SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): February 18, 2010

VASCO Data Security International, Inc.
(Exact name of registrant as specified in charter)

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

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

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

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

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

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

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

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

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

ITEM 2.02 Results of Operations and Financial Condition

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

On February 18, 2010, VASCO held a conference call with investors to discuss VASCO’s earnings and results of operations for the fourth quarter and twelve months ended December 31, 2009. A prepared script of the conference call is furnished as Exhibit 99.2 to this Current Report on Form 8-K. A transcript of the conference call is furnished as Exhibit 99.3 to this Current Report on Form 8-K.

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

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

ITEM 9.01 Financial Statements and Exhibits

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

Exhibit Number	Description
99.1	Press release, dated February 18, 2010.
99.2	Prepared script of February 18, 2010 Earnings Conference Call.
99.3	Transcript of February 18, 2010 Earnings Conference Call.

SIGNATURE

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

Date: February 22, 2010	VASCO Data Security International, Inc.
	/s/ Clifford K. Bown
	Clifford K. Bown **Chief Financial Officer**

EXHIBIT INDEX

The following Exhibits are furnished herewith:

Exhibit No.	Description
99.1	Press release, dated February 18, 2010.
99.2	Prepared script of February 18, 2010 Earnings Conference Call.
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EXHIBIT 99.1

VASCO Reports Results for Fourth Quarter and Full Year 2009

Revenue for the fourth quarter and full year 2009 was $31.9 million and $101.7 million, respectively, an increase of 10% compared to the fourth quarter 2008 and a decrease of 24% compared to full year 2008. Operating income for the fourth quarter and full year 2009 was $5.4 million and $13.4 million, respectively, an increase of 197% compared to the fourth quarter 2008 and a decrease of 52% compared to full year 2008. Financial results for the periods ended December 31, 2009 and guidance for full year 2010 to be discussed on conference call today at 10:00 a.m. E.S.T.

OAKBROOK TERRACE, IL, and ZURICH, Switzerland, February 18, 2010—VASCO Data Security International, Inc. (Nasdaq: VDSI) (www.vasco.com), today reported financial results for the fourth quarter and full year ended December 31, 2009.

Revenue for the fourth quarter of 2009 increased 10% to $31.9 million from $28.9 million in 2008 and, for the full year 2009, decreased 24% to $101.7 million from $133.0 million in 2008.

Net income for the fourth quarter of 2009 was $5.6 million, or $0.15 per fully diluted share, an increase of $2.8 million, or 100%, from $2.8 million, or $0.07 per fully diluted share, for the fourth quarter of 2008. Net income for the full year 2009 was $12.6 million, or $0.33 per fully diluted share, a decrease of $11.7 million, or 48%, from $24.3 million, or $0.64 per fully diluted share for the full year 2008.

Financial Highlights:

- Gross profit was $22.4 million or 70% of revenue for the fourth quarter of 2009 and $71.2 million or 70% of revenue for the full year 2009. Gross profit was $18.7 million or 65% of revenue for the fourth quarter of 2008 and $92.0 million or 69% of revenue for the full year 2008.
- Operating expenses for the fourth quarter and full year 2009 were $17.0 million and $57.7 million, respectively, an increase of 1% from $16.9 million reported for the fourth quarter 2008 and a decrease of 10% from $63.8 million reported for the full year 2008. Operating expenses for the fourth quarter included $0.5 million related to stock-based incentives. For the full year 2009, operating expenses reflected a benefit of $0.3 million related to stock-based incentives, including the reversal in the first quarter of 2009 of $2.0 million of long-term performance-based incentive award reserves that had been accrued at 12/31/08. Operating expenses for the fourth quarter and full year 2008 included $0.8 million and $3.1 million of expense, respectively, related to stock-based incentives.
- Operating income for the fourth quarter and full year 2009 was $5.4 million and $13.4 million, respectively, an increase of $3.6 million, or 197%, from $1.8 million reported for the fourth quarter of 2008 and a decrease of $14.7 million, or 52%, from the $28.1 million reported for the full year 2008. Operating income as a percentage of revenue for the fourth quarter and full year 2009 was 17% and 13%, respectively, compared to 6% and 21% for the comparable periods in 2008.
- Earnings before interest, taxes, depreciation and amortization was $7.0 million and $18.9 million for the fourth quarter and for the full year 2009, respectively, an increase of 140% from $2.9 million reported for the fourth quarter of 2008 and a decrease of 40% from $31.3 million reported for the full year 2008.

