

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

OR

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

Commission file number 000-24389

VASCO Data Security International, Inc.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

36-4169320
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (do not check if smaller reporting company)

Accelerated filer

Smaller reporting company

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 37,487,295 shares of Common Stock, \$.001 par value per share, outstanding at July 31, 2009.

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VASCO Data Security International, Inc.
Form 10-Q
For The Quarterly Period Ended June 30, 2009

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This report may contain trademarks of VASCO Data Security International, Inc. and its subsidiaries, which include VASCO, the VASCO "V" design, DIGIPASS, VACMAN, aXsGUARD and IDENTIKEY.

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

	June 30, 2009	December 31, 2008
ASSETS	(unaudited)	
Current assets:		
Cash and equivalents	\$ 67,589	\$ 57,714
Accounts receivable, net of allowance for doubtful accounts	17,402	24,951
Inventories	12,321	13,376
Prepaid expenses	1,560	1,926
Foreign sales tax receivable	1,201	7,452
Deferred income taxes	431	284
Other current assets	112	199
Total current assets	<u>100,616</u>	<u>105,902</u>
Property and equipment:		
Furniture and fixtures	3,958	3,589
Office equipment	6,142	5,364
	<u>10,100</u>	<u>8,953</u>
Accumulated depreciation	(5,278)	(4,777)
Property and equipment, net	4,822	4,176
Goodwill, net of accumulated amortization	13,537	13,584
Intangible assets, net of accumulated amortization	1,885	1,997
Other assets, net of accumulated amortization	1,494	2,291
Total assets	<u>\$122,354</u>	<u>\$ 127,950</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,193	\$ 10,349
Deferred revenue	5,589	5,881
Accrued wages and payroll taxes	4,821	5,780
Income taxes payable	2,636	3,114
Other accrued expenses	3,177	3,285
Current deferred compensation	-	1,434
Current deferred income taxes	262	129
Total current liabilities	<u>20,678</u>	<u>29,972</u>
Accrued compensation	128	1,352
Deferred revenue	578	888
Deferred tax liability	253	454
Total liabilities	<u>21,637</u>	<u>32,666</u>
Stockholders' equity:		
Common stock, \$.001 par value - 75,000 shares authorized: 37,487 and 37,340 shares issued and outstanding at June 30, 2009, and December 31, 2008, respectively	37	37
Additional paid-in capital	66,773	66,700
Accumulated income	30,361	24,856
Accumulated other comprehensive income	3,546	3,691
Total stockholders' equity	<u>100,717</u>	<u>95,284</u>
Total liabilities and stockholders' equity	<u>\$122,354</u>	<u>\$ 127,950</u>

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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net revenue	\$24,458	\$35,409	\$47,633	\$64,337
Cost of goods sold	<u>7,746</u>	<u>10,007</u>	<u>14,224</u>	<u>18,895</u>
Gross profit	16,712	25,402	33,409	45,442
Operating costs:				
Sales and marketing	8,033	9,036	15,092	16,737
Research and development	3,017	2,966	5,461	5,656
General and administrative	4,200	4,230	6,565	7,765
Amortization of purchased intangible assets	<u>110</u>	<u>124</u>	<u>217</u>	<u>396</u>
Total operating costs	<u>15,360</u>	<u>16,356</u>	<u>27,335</u>	<u>30,554</u>
Operating income	1,352	9,046	6,074	14,888
Interest income, net	165	277	308	534
Other income (expense), net	<u>1,206</u>	<u>(43)</u>	<u>958</u>	<u>217</u>
Income before income taxes	2,723	9,280	7,340	15,639
Provision for income taxes	<u>681</u>	<u>1,822</u>	<u>1,835</u>	<u>3,284</u>
Net income	<u>\$ 2,042</u>	<u>\$ 7,458</u>	<u>\$ 5,505</u>	<u>\$12,355</u>
Net income per share:				
Basic	\$ 0.05	\$ 0.20	\$ 0.15	\$ 0.33
Diluted	\$ 0.05	\$ 0.20	\$ 0.14	\$ 0.32
Weighted average common shares outstanding:				
Basic	<u>37,322</u>	<u>37,130</u>	<u>37,315</u>	<u>37,120</u>
Diluted	<u>38,091</u>	<u>38,198</u>	<u>38,056</u>	<u>38,253</u>

See accompanying notes to consolidated financial statements.

VASCO Data Security International, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	<u>Three months ended</u> <u>June 30,</u>		<u>Six months ended</u> <u>June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net income	\$ 2,042	\$ 7,458	\$5,505	\$12,355
Other comprehensive income – Cumulative translation adjustment	<u>3,310</u>	<u>85</u>	<u>(145)</u>	<u>3,526</u>
Comprehensive income	<u>\$ 5,352</u>	<u>\$ 7,543</u>	<u>\$5,360</u>	<u>\$15,881</u>

See accompanying notes to consolidated financial statements.

VASCO Data Security International, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	<u>Six months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income	\$ 5,505	\$ 12,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,505	1,812
Deferred tax expense (benefit)	(116)	208
Equity plan awards (income) expense	(1,268)	1,473
Changes in assets and liabilities:		
Accounts receivable, net	7,584	(4,448)
Inventories	1,089	(3,730)
Prepaid expenses	374	248
Foreign sales tax receivable	6,251	(2,683)
Other assets	113	(1,194)
Accounts payable	(6,328)	(1,522)
Income taxes payable	(430)	1,040
Deferred revenue	(399)	402
Accrued wages and payroll taxes	(987)	(156)
Accrued expenses	(110)	(423)
Current deferred compensation	(1,434)	-
Long-term deferred revenue	(351)	583
Net cash provided by operations	<u>10,998</u>	<u>3,965</u>
Cash flows from investing activities:		
Additions to property and equipment	(962)	(894)
Additions to goodwill and intangibles	(120)	(71)
Net cash used in investing activities	<u>(1,082)</u>	<u>(965)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	119	65
Net cash provided by financing activities	<u>119</u>	<u>65</u>
Effect of exchange rates on cash	<u>(160)</u>	<u>178</u>
Net increase in cash	9,875	3,243
Cash and cash equivalents, beginning of year	57,714	38,833
Cash and cash equivalents, end of period	<u>\$ 67,589</u>	<u>\$ 42,076</u>

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

Nature of Operations

VASCO Data Security International, Inc. and its wholly owned subsidiaries design, develop, market and support security products and services which manage and protect against unauthorized access to computer systems of corporate and government customers. VASCO has operations in Austria, Australia, Bahrain, Belgium, Brazil, China, India, Japan, the Netherlands, Singapore, the United States (U.S.) and Switzerland.

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, 2008.

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.

We have evaluated subsequent events through August 7, 2009, the date of issuance of the condensed consolidated financial statements.

Principles of Consolidation

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

Estimates and Assumptions

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. Actual results could differ from those estimates.

Foreign Currency Translation and Transactions

The financial position and results of the operations of the majority 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. Translation adjustments arising from differences in exchange rates are charged or credited to other comprehensive income. Revenue and expenses are translated at average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in the condensed consolidated statements of operations in other non-operating income (expense).

The financial position and results of operations of our operations in Singapore and Switzerland are measured in U.S. Dollars. For these subsidiaries, gains and losses that result from foreign currency transactions are included in the condensed consolidated statements of operations in other non-operating income (expense).

Revenue Recognition

We recognize revenue in accordance with AICPA Statement of Position (SOP) 97-2, SOP 98-9 and SEC Staff Accounting Bulletin (SAB) 104. Revenue is recognized 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: Revenue from the sale of computer security hardware or the license of software is generally recorded upon shipment or, if an acceptance period is allowed, at the later of shipment or customer acceptance. No significant obligations or contingencies exist with regard to delivery, customer acceptance or rights of return at the time revenue is recognized.

Maintenance and Support Agreements: Maintenance and support agreements generally call for us to provide software updates and technical support, respectively, to customers. Revenue on maintenance and technical support is deferred and recognized ratably over the term of the maintenance and support agreements.

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

Multiple-Element Arrangements: We allocate revenue to the various elements of the arrangements based on the estimated fair value of each deliverable as required by SOP 97-2. The fair value for each element is based on the price charged when that element is sold separately, renewal rates and other methods, such as prices established by management. When discounts are given in a multiple-element arrangement, a proportionate amount of the discount is applied to each element based on each 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.

When tokens and software licenses are included in multiple element arrangements, they are generally delivered elements in such arrangements. When tokens and software are delivered elements, we use the Residual Method (SOP 98-9) for determining the amount of revenue to recognize for token and software licenses if we have vendor specific objective evidence (VSOE) for all of the undelivered elements. We defer the revenue for tokens and software in any multiple element arrangement where we do not have VSOE for any undelivered element. VSOE of fair value of PCS agreements is based on separate sales transactions on a worldwide basis. In sales arrangements where VSOE of fair value has not been established, revenue for all elements is deferred and amortized over the life of the arrangement.

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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 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.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost plus accrued interest, which approximates fair value. Cash equivalents are high-quality short term money market instruments, with original maturities of three months or less. Cash and equivalents are held by a number of U.S. and non-U.S. commercial banks and money market investment funds.

Accounts Receivable and Allowance for Doubtful Accounts

The credit-worthiness of customers is reviewed prior to shipment. A reasonable expectation of collection is a requirement for revenue recognition. Verification of credit and/or the establishment of credit limits are part of the customer contract administration process. Credit limit adjustments for existing customers may result from the periodic review of outstanding accounts receivable. The company records trade accounts receivable at invoice values, which are generally equal to fair value.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payments for goods and services. The company analyzes accounts receivable balances, customer credit-worthiness, current economic trends and changes in our customer payment timing when evaluating the adequacy of the allowance for doubtful accounts. The allowance is based on a specific review of all significant past-due accounts. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

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. We write down inventory when it appears that the carrying cost of the inventory may not be recovered through subsequent sale of the inventory. The company analyzes the quantity of inventory on hand, the quantity sold in the past year, the anticipated sales volume in the form of sales to new customers as well as sales to previous customers, the expected sales price and the cost of making the sale when evaluating the valuation of our inventory. If the sales volume or sales price of a specific model declines significantly, additional write downs may be required.

