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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO ______

Commission file number 000-24389

VASCO Data Security International, Inc.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**36-4169320**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1901 South Meyers Road, Suite 210
Oakbrook Terrace, Illinois 60181
(Address of Principal Executive Offices)(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒Yes ☐No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (see definition of "accelerated filer" in Rule 12b-2 of the Exchange Act).
☐ Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
☐ Yes ☒ No

There were 37,204,829 shares of Common Stock, $.001 par value per share, outstanding at October 31, 2007.

VASCO Data Security International, Inc.
Form 10-Q
For The Quarterly Period Ended September 30, 2007

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This report may contain trademarks of VASCO Data Security International, Inc. and its subsidiaries, some of which are registered, including VASCO, AccessKey, VACMan Server and VACMan/CryptaPak, AuthentiCard and Digipass.

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VASCO Data Security International, Inc.
Condensed Consolidated Balance Sheets
(In thousands)

	September 30, 2007	December 31, 2006
ASSETS	(unaudited)	
Current assets:		
Cash and equivalents	$ 40,042	$ 14,768
Accounts receivable, net of allowance for doubtful accounts	18,015	19,617
Inventories, net	6,670	4,275
Prepaid expenses	1,167	1,295
Foreign sales tax receivable	3,136	967
Deferred income taxes	767	375
Other current assets	308	23
Total current assets	70,105	41,320
Property and equipment:		
Furniture and fixtures	2,822	2,273
Office equipment	3,012	2,395
Total property	5,834	4,668
Accumulated depreciation	(3,954)	(3,246)
Property and equipment, net	1,880	1,422
Goodwill, net of accummulated amortization	13,957	12,685
Intangible assets, net of accumulated amortization	2,500	3,013
Other assets, net of accumulated amortization	3,381	4,206
Total assets	$ 91,823	$ 62,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank borrowing	$ 3,320	$ 2,154
Accounts payable	5,333	7,579
Accrued wages and payroll taxes	4,726	3,176
Income taxes payable	2,553	1,396
Deferred revenue	3,920	2,081
Current deferred income taxes	96	125
Other accrued expenses	3,523	2,751
Total current liabilities	23,471	19,262
Deferred warranty revenues	336	302
Long-term compensation plan	898	356
Long-term deferred taxes	529	520
Total liabilities	25,234	20,440
Stockholders' equity :		
Common stock, $.001 par value - 75,000,000 shares authorized: 37,195,727 shares issued and outstanding at September 30, 2007, 36,546,289 shares issued and outstanding at December 31, 2006	37	37
Additional paid-in capital	64,372	61,251
Accumulated deficit	(2,707)	(20,398)
Accumulated other comprehensive income - Cumulative translation adjustment	4,887	1,316
Total stockholders' equity	66,589	42,206
Total liabilities and stockholders' equity	$ 91,823	$ 62,646

See accompanying notes to consolidated financial statements.

VASCO Data Security International, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net revenue	$29,977	$18,707	$88,824	$50,909
Cost of goods sold	10,009	5,922	30,639	16,811
Gross profit	19,968	12,785	58,185	34,098
Operating costs:				
Sales and marketing	6,246	4,570	18,995	13,013
Research and development	2,553	1,446	6,552	3,624
General and administrative	2,666	1,624	7,302	5,164
Amortization of purchased intangible assets	250	169	761	339
Total operating costs	11,715	7,809	33,610	22,140
Operating income	8,253	4,976	24,575	11,958
Impairment of Secured Services, Inc. (SSI) investment	-	-	-	(600)
Interest income (expense)	192	(58)	330	16
Other income (expense)	(289)	27	(334)	135
Income before income taxes	8,156	4,945	24,571	11,509
Provision for income taxes	2,284	1,658	6,880	4,018
Net income	$ 5,872	$ 3,287	$17,691	$ 7,491
Basic net income per share	$ 0.16	$ 0.09	$ 0.48	$ 0.21
Diluted net income per share	$ 0.15	$ 0.09	$ 0.46	$ 0.20
Weighted average shares outstanding:				
Basic	37,013	36,251	36,820	36,190
Diluted	38,387	37,712	38,207	37,701

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net Income	$ 5,872	$ 3,287	$17,691	$7,491
Other comprehensive income - Cumulative translation adjustment	2,498	177	3,571	1,030
Comprehensive income	$ 8,370	$ 3,464	$21,262	$8,521

See accompanying notes to consolidated financial statements.

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VASCO Data Security International, Inc.
Condensed Consolidated Statements of Cash Flow
(In thousands)
(Unaudited)

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Cash flows from operating activities:		
Net income	$ 17,691	$ 7,491
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment of SSI investment	-	600
Depreciation and amortization	2,263	698
Deferred tax benefit	(258)	(246)
Non-cash compensation	1,469	1,166
Changes in assets and liabilities:		
Accounts receivable, net	2,665	(529)
Inventories, net	(1,891)	(932)
Prepaid expenses	208	169
Foreign sales tax receivable	(1,935)	84
Other assets	(300)	253
Accounts payable	(2,633)	(1,562)
Income taxes payable	953	965
Deferred revenue	1,591	(409)
Accrued wages and payroll taxes	1,228	(432)
Accrued expenses	612	30
Deferred warranty	34	41
Net cash provided by operations	21,697	7,387
Cash flows from investing activities:		
Business acquisitions	-	(1,912)
Additions to property and equipment	(727)	(382)
Additions to goodwill and intangibles	(249)	(51)
Reduction in restricted cash	-	181
Payments received on SSI note receivable	-	220
Net cash used in investing activities	(976)	(1,944)
Cash flows from financing activities:		
Proceeds/(repayment) from bank borrowing	1,166	(94)
Proceeds from exercise of stock options and warrants	2,195	447
Net cash provided by financing activities	3,361	353
Effect of exchange rates on cash	1,192	728
Net increase in cash	25,274	6,524
Cash and equivalents, beginning of year	14,768	16,962
Cash and equivalents, end of period	$ 40,042	$ 23,486

See accompanying notes to consolidated financial statements.

