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, 2008

OR

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

Commission file number 000-24389

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 ☐	Accelerated filer ☒
Non-accelerated filer ☐ (do not check if smaller reporting company)	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 37,256,082 shares of Common Stock, $.001 par value per share, outstanding at July 31, 2008.

VASCO Data Security International, Inc.
Form 10-Q
For The Quarterly Period Ended June 30, 2008

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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.

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

	June 30, 2008	December 31, 2007
ASSETS	(unaudited)	
Current assets:		
Cash and equivalents	$ 42,076	$ 38,833
Accounts receivable, net of allowance for doubtful accounts	32,384	25,721
Inventories	10,833	7,076
Prepaid expenses	1,550	1,712
Foreign sales tax receivable	7,661	4,919
Deferred income taxes	258	476
Other current assets	175	180
Total current assets	94,937	78,917
Property and equipment:		
Furniture and fixtures	3,609	3,124
Office equipment	4,198	3,341
	7,807	6,465
Accumulated depreciation	(4,807)	(4,325)
Property and equipment, net	3,000	2,140
Goodwill, net of accumulated amortization	15,361	14,319
Intangible assets, net of accumulated amortization	2,109	2,295
Other assets, net of accumulated amortization	3,647	3,005
Total assets	$ 119,054	$ 100,676
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	6,395	7,757
Deferred revenue	6,200	5,608
Accrued wages and payroll taxes	5,493	5,330
Income taxes payable	5,283	4,008
Other accrued expenses	3,471	3,776
Current deferred compensation	1,232	—
Total current liabilities	28,074	26,479
Deferred warranty	226	309
Accrued compensation	723	1,281
Deferred revenue	1,206	457
Deferred tax liability	542	611
Total liabilities	30,771	29,137
Stockholders' equity :		
Common stock, $.001 par value—75,000 shares authorized; 37,256 and 37,205 shares issued and outstanding at June 30, 2008, and December 31, 2007, respectively	37	37
Additional paid-in capital	65,597	64,734
Accumulated income	12,920	565
Accumulated other comprehensive income	9,729	6,203
Total stockholders' equity	88,283	71,539
Total liabilities and stockholders' equity	$ 119,054	$ 100,676

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Net revenue	$35,409	$32,442	$64,337	$58,847
Cost of goods sold	10,007	11,755	18,895	20,630
Gross profit	25,402	20,687	45,442	38,217
Operating costs:				
Sales and marketing	9,036	6,659	16,737	12,749
Research and development	2,966	2,076	5,656	3,999
General and administrative	4,230	2,249	7,765	4,636
Amortization of purchased intangible assets	124	253	396	511
Total operating costs	16,356	11,237	30,554	21,895
Operating income	9,046	9,450	14,888	16,322
Interest income, net	277	80	534	138
Other income (expense), net	(43)	(8)	217	(45)
Income before income taxes	9,280	9,522	15,639	16,415
Provision for income taxes	1,822	2,666	3,284	4,596
Net income	$ 7,458	$ 6,856	$12,355	$11,819
Net income per share:				
Basic	$ 0.20	$ 0.19	$ 0.33	$ 0.32
Diluted	$ 0.20	$ 0.18	$ 0.32	$ 0.31
Weighted average common shares outstanding:				
Basic	37,130	36,879	37,120	36,722
Diluted	38,198	38,228	38,253	38,115

See accompanying notes to condensed consolidated financial statements.

VASCO Data Security International, Inc.
Condensed Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net income	$ 7,458	$ 6,856	$12,355	$11,819
Other comprehensive income - Cumulative translation adjustment	85	735	3,526	1,073
Comprehensive income	$ 7,543	$ 7,591	$15,881	$12,892

See accompanying notes to condensed consolidated financial statements.