Property and Equipment

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

Research and Development Costs

Costs for research and development, principally the design and development of hardware, and the design and development of software prior to the determination of technological feasibility, are expensed as incurred on a project-by-project basis.

Software Development Costs

We capitalize 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 bear 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, including the period being reported on.

Income Taxes

We account for income taxes 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. 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.

We monitor our potential income tax exposures 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 the liability on future taxable income. A valuation reserve has been provided for the U.S. operating loss carryforwards and certain foreign loss carryforwards to offset most of these future benefits because we have not determined that their realization is more likely than not.

Fair Value of Financial Instruments

At June 30, 2009 and December 31, 2008, our financial instruments were cash equivalents, accounts receivable, accounts payable and accrued liabilities. The estimated fair value of our financial instruments has been determined by using available market information and appropriate valuation methodologies. The fair values of the financial instruments were not materially different from their carrying amounts at June 30, 2009 and December 31, 2008.

Accounting for Leases

All of our leases are operating leases. Rent expense on facility leases is charged evenly over the life of the lease, regardless of the timing of actual payments.

Goodwill and Other Intangibles

We account for goodwill and indefinite-lived intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Indefinite-lived intangible assets include proprietary

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technology and other intangible assets. Intangible assets other than patents with definite lives are amortized over the useful life, 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. 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.

Long-lived assets, including property, plant and equipment, identifiable intangible assets being amortized and capitalized software costs, are reviewed for impairment in accordance with SFAS Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount of the long-lived asset may not be recoverable. In accordance with SFAS No. 144, an impairment loss shall be recognized if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If it is determined that an impairment loss has occurred, the loss is measured as the amount by which the carrying amount of the long-lived assets exceeds its fair value. Long-lived assets held for sale are reported at the lower of carrying value or fair value less cost to sell.

Warranty

Warranties are provided on the sale of certain of our products and an accrual for estimated future claims is recorded at the time revenue is recognized. Warranty reserves are based on past claims experience, sales history and other considerations. Our standard practice is to provide a warranty on our hardware products for either a one or two year period after the date of purchase. Customers may purchase extended warranties covering periods from one to four years after the standard warranty period. We defer the revenue associated with the extended warranty and recognize it into income on a straight-line basis over the extended warranty period. We have historically experienced minimal actual claims over the warranty period.

Note 2 – Cash and Cash Equivalents

Cash and cash equivalents are stated at cost plus accrued interest, which approximates fair value. Cash equivalents are high-quality short term money market instruments, with original maturities of three months or less. Cash and equivalents include \$61,689 in money market investment funds or demand bank deposits for which fair value is equal to cost. These investments are valued using level one inputs, as defined in Statement Financial Accounting Standards (SFAS) 157, *Fair Value Measurements*. Cash and equivalents also include \$5,900 in bank certificates of deposit for which fair value was \$5,903. Bank certificates of deposit are valued using level two inputs, as defined by SFAS 157.

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.

	June 30 2009	December 31, 2008
Accounts receivable	\$17,756	\$ 25,659
Allowance for doubtful accounts	(354)	(708)
Accounts receivable, net	<u>\$17,402</u>	<u>\$ 24,951</u>

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Inventories, consisting principally of hardware and component parts, are stated at the lower of cost or market. Cost is determined using the FIFO method.

Inventories are comprised of the following:

	June 30, 2009	December 31, 2008
Component parts	\$ 8,098	\$ 9,925
Work-in-process and finished goods	4,223	3,451
Total	<u>\$12,321</u>	<u>\$ 13,376</u>

Note 5 – Goodwill and Other Intangibles

Intangible asset activity for the six months ended June 30, 2009, and the composition of the June 30, 2009 balance is detailed in the following table. The majority of our goodwill and intangibles are denominated in local currencies and are subject to currency fluctuations.

	Capitalized technology	Patents & trademarks	Total intangible assets	Goodwill
Net balance at December 31, 2008	\$ 1,454	\$ 543	\$ 1,997	\$13,584
Additions	-	120	120	-
Net translation loss	(15)	-	(15)	(47)
Amortization expense	(207)	(10)	(217)	-
Net balance at June 30, 2009	<u>\$ 1,232</u>	<u>\$ 653</u>	<u>\$ 1,885</u>	<u>\$13,537</u>

Note 6 – Other Assets – Long Term

Other assets is comprised mostly of two components: instructional video software and deemed compensation. The cost of the instructional video software was capitalized in the fourth quarter of 2006 in accordance with SFAS 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* and is being 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 NV acquisition price which is contingent upon the seller's continued employment with the company over a four year period ending October 2010. We acquired Able NV in 2006. As of June 30, 2009, the amount to be amortized over the next 12 months was \$439 and has been classified as a prepaid expense.

Amortization of the instructional video 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 six months ended June 30, 2009:

	Instructional software	Deemed com- pen- sation	Deferred tax assets	Other assets	Total other assets
Net balance at December 31, 2008	\$ 823	\$ 367	\$ 972	\$129	\$ 2,291
Additions/(reductions)	-	-	(98)	(28)	(126)
Net translation gain	(24)	(12)	-	-	(36)
Amortized/expensed	(426)	(209)	-	-	(635)
Net balance at June 30, 2009	<u>\$ 373</u>	<u>\$ 146</u>	<u>\$ 874</u>	<u>\$101</u>	<u>\$ 1,494</u>

Note 7 – Income Taxes

Our effective tax rate for 2009 is expected to be 25%. This is lower than the U.S. statutory rate primarily due to income in foreign jurisdictions which is taxed at lower rates and the partial utilization of U.S. net operating loss (NOL) carryforwards which had been fully reserved. The expected tax rate for 2008 was 21% in the first six months of 2008. The expected tax rate in the first six months of 2008 also benefited from income in foreign jurisdictions which is taxed at lower rates.

At December 31, 2008, we had U.S. NOL carryforwards of \$22,422. Of this amount, \$16,064 is available to offset future taxable income. The remainder represents tax deductions for employee stock option gains which would be credited to paid-in capital. The U.S. NOL carryforwards expire in varying amounts beginning in 2018 and continuing through 2027. In addition, if certain substantial changes in the company's ownership were deemed to have occurred, there would be an annual limitation on the amount of the U.S. NOL carryforwards that could be utilized. A valuation reserve has been provided for the U.S. NOL carryforwards to offset most of these future benefits because we have not determined that their realization is more likely than not.

At December 31, 2008, we also had foreign NOL carryforwards of \$5,895. The foreign NOL carryforwards have no expiration dates.

Note 8 – Warranties

We provide for the estimated costs of hardware warranties at the time the related revenue is recognized. We estimate the costs based on historical and projected product failure rates, historical and projected repair costs as well as known specific product failures, if any. We regularly reassess the adequacy of our estimates and adjust the amounts as necessary. Our warranty reserve is included in other accrued expenses.

The activity in our warranty liability was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in thousands, unaudited)		(in thousands, unaudited)	
Balance, beginning of the period	\$ 507	\$ 106	\$ 475	\$ 171
Net provision/(reversal) for claims	8	54	84	52
Product or cash issued to settle claims	(31)	(2)	(75)	(65)
Balance, end of period	<u>\$ 484</u>	<u>\$ 158</u>	<u>\$ 484</u>	<u>\$ 158</u>

Note 9 – Stock Compensation Plan

In June 2009, VASCO Data Security International, Inc. 2009 Equity Incentive Plan was approved by the stockholders. No awards have been granted under the 2009 Equity Incentive Plan. Awards were previously granted under the VASCO Data Security International, Inc. 1997 Stock Compensation Plan, as amended and restated. Upon approval of the VASCO Data Security International, Inc. 2009 Equity Incentive Plan, the VASCO Data Security International, Inc. 1997 Stock Compensation Plan was suspended and no further awards will be issued thereunder.

In May 2009, we granted long-term incentive awards to key employees, other than named executive officers, under the VASCO Data Security International, Inc. 1997 Stock Compensation Plan, as amended and restated. The long-term incentive awards may be earned if VASCO achieves certain performance targets over the 2009-2011 three year period. The award amounts are designated as a specific dollar amount but, at the option of the company, may be paid in either VASCO common stock or cash. The May 2009 awards totaled \$2,055 and will be amortized through December 2011. There were no other awards granted under the VASCO Data Security International, Inc. 1997 Stock Compensation Plan, as amended and restated, in the second quarter of 2009.

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In the first quarter of 2009, we awarded 192 shares of restricted stock under the VASCO Data Security International, Inc. 1997 Stock Compensation Plan, as amended and restated, consisting of 109 issued shares and 83 shares that are subject to future performance criteria and, therefore, have not been issued. The market value of the restricted shares was \$1,644 at the date of grant and will be amortized over their respective vesting periods, which range from one to four years.

Also, in the first quarter 2009, we reversed \$1,352 of long-term incentive award compensation expense and \$650 of performance-based restricted stock award compensation expense accrued at December 31, 2008, related to awards granted in 2007 and 2008 under the 1997 Stock Compensation Plan, as amended and restated, which are not likely to be achieved.