VASCO Data Security International, Inc.
Notes to Condensed Consolidated Financial Statements
(All amounts are in thousands, except per share data)
(Unaudited)

Unless otherwise noted, references in this Quarterly Report on Form 10-Q to "VASCO," "company," "we," "our," and "us," refer to VASCO Data Security International, Inc. and its subsidiaries.

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of VASCO Data Security International, Inc. and its subsidiaries and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2006.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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 revenue and expenses during the reporting period. Our actual results could differ from those estimates.

Revenue Recognition

The company recognizes revenue in accordance with AICPA Statement of Position (SOP) 97-2 and SEC Staff Accounting Bulletin 104. We recognize revenue when there is persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection of the revenue is probable.

Hardware Revenue and License Fees: We record revenue from the sale of computer security hardware or software licenses upon shipment or delivery or, if an acceptance period is allowed, at the time of customer acceptance. No significant obligations or contingencies exist with regard to delivery, customer acceptance or rights of return at the time we recognize revenue.

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

Consulting and Education Services: We provide consulting and education services to our customers. We recognize revenue from such services during the period in which the services are performed.

Multiple-Element Arrangements: We allocate revenue to the various elements of multiple-element sales arrangements based on the estimated fair value of each deliverable as required by SOP 97-2 and Emerging Issues Task Force (EITF) Issue No. 00-21. The fair value for each element is based on the price charged when that element is sold separately, price lists, renewal rates and other methods. When a multiple-element arrangement includes discounts, a proportionate amount of the discount is applied to each element based on the element's fair value without regard to the discount. The estimated fair value of undelivered elements is deferred and recorded as revenue when services are performed or products are delivered. For sales arrangements in which vendor-specific objective evidence of fair value is not established, revenue for all elements is deferred and amortized over the life of the arrangement.

We recognize revenue from sales to distributors and resellers on the same basis as sales made directly to customers. We recognize revenue when there is persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection of the revenue is probable.

For large-volume transactions, we may negotiate a specific price that is based on the number of users of the software license or quantities of hardware supplied. The per unit prices for our large-volume transactions are generally lower than transactions for smaller quantities and the price differences are commonly referred to as volume-purchase discounts.

All revenue is reported on a net basis, excluding any sales or value added taxes.

Software Development Costs

VASCO capitalizes software development costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*. Research costs and software development costs, prior to the establishment of technological feasibility, determined based upon the creation of a working model, are expensed as incurred. Our software capitalization policy 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. Our policy is to amortize capitalized costs by the greater of (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenue for that product or (b) the straight-line method over the remaining estimated economic life of the product, generally two to five years.

Income Taxes

We account for income taxes under the asset and liability method. We recognize deferred tax assets and liabilities 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. We measure deferred tax assets and liabilities 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. We recognize the effect of a change in tax rates on deferred tax assets and liabilities and in income in the period that includes the enactment date.

VASCO monitors its potential income tax exposure items as required by Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109.*

We have significant net operating loss carryforwards in the U.S. and other countries which are available to reduce our potential liability on future taxable income. We have established a valuation reserve to offset most of these future benefits because we have not determined that their realization is more likely than not.

Goodwill and Other Intangibles

VASCO accounts for goodwill and other indefinite-lived intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. This statement replaced the requirements to amortize intangible assets with indefinite lives and goodwill with a requirement for an impairment test. SFAS 142 also established accounting guidelines for identifiable intangible assets, which include customer lists, proprietary technology and other intangible assets. Intangible assets other than patents with definite lives are amortized over the useful life of the asset, generally three to seven years for proprietary technology. Patents are amortized over the life of the patent, generally 20 years in the U.S.

We assess the impairment of goodwill and intangible assets with indefinite lives each year-end or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last review during December 2006. Factors considered important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, and significant negative industry or economic trends.

When we determine that the carrying value of intangibles and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment by the excess of the carrying amount of the asset over its fair value as determined by an estimate of discounted future cash flows.

Note 2 - Acquisitions

On October 25, 2006, VASCO acquired Unified Threat Management specialist Able N.V. of Mechelen, Belgium (Able). VASCO acquired all of the stock of Able, in exchange for cash consideration of €5,000 (equivalent to $6,300 at the historical exchange rate).

The purchase price included €1,250 (equivalent to $1,570 at the historical exchange rate) which is subject to a bank guaranty and may be returned to us in whole or in part if the seller terminates his employment with us before the fourth anniversary of the acquisition date. As required by EITF 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*, we recorded this portion of the purchase price as deemed compensation in other assets, to be amortized over the required employment period.

On May 11, 2006, VASCO acquired all of the issued and outstanding shares of Logico Smart Card Solutions GmbH and Logico Smartcard Solutions Vertriebs, GmbH (collectively, "Logico") for an aggregate purchase price of $2,368. This includes a cash payment of €1,236 (equivalent to $1,578 at the historical exchange rate) made at the time of purchase, previously acquired software rights with a net cost of $174 and estimated direct transaction costs of $416. In the first quarter this year, a payment of $200 was recorded as additional goodwill for the completion of certain performance requirements.

The following summarized unaudited pro forma financial information for the three and nine months ended September 30, 2006, is based on the actual performance of VASCO and the businesses acquired from Logico and Able and assumes the acquisitions occurred January 1, 2006. These results are not necessarily indicative of the results that would have occurred if the acquisition had actually been completed on January 1, 2006, nor are they necessarily indicative of future consolidated results.

