonable opinion of the Company's managing underwriter to the offering, the sale of the Payment Shares to be included would be materially detrimental to the success of the offering. The Purchaser shall be entitled to receive a written explanation from the Company's Managing Underwriter of such determination.
- C. Notwithstanding any provision to the contrary contained herein, Company shall not be required to include any of the Payment Shares in any Registration Statement with respect to shares offered in any underwriting, unless Purchaser agrees to offer such shares, on the same terms and conditions as Company shares are being offered, and to sign an underwriting agreement in the form to be signed by the other offerors, if any.
- D. The shareholders desiring to sell shares of common stock pursuant to the registration rights granted herein shall provide Company with all reasonable information relating to such sale and on which Company shall be entitled to rely and to include such information in any such Registration Statement.
- E. All sales pursuant to any such Registration Statement shall be made in accordance with the provision of the Securities Act of 1933, as amended (the "Securities Act") and the Securities Exchange Act of 1934 as amended, (the "Exchange Act") and Company shall not be required to include any such Payment Shares in any registration until it has received written assurances reasonably satisfactory in form and substance to Company from the shareholders offering such Payment Shares that such sales shall be so conducted.
- F. All expenses incurred by Company in complying with the registration requirements hereof shall be borne by Company. On notice to any shareholder offering Payment Shares covered by a Registration Statement that such Registration Statement or prospectus relating thereto requires revision, such holder will immediately cease to make offers or sale pursuant to such Registration Statement and return all such Registration Statements and prospectuses to Company. All registration rights granted herein may apply only to shares of common stock issued by Company. Company is under no obligation to maintain the effectiveness of any Registration Statement for more than an aggregate of 90 days.
- G. In connection with the filing of any Registration Statement or offering statement under this Agreement, Company covenants and agrees that it will take all necessary action which may be required in qualifying or registering the Payment Shares included in a Registration Statement or offering statement for the offer and sale under the securities or blue sky laws of such states as may be reasonably requested



by the holders of the Payment Shares; provided, that Company shall not be obligated to execute or file any general consent to service of process or to qualify as a foreign corporation to do business under the laws of any such jurisdiction.

- H. In the event that the payment Shares are the subject of or are included in any Registration Statement or offering statement which is filed and becomes effective, Company agrees to utilize its best efforts to keep the same, including blue sky filings, for an effective period of not less than 90 days. The holders of the Payment Shares shall cooperate with Company and shall furnish such information as Company may reasonably request in connection with any such registration or offering statement hereunder, on which Company shall be entitled to rely.
- I. Company further agrees that in the event that the Payment Shares are transferred, sold or otherwise disposed of in compliance with the Purchase Agreement, the new owner of the transferred Payment Shares will be entitled to the registration rights set forth herein until June 1, 2001. Company will fully cooperate in connection with such transfer and/or sale at Company's sole expense.
- J. Company further agrees and represents that while any of the Payment Shares are outstanding and held by Purchaser or Purchaser's affiliates, Company will timely file or cause to be filed all reports and documents required under the Act as well as such additional information as if necessary in order to allow the holder of the Payment Shares to rely upon the provisions of Rule 144 promulgated under the Act with respect to the current public information requirements contained in Rule 144.
- K. In the event of any registration of any Company common stock under the Securities Act pursuant to this section, Company shall indemnify and hold Purchaser or any subsequent transferee of the Payment Shares harmless against any losses, claims, damages or liabilities, joint or several, to which such holder may become subject under the Securities Act or any other statute or at common law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any alleged untrue statement of any material fact contained, on the effective date thereof, in any Registration Statement under which such securities were registered under the Securities Act, any preliminary prospectus or final prospectus contained herein, or any amendment required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse such holder for any legal or any other expenses reasonably incurred by such holder in connection with investigating or defending any such loss, claims, damage, liability or action; provided, however, that Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any alleged untrue statement or alleged omission made in such Registration Statement, preliminary prospectus, prospectus or amendment or supplement in reliance upon and in conformity with written information furnished to Company by such holder specifically for use therein. Such indemnity shall remain in full force and effect

regardless of any investigation made by or on behalf of such holder and shall survive the transfer of such securities by such holder and consummation of the transactions contemplated by this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officer of each party hereto, as of the date first above written.

COMPANY:

VASCO CORP.

BY:

-----  
T. Kendall Hunt, President

PURCHASER:

KYOTO SECURITIES, LTD.,  
a Bahamian corporation

BY:

-----  
Its President

BY:

-----  
Charles P. Villeneuve

## EXHIBIT C

[LAIDLAY, SUTTER, &amp; PORTER LETTERHEAD]

May 28, 1996

To Purchaser,  
as specifically identified  
in a certain Purchase Agreement,  
dated May 28, 1996

Dear Sir:

We have acted as counsel for VASCO CORP., a Delaware corporation (the "Company"), in connection with a certain Purchase Agreement, by and between the Company and Kyoto Securities, Ltd., dated May 28, 1996 ("Purchase Agreement"), and its attached exhibits: Exhibit A ("Form of Warrant"), Exhibit B ("Registration Rights Agreement"), Exhibit C ("Convertible Note"), and Exhibit D ("Legal Opinion of Company Counsel"), authorizing the issuance and private placement sale by the Company of: (a) 666,666 Shares of the Company's common stock, par value \$0.001 per share at a price per share of \$4.50 per share ("Shares of Common Stock"); (b) 100,000 Common Stock warrants ("Warrants"); (c) 100,000 shares of Company Common Stock to be issued upon exercise of the Warrants ("Warrant Shares"); (d) the Convertible Note ("Note"); and (e) shares of the Company's Common Stock to be issued upon conversion of all or a portion of the Note issued pursuant to the Purchase Agreement ("Note Conversion Shares"). This opinion is furnished to you pursuant to Section 4 of the Purchase Agreement.

We have assisted in the preparation of the Purchase Agreement and the Exhibits thereto. We have examined signed copies of the registration statement of the Company of Form 10-SB, together with all exhibits thereto ("Registration Statement"), all as filed with Securities and Exchange Commission ("Commission") under the Securities Act of 1934, as amended ("Act of 1934"); an executed copy of the Purchase Agreement, executed copies of the certificates evidencing the Warrants ("Warrant Certificate"), and such other documents as we have deemed necessary as a basis for the opinions expressed herein.