- Net cash balances, total cash and cash equivalents less bank borrowings, at December 31, 2009 totaled $67.6 million compared to $71.2 million and $57.7 million at September 30, 2009 and December 31, 2008, respectively.

Operational and Other Highlights:

- VASCO won 428 new customers in Q4 2009 (60 new banks and 368 new enterprise security customers). For the full year 2009, VASCO won 1,485 new customers (211 banks and 1,274 enterprise security customers). Although management considers the number of new customers as an indicator of the momentum of our business and effectiveness of our distribution channel, the number of new customers is not indicative of future revenue.
- VASCO reinforces its presence in the Middle East by opening an office in the Kingdom of Bahrain.
- IJZA secures electronic files in the youth care sector with DIGIPASS and IDENTIKEY. IJZA II is an online client registration program making youth care patients' files available over the internet.
- SecurIT integrates VASCO authentication in its TrustBuilder solution for Tivoli Access Manager
- VASCO announces that DIGIPASS® for Mobile is available for iPhone™ and iPod Touch™
- VASCO enhances DIGIPASS 830 with an alpha-numeric screen. DIGIPASS 830a combines e-signature functionality with EMV-CAP compliance.
- VASCO extends its PKI-based product line with two new authenticators: DIGIPASS® KEY 200 and DIGIPASS® KEY 860. DIGIPASS KEY 200 is a USB device with a PKI smart card and secure USB mass storage on a single device.
- VASCO launches DIGIPASS Authentication for Windows Logon and announces IDENTIKEY Server Enterprise Edition.
- VASCO launches multi-application security model for strong authentication. A unique authentication and signature ID is stored in VASCO's comprehensive and centralised IDENTIKEY server, which can be expanded to support multiple access points and applications
- VASCO lightens the supply chain burden by offering fulfillment services to financial institutions.
- VASCO empowers its channel with new aXsGUARD Gatekeeper.

Guidance for full-year 2010:

VASCO is providing guidance for the full-year 2010 as follows:

- Revenue growth of 15% to 20% for the full-year 2010 over full-year 2009,
- Operating margins as a percentage of revenue for full-year 2010 are projected to be in the range of 5% to 10%.

"We believe that the results for the fourth quarter of 2009 are solid evidence that the negative impact created by the economic turmoil over the last year has started to abate," stated T. Kendall Hunt, Chairman & CEO. "While the full year 2009 results were down from 2008, we are proud of the fact that not only were we able to remain profitable in each quarter of 2009, but also continued to invest in new products and markets that will support our future growth. While we expect that our business will continue to be impacted by the economic uncertainties in the world markets, we expect that we will return to a trend of solid growth in 2010 over the comparable periods in 2009."

“The results for the fourth quarter from both our banking and enterprise and application security markets showed solid improvement from the third quarter of 2009,” said Jan Valcke, VASCO’s President and COO. “In addition, we saw that the strategies that we put into place in prior years proved valuable in remaining profitable in 2009. Growth in our non-banking business helped us improve our margins and remain profitable throughout the year. Looking forward, we believe that the continued investment in our products throughout 2009 will allow us to increase our product offerings in new markets, including new vertical application markets and services, which will result in a more diversified customer base with less reliance on any one market in future years.”

Cliff Bown, Executive Vice President and CFO added, “During the fourth quarter of 2009 our working capital balances continued to grow even though our cash balances declined slightly. During the fourth quarter our working capital increased $5.6 million, or 7%, from September 30, 2009 and our net cash balance decreased $3.6 million or 5% from September 30, 2009. For the full year, our net cash balance increased $9.9 million, or 17%, and our working capital increased $13.0 million, or 17%, from December 31, 2008.”