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Net revenue	$ 19,185	$ 52,514
Net income	3,296	6,705
Basic net income per share	0.09	0.19
Diluted net income per share	0.09	0.18

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Note 3 – Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable represents the balance due on credit sales made to customers. The allowance for doubtful accounts is an estimate of losses that may result from customers' inability to make payment on their outstanding balances. The $481 reduction in the allowance for the nine months ended September 30, 2007, was attributable to payments received and the write-off of amounts previously reserved.

	September 30, 2007	December 31, 2006
Accounts receivable	$ 18,246	$ 20,329
Allowance for doubtful accounts	(231)	(712)
Accounts receivable, net	$ 18,015	$ 19,617

Note 4 - 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:

	September 30, 2007	December 31, 2006
Component parts	$ 4,240	$ 2,450
Work-in-process and finished goods	2,430	1,825
Total	$ 6,670	$ 4,275

Note 5 – Goodwill and Other Intangibles

The following table summarizes intangible assets and goodwill activity for the nine months ended September 30, 2007:

	Capitalized technology	Patents & trademarks	Total Intangible assets	Goodwill
Net balance at December 31, 2006	$ 2,880	$ 133	$ 3,013	$12,685
Additions	-	46	46	203
Net translation gain	202	-	202	1,069
Amortization expense	(755)	(6)	(761)	-
Net balance at September 30, 2007	$ 2,327	$ 173	$ 2,500	$13,957

The additional goodwill primarily reflects the contingent payment earned under the terms of the Logico acquisition.

Note 6 – Other Assets - Long Term

Other assets is comprised mostly of two components: instructional video software and deemed compensation. The cost of the software was capitalized in accordance with SFAS 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed.* This cost will be amortized on a straight line basis over a three year life, or pro rata based on actual sales as a percentage of expected sales, whichever is larger.

Deemed compensation represents the long-term portion of the Able acquisition price which is contingent upon the seller's continued employment with the company for a four year period. As of

September 30, 2007, the amount to be amortized over the next twelve months was $418 and has been included in prepaid expense. As of December 31, 2006, the amount to be amortized over the next twelve months was $412.

Amortization of the instructional software and deemed compensation is included in sales and marketing expense. Amortization of deferred tax assets is charged to income tax expense. The following table summarizes other long-term assets for the nine months ended September 30, 2007:

	Instructional software	Deemed compen-sation	Deferred tax assets	Other assets	Total other assets
Net balance at December 31, 2006	$ 2,380	$1,168	$ 465	$193	$ 4,206
Additions/(reductions)	63	-	-	(77)	(14)
Net translation gain	155	74	38	2	269
Amortized/expensed	(630)	(314)	(136)	-	(1,080)
Net balance at September 30, 2007	$ 1,968	$ 928	$ 367	$118	$ 3,381

Note 7 – Bank Borrowings

VASCO maintains an overdraft agreement with Fortis Banque. Under terms of the agreement, we can borrow an amount equal to 80% of our Belgian subsidiary's eligible accounts receivable up to a maximum of 3,500 U.S. Dollars or Euros. Borrowings in Euros accrue interest at an annual rate of 5.7% and borrowings in U.S. Dollars accrue interest at an annual rate equal to the average monthly prime rate as published daily by Reuters. We are obligated to pay a quarterly commitment fee of 0.125%. As of September 30, 2007, borrowings under the agreement totaled $3,320. The assets, excluding inventory, of our Belgian subsidiary secure our obligations under the agreement and, while it has no specific termination date, the agreement can be terminated by either party upon thirty (30) days notice. The agreement is governed by the General Lending Conditions for Corporate Customers, registered in Brussels, Belgium on December 20, 2001.

Note 8 – Income Taxes

In July 2006, the FASB issued Interpretation No. 48. The company adopted Interpretation 48 effective January 1, 2007. The interpretation set a "more likely than not" criterion for recognizing the tax benefit of uncertain tax positions; it established measurement criteria for tax benefits and it established certain new disclosure requirements.

The company's primary tax jurisdictions and the last year for which tax returns have been cleared, either by audit or by statutory lapse, are presented in the table below. VASCO Data Security is abbreviated as "VDS.":

Tax Jurisdiction	Subsidiary	Year
Belgium	VDS NV	2004
Belgium	VDS Europe NV	2005
United States	VDS Inc.	2004
Singapore	VDS Asia Pacific	2004
Netherlands	VDS BV	2001
Australia	VDS Pty. Ltd.	2003

We had no unrecognized tax benefits and no accrued interest or penalties at January 1, 2007 or at September 30, 2007. Our policy is to record interest and penalties on income taxes as income tax expense.

At December 31, 2006, the Company had U.S. net operating loss carryforwards of $23,798 and foreign net operating loss carryforwards of $7,829. Such losses are available to offset future taxable income in the respective jurisdictions. These tax benefits have been recognized, but are offset by valuation reserves. The U.S. loss carryforwards expire in varying amounts beginning in 2018 and continuing through 2023. In addition, if certain substantial changes in the Company's ownership are deemed to have occurred, there would be an annual limitation on the amount of the U.S. carryforwards that could be utilized. The foreign loss carryforwards have no expiration dates. The foreign loss carryforwards include $3,042 which was obtained in the Logico acquisition and, if utilized, would not reduce income tax expense, but would reduce deferred tax assets or goodwill instead.

Note 9 – Stock Compensation Plan

We awarded 90 shares of restricted stock in the first quarter of 2007 under our Stock Compensation Plan, including 45 issued shares and 45 shares subject to future performance criteria. The market value of the restricted shares was $1,340 at the date of grant and will be amortized over their respective vesting periods, which range from one to four years.