The following table details the stock-based compensation expense (income) incurred in the three and six month periods ended June 30, 2009 and 2008:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Stock options	\$ -	\$ 70	\$ 11	\$ 140
Restricted stock	299	335	(56)	658
Long-term incentive plan	128	398	(1,223)	675
Total stock based compensation	<u>\$ 427</u>	<u>\$ 803</u>	<u>\$ (1,268)</u>	<u>\$ 1,473</u>

Note 10 – Common Stock and Earnings per Share

The following table summarizes the new issuance of VASCO's common stock for the six months ended June 30, 2009:

	Common stock issued	
	Number of shares	Value of shares
Exercise of options	38	\$ 119
Restricted stock awards	109	936

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 six month periods ended June 30, 2009 and 2008 follow:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income	<u>\$ 2,042</u>	<u>\$ 7,458</u>	<u>\$ 5,505</u>	<u>\$ 12,355</u>
Weighted average common shares outstanding				
Basic	37,322	37,130	37,315	37,120
Incremental shares with dilutive effect:				
Stock options	769	991	741	1,036
Restricted stock awards	-	21	-	38
Warrants	-	56	-	59
Dilutive	<u>38,091</u>	<u>38,198</u>	<u>38,056</u>	<u>38,253</u>
Net income per share				
Basic	\$ 0.05	\$ 0.20	\$ 0.15	\$ 0.33
Dilutive	\$ 0.05	\$ 0.20	\$ 0.14	\$ 0.32

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (in thousands, except headcount, ratios, time periods and percents)

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, 2008, filed with the Securities and Exchange Commission, and include, but are not limited to, (a) risks of general market conditions, including currency fluctuations and the unprecedented uncertainties resulting from the current turmoil in world economic and financial markets, (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 six months ended June 30, 2009 and 2008 (percentages in the discussion may be rounded to the closest full percentage point) and should be read in conjunction with our condensed 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 and services 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 further protects 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, particularly the Internet, 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 Months and Six Months Ended June 30, 2009 and 2008

Industry Growth: We do not believe that there are any accurate measurements of the total industry's size or the industry's growth rate. Also, given the current turmoil in world economic and financial markets and the worldwide recession, we expect that the industry may not grow in 2009 and may, in fact, decline if the economic conditions do not improve. We do believe, however, that over the longer term, the industry will grow at a significant rate. We expect that growth will be 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. 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. As is currently the case, during difficult economic periods, our customers may delay the rollout of existing applications and defer purchase decisions related to the implementation of our product in new applications. We have responded to the current economic conditions by focusing our sales efforts on markets that we believe have the most near-term opportunity and implementing a cost containment initiative, which includes but is not limited to a hiring freeze. We expect to relax the hiring freeze as it relates to sales staff in areas where we believe there is a near term opportunity to strengthen our position in specific markets. With the exception of the addition of sales staff, we plan to continue our cost containment programs. We believe that they will allow us to remain profitable for the full-year 2009 while not diminishing the value of key investments we have made over the last two years to build a strong infrastructure that will support our long-term growth.

Currency Fluctuations: In the second quarter of 2009 and 2008, approximately 94% and 95%, respectively, of our revenue was generated outside the United States. For the six months ended June 30, 2009 and 2008, approximately 95% and 93%, respectively, of our revenue was generated outside of the United States.

In addition, in the second quarter of 2009 and 2008, approximately 78% and 75%, respectively, of our operating expenses were incurred outside the United States. For the six months ended June 30, 2009 and 2008, approximately 82% and 74%, respectively, of our operating expenses were incurred outside of the United States. Excluding the benefit derived in the first quarter of 2009 from the reversal of accruals for performance-based equity incentive awards of \$2,002, approximately 77% of our operating expenses were incurred outside of the United States for the six months ended June 30, 2009.

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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. 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. In periods in which the U.S. Dollar is weakening, we expect that our operating earnings will increase as a result of the change in currency exchange rates. Conversely, in periods in which the U.S. Dollar is strengthening, we expect that our operating earnings will decrease as a result of the change in currency exchange rates.

The U.S. Dollar strengthened by approximately 16% and 14% against the Euro for the quarter and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. The U.S. Dollar strengthened 28% and 33% against the Australian Dollar for the quarter and six months ended June 30, 2009, respectively, as compared to the same periods in 2008. We estimate that the strengthening of the U.S. Dollar versus these two currencies in 2009 compared to 2008 resulted in a decrease in revenue of approximately \$1,830 and \$3,700 for the quarter and six months ended June 30, 2009, respectively, compared to the same periods in 2008 and a decrease in operating expenses of approximately \$1,946 and \$3,384 for the quarter and six months ended June 30, 2009, respectively, compared to the same periods in 2008.

The financial position and results of operations of most of our foreign subsidiaries, with the exception of our subsidiaries in Switzerland and Singapore (in which the functional currency is the U.S. Dollar), are generally 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 condensed consolidated statements of operations in other non-operating income (expense). Foreign exchange transaction gains aggregating \$856 and \$335 in the second quarter and first six months of 2009, respectively, compare to losses aggregating \$255 in the second quarter of 2008 and transaction gains aggregating \$85 for the first six months of 2008.

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, which for our purposes includes sales in Canada; 3) Asia Pacific; and 4) Other Countries, including Australia, Latin America and Central Asia. The breakdown of revenue for the three and six months ended June 30, 2009 and 2008 in each of our major geographic regions follows:

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	<u>EMEA</u>	<u>United States</u>	<u>Asia Pacific</u>	<u>Other countries</u>	<u>Total</u>
Three months ended June 30:					
Total Revenue:					
2009	\$17,085	\$ 1,429	\$ 2,245	\$ 3,699	\$24,458
2008	24,396	1,961	2,397	6,655	35,409
Percent of Total:					
2009	70%	6%	9%	15%	100%
2008	69%	5%	7%	19%	100%
Six months ended June 30:					
Total Revenue:					
2009	\$33,596	\$ 2,567	\$ 5,097	\$ 6,373	\$47,633
2008	43,856	4,357	5,548	10,576	64,337
Percent of Total:					
2009	71%	5%	11%	13%	100%
2008	68%	7%	9%	16%	100%

Total revenue in the second quarter of 2009 decreased \$10,951, or 31%, from second quarter 2008. The decrease was primarily attributable to a significant decline in products sold to the banking market and the strengthening of the U.S. Dollar as compared to the Euro as previously noted, partially offset by increases in product sold to the enterprise and application security market. Please see the discussion below under "Revenue by Target Market" for additional information regarding the changes in revenue from the banking market and the enterprise and application security market.

Revenue generated in EMEA during the second quarter 2009 was \$7,311, or 30%, lower than during the second quarter of 2008. The decrease was primarily attributable to factors noted above related to the quarter as a whole.

Revenue generated in the United States during the second quarter was \$532, or 27%, lower than the second quarter of 2008. With the exception of changes due to currency rate fluctuations, the decrease was primarily attributable to factors noted above related to the quarter as a whole.

Revenue generated in the Asia Pacific region during the second quarter was \$152, or 6%, lower than the second quarter of 2008. Unlike the other geographic regions, revenue from the banking market was essentially flat compared to the second quarter of 2008, with the decline coming in the enterprise and application security market. The issues related to the banking crisis do not appear to be as severe in the Asia Pacific region as they are in the EMEA and the U.S. regions. The decline in revenue from the enterprise and application security market reflects the fact that the overall volume of that business is relatively small in the Asia Pacific region and changes in the timing of shipment of orders can have a significant impact on the period over period comparisons.

Revenue generated from other countries during the second quarter was \$2,956, or 44%, lower than the second quarter of 2008. The decrease in other countries was primarily due to declines in South American markets where the initial deployments with large banking customers were completed in 2008. We expect that revenue from other countries will be more volatile than our other regions given the earlier stage of development of the authentication market in those countries. VASCO, however, plans to continue to invest in new markets based on our estimates of the market's demand for strong user authentication.

Total revenue for the six months ended June 30, 2009 decreased \$16,704, or 26%, from the first six months of 2008. The decrease in revenue was attributable to the same factors noted above for the changes in the second quarter. Revenue for the six months ended June 30, 2009 generated in Europe was \$10,260, or 23%, lower than the same period in 2008, revenue generated in the United

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States was \$1,790, or 41%, lower than the same period in 2008, revenue from Asia Pacific was \$451, or 8%, lower than the same period in 2008 and revenue generated from other countries was \$4,203, or 40%, lower than the same period in 2008.

Revenue by Target Market: Revenue is generated currently from two primary markets, banking/finance (banking) and enterprise and application security, through the use of both direct and indirect sales channels. The enterprise and application security market includes products used by employees of corporations to secure their internal networks (the enterprise security market) and business-to-business, business-to-consumer, e-commerce, e-government, e-gaming and other vertical applications (the application security market) that are not related to banking or finance. Management currently views the enterprise and application security market as one market because the same products are sold, through the same channels to both customer groups. Sales to the enterprise and application security market are generally for smaller quantities and higher prices than sales made to the banking market. The breakdown of revenue between the two primary markets was as follows:

	<u>Banking</u>	<u>Enterprise & application security</u>	<u>Total</u>
Three months ended June 30:			
Total Revenue:			
2009	\$16,724	\$ 7,734	\$24,458
2008	29,371	6,038	35,409
Percent of Total:			
2009	68%	32%	100%
2008	83%	17%	100%
Six months ended June 30:			
Total Revenue:			
2009	\$34,013	\$ 13,620	\$47,633
2008	52,453	11,884	64,337
Percent of Total:			
2009	71%	29%	100%
2008	82%	18%	100%

Revenue in the second quarter of 2009 from the banking market decreased \$12,647, or 43%, from the second quarter of 2008 and revenue from the enterprise and application security market increased \$1,696, or 28%, in the same period.

The decline in the banking market reflects a decline in products sold, both hardware and non-hardware, and the strengthening of the U.S. Dollar as compared to the Euro, as previously noted. We believe that banks in many, but not all, of our markets have been affected by the financial crisis. As a result, we believe that bank management teams have increased their focus on short-term objectives while their internal structures are being realigned based on new ownership or new government rules. Also, given the worldwide recession, we believe that many banks are postponing marketing campaigns and related large-scale deployments of our products until a time when such marketing campaigns are expected to yield a higher return. For several quarters, banks have been placing smaller orders, we believe to primarily meet their short-term needs. We expect this situation to continue through the third quarter, but believe that the banking market will begin to stabilize and possibly start to recover in the fourth quarter.