Conference Call Details

In conjunction with this announcement, VASCO Data Security International, Inc. will host a conference call today, February 18, 2010, at 10:00 a.m. EST—16:00h CET. During the Conference Call, Mr. Ken Hunt, CEO, Mr. Jan Valcke, President and COO, and Mr. Cliff Bown, CFO, will discuss VASCO’s results for the fourth quarter and full year 2009 and guidance for full year 2010.

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

USA/Canada: +1 800-734-8583
International: +1 212-231-2901

And mention VASCO to be connected to the Conference Call.

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

VASCO Data Security International, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2009	2008	2009	2008
Revenue	$31,936	$28,935	$101,695	$132,977
Cost of goods sold	9,577	10,246	30,535	41,007
Gross profit	22,359	18,689	71,160	91,970
Operating costs:				
Sales and marketing	8,439	9,737	30,299	35,352
Research and development	3,301	2,906	11,582	11,618
General and administrative	5,114	4,128	15,413	16,237
Amortization of purchased intangible assets	121	108	453	626
Total operating costs	16,975	16,879	57,747	63,833
Operating income	5,384	1,810	13,413	28,137
Interest income	191	229	572	990
Other income (expense)	618	362	2,107	(209)
Income before income taxes	6,193	2,401	16,092	28,918
Provision for income taxes	589	(411)	3,460	4,627
Net income	$ 5,604	$ 2,812	$ 12,632	$ 24,291
Basic net income per share	$ 0.15	$ 0.08	$ 0.34	$ 0.65
Diluted net income per share	$ 0.15	$ 0.07	$ 0.33	$ 0.64
Weighted average shares outstanding:				
Basic	37,322	37,212	37,319	37,156
Diluted	38,068	38,109	38,084	38,204

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

	December 31, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and equivalents	$ 67,601	$ 57,714
Accounts receivable, net of allowance for doubtful accounts	31,170	24,951
Inventories	9,015	13,376
Prepaid expenses	1,588	1,926
Deferred income taxes	1,055	284
Foreign sales tax receivable	1,086	7,452
Other current assets	632	199
Total current assets	112,147	105,902
Property and equipment, net	5,189	4,176
Goodwill	13,813	13,584
Intangible assets, net of accumulated amortization	1,797	1,997
Other assets	548	2,291
Total assets	$ 133,494	$ 127,950
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 4,505	$ 10,349
Deferred revenue	7,188	5,881
Accrued wages and payroll taxes	5,178	5,780
Income taxes payable	3,097	3,114
Other accrued expenses	3,285	4,848
Total current liabilities	23,253	29,972
Deferred compensation	490	1,352
Deferred revenue	277	888
Deferred tax liability	328	454
Total liabilities	24,348	32,666
Stockholders' equity		
Common stock	37	37
Additional paid-in capital	67,371	66,700
Accumulated income	37,488	24,856
Accumulated other comprehensive income (loss)	4,250	3,691
Total stockholders' equity	109,146	95,284
Total liabilities and stockholders' equity	$ 133,494	$ 127,950

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

	Three months ended December 31, 2009	Three months ended December 31, 2008	Twelve months ended December 31, 2009	Twelve months ended December 31, 2008
	(in thousands, unaudited)		(in thousands, unaudited)	
EBITDA	$ 6,993	$ 2,917	$ 18,863	$ 31,309
Interest income, net	191	229	572	990
Provision for income taxes	(589)	411	(3,460)	(4,627)
Depreciation and amortization	(991)	(745)	(3,343)	(3,381)
Net income	$ 5,604	$ 2,812	$ 12,632	$ 24,291

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

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

About VASCO: VASCO is a leading supplier of strong authentication and e-signature solutions and services specializing in Internet Security applications and transactions. VASCO has positioned itself as global software company for Internet Security serving a customer base of approximately 9,500 companies in more than 100 countries, including approximately 1,400 international financial institutions. VASCO's prime markets are the financial sector, enterprise security, e-commerce and e-government.