The following table details the non-cash compensation expense incurred in the three and nine months ended September 30, 2007 and 2006:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Stock options	$ 80	$ 175	$ 250	$ 501
Restricted stock	223	159	677	423
Long-term incentive plan	261	121	542	242
Total non-cash compensation	$ 564	$ 455	$ 1,469	$ 1,166

Note 10 – Common Stock and Earnings per Share

The following table summarizes the activity of VASCO's common stock for the nine months ended September 30, 2007:

	Common stock issued	
	Number of shares	Value of shares
Exercise of options	570	$ 2,073
Exercise of warrants	35	121
Restricted stock awards	45	672

Basic earnings per share is based on the weighted average number of shares outstanding and excludes the dilutive effect of unexercised common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of unexercised common stock equivalents to the extent they are not anti-dilutive. The details of the earnings per share calculations for the three and nine month periods ended September 30, 2007 and 2006 follow:

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net Income	$ 5,872	$ 3,287	$17,691	$ 7,491
Weighted average common shares outstanding				
Basic	37,013	36,251	36,820	36,190
Incremental shares with dilutive effect:				
Stock options	1,210	1,197	1,243	1,256
Restricted stock awards	95	182	78	171
Warrants	69	82	66	84
Dilutive	38,387	37,712	38,207	37,701
Net income per share				
Basic	$ 0.16	$ 0.09	$ 0.48	$ 0.21
Dilutive	$ 0.15	$ 0.09	$ 0.46	$ 0.20

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (In thousands, except headcount)

Unless otherwise noted, references in this Quarterly Report on Form 10-Q to "VASCO," "company," "we," "our," and "us" refer to VASCO Data Security International, Inc. and its subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk" contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933 concerning, among other things, the prospects of, and developments and business strategies for, VASCO and our operations, including the development and marketing of certain new products and the anticipated future growth in certain markets in which we currently market and sell our products or anticipate selling and marketing our products in the future. These forward-looking statements (1) are identified by use of terms and phrases such as "expect," "believe," "will," "anticipate," "emerging," "intend," "plan," "could," "may," "estimate," "should," "objective" and "goal" and similar words and expressions, but such words and phrases are not the exclusive means of identifying them, and (2) are subject to risks and uncertainties and represent our present expectations or beliefs concerning future events. VASCO cautions that the forward-looking statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements. These risks, uncertainties and other factors have been described in greater detail in VASCO's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed with the Securities and Exchange Commission, and include, but are not limited to, (a) risks of general market conditions, including currency fluctuations, (b) risks inherent to the computer and network security industry, including rapidly changing technology, evolving industry standards, increasing numbers of patent infringement claims, changes in customer requirements, price competitive bidding, changing government regulations and (c) risks specific to VASCO, including, demand for our products and services, competition from more established firms and others, pressures on price levels and our historical dependence on relatively few products, certain suppliers and certain key customers. Thus, the results that we actually achieve may differ materially from any anticipated results included in, or implied by these statements.

General

The following discussion is based upon our consolidated results of operations for the three and nine months ended September 30, 2007 and 2006 (percentages in the discussion may be rounded to the closest full percentage point) and should be read in conjunction with our consolidated financial statements included elsewhere in this Form 10-Q and our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

We design, develop, market and support open standards-based hardware and software security systems that manage and secure access to information assets. We also design, develop, market and support patented "Strong User Authentication" products for e-business and e-commerce. Our products enable secure financial transactions to be made over private enterprise networks and public networks, such as the Internet. Our Strong User Authentication is delivered via our hardware and software Digipass security products (collectively "Digipasses"), most of which incorporate an electronic signature capability, which guarantees the integrity of electronic transactions and data transmissions. Some of our Digipasses are compliant with the Europay MasterCard Visa (EMV) standard and are compatible with MasterCard's and VISA's Chip Authentication Program (CAP). Some of our Digipass units comply with the Initiative for Open Authentication (OATH). As evidenced by our current customer base, our products are purchased by companies and, depending on the business application, are distributed to either their employees or their customers. Those customers may be other businesses or, as an example in the case of Internet banking, our customer banks' corporate and retail customers.

Our target market is any business process that uses some form of electronic interface where the owner of that process is at risk if unauthorized users can gain access to its process and either obtain proprietary information or execute transactions that are not authorized. Our products can not only increase the security associated with accessing the business process, thereby reducing the losses from unauthorized access, but also, in many cases, can reduce the cost of the process itself by automating activities that were previously performed manually.

Comparison of Results for the Three and Nine Months Ended September 30, 2007 and 2006

Industry Growth: We believe that, while there are no accurate measurements of the total industry's size, the industry growth rate is increasing and will continue to grow at a significant rate into the foreseeable future. Growth is being driven by new government regulations, growing awareness of the impact of identity theft and the growth in commerce that is transacted electronically. The issues driving the growth are global issues and the rate of adoption in each country is a function of that country's culture, the competitive position of businesses operating in those countries, the country's overall economic conditions and the degree to which businesses and consumers within the country use technology.

Economic Conditions: Our revenue may vary significantly with changes in the economic conditions in the countries in which we sell products currently. With our current concentration of revenue in Europe and specifically in the banking/finance vertical market, significant changes in the economic outlook for the European banking market may have a significant effect on our revenue. During difficult economic periods, our customers often delay the rollout of existing applications and defer purchase decisions related to the implementation of our products in new applications.

Currency Fluctuations: In the third quarter of 2007 and 2006, approximately 92% and 94%, respectively, of our revenue was generated outside the United States. For both the nine months ended September 30, 2007 and 2006, approximately 91% was generated outside of the United States.