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VASCO Data Security International, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six months ended June 30, 2008	Six months ended June 30, 2007
Cash flows from operating activities:		
Net income	$12,355	$11,819
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,812	1,484
Deferred tax expense (benefit)	208	116
Non-cash compensation	1,473	905
Changes in assets and liabilities:		
Accounts receivable, net	(4,448)	(3,819)
Inventories	(3,730)	(2,483)
Prepaid expenses	248	251
Foreign sales tax receivable	(2,683)	(198)
Other assets	(1,194)	(194)
Accounts payable	(1,522)	574
Income taxes payable	1,040	1,929
Deferred revenue	402	658
Accrued wages and payroll taxes	(156)	303
Accrued expenses	(423)	824
Long term deferred revenue	666	—
Deferred warranty	(83)	(11)
Net cash provided by operations	3,965	12,158
Cash flows from investing activities:		
Additions to property and equipment	(894)	(562)
Additions to goodwill and intangibles	(71)	(244)
Net cash used in investing activities	(965)	(806)
Cash flows from financing activities:		
Proceeds from bank borrowing	—	1,111
Proceeds from exercise of stock options and warrants	65	1,722
Net cash provided by financing activities	65	2,833
Effect of exchange rates on cash	178	341
Net increase in cash	3,243	14,526
Cash and equivalents, beginning of year	38,833	14,768
Cash and equivalents, end of period	$42,076	$29,294

See accompanying notes to condensed 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, Belgium, Brazil, China, India, Japan, the Netherlands, Singapore, the United States (U.S.) and Switzerland.

Basis of Presentation

The accompanying unaudited 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, 2007.

In the opinion of management, the accompanying unaudited 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.

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

Consulting and Education Services: We provide consulting and education services to our customers. 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 and Emerging Issues Task Force (EITF) Issue No. 00-21. The fair value for each element is based on the price charged when that element is sold separately, renewal rates and other methods. 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. For sales arrangements in which vendor specific objective evidence (VSOE) of fair value has not been established, revenue for all elements is deferred and amortized over the life of the arrangement.

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

For large-volume transactions, we may negotiate a specific price that is based on the number of users of the software license or quantities of hardware supplied. The per unit prices for 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 Equivalents

The company classifies as cash and equivalents amounts on deposit in banks and cash invested temporarily in various instruments with maturities of three months or less at time of purchase.

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 new customer contract administration process. Adjustment of credit limits for existing customers may result from the monthly 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 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 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 currently defines technological feasibility as a functioning beta test prototype with confirmed manufacturability (a working model), within a reasonably predictable range of costs. Additional criteria include receptive customers, or potential customers, as evidenced by interest expressed in a beta test prototype, at some suggested selling price. 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 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, 2008 and December 31, 2007, our financial instruments were accounts receivable, notes 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 March 31, 2008 and December 31, 2007.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective in fiscal years beginning after November 15, 2007. Delayed application is permitted for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008. We adopted SFAS No. 157 on January 1, 2008 for financial assets and financial liabilities and have chosen to delay the adoption for nonfinancial assets and nonfinancial liabilities until January 1, 2009. We do not believe that the final adoption of this pronouncement will have a material effect on our results of operations or financial position.

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 other indefinite-lived intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Indefinite-lived intangible assets include customer lists, proprietary technology and other intangible assets. Intangible assets other than patents with definite lives are amortized over their useful lives, 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.

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

Stock-Based Compensation

Our stock-based employee compensation plan (the VASCO Data Security International, Inc. 1997 Stock Compensation Plan, as Amended and Restated) is accounted for under SFAS 123(R), *Stock-Based Compensation*. This statement requires us to estimate the fair value of stock options granted to employees, directors and others and to record compensation expense equal to the estimated fair value. The fair value of stock options at the date of grant is estimated using the Black-Scholes option pricing model, with the expected life adjusted to reflect the effect of post-vesting restrictions. This compensation expense is recorded on a straight-line basis over the vesting period of the options.