Forward Looking Statements

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

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

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

For more information contact:

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EXHIBIT 99.2

Earnings Conference Call February 18, 2010

Comments by Ken Hunt:

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

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

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

Forward Looking Statements

STATEMENTS MADE IN THIS CONFERENCE CALL THAT RELATE TO FUTURE PLANS, EVENTS OR PERFORMANCES ARE FORWARD-LOOKING STATEMENTS. ANY STATEMENT CONTAINING WORDS SUCH AS “BELIEVES,” “ANTICIPATES,” “PLANS,”

"EXPECTS," AND SIMILAR WORDS, IS FORWARD-LOOKING, AND THESE STATEMENTS INVOLVE RISKS AND UNCERTAINTIES AND ARE BASED ON CURRENT EXPECTATIONS. CONSEQUENTLY, ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE EXPECTATIONS EXPRESSED IN THESE FORWARD-LOOKING STATEMENTS. I DIRECT YOUR ATTENTION TO THE COMPANY'S FILINGS WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION FOR A DISCUSSION OF SUCH RISKS AND UNCERTAINTIES IN THIS REGARD.

General Comments – Ken Hunt

Today, we are going to review the results for the 4th quarter and Full Year, 2009. As always, we will host a question and answer session after the conclusion of management's prepared remarks. If possible, I would like to budget one hour total for this conference call. If you can limit your questions to one or two, it would be appreciated.

Despite today's challenging economic climate, VASCO is pleased to report that all four quarters of 2009 were profitable quarters.

Revenues for Q4 were $31.9 million, an increase of approximately 10% compared to 4th quarter 2008. Q4 2009 was our 28th consecutive positive quarter in terms of operating income. Our gross profit for the quarter was approximately 70% of revenue and our operating income was approximately 17% of revenue.

During the quarter, we sold an additional 428 new accounts, including 60 new banks, and 368 new enterprise security customers. This compares to the fourth quarter a year ago in which we sold 355 new accounts, including 37 banks and 318 enterprise security customers. We now have approximately 9,500 customers, including more than 1,400 banks in more than 100 countries. Although management considers the number of new customers as an indicator of the momentum of our business and effectiveness of our distribution channel, the number of new customers is not indicative of future revenue.

During the fourth quarter of 2009, our cash decreased slightly by 5% while our working capital balance increased 7%. At December 31, 2009 our net cash balance was $67.6 million and we had approximately $89 million of working capital. This strong cash balance gives us the flexibility to invest in our growth now the economic storm seems to be over.

In our Q3 2009 Earnings Conference Call, we told you that we believed the financial decline had abated, and we expected our volume of orders to increase during the fourth quarter. We can now confirm our belief that the banking crisis is behind us. The number of new projects in the financial sector is improving, which implies that VASCO is on the path to growth again.

The strategies that we initiated years ago are working.

As you know, it is dangerous to rely on one major business sector as a primary source of revenue, as we did with the financial sector. Additionally, our gross margin was under pressure due to our rapid growth in the banking vertical. After our management reorganization at the end of 2002, the company focused on diversifying its business towards, higher margin, non-banking markets.

In 2001, 94%, or over $21.3 million of our business came from banks. Only 6%, or $1.4 million, was generated from the Enterprise Security sector.

The contrast with 2009 is huge. Last year, 74%, or $74.9 million of our business came from banks, while 26%, or $26.8 million, was Enterprise Security business.

So, I repeat, we believe that our strategies are working.

Our business mix between banking and non-banking business, often mentioned by Jan during previous quarters, made the company’s revenue streams more robust. In addition, the mix between high volume/lower margin deals in banking and lower volume/high margin deals in non-banking has reduced the pressure on our gross margins.

The enterprise security sector is going through a transition phase.