In addition, approximately 76% of our operating expenses in both the third quarter of 2007 and 2006, were incurred outside of the United States. For the first nine months ended September 30, 2007 and 2006, approximately 74% and 75%, respectively, of our operating expenses were incurred outside of the United States.

Changes in currency exchange rates, especially from the Euro to U.S. Dollar, can have a significant impact on revenue and expenses. In general, to minimize the net impact of currency fluctuations, we attempt to denominate our billings in a currency such that it would provide a hedge against the operating expenses being incurred in that currency. Over the past few quarters our revenue in Euros has grown faster than our expenses denominated in Euros, which has resulted in our operating income being exposed to changes in currency exchange rates (see below for the net impact). We expect that changes in currency rates may also impact our future results if we are unable to match amounts of revenue with our operating expenses in the same currency.

The U.S. Dollar weakened approximately 7% and 8% against the Euro for the quarter and nine months ended September 30, 2007, respectively, as compared to the same period in 2006. The U.S. Dollar weakened approximately 10% and 8% against the Australian Dollar for the quarter and nine months ended September 30, 2007, respectively, as compared to the same periods in 2006. We estimate that the weakening of the U.S. Dollar versus these two currencies in 2007 resulted in an increase in revenue of approximately $1,670 and $3,856 for the quarter and nine months ended September 30, 2007, respectively, compared to the same periods in 2006 and an increase in operating expenses of approximately $587 and $1,893 for the quarter and nine months ended

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September 30, 2007, respectively, compared to the same periods in 2006.

The financial position and results of operations of many of our 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. Translation adjustments arising from differences in exchange rates are included as a separate component of stockholders' equity. Revenue and expenses are translated at average exchange rates prevailing during the period. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations. Foreign exchange transaction losses aggregating $296 in the third quarter of 2007 compare to gains for the third quarter of 2006 of $23. For the nine months ended September 30, 2007, transaction losses of $540 compare to gains of $41 for the nine months ended September 30, 2006. Transaction gains and losses are included in other non-operating income (expense).

To minimize the impact of changes in transaction gains and losses, we implemented a foreign exchange hedging program in the third quarter of 2005. Under the program, our Belgian subsidiary borrows U.S. Dollars in an amount that is generally equal to its net U.S. Dollar asset position. The U.S. Dollars borrowed are converted to Euros and invested in short-term instruments. The borrowings under this program have not been designated as a foreign currency hedge as that term is defined in FASB Statement 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result of the start-up of our Swiss operations, we will re-evaluate our approach to hedging our exposed currency positions in the fourth quarter of 2007.

Revenue

Revenue by Geographic Regions: We classify our sales by customers' location in four geographic regions: 1) EMEA, which includes Europe, the Middle East and Africa; 2) the United States, including Canada; 3) Asia Pacific Rim; and 4) Other Countries, including Australia, Latin America and Central Asia. The breakdown of revenue for the three and nine months ended September 30, 2007 and 2006 in each of our major geographic areas was as follows:

	Europe, Middle East, Africa	United States	Asia Pacific	Other Countries	Total
Three months ended September 30:					
Total Revenue:					
2007	$ 19,686	$2,437	$ 4,776	$ 3,078	$29,977
2006	10,811	1,165	1,694	5,037	18,707
Percent of Total:					
2007	66%	8%	16%	10%	100%
2006	58%	6%	9%	27%	100%
Nine months ended September 30:					
Total Revenue:					
2007	$ 57,155	$7,545	$11,858	$12,266	$88,824
2006	31,692	4,576	3,854	10,787	50,909
Percent of Total:					
2007	64%	9%	13%	14%	100%
2006	62%	9%	8%	21%	100%

Total revenue in the third quarter of 2007 increased $11,270, or 60% over the third quarter of 2006. The increase was primarily attributable to an increase in the volume of products shipped and higher revenue resulting from the weakening of the U.S. Dollar as compared to the Euro, as previously noted.

We believe that the increase in product volume is attributed to the increased strength of our product line, growth in our distribution channel and increased awareness of the need for strong authentication to combat identity theft. We have expanded the capabilities of our core host system software, VACMAN, and increased the number of products, hardware and software, available to our customers. Once our customers have implemented the VACMAN software, they can customize their authentication processes by selecting from our broad line of hardware and software authentication products in order to match the appropriate level of authentication security with their perceived level of risk.

Revenue generated in Europe, Middle East, Africa (EMEA) during the third quarter was $8,875, or 82% higher than the third quarter of 2006. Revenue generated in the United States during the third quarter was $1,272, or 109% higher than the third quarter of 2006. Revenue generated in the Asia Pacific region during the third quarter was $3,082, or 181% higher than the third quarter of 2006. Revenue generated from other countries during the third quarter was $1,959, or 39% lower than the third quarter of 2006. The period-over-period increase in revenue in all of the primary geographic areas was primarily related to the aforementioned increase in volume. The decrease in other regions was due to a decline in volume. The other countries generally represent areas where the markets for strong user authentication are less developed and, as a result, we expect the sales volume in those areas to be more inconsistent. The increase in the United States was less than in other regions due, in part, to the fact that the U.S. banking market continues to defer the decision to implement strong authentication for users of its retail Internet banking services. We believe that we are well positioned to meet the needs of the U.S. market when banks decide to deploy strong user authentication to their retail banking customers.

Total revenue for the nine months ended September 30, 2007 increased $37,915, or 74% over the first nine months of 2006. The increase in revenue was attributable to the same factors noted above for the changes in the third quarter. Revenue for the nine months ended September 30, 2007 generated in EMEA was $25,463, or 80% higher than the third quarter of 2006, revenue generated in the United States was $2,969, or 65% higher than the third quarter of 2006, revenue generated in the Asia Pacific region was $8,004, or 208% higher than the third quarter and revenue generated from other countries was $1,479, or 14% higher than the third quarter of 2006.