Deferred Warranty

Our standard practice is to provide a warranty on our authenticators for one or two years, depending on the country in which it is sold, after the date of purchase. Customers may purchase extended warranties covering periods from one to three 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 – 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, 2008	December 31, 2007
Accounts receivable	$33,002	$ 26,173
Allowance for doubtful accounts	(618)	(452)
Accounts receivable, net	$32,384	$ 25,721

Note 3 – Inventories

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

Inventories are comprised of the following:

	June 30, 2008	December 31, 2007
Component parts	$ 6,270	$ 3,876
Work-in-process and finished goods	4,563	3,200
Total	$10,833	$ 7,076

Note 4 – Goodwill and Other Intangibles

The following table summarizes intangible assets and goodwill activity for the six months ended June 30, 2008:

	Capitalized technology	Patents & trademarks	Total Intangible assets	Goodwill
Net balance at December 31, 2007	$ 2,125	$ 170	$ 2,295	$14,319
Additions	—	71	71	—
Net translation gain	139	—	139	1,042
Amortization expense	(390)	(6)	(396)	—
Net balance at June 30, 2008	$ 1,874	$ 235	$ 2,109	$15,361

Note 5 – Other Assets—Long Term

Other assets is comprised mostly of two components: instructional video software and deemed compensation. The cost of the software was capitalized in accordance with SFAS 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* 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. In the second quarter and first six months of 2008, $643 and $1,134, respectively, of additional investment in the development of instructional videos was capitalized; amortization will commence once these additional videos are is complete. In comparable periods of 2007, no amounts were capitalized.

Deemed compensation represents the long-term portion of the Able acquisition price which is contingent upon the seller's continued employment with the company over a four year period ending October 2010. As of June 30, 2008, the amount to be amortized over the next twelve months was $493 and has been included in prepaid expense. As of December 31, 2007, the amount to be amortized over the next twelve months was $459.

Amortization of the instructional software and deemed compensation is included in sales and marketing expense. Amortization of deferred tax assets is charged to income tax expense. The following table summarizes other long-term assets for the six months ended June 30, 2008:

	Instructional software	Deemed compensation	Deferred tax assets	Other assets	Total other assets
Net balance at December 31, 2007	$ 1,797	$ 843	$ 215	$ 150	$ 3,005
Additions/(reductions)	1,134	—	(5)	70	1,199
Net translation gain	114	53			167
Amortization expense	(486)	(238)	—	—	(724)
Net balance at June 30, 2008	$ 2,559	$ 658	$ 210	$ 220	$ 3,647

Note 6 – Income Taxes

Our effective tax rate for 2008 is expected to be 21%. This is lower than the U.S. statutory rate primarily due to income in foreign jurisdictions which is taxed at lower rates.

At December 31, 2007, we had U.S. net operating loss carryforwards of $27,533. Of this amount, $21,246 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. A valuation reserve has been provided to offset most of the future tax benefits because we have not determined that their realization is more likely than not. 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, 2007, we also had foreign loss carryforwards of $7,789. The foreign loss carryforwards have no expiration dates. Included in the foreign loss carryforwards amount is $2,950 of tax losses acquired in the acquisition of Logico Smart Card Solutions (Logico). Utilization of these loss carryforwards would not reduce future tax expense, but would reduce deferred tax assets or goodwill created in the acquisition. Goodwill for the Logico acquisition was reduced by $85 in 2007.

We had no accrued interest or penalties at June 30, 2008. Our policy is to record interest and penalties on income taxes as income tax expense.

Note 7 – Stock Compensation Plan

We awarded 69 shares of restricted stock in the first quarter of 2008 under the VASCO Data Security International, Inc. 1997 Stock Compensation Plan, as Amended and Restated, consisting of 39 issued shares and 30 shares subject to future performance criteria which have not been issued. The market value of the restricted shares was $1,503 at the date of grant and will be amortized over their respective vesting periods, which range from one to four years. There were no stock awards in the second quarter of 2008.