We express no opinion as to the laws of any jurisdiction other than those of the State of Illinois, the General Corporation Law of the State of Delaware and the federal laws of the United States of America. For purposes of our opinion expressed in the last sentence of paragraph 2, we have relied solely on a certificate of the chief financial officer of the Company as to locations where the Company owns or leases real property and on certificates of public officials as to the qualification of the Company as a foreign corporation in each foreign jurisdiction.

Insofar as this opinion relates to factual matters, information with respect to which is in the possession of the company, we have made inquiries to the extent we believe reasonable with respect to such matters and have relied upon representations made by the Company in the Purchase Agreement and representations made to us by one or more officers of the Company. Although we have not independently verified the accuracy of such representations, we do not know of the existence or absence of any fact contradicting such representations. Any reference herein to "our knowledge," "known to us" or any variation thereof shall mean the actual knowledge of lawyers in this firm who have participated in our representation of the Company in connection with the preparation of the Registration Statement.

Based upon and subject to the foregoing, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing with the Secretary of State under the laws of the State of Delaware.
2. The Company has the corporate power and authority to own, lease and operate its properties and conduct its business as described in the Form 10-SB. The Company is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which it owns or leases real property.
3. The Shares of Common Stock, the Warrants, the Warrant Shares, the Note, and the Note Conversion Shares have been duly authorized and will be validly issued, fully paid and non-assessable when issued and paid for as contemplated by the Purchase Agreement.
4. The Purchase Agreement, the Warrant Certificates, and the Note have been duly authorized, executed and when delivered by the Company, subject to the qualifications stated in the last paragraph of this opinion, constitute legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms. When issued, the Shares of Common Stock, the Warrant Shares and the Note Conversion Shares will be duly authorized, executed and delivered by the Company and, subject to the qualifications stated in the last paragraph of this opinion, constitute legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms.

5. The execution and delivery by the Company of the Purchase Agreement, the Warrant Certificate, and the Note, and the issuance by the Company of the Shares of Common Stock, the Warrants, the Warrant Shares, the Note and the Note Conversion Shares will not (i) violate the Certificate of Incorporation or By-Laws of the Company, (ii) breach or result in a default under any agreement or instrument listed as an Exhibit to the Registration Statement or (iii) violate any applicable law or regulation or, to our knowledge, any order, writ, injunction or decree, of any jurisdiction, court or governmental instrumentally binding upon the Company or any of its properties, except that we express no opinion as to state securities or blue sky laws or the antifraud provisions of federal securities laws.
6. No approval, authorizations or consents of any governmental entity are required for the execution and delivery of the Purchase Agreement, the Warrant Certificates, or the Note, to permit the Company to sell the Shares of Common Stock, the Warrants, and the Note, and to issue and sell the Shares of Common Stock, the Warrant Shares, or the Note Conversion Shares, except such as may be required under state securities or blue sky laws, as to which we express no opinion.
7. The Company has reserved the number of shares of its duly authorized, but unissued, Common Stock as is necessary to provide for the exercise of the Warrants and conversion of the Convertible Note, except to the extent that the number of shares of Common Stock potentially issuable on exercise of the Warrants pursuant to the Note conversion price provisions thereof may currently be indeterminate.
8. The Shares of Common Stock, the Warrants, and the Note conform as to matters of law with the description thereof contained in the Purchase Agreement.
9. The Form 10-SB filed by the Company, to the best of the undersigned's knowledge, accurately describes the Company and contains no untrue or inaccurate statements.

Our opinion that the Purchase Agreement, the Warrant Certificates, and the Note are enforceable against the Company in accordance with its terms, is subject to (i) bankruptcy, insolvency, reorganization, moratorium or similar laws of general application affecting the rights and remedies of creditors and (ii) general principles of equity, regardless of whether enforcement is sought in proceedings in equity or at law.

Sincerely,

Forrest D. Laidley  
Laidley, Sutter & Porter

EXHIBIT D  
CONVERTIBLE NOTE  
(TO FOLLOW ON NEXT 7 PAGES)

## CONVERTIBLE NOTE

\$5,000,000

May 28, 1996

VASCO Corp., a Delaware corporation ("VASCO" or "Maker"), promises to pay to Kyoto Securities, Ltd., a Bahamian corporation ("Holder"), the principal sum of Five Million Dollars (\$5,000,000.00), together with the interest on such principal sum at the fixed interest rate described below, payable as more fully set forth below:

1. Interest. Interest shall be calculated on the unpaid principal balance at an interest rate of nine percent (9%) percent per annum. VASCO may withhold from such payments amounts which may be required by the tax laws of the United States as in effect from time-to-time. At Holder's option, Holder may elect to receive, in lieu of cash, interest payments payable in shares of VASCO's common stock by notifying VASCO in writing prior to any interest payment date. Should Holder elect to receive interest payments payable in VASCO's common stock, and should VASCO be obligated to withhold from such interest payments amounts under the tax laws of the United States, Holder agrees that it shall notify VASCO in writing of its election (i) to make payment of such amounts required to be withheld, in which case, it shall, as a condition to delivery of shares payable for interest pay to VASCO an amount necessary to pay such withholding or (ii) to receive a lesser number of shares valued in the same manner as set out below in this paragraph in which case VASCO shall be obligated to make such withholding payments as required by the tax laws of the United States. In the event that, and from time to time, Holder shall elect to receive interest payments in the form of shares, such interest payments shall be calculated based upon a conversion price equal to the average closing price of VASCO common shares as reported on the National Association of Security Dealers Electronic Bulletin Board or NASDAQ during the previous twenty (20) trading days.

2. Payment. Subject to the conversion provisions herein, this Convertible Note shall be payable in full including principal, accrued interest, fees, charges and other accrued amounts on May 29, 2001. Interest only payments in arrears shall be made every three (3) months beginning on September 30, 1996. Except for the limited right set out in Section 3(d)(B), Maker shall not have the right to make prepayment in whole or in part.