For the first nine months of 2007, our top ten customers accounted for approximately 47% of total revenue as compared to 54% of total revenue in the first nine months of 2006.

Revenue by Target Market: Revenue is generated currently from two primary markets, banking/finance (Banking) and Enterprise Security (formerly referred to as Corporate Network Access) through the use of both direct and indirect sales channels. The breakdown of revenue between the two primary markets is as follows:

	Banking	Enterprise Security	Total
Three months ended September 30:			
Total Revenue:			
2007	$23,969	$ 6,008	$29,977
2006	16,092	2,615	18,707
Percent of Total:			
2007	80%	20%	100%
2006	86%	14%	100%
Nine months ended September 30:			
Total Revenue:			
2007	$74,861	$13,963	$88,824
2006	43,406	7,503	50,909
Percent of Total:			
2007	84%	16%	100%
2006	85%	15%	100%

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Revenue in the third quarter of 2007 from the Banking market increased $7,877, or 49% over the third quarter of 2006 and revenue from the Enterprise Security market increased $3,393, or 130% in the same period. Revenue for the first nine months of 2007 from the Banking market increased $31,455, or 72%, compared to the first nine months of 2006, and revenue from the Enterprise Security market increased $6,460, or 86% in the same period. The increase in revenue in each of the markets is attributable to the factors noted above. The strength in the Enterprise Security market was attributable in part to increased sales volume from Original Equipment Manufacturer (OEM) customers and other large volume orders, both of which have gross margins that, due to our volume-pricing methodologies, are lower than the margins realized on sales to small and medium sized businesses. We expect to continue to invest in the development of the channel as well as to continue to invest in developing products for the channel.

Enterprise Security revenue currently includes revenue generated in the e-commerce market. We expect that the e-commerce market will be an important source of future revenue for us as our products will not only provide a higher level of security for purchases made over the Internet; they can also help protect our customers' revenue stream by making it more difficult for subscribers to our customers' Internet services to share passwords.

Gross Profit and Operating Expenses

The following table sets forth, for the periods indicated, certain consolidated financial data as a percentage of revenue for the three and nine months ended September 30, 2007 and 2006:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	33.4	31.7	34.5	33.0
Gross profit	66.6	68.3	65.5	67.0
Operating costs:				
Sales and marketing	20.8	24.4	21.4	25.6
Research and development	8.5	7.7	7.4	7.1
General and administrative	8.9	8.7	8.2	10.1
Amortization of intangible assets	0.9	0.9	0.8	0.7
Total operating costs	39.1	41.7	37.8	43.5
Operating income	27.5	26.6	27.7	23.5
Interest income (expense)	0.6	(0.3)	0.4	-
Impairment of SSI investment	-	-	-	(1.2)
Other income (expense), net	(1.0)	0.1	(0.4)	0.3
Income before income taxes	27.1	26.4	27.7	22.6
Provision for income taxes	7.6	8.8	7.8	7.9
Net income	19.5	17.6	19.9	14.7

Gross Profit

Consolidated gross profit for the quarter ended September 30, 2007 was $19,968, an increase of $7,183, or 56%, from the quarter ended September 30, 2006. Gross profit as a percentage of revenue was approximately 66.6% for the quarter ended September 30, 2007, as compared to 68.3% for the quarter ended September 30, 2006. The decrease in gross profit as a percentage of revenue for the third quarter of 2007 compared to 2006 primarily reflects: (a) an increase in card readers sold, both in absolute dollars and as a percentage of total sales; (b) a decrease in the selling price of the readers resulting from larger quantities being sold and competitive pricing pressures; and (c) a decline in the gross profit of the Enterprise Security market resulting from volume price discounts as noted above. The decline in gross margins from these three factors was partially offset by: (a) an increase in the percentage of the business coming from the Enterprise Security market; (b) an increase in the percentage of the business coming from non-hardware products; (c) a reduction in the average per unit cost of product sold; and (d) the strengthening of the Euro compared to the U.S. Dollar. Our non-hardware revenues were 14% of total revenue for the third quarter of 2007 and compares to 8% of revenue for the third quarter of 2006.

Consolidated gross profit for the nine months ended September 30, 2007 was $58,185, an increase of $24,087, or 71%, from the comparable period in 2006. Gross profit as a percentage of revenue was 65.5% for the first nine months of 2007, as compared to 67.0% for the comparable period in 2006. The decrease in the gross profit as a percentage of revenue is generally consistent with the factors noted above. Our non-hardware revenue was 14% of total revenue for the first nine months of 2007 as compared to 11% of total revenue for the first nine months of 2006.

Our purchases of inventory are denominated in U.S. Dollars. Also, as previously noted, sales denominated in Euros act as a hedge to offset the effects of currency fluctuations on operating expenses. As the U.S. Dollar has weakened when compared to the Euro and Australian Dollar in the same periods in the prior year, revenue from sales made in Euros and Australian Dollars increased, as measured in U.S. Dollars, without the corresponding increase in cost of goods sold. The impact from changes in currency rates as noted above are estimated to be approximately $1,670 for the quarter and $3,856 for the nine months ended September 30, 2007. Had the currency exchange rates in 2007 been equal to the rates in 2006, the gross profit rate would have been approximately 2.0 percentage points and 1.6 percentage points lower for the three and nine months ended September 30, 2007, respectively, than comparable periods in 2006.

Operating Expenses

Our operating expenses are generally based on anticipated revenue levels and the majority of such expenses are fixed. As a result, small variations in the amount of revenue recognized in any given quarter could cause significant variations in the quarter-to-quarter comparisons of either the absolute amounts of operating income or operating income as a percentage of revenue.