The increase in the enterprise and application security market was primarily attributable to an increase in the number of products shipped partially offset by the strengthening of the U.S. Dollar as compared to the Euro. Non-hardware revenue from the enterprise and application security market increased marginally in the second quarter of 2009 over the same period in 2008. The increase in the

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number of products shipped primarily reflects increased penetration of new vertical markets in the application security area.

Revenue for the first six months of 2009 from the banking market decreased \$18,440, or 35%, compared to the first six months of 2008 and revenue from the enterprise and application security market increased \$1,736, or 15%, in the same period. Changes in the revenue in both markets for the first six months of 2009 compared to the same period in 2008 were attributable to the same factors noted above in the comparison of revenue for the second quarter of 2009 to the revenue for the second quarter of 2008.

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 months and six months ended June 30, 2009 and 2008:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	31.7	28.3	29.9	29.4
Gross profit	68.3	71.7	70.1	70.6
Operating costs:				
Sales and marketing	32.8	25.5	31.7	26.0
Research and development	12.3	8.4	11.4	8.8
General and administrative	17.2	11.9	13.8	12.1
Amortization of purchased intangible assets	0.5	0.4	0.4	0.6
Total operating costs	62.8	46.2	57.3	47.5
Operating income	5.5	25.5	12.8	23.1
Interest income	0.7	0.8	0.6	0.8
Other income (expense)	4.9	(0.1)	2.0	0.4
Income before income taxes	11.1	26.2	15.4	24.3
Provision for income taxes	2.8	5.1	3.8	5.1
Net income	8.3%	21.1%	11.6%	19.2%

Gross Profit

Consolidated gross profit for the quarter ended June 30, 2009 was \$16,712, a decrease of \$8,690, or 34%, from the quarter ended June 30, 2008. Gross profit as a percentage of revenue (gross profit margin) was 68.3% for the quarter ended June 30, 2009, as compared to 71.7% for the quarter ended June 30, 2008. The decrease in gross profit as a percentage of revenue for the second quarter of 2009 compared to 2008 primarily reflects:

- the negative impact on revenue and gross profit margin due to changes in foreign currency rates,
- a decline in non-hardware revenue as a percentage of total revenue, and
- an unfavorable change in the mix of products sold,

partially offset by,

- an increase in sales to the enterprise and application security market.

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Consolidated gross profit for the six months ended June 30, 2009 was \$33,409, a decrease of \$12,033, or 26%, from the comparable period in 2008. Gross profit as a percentage of revenue was 70.1% for the first six months of 2009, as compared to 70.6% for the comparable period in 2008. The decrease in gross profit as a percentage of revenue is primarily attributable to the same factors noted for the comparison of gross profit percentages for the second quarters of 2009 and 2008.

The majority of our inventory purchases are denominated in U.S. Dollars. Also, as previously noted, our sales are denominated in various currencies including the Euro and Australian Dollar. As the U.S. Dollar has strengthened, 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 decreased, as measured in U.S. Dollars, without a corresponding decrease in cost of goods sold. The impact from changes in currency rates as noted above is estimated to have decreased revenue by approximately \$1,830 for the quarter and \$3,700 for the six months ended June 30, 2009, respectively. Had the currency rates in 2009 been equal to the rates in 2008, the gross profit rate would have been approximately 2.2 percentage points higher for both the quarter and the six months ended June 30, 2009.

Non-hardware revenue, which can have a gross profit margin that is approximately 20 to 30 percentage points higher than hardware-related revenue, depending on the model and quantity of the hardware units sold, was 24% and 22% of revenue for the second quarter and first six months of 2009, respectively. Non-hardware revenue was approximately 25% and 23% of total revenue for the second quarter and first six months of 2008, respectively. We plan to continue to focus on sales of our non-hardware revenue items and expect that they will increase as a percentage of our total revenue in future periods.

Card readers, which can have a gross profit margin that is approximately 25 to 35 percentage points lower than other hardware-related margins, due to competitive pricing pressures, were 22% and 18% of our revenue for the second quarter and first six months of 2009, respectively, compared to 20% and 17% for the same periods in 2008. We expect that there will be continued pressure on the pricing of card readers as there are a number of competitors in the EMV market that produce products with fewer features than our products and at lower costs.

As noted above, revenue from our enterprise and application security markets was 32% and 29% of total revenue for the second quarter and first six months of 2009, respectively, compared to 17% and 18% for the same periods in 2008. The gross profit margin from our enterprise and application security business is approximately 20 to 25 percentage points higher than in the banking market because sales in the enterprise and application security market are generally for lower quantities and higher prices than in the banking market. We plan to continue to invest in both the banking market and the enterprise and application security market and the overall mix between the two markets will vary in the future based on the growth rates in each of the markets.

Operating Expenses

Our operating expenses are generally based on anticipated revenue levels and the majority of such expenses are fixed over short periods of time. 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. The most significant factor driving our operating expenses is our headcount. Direct compensation and benefit plan expenses generally represent between 55% and 60% of our operating expenses. In addition, a number of other expense categories are directly related to headcount. As mentioned earlier, we have implemented a cost containment initiative, which includes, but is not limited to, a hiring freeze in all areas with the exception of sales. We believe that these actions will allow us to remain profitable while not diminishing the value of key investments we have made over the last two years to build a strong infrastructure that will support our long-term growth.

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Sales and Marketing Expenses

Consolidated sales and marketing expenses for the quarter ended June 30, 2009 were \$8,033, a decrease of \$1,003, or 11%, from the second quarter of 2008. This decrease in sales and marketing expenses is primarily related to:

- the benefit of a stronger U.S. Dollar compared to the Euro,
- partially offset by,
- increased compensation expenses related to an increase in headcount (the average sales, marketing and operations employee headcount increased 11% to 161 in the second quarter of 2009 from 145 in the second quarter of 2008), and
 - increased expenses related to our recently opened sales offices primarily in Brazil, Japan and India. Expenses related to new sales offices were \$114, or 29%, higher in the second quarter 2009 when compared to the second quarter 2008.

Consolidated sales and marketing expenses for the six months ended June 30, 2009, were \$15,092, a decrease of \$1,645, or 10%, from the same period of 2008. In addition to the factors noted above, the decrease in expenses included the reversal, in the first quarter of 2009, of accruals of \$684 for long-term, performance-based, incentive awards, where the targeted performance is not likely to be achieved.

Average full-time sales and marketing employee headcount in the first six months of 2009 was 165, compared to 142 in the first six months of 2008.

Research and Development Expenses

Consolidated research and development expenses for the quarter ended June 30, 2009, were \$3,017, an increase of \$51, or 2%, from the second quarter of 2008. This increase was primarily due to:

- increased compensation expense related to an increase in headcount (the average research and development employee headcount increased 25% to 96 in the second quarter of 2009 from 77 in the second quarter of 2008),
- partially offset by,
- the benefit of a stronger U.S. Dollar compared to the Euro and Australian Dollar.

Consolidated research and development costs for the six months ended June 30, 2009, were \$5,461, a decrease of \$195, or 3%, from the same period of 2008. In addition to the factors noted above, the decrease in expenses included the reversal, in the first quarter of 2009, of accruals of \$371 for long-term, performance-based, incentive awards, where the targeted performance is not likely to be achieved.

Average full-time research and development employee headcount for the first six months in 2009 was 93, compared to 75 in the same period of 2008.

General and Administrative Expenses

Consolidated general and administrative expenses for the quarter ended June 30, 2009, were \$4,200, a decrease of \$30, or 1%, from the second quarter of 2008. This decrease is primarily due to:

- lower personnel recruiting costs,
- lower bad debt expense due to the recovery of amounts previously reserved, and
- the benefit of a stronger U.S. Dollar,

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partially offset by,

- increased compensation expenses related to an increase in headcount (the average general and administrative employee headcount increased 30% to 48 in the second quarter of 2009 from 37 in the second quarter of 2008).

Consolidated general and administrative expenses for the six months ended June 30, 2009, were \$6,565, a decrease of \$1,200, or 15%, from the same period of 2008. In addition to the factors noted above, the decrease in expenses included the reversal, in the first quarter of 2009, of accruals of \$947 for long-term, performance-based, incentive awards, where the targeted performance is not likely to be achieved.

Average full-time general and administrative employee headcount for the first six months in 2009 was 47 compared to 35 in the same period of 2008.

Amortization of Intangible Assets

Amortization of intangible assets for the second quarter and first six months of 2009 decreased \$14 and \$179, respectively, over the comparable periods in 2008. The decrease in amortization expense for the six months ended June 30, 2009 reflects the fact that the intangible assets related to our acquisition of Identikay Ltd. in March 2001 were fully amortized in the first quarter of 2008.

Interest Income

Consolidated net interest income was \$165 in the second quarter of 2009 as compared to income of \$277 in the second quarter of 2008. For the six months ended June 30, 2009, interest income was \$308 compared to \$534 for the same period of 2008. The decrease in interest income in both periods is primarily attributable to the fact that although we had higher average invested cash balances, we earned lower rates of return on them.

Other Income (Expense), Net

Other income (expense) primarily includes exchange gains (losses) on transactions that are denominated in currencies other than our subsidiaries' functional currencies, subsidies received from foreign governments in support of our export business and research and development activities in those countries and other miscellaneous non-operational, non-recurring expenses.

Other income for the second quarter of 2009 was \$1,206 and compares to other expense of \$43 for the second quarter of 2008. The increase in other income (expense) primarily reflects exchange gains of \$856 in the second quarter of 2009 compared to exchange losses of \$255 in the second quarter of 2008.