The following table details the non-cash compensation expense incurred in the three and six months ended June 30, 2008 and 2007:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Stock options	$ 70	$ 77	$ 140	$170
Restricted stock	335	223	658	454
Long-term incentive plan	398	163	675	281
Total non-cash compensation	$ 803	$ 463	$1,473	$905

Note 8 – Common Stock and Earnings per Share

The following table summarizes the activity of VASCO's common stock for the six months ended June 30, 2008:

	Common stock issued	
	Number of shares	Value of shares
Exercise of options	12	$ 65
Restricted stock awards	39	857

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, 2008 and 2007 follow:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net income	$ 7,458	$ 6,856	$12,355	$11,819
Weighted average common shares outstanding				
Basic	37,130	36,879	37,120	36,722
Incremental shares with dilutive effect:				
Stock options	991	1,211	1,036	1,259
Restricted stock awards	21	72	38	70
Warrants	56	66	59	64
Dilutive	38,198	38,228	38,253	38,115
Net income per share				
Basic	$ 0.20	$ 0.19	$ 0.33	$ 0.32
Dilutive	$ 0.20	$ 0.18	$ 0.32	$ 0.31

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, 2007, filed with the Securities and Exchange Commission, and include, but are not limited to, (a) risks of general market conditions, including currency fluctuations, (b) risks inherent to the computer and network security industry, including rapidly changing technology, evolving industry standards, increasing numbers of patent infringement claims, changes in customer requirements, price competitive bidding, changing government regulations and (c) risks specific to VASCO, including, demand for our products and services, competition from more established firms and others, pressures on price levels and our historical dependence on relatively few products, certain suppliers and certain key customers. Thus, the results that we actually achieve may differ materially from any anticipated results included in, or implied by these statements.

General

The following discussion is based upon our consolidated results of operations for the three and six months ended June 30, 2008 and 2007 (percentages in the discussion may be rounded to the closest full percentage point) and should be read in conjunction with our consolidated financial statements included elsewhere in this Form 10-Q and our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

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

Comparison of Results for the Three and Six Months Ended June 30, 2008 and 2007

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

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

Currency Fluctuations: In the second quarter of 2008 and 2007, approximately 95% and 92%, respectively, of our revenue was generated outside the United States. For the six months ended June 30, 2008 and 2007, approximately 93% and 91%, respectively, of our revenue was generated outside of the United States.

In addition, approximately 75% of our operating expenses in the second quarter of both 2008 and 2007 were incurred outside of the United States. For the six months ended June 30, 2008 and 2007, approximately 74% and 73%, of our operating expenses were incurred outside of the United States.

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

The U.S. Dollar weakened approximately 14% and 13% against the Euro for the quarter and six months ended June 30, 2008, respectively, as compared to the same periods in 2007. The U.S. Dollar weakened approximately 13% against the Australian Dollar for both the quarter and six months ended June 30, 2008 as compared to the same periods in 2007. We estimate that the weakening of the U.S. Dollar versus these two currencies in 2008 compared to 2007 resulted in an increase in revenue of approximately $2,009 and $4,045 for the quarter and six months ended June 30, 2008, respectively, compared to the same periods in 2007 and an increase in operating expenses of approximately $1,691 and $2,917 for the quarter and six months ended June 30, 2008, respectively, compared to the same period in 2007.

The financial position and results of operations of many of our foreign subsidiaries 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 consolidated statements of operations in other non-operating income (expense). Foreign exchange transaction losses aggregating $255 in the second quarter of 2008 compare to losses in the second quarter of 2007 of $161. For the six months ended June 30, 2008, transaction gains of $85 compare to losses of $245 for the six months ended June 30, 2007.

Revenue

Revenue by Geographic Regions: We classify our sales by customers' location in four geographic regions: 1) EMEA, which includes Europe, the Middle East and Africa; 2) the United States, 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, 2008 and 2007 in each of our major geographic areas was as follows:

	Europe	United States	Asia Pacific	Other Countries (a)	Total
Three months ended June 30:					
Total Revenue:					
2008	$24,396	$ 1,961	$ 2,397	$ 6,655	$35,409
2007	21,268	2,646	4,302	4,226	32,442
Percent of Total:					
2008	69%	5%	7%	19%	100%
2007	66%	8%	13%	13%	100%
Six months ended June 30:					
Total Revenue:					
2008	$43,856	$ 4,357	$ 5,548	$ 10,576	$64,337
2007	37,469	5,108	7,082	9,188	58,847
Percent of Total:					
2008	68%	7%	9%	16%	100%
2007	64%	9%	12%	15%	100%

(a) 2007 includes amounts reclassified from Asia Pacific to Other Countries to be consistent with 2008 presentation.