3. Conversion.

(a) Triggering Event. The "Triggering Event" as that term is used in this Agreement, shall be deemed to have occurred if during any successive twenty (20) trading days during which the NASD Electronic Bulletin Board and the NASDAQ system shall have been open and operating the average of last actual trades of VASCO common stock, par value \$.001, shall have been at or above Twenty-Two Dollars and Fifty Cents (\$22.50) per share.

(b) Optional Conversion. Subject to and upon compliance with the provisions of this Agreement, at the option of the Holder or any subsequent holders of this Convertible Note, or any portion of the principal, accrued interest and other amounts due and payable hereunder, may at any time and from time-to-time at or before the close of business on the maturity date of this Convertible Note be converted at the conversion price, as hereinafter provided, in effect at the date of the conversion. During the period beginning upon the date of this Convertible Note, and continuing for a period of twelve (12) months thereafter, the conversion price shall be Fifteen Dollars (\$15.00) per share. At any time beginning upon the expiration of twelve (12) months following the date of this Convertible Note, and continuing until the final maturity date of this Agreement, the conversion price shall be Twelve Dollars (\$12.00) per share.

(c) Conversion Procedure. In order to exercise the conversion privilege set out above, the Holder shall surrender this Convertible Note to VASCO at any time during usual business hours at the address set out below along with written notice to VASCO at such office that the Holder elects to convert this Convertible Note or a specified portion thereof (which shall not be less than One Hundred Thousand Dollars (\$100,000.00)) and stating the name or names in which the certificate or certificates for shares of common stock which shall be issuable upon such conversion shall be issued. Should Holder elect to convert a portion of amounts due and payable pursuant to this Convertible Note, the interest converted into shares of VASCO's common stock shall only be such interest calculated upon the portion of the principal so converted. As promptly as practicable after the date of such notice and the surrender of this Convertible Note as provided above, VASCO shall issue and deliver at its office or pursuant to written order, a certificate or certificates with the number of full shares of common stock issuable upon such conversion in accordance with this provision. VASCO shall not be required to issue fractions of a share or script representing fractional shares upon conversion. If any fraction of a share would, except for provisions of this sentence, be issuable upon the conversion of any this Convertible Note, VASCO shall pay a cash adjustment in respect to such fraction equal to the value of such fraction based upon the then conversion price. Such conversion shall be deemed to have been effective at the close of business on the date of conversion and the person or persons in whose name or names and each certificate or certificates for shares of common stock shall have been issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby on such date; provided, however, that any such surrender on any date when the stock transfer books of VASCO shall be closed shall constitute the person or persons in whose name or names the certificate or certificates for such shares are to be issued as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open and the Convertible Note surrendered shall not be deemed to have been converted until such time for all purposes, but such conversion shall be at the conversion price in effect at the close of business on the date of such surrender.



In case this Convertible Note shall be surrendered for conversion of only a portion of the principal and other accrued amounts thereof, VASCO shall execute and deliver to the Holder, at the expense of VASCO, a new Convertible Note in the denomination equal to the unconverted portion of the Convertible Note so surrendered.

(d) Adjustments. Upon each adjustment of the conversion price, the Holder shall thereafter be entitled to purchase, at the conversion price resulting from such adjustment, the number of shares obtained by multiplying the conversion price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the conversion price resulting from such adjustment. The conversion price shall be subject to adjustment from time to time as follows.

A. In case at any time VASCO shall subdivide its outstanding shares of common stock into a greater number of shares, the conversion price in effect immediately prior to such subdivision shall be proportionately reduced and conversely, in case the outstanding share of common stock shall be combined into a small number of shares, the conversion price in effect immediately prior to such combination shall be proportionately increased.

B. If VASCO proposes any capital reorganization or reclassification of the capital stock of VASCO or consolidation or merger of VASCO with another corporation or the sale of all or substantially all of its assets to another corporation (a "Transaction") then as a condition to the Transaction, VASCO shall, no later than forty-five (45) days prior to the closing date of the Transaction, provide notice to Holder of all material terms of the Transaction; and VASCO shall, no more than forty-eight (48) hours prior to closing of the Transaction, notify Holder of the date and time of closing. Prior to closing of the Transaction, Holder shall have the right to convert all amounts owed pursuant to this Convertible Note into shares pursuant to other provisions of this Convertible Note. If Holder, after receiving the notices required by this Section, as of closing of the Transaction has not elected to convert amounts owed pursuant to this Convertible Note into shares, VASCO may, at its election, tender to Holder all amounts of principal plus all accrued interest and other amounts owed pursuant to this Convertible Note, and then this Convertible Note shall be deemed assigned by Holder to VASCO. If the Transaction does not close, VASCO shall not have the right to so purchase this Note. If the Transaction does close and VASCO shall not have acquired this Convertible Note pursuant to the terms herein, VASCO, or its successor shall have no right to so acquire this Convertible Note.

C. Upon any adjustment of the conversion price, then and in each such case, VASCO shall give written notice thereof, to the Holder, which

notice shall state the conversion price resulting from such adjustment and the increase or decrease, if any, and the number of shares purchasable at such price upon the exercise of this Convertible Note setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

D. In case at any time:

(1) there should be any capital reorganization, or reclassification of the capital stock of VASCO or consolidation or merger of VASCO, or sale of all or substantially all the assets to another corporation; or

(2) there should be a voluntary/involuntary dissolution, liquidation or winding up of VASCO;

THEN in any one or more of said cases, VASCO shall give with notice to the Holder of the date on which (a) the books of VASCO shall close or a record shall be taken for such dividend, distribution or subscription rights, or (b) such reorganization, classification, consolidation, merger, sale, dissolution, liquidation or winding up shall take place as the case may be.

E. The issue of certificates on conversions of this Convertible Note shall be made without charge to the converting Holder for any tax in respect of the issue thereof. Notwithstanding the above, to the extent that any federal withholding tax is required by the tax laws of the United States to be paid by VASCO, VASCO may withhold such amounts from obligations paid pursuant to this Convertible Note.