Other income for the first six months of 2009 was \$958 and compares to \$217 for the first six months of 2008. The increase in other income (expense) reflects exchange gains of \$335 in the first six months of 2009 compared to \$85 in the first six months of 2008. Other income, unrelated to exchange gains, increased from \$132 to \$623 for the first six months of 2008 and 2009, respectively. This increase is primarily related to additional foreign subsidies resulting from our increased efforts to obtain such subsidies as well as an increase in the amounts of the subsidies granted.

Income Taxes

Income tax expense for the second quarter of 2009 was \$681, a decrease of \$1,141 from the second quarter of 2008. The decrease in tax expense is attributable to lower pre-tax income, partially offset by a higher effective tax rate. The effective tax rate was 25% for the second quarter of 2009 and compares to 20% for the second quarter of 2008. The tax rate in the second quarter of 2008 benefited

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from a reduction in our estimate of our full-year tax rate. We reduced our estimated full-year tax rate from 23% at the end of the first quarter of 2008 to 21% at the end of the second quarter of 2008.

Income tax expense for the first six months of 2009 was \$1,835, a decrease of \$1,449 from the same period in 2008. The decrease in tax expense reflects lower pre-tax income partially offset by a higher effective tax rate. The effective tax rate was 25% for the first half of 2009 and compares to 21% for the first half of 2008.

The effective tax rate for both periods reflects our estimate of our full-year tax rate at the end of each respective period. The increase in the tax rate is primarily attributable to a reduction in pretax profits in tax jurisdictions that either have a lower statutory tax rate or have tax loss carryforwards that have been reserved. During this period of economic uncertainty, we believe that our effective tax rate may vary significantly quarter to quarter as actual earnings or losses are realized in countries with lower tax rates or with loss carryforwards that have been reserved.

At December 31, 2008, we had U.S. net operating loss carryforwards of \$22,422. A valuation allowance has been provided to offset the future tax benefits because we have not determined that their realization is more likely than not. Of this amount, \$16,064 may reduce future tax expense if the valuation reserve is released. The remainder represents tax deductions for employee stock option gains which would be credited to paid-in capital. The U.S. loss carryforwards expire in varying amounts beginning in 2018 and continuing through 2027. In addition, if certain substantial changes in the company's ownership were deemed to have occurred, there would be an annual limitation on the amount of the U.S. carryforwards that could be utilized.

At December 31, 2008, we also had foreign loss carryforwards of \$5,895. The foreign loss carryforwards have no expiration dates.

Liquidity and Capital Resources

Our net cash balance was \$67,589 at June 30, 2009, an increase of \$10,260, or 18%, from \$57,329 at March 31, 2009, and an increase of \$9,875, or 17%, from \$57,714 at December 31, 2008. The increase in cash from March 31, 2009, was attributable to strong cash flow from operations and the benefit from changes in exchange rates. Cash flow from operations included the benefit of a significant reduction in accounts receivable. The benefit from changes in exchange rates primarily reflected the fact that the Euro was stronger at June 30, 2009 than at March 31, 2009. We believe that our cash resources will be sufficient to meet our operating needs for the next 12 months.

At June 30, 2009 we had working capital of \$79,938, a \$4,008 increase, or 5%, from \$75,930 reported at December 31, 2008. The increase in working capital was primarily related to the increase in cash balances, partially offset by declines in receivables.

Days sales outstanding (DSO) in net accounts receivable decreased to 65 days as of June 30, 2009 from 84 days at March 31, 2009, from 79 days at December 31, 2008. The decrease in DSO is primarily related to the timing of when sales were made during the quarter.

EBITDA from continuing operations for the three and six month periods ending June 30, 2009 were \$3,235 and \$8,537, a decrease of \$6,661 and 8,380, respectively over the same periods in the prior year. A reconciliation of EBITDA to net income for the quarter and six months ended June 30, 2009 and 2008 follows:

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	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in thousands, unaudited)		(in thousands, unaudited)	
EBITDA	\$ 3,235	\$ 9,896	\$ 8,537	\$ 16,917
Interest income, net	165	277	308	534
Provision for income taxes	(681)	(1,822)	(1,835)	(3,284)
Depreciation and amortization	(677)	(893)	(1,505)	(1,812)
Net income	<u>\$ 2,042</u>	<u>\$ 7,458</u>	<u>\$ 5,505</u>	<u>\$ 12,355</u>

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

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

We maintain a line of credit with Fortis Bank, SA/NV, Brussels, Zurich Branch. Under terms of the agreement, we can borrow an amount equal to 80% of our Belgium subsidiary's defined accounts receivable up to a maximum of 5,000 Euros. Borrowing under the line of credit may be denominated in Euros, U.S. Dollars or Swiss Francs. If the borrowings are denominated in Euros, we are obligated to pay interest at the monthly average of the EONIA (Euro Over Night Index Average) plus 2.5% per year. If the borrowings are denominated in U.S. Dollars, we are obligated to pay interest at the U.S. Dollar Fed Fund Rate plus 2.5% per year. If the borrowings are denominated in Swiss Francs, we are obligated to pay interest at the Swiss National Bank Repo rate plus 2.5% per year. Either party can terminate the credit line with 14 days notice without penalty. If terminated, all borrowings under the line then outstanding would be due and payable. Fortis can also terminate the credit line immediately if VASCO fails to observe the specific terms of the credit line, becomes insolvent, ceases operation or experiences a change in control. We had no borrowings under the credit line at June 30, 2009.

While we believe that our financial resources and current borrowing arrangements are adequate to meet our operating needs over the next 12 months, we anticipate that the difficult current economic conditions that exist on a worldwide basis today may require us to modify our business

plans. In the current economic environment there is an increased risk that customers may delay their orders until the economic conditions stabilize or improve. If a significant number of orders are delayed for an indefinite period of time, our revenue and cash receipts may not be sufficient to meet the operating needs of the business. If this is the case, we may need to borrow against our credit line, significantly reduce our workforce, sell certain of our 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, 2008.

Recently Issued Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165), which establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events. SFAS 165 is effective for interim and annual reporting periods ending after June 15, 2009. The additional disclosure required by this statement is included in Note 1.

On January 1, 2009, we adopted the provisions of SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141R"), which replaced SFAS No. 141. SFAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any non-controlling interest in the acquiree. The adoption of SFAS 141R did not have a material impact on our consolidated financial position or results of operations but will impact the accounting for future business combinations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk during the three months ended June 30, 2009. 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, 2008.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, who, respectively, are our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

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 June 30, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Controls

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls' effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

PART II. OTHER INFORMATION**Item 5. Submission of Matters to a Vote of Security Holders**

On Wednesday, June 10, 2009, the company held its 2009 Annual Meeting of Stockholders. The purpose of the meeting was to elect five directors, approve the VASCO Data Security International, Inc. Executive Incentive Compensation Plan and approve the VASCO Data Security International, Inc. 2009 Equity Incentive Plan.

Five candidates nominated by the Board of Directors were elected by the stockholders to serve as directors of the company at the meeting.

The following sets forth the results of the voting with respect to each candidate:

Name	For	Authority Withheld	Broker Non-Votes
T. Kendall Hunt	20,765,438	996,478	-
Michael P. Cullinane	17,112,134	4,649,782	-
John N. Fox, Jr.	18,819,752	2,942,164	-
John R. Walter	17,107,770	4,654,146	-
Jean K. Holley	16,728,510	5,033,406	-

The stockholders voted as follows to approve the VASCO Data Security International, Inc. Executive Incentive Compensation Plan:

For	Against	Abstain	Broker Non-Votes
20,717,328	915,064	122,809	6,715

The stockholders voted as follows to approve the VASCO Data Security International, Inc. 2009 Equity Incentive Plan:

For	Against	Abstain	Broker Non-Votes
16,167,624	5,539,258	48,319	6,715

Item 6. Exhibits.

Exhibit 10.1 – Form of Indemnification Agreement between the Company and each of its non-employee directors.

Exhibit 31.1—Rule 13a-14(a)/15d-14(a) Certification, dated August 7, 2009.

Exhibit 31.2—Rule 13a-14(a)/15d-14(a) Certification, dated August 7, 2009.

Exhibit 32.1—Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 7, 2009.

Exhibit 32.2—Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 7, 2009.

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 August 7, 2009.

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)

EXHIBIT INDEX

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**FORM OF
INDEMNIFICATION AGREEMENT**

THIS INDEMNIFICATION AGREEMENT (this "**Agreement**") is entered into as of the ____ day of _____, 20__, by and between VASCO Data Security International, Inc., a Delaware corporation (the "**Company**"), and _____ ("**Indemnitee**").

RECITALS

A. The Company recognizes that competent and experienced persons are increasingly reluctant to serve or to continue to serve as directors or officers of public companies unless they are protected by comprehensive liability insurance, indemnification and advancement of expenses, due to the increased exposure to litigation costs and risks resulting from their service to such companies, and due to the fact that the exposure frequently bears no reasonable relationship to the compensation of such directors and officers.

B. The Company and Indemnitee recognize that plaintiffs often seek damages in such large amounts and the costs of litigation may be so enormous (whether or not the case is meritorious), that the defense and/or settlement of such litigation is often beyond the personal resources of directors and officers.

C. The Company believes that it is unfair for its directors and officers to assume the risk of large judgments and significant expenses that may occur in cases in which the director or officer received no personal profit and in cases where the director or officer was not culpable.

D. The Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve the Company.

E. Indemnitee is a director of the Company and in such capacity is performing valuable services for the Company.

F. In order to induce Indemnitee to continue to provide services to the Company, the Company wishes to provide for the indemnification of, and advancement of expenses to, Indemnitee to the maximum extent permitted by law.