Sales and Marketing Expenses

Consolidated sales and marketing expenses for the quarter ended September 30, 2007 were $6,246, an increase of $1,676, or 37%, from the third quarter of 2006. This increase in sales and marketing expenses is primarily related to increased direct headcount, the cost of agents in countries where we do not have a direct sales presence, increased sales-related travel, increased non-cash compensation, amortization of instructional software and deemed compensation and the impact of a weaker U.S. Dollar compared to the Euro. The results for the quarter also reflected the reclass of expenses from sales and marketing to research and development of $257. The average full-time sales and marketing employee headcount was 120 in the third quarter of 2007 compared to 89 in the third quarter of 2006.

Consolidated sales and marketing expenses for the nine months ended September 30, 2007 were $18,995, an increase of $5,982, or 46%, from the same period of 2006. In addition to the factors noted above for the comparison of the third quarter, the increase in expense was attributable to increased marketing expense. Average full-time sales and marketing employee headcount in the first nine months of 2007 was 111, compared to 85 in the first nine months of 2006.

Research and Development Expenses

Consolidated research and development expenses for the quarter ended September 30, 2007 were $2,553, an increase of $1,107, or 77%, from the third quarter of 2006. This increase was primarily due to increased compensation-related expenses, the reclassification of expenses from sales and marketing as noted above and the weaker U.S. Dollar compared to the Euro and Australian Dollar. Our acquisitions of Logico in May 2006 and Able in October 2006 have been the primary sources of increased headcount and compensation-related expenses. Average full-time research and development employee headcount in the third quarter of 2007 was 70, compared to 48 in the third quarter of 2006.

Consolidated research and development costs for the nine months ended September 30, 2007 were $6,552, an increase of $2,928, or 81%, from the same period of 2006. This increase was related to the same factors noted for the third quarter above. Average full-time research and development employee headcount for the first nine months in 2007 was 68 compared to 40 in the same period of 2006.

General and Administrative Expenses

Consolidated general and administrative expenses for the quarter ended September 30, 2007 were $2,666, an increase of $1,042, or 64%, from the third quarter of 2006. This increase was primarily due to increased compensation expenses, increased professional fees and the weaker U.S. Dollar compared to the Euro. The increase in compensation expense is due in part to the start up of the Swiss office and the addition of headcount in that office. Average full-time general and administrative employee headcount in the third quarter of 2007 was 26, compared to 20 in the third quarter of 2006.

Consolidated general and administrative expenses for the nine months ended September 30, 2007 were $7,302, an increase of $2,138, or 41%, from the same period of 2006. In addition to the factors noted above for the comparison of the third quarter, the increase in expense was attributable to reduction in the provision for bad debt as amounts were recovered in 2007 for provisions made in 2006. Average full-time general and administrative employee headcount for the first nine months in 2007 was 25 compared to 19 in the same period of 2006.

Amortization of Intangible Assets

Amortization of intangible assets for the third quarter and first nine months of 2007 increased $81 and $422, respectively, over the comparable periods of 2006. The increase was primarily related to the amortization of intangible assets resulting from the acquisitions of Logico and Able in 2006.

Impairment of Investment in SSI

In the first quarter of 2006, we determined that our investment in Secured Services, Inc. (SSI) had been impaired. In the second quarter of 2006 we recovered a portion of the investment that had been impaired. The charge taken in the first quarter of 2006 represented the full amount of the remaining investment we had in SSI as of that date. There have been no further adjustments related to our investment in SSI since the third quarter of 2006.

Interest Income

Consolidated net interest income was $192 in the third quarter of 2007 as compared to expense of $58 in the third quarter of 2006. For the nine months ended September 30, interest income was $330 in 2007 compared to $16 in the same period of 2006. The increase in interest income in both periods is primarily attributable to income on higher average invested cash balances.

Other Income (Expense), Net

Other income primarily includes exchange gains (losses) on transactions that are denominated in currencies other than our subsidiaries' functional currencies and subsidies received from foreign governments in support of our export business in those countries. Other expense for the third quarter of 2007 was $289 and compares to other income of $27 for the third quarter of 2006. Other expense for the first nine months of 2007 was $334 compared to other income of $135 in the first nine months of 2006. The reductions in income in the three and nine-month periods reflect an increase in exchange losses related to U.S. Dollar positions that were not fully hedged in 2007.

Income Taxes

Income tax expense for the third quarter of 2007 was $2,284, an increase of $626 from the third quarter of 2006. The increase in tax expense is attributable to higher pre-tax income partially offset by a lower effective tax rate. The effective tax rate was 28% for the third quarter of 2007 and compares to 33.5% for the third quarter of 2006.

Income tax expense for the first nine months of 2007 was $6,880, an increase of $2,862 from the same period in 2006. The increase in tax expense reflects the tax on increased earnings, partially offset by a lower effective tax rate. The effective tax rate was 28% for the first nine months of 2007 and compares to 34.9% for the first nine months of 2006. The estimated effective tax rate for the first nine months of 2006 was 33.2%, but was increased for the effect of the impairment charge related to SSI, which was considered to be a one-time expense item with no corresponding tax benefit.

The effective tax rate for both periods reflects our estimate of our full-year tax rate at the end of each respective period. The rate reported in 2007 is lower than the rate reported in 2006 as our estimate of the full-year tax rate in 2007 reflects increased earnings in Switzerland, which are taxed at a lower statutory rate and increased earnings in the United States, which will be offset by the use of tax loss carryforwards.