F. VASCO shall at all times reserve and keep available out of its authorized but unissued stock, for the purpose of affecting the conversion of this Convertible Note, such number of its duly authorized shares of its common stock as shall from time to time be sufficient to affect the conversion of this entire Convertible Note.

G. All shares of VASCO common stock issued to Holder as a consequence of the conversion rights set out herein shall benefit from and shall be subject to the registration rights granted to Holder in a separate written document entitled Purchase Agreement, Exhibit B, dated May 28, 1996, by and between VASCO and Holder.

## 4. Automatic Conversion.

(a) If during the first twelve (12) months following the date of this Convertible Note, the Triggering Event shall occur, then all of VASCO's obligations for principal and interest pursuant to this Convertible Note shall be automatically, subject to completion of necessary documents including documents necessary for compliance with securities laws, be deemed converted into a number of shares of Maker's common stock calculated as if all such obligations had been converted into shares at a conversion price of Fifteen Dollars (\$15.00) per share and all notices required by this Agreement shall be deemed to have been given.

(b) If at any time during the term of this Note, VASCO shall propose to publicly offer shares of its common stock at a gross price of Twenty-Two Dollars and Fifty Cents (\$22.50) per share or less (a "Low Price Offering"), Holder shall have the following redemption right (the "Holder Redemption Right"): (i) at such time as VASCO proposes to make a Low Price Offering, VASCO shall notify Holder of such proposal; (ii) at any time up to and including the completion and closing of the Low Price Offering, including the receipt of proceeds from the Low Price Offering, Holder shall have the right to send notice to VASCO of its election to have the Note and all amounts payable hereunder paid (the "Redemption Notice"); and (iii) within five (5) business days after the Redemption Notice, VASCO shall pay to Holder all amounts due and owing pursuant to the Note.

(c) If Holder shall have had a Holder Redemption Right pursuant to paragraph C above, and Holder shall not have elected to exercise such right and the time for such exercise shall have elapsed, then VASCO shall have the following right:

(1) If, during the period that any amount is payable to Holder pursuant to the terms of this Note, VASCO shall register pursuant to the Securities Act of 1933, as amended, shares of its common stock for public sale at a price of not less than Fifteen Dollars (\$15.00) per share and such public offering shall result in gross proceeds to VASCO of not less than Five Million Dollars (\$5,000,000) and if VASCO shall, not later than completion of such public offering, in writing notify Holder of automatic conversion pursuant to this Section 4(b), then, all of VASCO's obligations for principal and interest pursuant to this Convertible Note shall automatically, subject to the completion of necessary documents including documentation necessary for compliance with securities laws, be deemed converted into a number of Maker's common stock calculated as if all such obligations had been converted into shares at the conversion price otherwise applicable at that time. Nothing contained in this Subsection (c) shall limit or terminate any right of Holder to convert

the Note or any portion of this Note into shares of VASCO common stock pursuant to other provisions of this Note.

5. Manner of Payments. All payments by Maker under this Convertible Note shall be, unless Holder shall have elected to receive interest in the form of shares of common stock pursuant to the provisions of Section 1 above, (a) made in lawful money of the United States of America, (b) credited first to any accrued interest under this Convertible Note and second to the principal balance under this Convertible Note, and (c) deemed paid by Maker upon delivery as provided herein. Payments under this Convertible Note shall be made by check drawn to "Kyoto Securities, Ltd." Checks shall be mailed or delivered to Holder's address set out below until further written notice of a substituted address.

6. Expenses, Notices and Attorney's Fees. In the event that Holder shall bring an action to enforce any rights hereunder, VASCO shall pay all of Holder's expenses incurred in connection with such action including, but not limited to, reasonable attorney's fees and expenses and costs of appeal. Should VASCO fail to timely pay any amount due hereunder, Holder shall deliver to VASCO at 1919 South Highland Avenue, Suite 118-C, Lombard, Illinois, 60148, notice of such failure to pay. If within fifteen (15) days following receipt of such notice, VASCO shall fail to timely perform any obligation pursuant hereto, VASCO shall be deemed in default of its obligations pursuant to this Convertible Note. Notice to Holder shall be sent to:

Kyoto Securities, Ltd.  
Box N-9455  
Nassau, BAHAMAS

7. Headings. The headings of the paragraphs of this Convertible Note have been included only for convenience and shall not be deemed in any manner to modify or limit any of the provisions of this Convertible Note, or be used in any manner in the interpretation of this Convertible Note.

8. Interpretation. Whenever the context so required in this Convertible Note, all words used in the singular shall be construed to have been used in the plural (and vice versa), each gender shall be construed to include any other gender, and the word "person" shall be construed to include a natural person, a corporation, a firm, a partnership, a joint venture, a trust, an estate or any other entity.

9. Partial Invalidity. Each provision of this Convertible Note shall be valid and enforceable to the fullest extent permitted by law. If any provision of this Convertible Note or the application of such provision to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Convertible Note, or the application of such provision to persons or circumstances other than those as to which it is held invalid or

unenforceable, shall not be affected by such invalidity or unenforceability, unless such provision or such application of such provision is essential to this Convertible Note.

DATED AND EFFECTIVE the day and year above written.

VASCO CORP., a Delaware corporation

By: /s/ T. Kendall Hunt  
-----  
Its: President  
-----

AMENDMENT TO PURCHASE AGREEMENT  
AND CONVERTIBLE NOTE

This Amendment to Purchase Agreement and Convertible Note, effective as of September 2, 1997, by and between VASCO CORP., a Delaware corporation ("Company"), and KYOTO SECURITIES, LTD., a Bahamian corporation ("Purchaser").

In consideration of good and valuable consideration, the receipt and adequacy of which is hereby acknowledged by both parties hereto, the parties hereto do hereby agree as follows:

1. Company and Purchaser are parties to that certain Purchase Agreement made as of May 28, 1996, a copy of which is attached hereto as Exhibit A (the "Purchase Agreement") and pursuant to which Company has issued its Convertible Note dated May 28, 1996 in the principal amount of Five Million Dollars (\$5,000,000) (the "Convertible Note").