Total revenue in the second quarter of 2008 increased $3,000, or 9%, over second quarter 2007. The increase was primarily attributable to the weakening of the U.S. Dollar as compared to the Euro, as previously noted, and an increase in product volume related to non-hardware revenue.

The increase in non-hardware product volume reflects our strategy to increase recurring software-related revenue. Non-hardware revenue, which includes software, maintenance, support, customization, warranty and other services increased from 14% of revenue in the second quarter of 2007 to 25% of revenue in the second quarter of 2008.

Revenue generated in Europe, Middle East, Africa (EMEA) during the second quarter was $3,128, or 13%, higher than the second quarter of 2007. The increase was primarily attributable to the weakening of the U.S. Dollar as compared to the Euro and an increase in product volume related to non-hardware revenue.

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Revenue generated in the United States during the second quarter was $685, or 26%, lower than the second quarter of 2007. Revenue in the United States declined primarily in the banking market and is due, in part, to the fact that the U.S. banking market continues to defer the decision to implement strong authentication for users of its retail Internet banking services. We believe that we are well positioned to meet the needs of the U.S. market when banks decide to deploy strong user authentication to their retail banking customers.

Revenue generated in the Asia Pacific region during the second quarter was $1,905, or 44%, lower than the second quarter of 2007. The decrease was primarily attributable to the banking market and reflects the fact that revenue for the second quarter of 2007 included a significant transaction that was not replaced with a comparable transaction in the second quarter of 2008. Given the relatively small size of the region in terms of revenue, revenue can fluctuate significantly quarter to quarter as a result of the timing of when transactions are recorded. While the revenue for this region declined significantly in this quarter, we believe that the region will be an important contributor to our future revenue.

Revenue generated from other countries during the second quarter was $2,429, or 57%, higher than the second quarter of 2007. The increase in other regions was due to several transactions with banks where the market for strong user authentication is continuing to develop.

Total revenue for the six months ended June 30, 2008 increased $5,490 or 9% over the first six months of 2007. The increase 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, 2008 generated in Europe was $6,387 or 17% higher than 2007, revenue generated in the United States was $751 or 15% lower than 2007, revenue from Asia Pacific was $1,534 or 22% lower than 2007 and revenue generated from other countries was $1,388 or 15% higher than 2007.

For the first six months of 2008, our top ten customers accounted for approximately 46% of total revenue as compared to 53% of total revenue in the first six months of 2007.

Revenue by Target Market: Revenue is generated currently from two primary markets, banking/finance (Banking) and “Enterprise Security”, through the use of both direct and indirect sales channels. The Enterprise Security market includes corporations, business-to-business (B2B), business-to-consumer (B2C), e-commerce, e-government and various other vertical application markets that are not related to banking or finance. The breakdown of revenue between the two primary markets is as follows:

	Banking	Enterprise Security	Total
Three months ended June 30:			
Total Revenue:			
2008	$29,371	$ 6,037	$35,408
2007	28,450	3,992	32,442
Percent of Total:			
2008	83%	17%	100%
2007	88%	12%	100%
Six months ended June 30:			
Total Revenue:			
2008	$52,453	$ 11,884	$64,337
2007	50,892	7,955	58,847
Percent of Total:			
2008	82%	18%	100%
2007	86%	14%	100%

Revenue in the second quarter of 2008 from the Banking market increased $921, or 3%, over the second quarter of 2007 and revenue from the Enterprise Security market increased $2,045, or 51%, in the same period. The increase in revenue in the Banking market is attributable to the strong Euro and increased non-hardware revenue noted above, partially offset by a decline in hardware quantities. The strength in the Enterprise Security market was attributable in part to the strong Euro, increased non-hardware revenue and increased sales volume from Original Equipment Manufacturer (OEM) customers, other large volume orders and sales of appliance-related products. Sales to OEM customers and other large volume orders have gross margins that, due to our volume-pricing methodologies, are lower than the margins realized on sales to small and medium-sized businesses. We expect to continue to invest in the development of the channel as well as to continue to invest in developing products for the channel.