At December 31, 2006, we had U.S. net operating loss carryforwards of $23,798 and foreign net operating loss carryforwards of $7,829. Such losses are available to offset future taxable income in the respective jurisdictions. These tax benefits have been recognized, but are offset by valuation reserves. The U.S. loss carryforwards expire in varying amounts beginning in 2018 and continuing through 2023. In addition, if certain substantial changes in the Company's ownership are deemed to have occurred, there would be an annual limitation on the amount of the U.S. carryforwards that could be utilized. The foreign loss carryforwards have no expiration dates. The foreign loss carryforwards include $3,042 which was obtained in the Logico acquisition and, if utilized, would not reduce income tax expense, but would reduce deferred tax assets or goodwill instead.

Liquidity and Capital Resources

Our net cash balance (total cash less loans payable to banks) was $36,722 at September 30, 2007, an increase of $10,693, or 41% from $26,029 at June 30, 2007, and an increase of $24,108, or 191%, from $12,614 at December 31, 2006.

At September 30, 2007, we had working capital of $46,634, an increase of $8,810, or 23%, from $37,824 reported at June 30, 2007, and an increase of $24,576, or 111% from $22,058 at December 31, 2006. The increase in cash and working capital was primarily related to positive earnings before interest, taxes, depreciation and amortization (EBITDA).

Days sales outstanding in net accounts receivable decreased to 55 days at September 30, 2007 from 67 days at June 30, 2007. Days sales outstanding in receivables decreased in the third quarter of 2007 primarily due to the fact that revenue was realized more evenly in the third quarter of 2007 than in the second quarter.

EBITDA from continuing operations for the three and nine months ended September 30, 2007 were $8,743 and $26,504, respectively, and reflect an increase of $3,424, or 64% and $14,313, or 117% over amounts for the same periods of the prior year. A reconciliation of EBITDA to net income for the three and nine-month periods ended September 30, 2007 and 2006 follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(unaudited)		(unaudited)	
EBITDA	$ 8,743	$ 5,319	$26,504	$12,191
Interest income, net	192	(58)	330	16
Provision for income taxes	(2,284)	(1,658)	(6,880)	(4,018)
Depreciaton and amortization	(779)	(316)	(2,263)	(698)
Net income	$ 5,872	$ 3,287	$17,691	$ 7,491

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

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

At September 30, 2007, we had an overdraft agreement in place with Fortis Bank, wherein we could borrow up to 3,500 Euros or U.S. Dollars. We borrow against this line of credit as part of our hedging program as noted previously. Based on receivable balances as of September 30, 2007 and the amount of borrowings outstanding under the line to support our hedging program, $180 of the overdraft agreement was available to us for borrowing at September 30, 2007.

We believe that our current cash balances, credit available under our existing overdraft agreement, the anticipated cash generated from operations, and deposits that will be received in future quarters on orders of our products will be sufficient to meet our anticipated cash needs over the next 12 months.

There is substantial risk, however, that we may not be able to achieve our revenue and cash goals. If we do not achieve those goals, we may need to significantly reduce our workforce, sell certain assets, enter into strategic relationships or business combinations, discontinue some or all of our operations, or take other similar restructuring actions. While we expect that these actions would result in a reduction of recurring costs, they also may result in a reduction of recurring revenue and cash receipts. It is also likely that we would incur substantial non-recurring costs to implement one or more of these restructuring actions.

For additional information related to risks, refer to Certain Factors noted in Management's Discussion and Analysis included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Recently Issued Accounting Pronouncements

There were no recently issued accounting pronouncements that are deemed likely to have a significant impact on our financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in our market risk during the nine months ended September 30, 2007. For additional information, refer to “Item 7A. Quantitative and Qualitative Disclosures about Market Risk”, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Item 4. Controls and Procedures

We maintain a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by us in this Quarterly Report on Form 10-Q and in other reports required to be filed under the Securities Exchange Act of 1934, (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission for such filings. As required by Rule 13a-15(b) under the Exchange Act, our management, under the direction of our Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2007. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with the other members of our management, have determined that as of September 30, 2007, the disclosure controls and procedures were and are effective as designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act relating to us and our consolidated subsidiaries would be accumulated and communicated to them, as appropriate, to allow timely disclosures regarding required disclosures.

There were no changes in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits.

Exhibit 31.1 - Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 7, 2007.

Exhibit 31.2 - Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 7, 2007

Exhibit 32.1 - Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 7, 2007.

Exhibit 32.2 - Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 7, 2007.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 7, 2007.

VASCO Data Security International, Inc.

/s/ T. Kendall Hunt

T. Kendall Hunt
Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)

/s/ Clifford K. Bown

Clifford K. Bown
Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit 31.1 - Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 7, 2007.

Exhibit 31.2 - Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 7, 2007.

Exhibit 32.1 - Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 7, 2007.

Exhibit 32.2 - Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 7, 2007.

EXHIBIT 31.1

Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, T. Kendall Hunt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of VASCO Data Security International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2007

/s/ T. Kendall Hunt

T. Kendall Hunt
Chief Executive Officer and Chairman of
the Board of Directors
(Principal Executive Officer)

EXHIBIT 31.2

Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Clifford K. Bown, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of VASCO Data Security International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2007

/s/ Clifford K. Bown

Clifford K. Bown
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I, T. Kendall Hunt, certify, based upon a review of the Quarterly Report on Form 10-Q for VASCO Data Security International, Inc. for the quarter ended September 30, 2007, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ T. Kendall Hunt

T. Kendall Hunt
Chief Executive Officer and Chairman
of the Board of Directors
November 7, 2007

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I, Clifford K. Bown, certify, based upon a review of the Quarterly Report on Form 10-Q for VASCO Data Security International, Inc. for the quarter ended on September 30, 2007, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Clifford K. Bown

Clifford K. Bown
Executive Vice President and
Chief Financial Officer
November 7, 2007