2. Company and Purchaser hereby agree that section 2.1(c) of the Purchase Agreement is hereby replaced in its entirety with the following:

(c) If at any time during the term of the Note the Company shall receive funds equal to or greater than \$30,000,000 from a public offering of its common stock ("Minimum Funds") then Company shall send to Purchaser written notice of receipt of Minimum Funds and the Purchaser shall have the following right (the "Purchaser Redemption Right"): (1) upon receipt by Purchaser from Company of written notice that the Company has received the Minimum Funds, the Purchaser shall have 5 calendar days to send written notice to Company of Purchaser's intent to exercise the Purchaser Redemption Right ("Purchaser's Notice") and (2) Company upon receipt of the Purchaser's Notice shall have a period of 30 calendar days in which it shall pay to Purchaser all amounts due and owing pursuant to the Note.

3. Purchaser is the holder of the Convertible Note and Company and Purchaser hereby agree that the Convertible Note hereby is amended as follows:

3.1. Subsection 4(b) of the Convertible Note is hereby replaced in its entirety with the following:

(b) If at any time during the term of this Note, VASCO shall receive funds equal to or greater than \$30,000,000 from a public offering of its common stock ("Minimum Funds") then VASCO shall send to Holder written notice of receipt of Minimum Funds and the Holder shall have the following right (the "Holder Redemption Right"): (1) upon receipt by Holder from VASCO of written notice that VASCO has received the Minimum Funds, the Holder shall have 5 calendar days to send written notice to VASCO of Holder's intent to exercise the Holder Redemption Right ("Purchaser's Notice") and (2) VASCO upon receipt of the Holder's Notice shall have a period of 30 calendar days in which it shall pay to Holder all amounts due and owing pursuant to this Note.

3.2. Subsection 4(c) of the Convertible Note hereby is amended to change (i) the reference to "paragraph C" to "Subsection 4(b)" and (ii) to change the reference to "this Section 4(b)" to "this Subsection (c)."

3.3. Purchaser shall mark the face of the original of the Convertible Note to reflect the foregoing changes to the Convertible Note.

4. All other terms of the Purchase Agreement and the Convertible Note remain unchanged.

IN WITNESS WHEREOF, this Amendment has been duly executed by the parties hereto.

KYOTO SECURITIES, LTD.

By: /s/ Charles P. Villeneuve  
-----  
Its: President

VASCO CORP.

By: /s/ T. Kendall Hunt  
-----  
Its: Chairman & CEO

## VASCO CORP.

## EXECUTIVE INCENTIVE COMPENSATION PLAN

FEBRUARY 1995

The Executive Incentive Compensation Plan (the "Plan") is intended to promote the interests of VASCO Corp., its subsidiaries (collectively the "Company"), and the Company's shareholders by encouraging certain executive and key employees of the Company, upon whose judgment, initiative and effort the Company depends for the current and future success of its business, to remain highly motivated employees of the Company.

The Plan covers the Company's eligible executives and other key employees ("participants"), as determined in the sole discretion of the Compensation Committee of the Board of Directors (the "Committee"), with such eligibility determined at the end of each calendar year. Participants must have been employed by the Company at the end of such calendar year. Incentive awards will be determined in the subsequent calendar year based on prior year results, such results being subject to audit by the Company's independent accountants, and will be granted following the completion of such audit.

The Plan shall be effective as of January 1, 1994. Incentive awards under the Plan will therefore be paid to participants beginning in 1995 based on performance during 1994.

The Plan will allow for the creation of a cash pool ("Pool") in the amount of 10% of the Company's annual pre tax earnings. Fifty percent (50%) of the Pool is awarded to those participants based on each participant's earned salary as a percentage of all participants salaries. The remaining fifty percent (50%) is awarded at the sole discretion of the Committee.

At the discretion of the Committee, incentive awards, in whole or in part, may be offered in the form of shares of the Company's Common Stock. If this option is made available to participants, the choice of cash or stock is at the sole discretion of each participant. To the extent that shares of stock are awarded in lieu of cash, the number of shares is based on the market value of the Company's shares on the date the award is determined, and are taxable income to the participant in the year awarded. Such shares are restricted and cannot be sold or transferred except pursuant to a registration under the Securities Act of 1933 or an exemption from such registration.



English translation of the letters for credit granted by Generale de Banque  
to VASCO Data Security NV/SA

[LETTERHEAD OF GENERALE de BANQUE]

1. Letter dd.26.07.1996

Pursuant to your recent meetings with Mrs. L. Paquet, your Account Manager, we have the pleasure to confirm to you our agreement to release the S.A. Digiline International from any obligation relating to the guarantee in principal of BEF 26.000.000, subscribed on March 8 1993.

Furthermore, we herewith confirm our willingness to maintain the credit of an amount up to BEF 26.000.000, granted to you in our accounts, credit which has already been covered by our letter dd.30.11.1995.

In pursuance of the conditions set forth in Article 1 of our General Rules for Credit Granting, of which you received a copy, this credit of BEF 26.000.000, remains, until further notice, usable as follows:

- BEF 11.000.000 (eleven million belgian francs)
  - \_ either as advances on current account 260-0616851-01
  - \_ either for documentary credits
- BEF 15.000.000 (fifteen million belgian francs)
  - \_ either for documentary credits
  - \_ either for the issuing, on your behalf and under your responsibility, of letter of guarantees and/or sureties

If necessary we restate that the foregoing constituted guarantee and undertaking will be maintained in its entirety:

- \_ mandate to deposit the goodwill as security up to an amount of 15.000.000,- BEF in principal;
- \_ undertaking from your company that it will not ask for credits for financing of sales as well as pledge securities towards other financial institutions, without having obtained our prior written consent.

It is self explanatory that present conditions do not represent any kind of novelty and do not modify any of the other articles, conditions and modalities previously stipulated.

Would you please, confirm to us your approval on the present letter's content by returning us a signed copy of present letter.

Present agreement will remain valid for one month. If we do not received your approval on it within this period of time, we will consider present letter as nul and void.

Awaiting your . . . . .