Revenue for the first six months of 2008 from the Banking market increased $1,561 or 3% compared to the first six months of 2007 and revenue from the Enterprise Security market increased $3,929 or 49% in the same period. Growth in both markets for the first six months was attributable to the same factors noted above 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 ended June 30, 2008 and 2007:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	28.3	36.3	29.4	35.1
Gross profit	71.7	63.7	70.6	64.9
Operating costs:				
Sales and marketing	25.5	20.5	26.0	21.7
Research and development	8.4	6.4	8.8	6.8
General and administrative	11.9	6.9	12.1	7.9
Amortization of purchased intangible assets	0.4	0.8	0.6	0.8
Total operating costs	46.2	34.6	47.5	37.2
Operating income	25.5	29.1	23.1	27.7
Interest income	0.8	0.2	0.8	0.2
Other income (expense)	(0.1)	(0.0)	0.4	(0.1)
Income before income taxes	26.2	29.3	24.3	27.8
Provision for income taxes	5.1	8.2	5.1	7.8
Net income	21.1	21.1	19.2	20.0

Gross Profit

Consolidated gross profit for the quarter ended June 30, 2008 was $25,402, an increase of $4,715, or 23%, from the quarter ended June 30, 2007. Gross profit as a percentage of revenue was 72% for the quarter ended June 30, 2008, as compared to 64% for the quarter ended June 30, 2007. The increase in gross profit as a percentage of revenue for the second quarter of 2008 compared to 2007 primarily reflects the positive impact of currency, an increase in non-hardware related revenue as a percentage of total revenue and a change in the mix of our revenue, with a higher percentage of the revenue coming from the Enterprise Security market. Our non-hardware revenue was 25% of total revenue for the second quarter of 2008 and compares to 14% of total revenue for the second quarter of 2007.

Consolidated gross profit for the six months ended June 30, 2008 was $45,442, an increase of $7,225, or 19%, from the comparable period in 2007. Gross profit as a percentage of revenue was 71% for the first six months of 2007, as compared to 65% for the comparable period in 2006. The increase in gross profit as a percentage of revenue is primarily attributable to the same factors noted for the second quarter of 2008. Our non-hardware revenue was 23% of total revenue for the first six months of 2008 and compares to 14% of total revenue for the first six months of 2007.

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 weakened when compared to the Euro and Australian Dollar in the same periods in the prior year, revenue from sales made in Euros and Australian Dollars increased, as measured in U.S. Dollars, without the corresponding increase in cost of goods sold. The impact from changes in currency rates as noted above are estimated to have increased revenue by approximately $2,009 and $4,045 for the quarter and six months ended June 30, 2008, respectively. Had the currency rates in 2008 been equal to the rates in 2007, the gross profit rate would have been approximately 1.7 percentage points and 1.9 percentage points lower for the three and six months ended June 30, 2008, respectively.

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.

Sales and Marketing Expenses

Consolidated sales and marketing expenses for the quarter ended June 30, 2008 were $9,036, an increase of $2,377, or 36%, from the second quarter of 2007. This increase in sales and marketing expenses is primarily related to increased headcount, increased sales-related travel, higher non-cash compensation and the cost associated with the opening of the sales offices in Brazil and Japan and the impact of a weaker U.S. Dollar compared to the Euro. The average full-time sales and marketing employee headcount was 143 in the second quarter of 2008, compared to 112 in the second quarter of 2007.

Consolidated sales and marketing expenses for the six months ended June 30, 2008, were $16,737, an increase of $3,988, or 31%, from the same period of 2007. The increase in expense was related to the same factors noted for the second quarter above. Average full-time sales and marketing employee headcount in the first six months of 2008 was 141, compared to 107 in the first six months of 2007.