G. The current By-laws of the Company (the "**By-laws**") require indemnification of the directors and officers of the Company, and Indemnitee also may be entitled to indemnification pursuant to the General Corporation Law of the State of Delaware;

H. The By-laws expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the Company's Board of Directors (the "**Board**"), officers and other persons with respect to indemnification;

I. The Board has concluded that, to attract and retain competent and experienced persons to serve as directors and officers of the Company, it is not only reasonable and prudent but necessary to promote the best interests of the Company and its stockholders for the Company to contractually indemnify its directors and certain of its officers in the manner set forth herein, and to assume for itself liability for expenses and damages in connection with claims against

such directors and officers in connection with their service to the Company as provided herein.

J. This Agreement is a supplement to and in furtherance of the indemnification provided in the By-laws and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements set forth below, the Company and Indemnitee, intending to be legally bound, hereby agree as follows:

1. Definitions. For purposes of this Agreement, the following terms shall have the corresponding meanings set forth below.

"Claim" means a claim or action asserted by a Person in a Proceeding or any other written demand for relief, in either case in connection with or arising from an Indemnification Event.

"Company Action" means a Proceeding in which a Claim has been brought by or in the name of the Company to procure a judgment in its favor.

"Corporate Status" describes the status of a Person who is, was or may be deemed to be a director, officer, limited liability company manager, partner, employee, controlling person, agent or fiduciary of any Covered Entity.

"Covered Entity" means (i) the Company, (ii) any subsidiary of the Company or (iii) any other Person for which Indemnitee is, was or may be deemed to be serving at the request of the Company, or at the request of any subsidiary of the Company, as a director, officer, employee, controlling person, agent or fiduciary. For purposes of clarification, **"serving at the request of the Company"** includes any service as a director, officer, limited liability company manager, partner, employee, controlling person, fiduciary or agent with respect to an employee benefit plan, its participants or beneficiaries.

"Disinterested Director" means, with respect to any determination contemplated by this Agreement, any Person who, as of the time of such determination, is a member of the Board but is not a party to any Proceeding then pending with respect to any Indemnification Event.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any similar federal statute then in effect.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, or any similar federal statute then in effect.

"Expenses" means any and all direct and indirect fees, costs, retainers, court costs, transcript costs, expert fees, witness fees, travel expenses, duplicating costs, printing costs, binding costs, telephone charges, postage and delivery service fees, and all other disbursements or expenses of any type or nature whatsoever actually and reasonably incurred by Indemnitee (including, subject to the limitations set forth in

Section 3(c) below, reasonable attorneys' fees) in connection with or arising from an Indemnification Event, including:

- (i) the investigation or defense of a Claim;
- (ii) being, or preparing to be, a witness or otherwise participating, or preparing to participate, in any Proceeding;
- (iii) furnishing, or preparing to furnish, documents in response to a subpoena or otherwise in connection with any Proceeding;
- (iv) any appeal of any judgment, outcome or determination in any Proceeding (including any premium, security for and other costs relating to any cost bond, *supersedeas* bond or any other appeal bond or its equivalent);
- (v) establishing or enforcing any right to indemnification or advancement of expenses under this Agreement (including pursuant to **Section 2(c)** below), Delaware law or otherwise, regardless of whether Indemnitee is ultimately successful in such action, unless as a part of such action, a court of competent jurisdiction over such action determines that each of the material assertions made by Indemnitee as a basis for such action was not made in good faith or was frivolous;
- (vi) Indemnitee's defense of any Proceeding instituted by or in the name of the Company under this Agreement to enforce or interpret any of the terms of this Agreement (including costs and expenses incurred with respect to Indemnitee's counterclaims and cross-claims made in such action); and
- (vii) any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, including all interest, assessments and other charges paid or payable with respect to such payments.

For purposes of clarification, Expenses shall not include Losses.

"Former Director or Officer" means, with respect to a determination contemplated by this Agreement, a Person who was a member of the Board or an executive officer of the Company but who is no longer serving on the Board or as an executive officer of the Company as of the time of such determination.

An **"Indemnification Event"** shall be deemed to have occurred if Indemnitee was, is or becomes, or is threatened to be made, a party to or witness or other participant in, or was, is or becomes obligated to furnish or furnishes documents in response to a subpoena or otherwise in connection with, any Proceeding by reason of Indemnitee's Corporate Status, or by reason of any action or inaction on the part of Indemnitee while serving in any such capacity (including rendering any written statement that is a Required Statement or is made to another director, officer, limited liability company manager, partner, employee, controlling person, agent or fiduciary of a Covered Entity to support a Required Statement).

“Independent Legal Counsel” means an attorney or firm of attorneys designated by Indemnitee that is acceptable, in their reasonable discretion, to a majority of the Disinterested Directors (or, if there are no Disinterested Directors, the Board) and that is experienced in matters of corporate law and neither presently is, nor in the three years prior to such designation has been, retained to represent (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning the rights of Indemnitee under this Agreement, or other indemnitees under similar indemnity agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification, advancement of Expenses or contribution hereunder.

“Losses” means any and all losses, claims, damages, liabilities, judgments, fines, penalties, settlement payments, awards and amounts of any type whatsoever incurred by Indemnitee in connection with or arising from an Indemnification Event. For purposes of clarification, Losses shall not include Expenses.

“Organizational Documents” means any and all organizational documents, charters or similar agreements or governing documents, including (i) with respect to a corporation, its certificate (or articles) of incorporation and by-laws, (ii) with respect to a limited liability company, its certificate of formation and operating agreement, and (iii) with respect to a limited partnership, its certificate of partnership and partnership agreement.

“Proceeding” means any threatened, pending or completed action, suit, proceeding, arbitration or alternative dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of a Covered Entity or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative or investigative nature.

“Person” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, any other enterprise or any government, agency or political subdivision thereof. For purposes of clarification, **“any other enterprise”** includes employee benefit plans and their related trusts.

“Required Statement” means a written statement of a Person that is required to be, and is, filed with the SEC regarding the design, adequacy or evaluation of a Covered Entity’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) or its internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), or the accuracy, sufficiency or completeness of reports or statements filed by a Covered Entity with the SEC pursuant to federal law and/or administrative regulations, including the certifications contemplated by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, or any rule or regulation promulgated pursuant thereto.

“Reviewing Party” means, with respect to any determination contemplated by this Agreement, any one of the following: (i) a majority of all Disinterested Directors, even if such Disinterested Directors do not constitute a quorum of the Board; (ii) a

committee consisting solely of Disinterested Directors, even if such committee members do not constitute a quorum of the Board, so long as such committee was designated by a majority of all Disinterested Directors; (iii) in the absence of any Disinterested Directors and upon the written consent of Indemnitee, the Company's stockholders; (iv) Independent Legal Counsel, in which case the applicable determination shall be provided in a written opinion to the Board, with a copy provided to Indemnitee; or (v) if Indemnitee is a Former Director or Officer of the Company at the time of such determination, Independent Legal Counsel

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended, or any similar federal statute then in effect.

2. Indemnification.

(a) Indemnification of Losses and Expenses. If an Indemnification Event has occurred, then, subject to **Section 9** and the other provisions of this Agreement below, the Company shall indemnify and hold harmless Indemnitee, to the fullest extent permitted by law, against any and all Losses and Expenses, but only if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Company, and, with respect to any criminal Proceeding, only if Indemnitee had no reasonable cause to believe Indemnitee's conduct was unlawful. The termination of any Proceeding by judgment, court order, settlement or conviction, or on plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that Indemnitee (i) did not act in good faith and in a manner which Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Company or (ii) with respect to any criminal Proceeding, had reasonable cause to believe that Indemnitee's conduct was unlawful. For purposes of clarification, a Person who acted in good faith and in a manner such Person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan and/or related trust shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this paragraph.

(b) Limitation with Respect to Company Actions. Notwithstanding any other provision of this Agreement to the contrary, the Company shall not indemnify and hold harmless Indemnitee with respect to any Losses (as opposed to Expenses) in connection with or arising from any Company Action. Furthermore, the Company shall not indemnify and hold harmless Indemnitee with respect to any Expenses in connection with or arising from any Company Action as to which Indemnitee shall have been finally adjudged to be liable to the Company in a non-appealable judgment by a court of competent jurisdiction unless, and then only to extent that, any court of competent jurisdiction in which such Company Action was brought shall determine upon application that, despite the adjudication of liability, but in view of all of the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification for such Expenses as such court shall deem proper.

(c) Advancement of Expenses. To the extent permitted by applicable law and until a determination that Indemnitee is not entitled to be indemnified by the Company under the terms hereof, the Company shall advance Expenses to or on behalf of Indemnitee as soon as practicable, but in any event not later than 30 days after written request therefor by Indemnitee,

which request shall be accompanied by vouchers, invoices or similar evidence documenting in reasonable detail the Expenses incurred or to be incurred by Indemnitee. Indemnitee hereby undertakes to repay such amounts advanced if, and only to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company for such Expenses under this Agreement. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee's ability to repay such advances.

(d) Contribution. If, and to the extent, the indemnification of Indemnitee provided for in **Section 2(a)** above for any reason is held by a court of competent jurisdiction not to be permissible for liabilities arising under federal securities laws or ERISA, then the Company, in lieu of indemnifying Indemnitee under this Agreement, shall contribute to the amount paid or payable by Indemnitee as a result of such Losses or Expenses (i) in such proportion as is appropriate to reflect the relative benefits received by the Covered Entities and all officers, directors, limited liability company managers, partners, employees, controlling persons, agents or fiduciaries of the Covered Entities other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such Proceeding), on the one hand, and Indemnitee, on the other hand, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Covered Entities and all officers, directors, limited liability company managers, partners, employees, controlling persons, agents or fiduciaries of the Covered Entities other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such Proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the action or inaction that resulted in such Losses or Expenses, as well as any other relevant equitable considerations. The relative fault of the Covered Entities and all officers, directors, limited liability company managers, partners, employees, controlling persons, agents or fiduciaries of the Covered Entities other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such Proceeding), on the one hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary, and the degree to which their conduct is active or passive. Notwithstanding the foregoing, no Person found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not found guilty of such fraudulent misrepresentation.