## 2. Letter dd.27.01.1997

With reference to your latest meeting with Mrs. Laurence Paquet, Account Manager of our Charleroi Branch, we herewith confirm our agreement for amendment of your credit of 26.000.000,- BEF in our accounts, under nr 260.0616852.01, as follows:

In pursuance of the general conditions set forth in our General Rules for Credit Granting, of which you received a copy, this credit of BEF 26.000.000,- remains, until further notice, usable as follows:

BEF 11.000.000,- as advances on current account  
Usable either in Belgian Francs or in US dollars  
And/or for documentary credits

BEF 15.000.000,- for documentary credits  
And/or for the issuing, on your behalf and under your responsibility, of letters of guarantee and/or sureties.

If necessary we restate that the foregoing constituted guarantees and/or undertakings contained in our letter dd.26th of July 1996 are entirely maintained.

An indemnity for administrative costs of BEF 1.000,-/file will be charged annually. This indemnity will not be due if during the year preceding the receipt date, a modification to the file has occurred receipt of a similar indemnity.

The remaining paragraphs are similar to the letter dd.26.07.1996.

## CONSENT OF INDEPENDENT AUDITORS

We consent to the use of our report dated September 11, 1997 with respect to the balance sheet of VASCO Data Security International, Inc. as of July 16, 1997, included herein and to the reference to our firm under the heading "Experts" in the Prospectus.

/s/ KPMG Peat Marwick LLP

Chicago, Illinois  
September 11, 1997

## CONSENT OF INDEPENDENT AUDITORS

We consent to the use of our reports dated September 11, 1997 with respect to the consolidated balance sheets of VASCO CORP. as of December 31, 1995 and 1996, and the related statements of operations, stockholders' equity (deficit), cash flows, and related schedule for each of the years in the three-year period ended December 31, 1996, included herein and in the Registration Statement and to the reference to our firm under the heading "Experts" in the Prospectus.

/s/ KPMG Peat Marwick LLP

Chicago, Illinois  
September 11, 1997

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Registration Statement on Form S-4 of our reports dated February 27, 1997 relating to the financial statements of Lintel NV and Digipass SA/Digiline SA as of December 31, 1995 and for the two years ended which appear therein. We also consent to the references to us under the heading "Experts" in such Registration Statement.

/s/ PRICE WATERHOUSE AND PARTNERS  
PRICE WATERHOUSE AND PARTNERS

Brussels, Belgium  
September 12, 1997

[LETTERHEAD OF VASCO DATA SECURITY INTERNATIONAL, INC.]

\_\_\_\_\_, 1997

Dear VASCO Corp. Stockholder:

VASCO Corp. has organized a new corporation, VASCO Data Security International, Inc., to effect a reorganization through an exchange of securities. VASCO Corp.'s Board of Directors believes that the reorganization will facilitate efforts to raise capital in the future and, if successful in the raising capital, intends to apply for listing of common stock of the new company on the Nasdaq Stock Market system. Of course, there can be no assurance that the capital-raising efforts or the listing of the common stock will be successful.

In the Exchange Offer, VASCO Data Security International, Inc. is offering to exchange its securities for your VASCO Corp. securities and a release of any and all potential claims against Current VASCO and its predecessor entities arising out of or related to "Corporate Matters" (defined in the enclosed Prospectus).

THE BOARD OF DIRECTORS OF VASCO CORP. HAS UNANIMOUSLY APPROVED THE EXCHANGE OFFER AND BELIEVES THAT THE EXCHANGE OFFER IS IN THE BEST INTEREST OF VASCO CORP. The directors and their families own in the aggregate 63% and 11% of VASCO Corp.'s Common Stock and Series B Preferred Stock, respectively. They also own options and warrants for VASCO Corp. Common Stock. They plan to exchange their securities and grant releases in the Exchange Offer.

THE ENCLOSED PROSPECTUS CONTAINS INFORMATION ABOUT THE EXCHANGE OFFER AND THE COMPANIES. YOU SHOULD CAREFULLY STUDY THE DOCUMENT.

If you decide to participate in the Exchange Offer, you must execute the enclosed Letter of Transmittal and Release and deliver it with your stock certificates, prior to 5:00 p.m., Chicago time, on \_\_\_\_\_, 1997 (unless the date is extended) to Illinois Stock Transfer Company, 223 West Jackson Boulevard, Suite 1210, Chicago, Illinois 60606.

If you have any questions regarding the Exchange Offer, please call me or in my absence Gregory T. Apple (630) 932-8844. If your questions are about the mechanics of exchanging your shares, please call the Exchange Agent, Illinois Stock Transfer Company at (312) 427-2953.

Sincerely,

T. Kendall Hunt  
Chairman, President and  
Chief Executive Officer

NOTICE OF GUARANTEED DELIVERY  
FOR TENDER OF SHARES OF COMMON STOCK  
OF

VASCO CORP.  
TO  
VASCO DATA SECURITY INTERNATIONAL, INC.

(NOT TO BE USED FOR SIGNATURE GUARANTEES)

This Notice of Guaranteed Delivery (or one substantially in the form hereof) must be used to accept the Offer (as defined herein) if (i) certificates ("Share Certificates") representing shares of common stock, par value \$.001 per share or (b) Series B Preferred Stock, par value \$.01 per share (collectively, the "Shares"), of VASCO CORP., a Delaware corporation, are not immediately available or time will not permit all required documents to reach Illinois Stock Transfer Company (the "Exchange Agent") on or prior to the expiration date of the Offer. This Notice of Guaranteed Delivery may be delivered by hand or mail or transmitted by telegram or facsimile to the Exchange Agent. See "THE EXCHANGE OFFER - Guaranteed Delivery Procedure for Current VASCO Shares" in the Prospectus of VASCO Data Security International, Inc. ("New VASCO"), dated \_\_\_\_\_, 1997 (the "Prospectus").