Research and Development Expenses

Consolidated research and development expenses for the quarter ended June 30, 2008, were $2,966, an increase of $890, or 43%, from the second quarter of 2007. This increase was primarily due to increased headcount and the weaker U.S. Dollar compared to the Euro and Australian Dollar. Average full-time research and development employee headcount in the second quarter of 2008 was 79, compared to 69 in the second quarter of 2007.

Consolidated research and development costs for the six months ended June 30, 2008, were $5,656, an increase of $1,657, or 41%, from the same period of 2007. This increase was related to the same factors noted above for the second quarter of 2008. Average full-time research and development employee headcount for the first six months in 2008 was 77, compared to 67 in the same period of 2007.

General and Administrative Expenses

Consolidated general and administrative expenses for the quarter ended June 30, 2008, were $4,230, an increase of $1,981, or 88%, from the second quarter of 2007. This increase was primarily due to increased headcount, non-cash compensation, professional fees, travel expense, recruiting costs, provisions for uncollectible accounts and the weaker U.S. Dollar compared to the Euro. Average full-time general and administrative employee headcount in the second quarter of 2008 was 37, compared to 24 in the second quarter of 2007.

Consolidated general and administrative expenses for the six months ended June 30, 2008, were $7,765, an increase of $3,129, or 67%, from the same period of 2007. This increase was due to the same factors as noted for the second quarter. Average full-time general and administrative employee headcount for the first six months in 2008 was 35 compared to 24 in the same period of 2007.

Amortization of Intangible Assets

Amortization of intangible assets for the second quarter and the first six months of 2008 decreased $129 and $115, respectively, over the comparable periods in 2007. The decrease was related to having fully amortized one of our purchased intangibles as of March 31, 2008, offset by increases due to the effects of the weakening U.S. dollar as the majority of our intangible assets are denominated in Euros.

Interest Income

Consolidated net interest income was $277 in the second quarter of 2008 as compared to income of $80 in the second quarter of 2007. For the six months ended June 30, 2008, interest income was $534 compared to $138 for the same period of 2007. The increase in interest income is primarily attributable to income on higher average invested cash balances.

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 in those countries and other miscellaneous non-operational, non-recurring expenses. Other expense for the second quarter of 2008 was $43 and compares to other expense of $8 for the second quarter of 2007. Exchange losses of $255 in the second quarter of 2008 compare to exchange losses of $161 in the second quarter of 2007.

Other income for the first six months of 2008 was $217 compared to other expense of $45 in the first six months of 2007. Exchange gains of $85 in the first six months of 2008 compare to exchange losses of $245 for the same period 2007.

Income Taxes

Income tax expense for the second quarter of 2008 was $1,822, a decrease of $844 from the second quarter of 2007. The decrease in tax expense is attributable to lower pre-tax income and a lower effective tax rate. The effective tax rate was 20% for the second quarter of 2008 and compares to 28% for the second quarter of 2007. The tax rate in the second quarter of 2008 benefited 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 2008 was $3,284, a decrease of $1,312 from the same period in 2007. The decrease in tax expense reflects lower pre-tax income and a lower effective tax rate. The effective tax rate was 21% for the first half of 2008 and compares to 28% for the first half of 2007.

The effective tax rate for both periods reflects our estimate of our full-year tax rate at the end of each respective period. The reduction in the tax rate is primarily attributable to the benefits expected from the new strategy implemented in 2007 related to the company’s ownership of its intellectual properties.

At December 31, 2007, we had U.S. net operating loss carryforwards of $27,533. Of this amount, $21,246 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. 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, 2007, we also had foreign loss carryforwards of $7,789. The foreign loss carryforwards have no expiration dates. Included in the foreign loss carryforwards amount is $2,950 of tax losses acquired in the acquisition of Logico. Utilization of these loss carryforwards would not reduce future tax expense, but would reduce deferred tax assets or goodwill created in the acquisition. Goodwill for the Logico acquisition was reduced by $85 in 2007.