With our enhanced product offering, including IDENTIKEY and aXsGUARD, we are able to compete in areas that were previously our competitors’ strong points. In fact, we have recently experienced an increase in the number of competitive wins and conversions from other vendors’ systems to VASCO. We believe that the focus of some of our competitors is no longer on the authentication of employees. We are ready to take advantage of that shift in focus.

Our non-banking business is more than just Enterprise Security. In the b-to-c e-commerce sector, we are making great progress in verticals such as e-gaming and e-gambling. Jan will tell you more about this later.

Our margins are also supported by our product mix. Since 2003, the company has invested strongly in its software and server product lines.

In 2003 almost all our revenue came from the sales of hardware DIGIPASS. In 2008 and 2009, this situation changed dramatically. In 2008, 25% and in 2009, 23%, respectively, of our revenue came from non-hardware. We expect that the proportion of non-hardware revenue will grow further during 2010, due to the recent launch of DIGIPASS for iPhone and DIGIPASS for Windows Mobile and due to the growing success of our IDENTIKEY Authentication Server.

We can state that our 2002 strategies to diversify our business and our product range have allowed VASCO to report 4 profitable quarters during 2009. We are convinced that this business model will keep bearing fruit in the years to come.

But now it's time to start the next phase in VASCO's history. We are pleased to announce Digipass as a Service, (DaaS™). With our "DIGIPASS as a Service", we plan to create even more shareholder value AND to reach out to thousands of applications that were never in our reach before. Jan will tell you more about this exciting new announcement during his remarks.

Introduce Jan Valcke:

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

Thank you, Ken.

Ladies and gentlemen, 2009 was a profitable year for VASCO thanks to our business and product mix, cost control, the right investments.

As Ken already mentioned, we believe that the banking crisis is over for VASCO, and that we can start growing again.

For 2010, we have two different strategies:

First, we will continue our end-to-end authentication strategy. This is our traditional business strategy.

We sell authentication products:

- to banks for customer security
- to corporations for employee security but also for customer security
- to b-to-c companies for customer security

Secondly, we will implement our *DIGIPASS as a Service* strategy.

With DIGIPASS as a Service (DaaS™), we are able to secure a multitude of different applications with one and the same DIGIPASS credential.

In end-to-end security, these are our objectives for 2010:

In the banking market, we will continue our efforts to become even more dominant. We see that the financial sector is recovering from the crisis. We have proven in the fourth quarter that we are already taking advantage of that revival.

In Enterprise Security, we will keep strengthening our channel and invest in the further training of our partners. As I said in previous calls, our SEAL training team is doing a great job here. In application security, or b-to-c, we want to copy the success that we have in the banking vertical.

Therefore, we are developing several competence centers:

The first is the financial sector, including retail and corporate banking, but also brokerage and insurance.

The second is e-gaming and e-gambling, our latest hit.

The third is the government sector.

The fourth competence center will be securing the Software as a Service and ASP sector.

DIGIPASS as a *Service* is a brand new business for VASCO.

Many online applications can not benefit from strong authentication, due to two reasons:

1. the relatively low value of the accounts, such as a social network site;
2. the relatively low frequency of use, such as a frequent flyer account.

This is the home turf of DIGIPASS as a Service.

DIGIPASS as a Service allows customers to secure a multitude of enterprise and end-user applications with one single DIGIPASS credential. This means that a company will be able to secure common access to its webmail, network, ERP, CRM, etc.

This also means that a consumer will be able to securely bank online, buy tickets over the Internet, play Internet e-games, access his/her social network account with one and the same DIGIPASS.

VASCO's DIGIPASS as a Service (DaaS™) is built around VACMAN, VASCO's core authentication engine and IDENTIKEY, VASCO's leading authentication server.

At the end-user side, VASCO positions its entire range of over 50 hard- and software DIGIPASS client authentication products. In addition, VASCO boosts its efforts to embed its authentication solutions in the products of the world's leading technology companies.