The Exchange Agent  
ILLINOIS STOCK TRANSFER COMPANY

By Mail:	By Overnight Courier:	[By Hand:]
Illinois Stock Transfer Company	Illinois Stock Transfer Company	Illinois Stock Transfer Company
223 West Jackson Boulevard	223 West Jackson Boulevard	223 West Jackson Boulevard
Suite 1210	Suite 1210	Suite 1210
Chicago, Illinois	Chicago, Illinois	Chicago, Illinois

By Facsimile:  
(For Eligible Institutions Only)  
(312) 427-2879

Confirm Facsimile by Telephone:  
(312) 427-2953

A PROPERLY COMPLETED AND DULY EXECUTED LETTER OF TRANSMITTAL AND RELEASE AND THIS NOTICE OF GUARANTEED DELIVERY MUST BE RECEIVED BY THE EXCHANGE AGENT PRIOR TO 5:00 P.M., CHICAGO, ILLINOIS, TIME ON \_\_\_\_\_, 1997.

DELIVERY OF THIS NOTICE OF GUARANTEED DELIVERY TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE, OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE TO A NUMBER OTHER THAN AS LISTED ABOVE DOES NOT CONSTITUTE A VALID DELIVERY.

THIS NOTICE OF GUARANTEED DELIVERY IS NOT TO BE USED TO GUARANTEE SIGNATURES. IF A SIGNATURE ON A LETTER OF TRANSMITTAL AND RELEASE IS REQUIRED TO BE GUARANTEED BY AN "ELIGIBLE INSTITUTION" UNDER INSTRUCTIONS THERETO, SUCH SIGNATURE GUARANTEE MUST APPEAR IN THE APPLICABLE SPACE PROVIDED IN THE SIGNATURE BOX IN THE LETTER OF TRANSMITTAL AND RELEASE.





VASCO DATA SECURITY INTERNATIONAL, INC.  
OFFER TO EXCHANGE SHARES, OPTIONS AND WARRANTS  
FOR  
VASCO CORP.  
SHARES, OPTIONS AND WARRANTS  
(AND ASSOCIATED CORPORATE MATTER CLAIMS)

To Brokers, Dealers, Commercial Banks,  
Trust Companies and Nominees:

We are enclosing herewith the material listed below pursuant to the Offer to Exchange Shares, Options and Warrants (the "Exchange Offer") by VASCO Data Security International, Inc., a Delaware corporation ("New VASCO") and a wholly owned subsidiary of VASCO CORP., a Delaware Corporation ("Current VASCO"). The Exchange Offer includes an offer by New VASCO to exchange, on a one-for-one basis, shares of its Common Stock ("New VASCO Common Stock") for shares of Common Stock of Current VASCO ("Current VASCO Common Stock") and the release, by each exchanging holder, of all "Associated Corporate Matter Claims" (as defined in the Exchange Offer), upon the terms and subject to the conditions set forth in the Exchange Offer and in the related Letter of Transmittal and Release (which together constitute the "Offer"). The Offer will remain open until 5:00 P.M., Chicago, Illinois time, on \_\_\_\_\_, 1997, unless the Offer is extended.

The Offer is conditioned upon, among other things, (i) there being validly tendered and not withdrawn prior to the expiration of the Offer at least 80% of all shares of Current VASCO Common Stock outstanding and (ii) there being validly tendered and not withdrawn prior to the expiration of the Offer at least 80% of all shares of Current VASCO Series B Preferred Stock outstanding.

We have been engaged by New VASCO as Exchange Agent with respect to the Offer. We are asking you to contact your clients for whom you hold Current VASCO Common Stock registered in your name (or in the name of your nominee) or who hold Current VASCO Common Stock registered in their own names. Please bring the Offer to their attention as promptly as possible. No fees or commissions will be payable to brokers, dealers or other persons for soliciting tenders of Current VASCO Common Stock pursuant to the Offer. New VASCO will, however, upon request reimburse you for customary mailing and handling expenses incurred by you in forwarding any of the enclosed material to your clients. New VASCO will pay all transfer taxes on the exchange of Current VASCO Common Stock pursuant to the Offer, except as set forth in Instruction 5 of the Letter of Transmittal and Release.

For your information and for forwarding to your clients, we are enclosing the following documents:

- (1) New VASCO's Prospectus dated \_\_\_\_\_, 1997 (the "Prospectus");

(2) Letter of Transmittal and Release to be used by holders of Current VASCO Common Stock to exchange Current VASCO Common Stock and release all Associated Corporate Matter Claims;

(3) Notice of Guaranteed Delivery to be used to accept the Offer if certificates for Current VASCO Common Stock are not immediately available or if time will not permit all required documents to reach the Exchange Agent prior to the expiration of the Offer;

(4) Letter to shareholders of Current VASCO from the Chairman, President and Chief Executive Officer of Current VASCO;

(5) Guidelines of the Internal Revenue Service for certification of Taxpayer Identification Number; and

(6) Return envelope addressed to: Illinois Stock Transfer Company, 223 West Jackson Boulevard, Suite 1210, Chicago, Illinois 60606.

WE URGE YOU TO CONTACT YOUR CLIENTS PROMPTLY. PLEASE NOTE THAT THE OFFER WILL EXPIRE AT 5:00 P.M., CHICAGO, ILLINOIS TIME, ON \_\_\_\_\_, 1997, UNLESS THE OFFER IS EXTENDED.

If holders of Current VASCO Common Stock wish to tender their Common Stock, but it is impractical for them to forward their certificates or if time will not permit all required documents to reach the Exchange Agent prior to the expiration date of the Offer, such Current VASCO Common Stock may be tendered pursuant to the guaranteed delivery procedure set forth under the caption "THE EXCHANGE OFFER - Guaranteed Delivery Procedure for Current VASCO Shares" in the Prospectus.

Your solicitation of tenders of Current VASCO Common Stock will constitute your representation to New VASCO that (i) in connection with such solicitation, you have complied with the applicable requirements of the Securities Exchange Act of 1934, as amended, and the applicable rules and regulations thereunder; (ii) if a foreign broker or dealer, you have conformed to the Rules of Fair Practice of the National Association of Securities Dealers, Inc. in making solicitations; and (iii) in soliciting tenders of Current VASCO Common Stock, you have not used any soliciting materials other than those furnished by New VASCO.