Liquidity and Capital Resources

Our net cash balance was $42,076 at June 30, 2008, a decrease of $5,739, or 12%, from $47,815 at March 31, 2008, and an increase of $3,243, or 8%, from $38,833 at December 31, 2007. The decrease in cash from March 31, 2008, was primarily due to the increased investment in other components of working capital. Our accounts receivable, foreign sale tax receivable and inventory balances increased in the second quarter of 2008. The increase in cash from December 31, 2007 was primarily related to positive earnings before interest, taxes, depreciation and amortization (EBITDA).

At June 30, 2008, we had working capital of $66,863, an increase of $7,896, or 13%, from $58,967 reported at March 31, 2008, and an increase of $14,425, or 28%, from $52,438 at December 31, 2007. The increase in working capital was primarily related to positive earnings before interest, taxes, depreciation and amortization (EBITDA).

Days sales outstanding (DSO) in net accounts receivable increased to 83 days at June 30, 2008, from 67 days at March 31, 2008. The increase in DSO was primarily related to the timing of when sales were made in the quarter.

EBITDA from continuing operations for the three and six months ended June 30, 2008, and 2007 were $9,896 and $16,917, respectively, and reflect decreases of $311, or 3%, and $844, or 5%, over amounts for the same periods of the prior year. A reconciliation of EBITDA to net income for the three and six month periods ended June 30, 2008, and 2007 follows:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(in thousands, unaudited)		(in thousands, unaudited)	
EBITDA	$ 9,896	$10,207	$16,917	$17,761
Interest income, net	277	80	534	138
Provision for income taxes	(1,822)	(2,666)	(3,284)	(4,596)
Depreciation and amortization	(893)	(765)	(1,812)	(1,484)
Net income	$ 7,458	$ 6,856	$12,355	$11,819

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.

During the second quarter of 2008 we increased our line of credit with Fortis Bank from 3,500 Euros to 5,000 Euros (or the U.S. Dollar or Swiss Franc equivalent). We had no borrowings under the line outstanding at June 30, 2008. Based on receivable balances as of June 30, 2008, we had the full amount of the line of credit available to us for borrowing at June 30, 2008.

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

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

For additional information related to risks, refer to Certain Factors noted in Management's Discussion and Analysis included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in our market risk during the six months ended June 30, 2008. 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, 2007.

Item 4. Controls and Procedures

We maintain a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by us in this Quarterly Report on Form 10-Q and in other reports required to be filed under the Securities Exchange Act of 1934, (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission for such filings. As required by Rule 13a-15(b) under the Exchange Act, our management, under the direction of our Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2008. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with the other members of our management, have determined that as of June 30, 2008, the disclosure controls and procedures were and are effective as designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act relating to us and our consolidated subsidiaries would be accumulated and communicated to them, as appropriate, to allow timely disclosures regarding required disclosures.

There were no changes in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

On Wednesday, June 11, 2008, the company held its 2008 Annual Meeting of Stockholders. The purpose of the meeting was to elect five directors.

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	30,980,746	1,091,747	—
Michael P. Cullinane	30,759,932	1,312,561	—
John N. Fox, Jr.	31,193,541	878,952	—
John R. Walter	30,748,842	1,323,651	—
Jean K. Holley	31,192,855	879,638	—

Item 6. Exhibits.

Exhibit 31.1—Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 6, 2008.

Exhibit 31.2—Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 6, 2008

Exhibit 32.1—Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 6, 2008.

Exhibit 32.2—Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 6, 2008.

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 6, 2008.

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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EXHIBIT 31.1

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

I, T. Kendall Hunt, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: August 6, 2008

/s/ T. Kendall Hunt

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

EXHIBIT 31.2

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

I, Clifford K. Bown, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: August 6, 2008

/s/ Clifford K. Bown

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

EXHIBIT 32.1

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

I, T. Kendall Hunt, certify, based upon a review of the Quarterly Report on Form 10-Q for VASCO Data Security International, Inc. for the quarter ended June 30, 2008, 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 6, 2008

EXHIBIT 32.2

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

I, Clifford K. Bown, certify, based upon a review of the Quarterly Report on Form 10-Q for VASCO Data Security International, Inc. for the quarter ended on June 30, 2008, 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 6, 2008