3. Indemnification and Advancement of Expenses Procedures.

(a) Notice of Indemnification Event. Indemnitee shall give the Company written notice as soon as practicable of any Indemnification Event of which Indemnitee becomes aware and of any request for indemnification or advancement of Expenses hereunder, provided that any failure to so notify the Company shall not relieve the Company of any of its obligations under this Agreement, except if, and then only to the extent that, such failure materially increases the liability of the Company under this Agreement. The written notice will include such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification and/or advancement of Expenses. Promptly upon receipt of any such request for indemnification or advancement of Expenses, the Secretary of the Company shall advise the Board of Directors in writing that Indemnitee has made such request.

(b) Notice to Insurers. If, at the time the Company receives notice of an Indemnification Event pursuant to **Section 3(a)** above, the Company has liability insurance in effect which may cover such Indemnification Event, the Company shall give prompt written notice of such Indemnification Event to the insurers in accordance with the procedures set forth in each of the applicable policies of insurance and provide a copy of each such notice to Indemnitee and to the Chair of the Corporate Governance and Nominating Committee of the Board. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Indemnification Event in accordance with the terms of such policies; provided that nothing in this **Section 3(b)** shall affect the Company's obligations under this Agreement or the Company's obligations to comply with the provisions of this Agreement in a timely manner as provided.

(c) Selection of Counsel. If the Company shall be obligated hereunder to pay or advance Expenses or indemnify Indemnitee with respect to any Losses, the Company shall be entitled to assume the defense of any related Claims, with counsel selected by the Company and reasonably acceptable to Indemnitee, which approval shall not be unreasonably withheld, conditioned or delayed. After the retention of such counsel by the Company and the receipt of any approval required under the preceding sentence, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the defense of such Claims; provided, however, that: (i) Indemnitee shall have the right to employ counsel in connection with any such Claim at Indemnitee's expense and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized by the Company with respect to the period after the Company has retained counsel to defend such Claim and such authorization has not been withdrawn, (B) counsel for Indemnitee or counsel for the Company has provided the Company with a written opinion that there is or there is reasonably likely to be a conflict of interest between the Company and Indemnitee on any significant issue in the conduct of any such defense or (C) the Company has ceased its retention of such counsel to defend such Claim, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company. The Company shall not be entitled, without the consent of Indemnitee, to assume the defense of any Claim brought by or in the right of the Company or as to which counsel for the Company or counsel for the Indemnitee shall have reasonably made the conclusion provided for in clause (B) in the immediately preceding sentence.

4. Determination of Right to Indemnification

(a) Successful Proceeding. To the extent Indemnitee has been successful, on the merits or otherwise, in defense of any Proceeding referred to in **Section 2(a)** or **2(b)**, the Company shall indemnify Indemnitee against Losses and Expenses incurred by Indemnitee in connection therewith, except as limited by such Sections or otherwise by this Agreement. If Indemnitee is not wholly successful in such Proceeding, but is successful, on the merits or otherwise, as to one or more but less than all Claims in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually or reasonably incurred by Indemnitee in connection with each successfully resolved Claim.

(b) Presumption of Success. The Company acknowledges that a settlement or other disposition short of final judgment shall be deemed a successful resolution for purposes of **Section 4(a)** if it permits a party to avoid expense, delay, distraction, disruption or uncertainty. In the event that any Proceeding to which Indemnitee is a party is resolved in any manner other

than by adverse judgment against Indemnitee (including settlement of such Proceeding with or without payment of money or other consideration), it shall be presumed that Indemnitee has been successful on the merits or otherwise in such Proceeding, unless there has been a finding (either adjudicated or pursuant to **Section 4(d)** below) that Indemnitee (i) did not act in good faith, (ii) did not act in a manner reasonably believed to be in, or not opposed to, the best interests of the Company, or (iii) with respect to any criminal proceeding, had reasonable grounds to believe his conduct was unlawful. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion, by a preponderance of the evidence.

(c) Other Proceedings. To the extent **Section 4(a)** is inapplicable, the Company shall nevertheless indemnify Indemnitee, unless and to the extent a Reviewing Party chosen pursuant to **Section 4(d)** determines that Indemnitee has not met the applicable standard of conduct set forth in **Section 2(a)** or **2(b)**, as applicable, as a condition to such indemnification.

(d) Reviewing Party Determination. If, and to the extent, any applicable law or this Agreement requires the determination that Indemnitee has met the applicable standard of conduct set forth in **Section 2(a)** or **2(b)**, as applicable, as a condition to any such indemnification, a Reviewing Party chosen by the Board (which Reviewing Party shall be an Independent Legal Counsel in the event any Former Director or Officer is seeking indemnification hereunder) shall make such determination in writing, subject to the following:

(i) A Reviewing Party so chosen shall act in the utmost good faith to assure Indemnitee a complete opportunity to present to such Reviewing Party Indemnitee's evidence that Indemnitee has met the applicable standard of conduct.

(ii) Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of a Covered Entity, including its financial statements, or on information supplied to Indemnitee by the officers or employees of a Covered Entity in the course of their duties, or on the advice of legal counsel for a Covered Entity or on information or records given, or reports made, to a Covered Entity by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by a Covered Entity, except and to the extent that (A) Indemnitee knew or had reason to know that such records or books of account of a Covered Entity, information supplied by the officers or employees of a Covered Entity, advice of legal counsel or information or records given or reports made by an independent certified public accountant or by an appraiser or other expert were materially false or materially inaccurate, or (B) Indemnitee has not satisfied Indemnitee's duty of loyalty to the Covered Entity. In addition, the knowledge and/or actions, or failure to act, of any director, officer, limited liability company manager, partner, employee, controlling person, agent or fiduciary of a Covered Entity shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement. Whether or not the foregoing provisions of this **Section 4(d)(ii)** are satisfied, it shall in any event be presumed that Indemnitee has at all times acted in good faith and in a manner Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Company. Any Person seeking to overcome this presumption shall have the burden of proof and the burden of persuasion, by a preponderance of the evidence.

(iii) If a Reviewing Party chosen pursuant to this **Section 4(d)** has not made a determination whether Indemnitee is entitled to indemnification within 30 days after being chosen as the Reviewing Party, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (A) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (B) a prohibition of such indemnification under applicable law; provided, however, that such 30-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the Reviewing Party in good faith requires such additional time for obtaining or evaluating documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this **Section 4(d)(iii)** shall not apply if (I) the determination of entitlement to indemnification is to be made by the stockholders of the Company, (II) a special meeting of stockholders is called by the Board for such purpose within thirty (30) days after the stockholders are chosen as the Reviewing Party, (III) such meeting is held for such purpose within 60 days after having been so called, and (IV) such determination is made thereat.

(e) Appeal to Court; Enforcement of Agreement by Indemnitee.

(i) Notwithstanding a determination by a Reviewing Party chosen pursuant to **Section 4(d)** that Indemnitee is not entitled to indemnification with respect to a specific Claim or Proceeding (an "**Adverse Determination**"), Indemnitee shall have the right to apply to the court in which that Claim or Proceeding is or was pending or any other court of competent jurisdiction for the purpose of enforcing Indemnitee's right to indemnification pursuant to this Agreement; provided that Indemnitee shall commence any such proceeding seeking to enforce Indemnitee's right to indemnification within one year following the date upon which Indemnitee is notified in writing by the Company of the Adverse Determination. If a determination shall have been made pursuant to **Section 4(d)** of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this **Section 4(d)** shall be conducted in all respects as a *de novo* trial on the merits and Indemnitee shall not be prejudiced by reason of the prior adverse determination.

(ii) In the event of any judicial proceeding between the parties concerning their respective rights and obligations hereunder, the Company shall have the burden of proving by a preponderance of the evidence that the Company is not obligated to make the payment or advance claimed by Indemnitee.

(iii) If a determination shall have been made pursuant to **Section 4(d)** of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this **Section 4(e)**, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the application for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(iv) The Company shall not oppose Indemnitee's right to seek any judicial adjudication of Indemnitee's rights under this Agreement. The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this **Section 4** that the procedures and presumptions of this Agreement are not valid, binding and enforceable. The Company agrees that its execution of this Agreement shall constitute a stipulation by which it shall be irrevocably bound in any court of competent jurisdiction in which a proceeding by Indemnitee for enforcement of Indemnitee's rights hereunder shall have been commenced, continued or appealed, that the Company is bound by all the provisions of this Agreement, that the Company's obligations set forth in this Agreement are unique and special, and that failure of the Company to comply with the provisions of this Agreement will cause irreparable and irremediable injury to Indemnitee, for which a remedy at law will be inadequate. As a result, in addition to any other right or remedy Indemnitee may have at law or in equity with respect to a breach of this Agreement, Indemnitee shall be entitled to injunctive or mandatory relief directing specific performance by the Company of its obligations under this Agreement.

5. Additional Indemnification Rights; Non-exclusivity.

(a) Scope. The Company hereby agrees to indemnify Indemnitee to the fullest extent permitted by law, even if such indemnification is not specifically authorized by the other provisions of this Agreement or any other agreement, the Organizational Documents of any Covered Entity or by applicable law. In the event of any change after the date of this Agreement in any applicable law, statute or rule, that expands the right of a Delaware corporation to indemnify a member of its board of directors or an officer, employee, controlling person, agent or fiduciary, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits afforded by such change. In the event of any change in any applicable law, statute or rule that narrows the right of a Delaware corporation to indemnify a member of its board of directors or an officer, employee, controlling person, agent or fiduciary, such change, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties rights and obligations hereunder except as set forth in Section 9(c) hereof.