The Offer is not being made to, nor will tenders be accepted from or on behalf of holders of Current VASCO Common Stock residing in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction.

Additional copies of the enclosed material may be obtained from the undersigned at (312) 427-2953. Any questions you may have with respect to the Offer should also be directed to the undersigned.

Very truly yours,

VASCO DATA SECURITY INTERNATIONAL, INC.  
OFFER TO EXCHANGE SHARES, OPTIONS AND WARRANTS  
FOR  
VASCO CORP.  
SHARES, OPTIONS AND WARRANTS  
(AND ASSOCIATED CORPORATE MATTER CLAIMS)

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., CHICAGO,  
ILLINOIS TIME, ON \_\_\_\_\_, 1997, UNLESS THE OFFER IS EXTENDED.

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To Our Clients:

Enclosed for your consideration are an Offer to Exchange Shares, Options and Warrants (the "Exchange Offer") and a related Letter of Transmittal and Release, pursuant to an offer by VASCO Data Security International, Inc., a Delaware corporation ("New VASCO") and a wholly owned subsidiary of VASCO Corp., a Delaware corporation ("Current VASCO"). The Exchange Offer includes an offer by New VASCO to exchange, on a one-for-one basis, shares of its Common Stock ("New VASCO Common Stock") for shares of Common Stock of Current VASCO ("Current VASCO Common Stock") and the release, by each exchanging holder, of all "Associated Corporate Matter Claims (as defined in the Exchange Offer), upon the terms and subject to the conditions set forth in the Exchange Offer and in the related Letter of Transmittal and Release. We are the holder of record of shares of Current VASCO Common Stock held for your account. A tender of such shares can be made only by us as the holder of record and pursuant to your instructions. IF YOU DECIDE TO EXCHANGE YOUR SHARES, THE ENCLOSED LETTER OF TRANSMITTAL AND RELEASE MUST BE COMPLETED, SIGNED AND RETURNED TO US IN SUFFICIENT TIME TO PERMIT US TO DEPOSIT THE LETTER OF TRANSMITTAL AND RELEASE AND CERTIFICATES FOR YOUR SHARES WITH THE EXCHANGE AGENT PRIOR TO THE OFFER EXPIRATION DATE STATED IN THE BOX ABOVE.

We request instructions as to whether you wish to have us tender on your behalf any or all of such shares held by us for your account, upon the terms and subject to the conditions set forth in the Exchange Offer and in the related Letter of Transmittal and Release.

YOUR ATTENTION IS INVITED TO THE FOLLOWING:

(1) The Exchange Offer is on the basis of one share of New VASCO Common Stock for one share of Current VASCO Common Stock and a release, by each exchanging holder, of all Associated Corporate Matter Claims.

(2) The release contained in the Letter of Transmittal and Release will effect a release of all Associated Corporate Matter Claims you may have even if less than all of your Current VASCO Securities (as defined in the Exchange Offer) are exchanged.

(3) The Exchange Offer is being made for all outstanding shares of Current VASCO Common Stock.

(4) The Exchange Offer and withdrawal rights will expire at 5:00 p.m., Chicago, Illinois time, on \_\_\_\_\_, 1997, unless the Exchange Offer is extended.

(5) The Exchange Offer is conditioned upon, among other things, (i) there being validly tendered and not withdrawn prior to the expiration of the Exchange Offer at least 80% of the outstanding shares of Current VASCO Common Stock, and (ii) 80% of the outstanding shares of Current VASCO Series B Preferred Stock.

(6) The Board of Directors of Current VASCO has unanimously approved the Exchange Offer and believes that the Exchange Offer in the best interests of Current VASCO shareholders.

(7) Tendering stockholders will not be obligated to pay brokerage commissions or, except as set forth in Instruction 5 of the Letter of Transmittal and Release, transfer taxes on the exchange of shares pursuant to the Exchange Offer.

The Exchange Offer is not being made to, nor will tenders be accepted from or on behalf of, holders of shares residing in any jurisdiction in which the making of the Exchange Offer or the acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction.

IF YOU WISH TO HAVE US TENDER ANY OR ALL OF YOUR SHARES OF CURRENT VASCO COMMON STOCK, PLEASE SO INSTRUCT US BY COMPLETING, EXECUTING, DETACHING AND RETURNING TO US THE INSTRUCTION FORM SET FORTH BELOW AND THE LETTER OF TRANSMITTAL AND RELEASE. AN ENVELOPE TO RETURN YOUR INSTRUCTIONS AND THE LETTER OF TRANSMITTAL AND RELEASE IS ENCLOSED. IF YOU AUTHORIZE A TENDER OF YOUR SHARES OF CURRENT VASCO COMMON STOCK, ALL SUCH SHARES WILL BE TENDERED UNLESS OTHERWISE SPECIFIED BELOW. YOUR INSTRUCTIONS SHOULD BE FORWARDED TO US IN AMPLE TIME TO PERMIT US TO SUBMIT A TENDER ON YOUR BEHALF PRIOR TO THE EXPIRATION OF THE EXCHANGE OFFER.

TEAR HEAR TEAR HEAR

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INSTRUCTIONS

The undersigned acknowledge(s) receipt of your letter enclosing the Offer to Exchange Shares, Options and Warrants, dated \_\_\_\_\_, 1997 (the "Exchange Offer"), and a Letter of Transmittal and Release, relating to the offer by VASCO Data Security International, Inc., a Delaware corporation ("New VASCO") and a wholly owned subsidiary of VASCO CORP., a Delaware corporation ("Current VASCO") to exchange shares of New VASCO Common Stock on a one-for-one basis for all outstanding shares of Current VASCO Common Stock and a release, by each exchanging holder, of all Associated Corporate Matter Claims.

This will instruct you to tender to the number of shares of Current VASCO Common Stock indicated below (or, if no number is indicated below, all shares of Current VASCO Common Stock) which are held by you for the account of the undersigned upon the terms and subject to the conditions set forth in the Exchange Offer and in the related Letter of Transmittal and Release furnished to the undersigned.

Dated \_\_\_\_\_, 1997