(b) Non-exclusivity. The rights to indemnification, contribution and advancement of Expenses provided in this Agreement shall not be deemed exclusive of, but shall be in addition to, any other rights to which Indemnitee may at any time be entitled under the Organizational Documents of any Covered Entity, any other agreement, any vote of stockholders or Disinterested Directors, the laws of the State of Delaware or otherwise. Furthermore, no right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion of any right or remedy hereunder or otherwise shall not prevent the concurrent assertion of any other right or remedy. The rights to indemnification, contribution and advancement of Expenses provided in this Agreement shall continue as to Indemnitee for any action Indemnitee took or did not take while serving in an indemnified capacity even though Indemnitee may have ceased to serve in such capacity.

6. No Duplication of Payments. Notwithstanding anything to the contrary herein, the Company shall not be liable under this Agreement to make any payment of any amount

otherwise indemnifiable hereunder, or for which advancement is provided hereunder, if and to the extent Indemnitee has otherwise actually received such payment, whether pursuant to any insurance policy, the Organizational Documents of any Covered Entity or otherwise.

7. Mutual Acknowledgment. Both the Company and Indemnitee acknowledge that, in certain instances, federal law or public policy may override applicable state law and prohibit the Company from indemnifying its directors and officers under this Agreement or otherwise. For example, the Company and Indemnitee acknowledge that the SEC has taken the position that indemnification is not permissible for liabilities arising under certain federal securities laws, and federal legislation prohibits indemnification for certain ERISA violations. Indemnitee understands and acknowledges that the Company has undertaken, or may be required in the future to undertake, with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee, and any right to indemnification hereunder shall be subject to, and conditioned upon, any such required court determination.

8. Liability Insurance. To the extent the Company maintains liability insurance applicable to directors, officers, limited liability company managers, partners, employees, controlling persons, agents or fiduciaries of any Covered Entity, Indemnitee shall be covered by such policy or policies in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Covered Entity's directors (or limited liability company manager or partner), if Indemnitee is a director (or limited liability company manager or partner) of such Covered Entity, or of the Covered Entity's officers, if Indemnitee is not a director of such Covered Entity but is an officer of such Covered Entity, or of the Covered Entity's key employees, controlling persons, agents or fiduciaries, if Indemnitee is not an officer or director but is an employee, controlling person, agent or fiduciary of such Covered Entity, as the case may be. The Company shall advise Indemnitee as to the general terms of, and the amounts of coverage provided by, any liability insurance policy described in this **Section 8** and shall promptly notify Indemnitee if, at any time, any such insurance policy will no longer be maintained or the amount of coverage under any such insurance policy will be decreased.

9. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement to indemnify Indemnitee:

(a) against any Losses or Expenses, or to advance Expenses to Indemnitee, with respect to Claims initiated or brought voluntarily by Indemnitee, and not by way of defense, except (i) Claims to establish or enforce a right to indemnification, contribution or advancement with respect to an Indemnification Event, whether under this Agreement, any other agreement or insurance policy, the Company's Organizational Documents of any Covered Entity, the laws of the State of Delaware or otherwise, or (ii) if the Board has approved specifically the initiation or bringing of such Claim;

(b) against any Losses or Expenses, or to advance Expenses to Indemnitee, with respect to Claims arising (i) with respect to an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act or (ii) pursuant to Section 304

or 306 of the Sarbanes-Oxley Act of 2002, as amended, or any rule or regulation promulgated pursuant thereto;

(c) if, and to the extent, that such indemnification is not lawful;

(d) for any amounts paid in settlement of any Claim effected without the Company's prior written consent. The Company shall not settle any Claim in which it takes the position that Indemnitee is not entitled to indemnification in connection with such settlement without the prior written consent of Indemnitee, nor shall the Company settle any Claim in any manner which would impose any fine or obligation on Indemnitee that is not indemnified by the Company hereunder, without Indemnitee's prior written consent;

(e) if, and to the extent, that the amounts paid in settlement of any Claim were pursuant to a settlement approved by a court of competent jurisdiction and indemnification would be inconsistent with any condition with respect to indemnification expressly imposed by the court in approving the settlement;

(f) against any Losses or Expenses, or to advance Expenses to Indemnitee, with respect to Claims or Proceedings involving the enforcement of non-compete, non-disclosure, non-solicitation and/or clawback, return, forfeiture and/or offset of compensation agreements, or the non-compete, non-disclosure, non-solicitation and/or clawback, return, forfeiture and/or offset provisions of employment, consulting or similar agreements to which Indemnitee may be a party with any Covered Entity.

10. Miscellaneous.

(a) Counterparts. This Agreement may be executed in one or more counterparts, each of which when so executed and delivered shall be deemed an original, and such counterparts together shall constitute one instrument. In the event any signature to this Agreement is delivered by facsimile transmission or by email delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof.

(b) Binding Effect; Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns (including with respect to the Company, any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company) and with respect to Indemnitee, his spouse, heirs, and personal and legal representatives. The Company shall require and cause any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all, substantially all, or a substantial part, of the business and/or assets of the Company, to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession or assignment had taken place. This Agreement shall continue in effect with respect to Claims relating to Indemnification Events regardless of whether Indemnitee continues to serve as a director, officer, limited liability company manager, partner, employee, controlling person, agent or fiduciary of any Covered Entity.

(c) Notice. All notices and other communications required or permitted hereunder shall be in writing, shall be effective when given, and shall in any event be deemed to be given (a) five days after deposit with the U.S. Postal Service or other applicable postal service, if delivered by certified mail, postage prepaid, (b) upon delivery, if delivered by hand, (c) one business day after the business day of deposit with Federal Express or similar, nationally recognized overnight courier, freight prepaid, or (d) one business day after delivery by confirmed facsimile transmission, if deliverable by facsimile transmission, with copy by other means permitted hereunder, and addressed, if to Indemnitee, to Indemnitee's address or facsimile number (as applicable) as set forth beneath Indemnitee's signature to this Agreement, or, if to the Company, at the address or facsimile number (as applicable) of its principal corporate offices (attention: Secretary), or at such other address or facsimile number (as applicable) as such party may designate to the other parties hereto.

(d) Consent to Jurisdiction. Subject to the first sentence of **Section 4(e)**, the Company and Indemnitee each hereby irrevocably consents to the jurisdiction and venue of the courts of the State of Delaware for all purposes in connection with any Proceeding which arises out of or relates to this Agreement and agree that any Proceeding instituted under this Agreement shall be commenced, prosecuted and continued only in the courts of the State of Delaware. **THE COMPANY AND INDEMNITEE EACH HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT.** The Company and Indemnitee each hereby appoints, to the extent such party is not otherwise subject to service of process in the State of Delaware, The Corporation Trust Company, Wilmington, Delaware as its agent in the State of Delaware as such party's agent for acceptance of legal process in connection with any such action or proceeding against such party with the same legal force and validity as if served upon such party personally within the State of Delaware, and agrees not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

(e) Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable that is not itself invalid, void or unenforceable) shall be construed so as to give effect to the purposes manifested by the provision held invalid, illegal or unenforceable.

(f) Choice of Law. This Agreement shall be governed by and its provisions shall be construed and enforced in accordance with, the laws of the State of Delaware, without regard to the conflict of laws principles thereof.

(g) Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

(h) Amendment and Termination. No amendment, modification, termination, cancellation, waiver of any provision, of this Agreement shall be effective unless it is in a writing signed by the parties to be bound thereby. Notice of same shall be provided to all parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

(i) No Construction as Employment Agreement. Nothing contained in this Agreement shall be construed as giving Indemnitee any right to be retained or continue in the employ or service of any Covered Entity.

(j) Rules of Construction. Unless otherwise expressly stated: (i) references to numbered or lettered sections and subsections refer to sections and subsections of this Agreement unless otherwise expressly stated, (ii) any reference to statutes or laws shall include all amendments, modifications or replacements of the specific sections and provisions concerned, (iii) common nouns and pronouns shall be deemed to refer to the masculine, feminine, neuter, singular and plural, as the identity of the person may in the context require, and (iv) the word “**including**,” and variations thereof, shall mean “including without limitation.”

(k) Code Section 409A Compliance. The Company and Indemnitee intend for this Agreement and the benefits provided herein to be exempt from the application of Section 409A of the Internal Revenue Code of 1986, as amended (“**Code Section 409A**”), pursuant to Treasury Regulation Section 1.409A-1(b)(10). To the extent that Code Section 409A applies to any payment of Expenses or Losses under this Agreement, the affected payment shall be paid by the Company to Indemnitee when due in accordance with the applicable Agreement provisions; provided, however, that any such payment:

(i) shall be made no later than (a) the end of Indemnitee's taxable year following the taxable year in which Indemnitee incurs such Expense or Loss, (b) with respect to taxes, the end of Indemnitee's taxable year following the taxable year in which Indemnitee remits such taxes to the applicable taxing authority, or (c) with respect to interest and penalties incurred by Indemnitee with respect to taxes, the end of Indemnitee's taxable year following the taxable year in which Indemnitee incurs such interest and/or penalties, as applicable;

(ii) paid by the Company under the Agreement during one calendar year shall not affect the amount payable or reimbursable by the Company during a subsequent calendar year; and

(iii) may not be exchanged or substituted for other payments to Indemnitee.

**[remainder of page intentionally left blank;
signature page follows]**

SIGNATURE PAGE TO INDEMNIFICATION AGREEMENT

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

VASCO Data Security International, Inc.,
a Delaware corporation

By: _____

Name: _____

Title: _____

Address: 1901 South Meyers Road
Suite 210
Oakbrook Terrace, Illinois 60181
Attn: Secretary
Fax No.: (630) 932-8852

INDEMNITEE:

Signature: _____

Name: _____

Address:

Fax No.:

Certification

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.

Date: August 7, 2009

/s/ T. Kendall Hunt

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

Certification

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.

Date: August 7, 2009

/s/ Clifford K. Bown

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

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 June 30, 2009, 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
August 7, 2009

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 June 30, 2009, 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
August 7, 2009