For application owners and companies, the benefits of VASCO's DIGIPASS as a Service are obvious:

- Extra service to end users,
- Potential source of revenue,
- Lower Total Cost of Ownership: the costs of the authentication are shared among several parties. This brings strong authentication into almost every online application's scope,
- Ease of distribution and fulfilment,
- Shared back office costs,
- Short roll out times,
- Protection against lost revenue due to account sharing.

The launch of VASCO's DIGIPASS as a Service (DaaS™) offering is a giant step in the company's evolution. We believe that the combination of VASCO's DaaS™ with our existing end-to-end authentication solutions will bring any existing online application into the reach of VASCO's market leading DIGIPASS authentication.

As a conclusion, I would like to thank all the VASCO people for their great work during the challenging year 2009. 2010 bring us another story. A more positive story. We are convinced that 2010 will be a good year for the company and all its stakeholders.

Thank you, Jan

Introduce Cliff Bown:

Now, I would like to introduce Cliff Bown, VASCO's Chief Financial Officer.

Comments by Cliff Bown:

Thanks Ken and welcome to everyone on the call.

As noted earlier by Ken, revenues for the fourth quarter of 2009 were $31.9 million, an increase of $3.0 million or 10% from the fourth quarter of 2008. For the full year, revenues were $101.7 million, a decrease of $31.3 million or 24% from the comparable period in 2008.

The increase in revenue for the fourth quarter reflected increases in revenues from both the banking and enterprise and application security markets. The decrease in revenue for the full year reflected a significant decline in revenues from the banking market partially offset by increase in revenues from the enterprise security market. Revenues from the banking market increased 3% for the fourth quarter and decreased 31% for the full year of 2009 when compared to the same periods in 2008. Revenues from the enterprise and application security market increased 45% and 11% for the fourth quarter and full year of 2009, respectively, when compared to the same periods in 2008.

It should also be noted that the comparison of revenues was positively impacted by the stronger U.S. dollar in the fourth quarter of 2009. We estimate that revenues in the fourth quarter of 2009 were approximately $1.8 higher than they would have been had the exchange rates in 2009 been the same as in 2008. For the full year, however, the U.S. dollar was weaker than it was for the full year 2008, resulting in an estimated reduction in revenues of $2.5 million in 2009 when compared to 2008.

The percentage of revenue coming from the enterprise and application security market increased in 2009 when compared to 2008. The distribution revenue in the fourth quarter of 2009 between our two primary markets was approximately 76% from Banking and 24% from Enterprise and Application Security. This compares to 82% from Banking and 18% from Enterprise and Application Security in Q4 2008.

For the full year of 2009, 74% of our revenue was from Banking and 26% from Enterprise and Application Security and compares to 82% from Banking and 18% from and Application Enterprise Security for the full year of 2008.

Our revenues continue to come predominately from outside of the U.S. The geographic distribution of our revenue in the fourth quarter was approximately 70% from Europe, 9% from the U.S., 10% from Asia and the remaining 11% from other countries.

For the full year 2009, approximately 72% of our revenue came from Europe, 7% from the U.S., 9% from Asia and the remaining 12% from other countries.

Gross profit as a percentage of revenue for both the fourth quarter and full year of 2009 was approximately 70%. In 2008, gross profit as a percentage of revenue was 65% and 69%, for the fourth quarter and full year, respectively.

The improvement in gross profit for the fourth quarter of 2009 compared to the fourth quarter of 2008 was primarily due to two factors:

One, the fourth quarter of 2008 included an impairment charge of $1.3 million related to development costs of a project that did not result in revenues as expected; and two, the fourth quarter of 2009 benefited from the release of $390 thousand dollars of warranty reserves that were determined to no longer be needed.

Other factors that impacted our gross margin rate for the quarter largely offset each other. Compared to the fourth quarter of 2008, the fourth quarter of 2009 benefited from stronger currency rates and a higher percentage of our business coming from the enterprise and application security area, but reflected lower non-hardware revenues as a percentage of total revenues and included more card readers as a percentage of total revenue. As noted in prior calls, sales into the enterprise and application security market and revenues from our non-hardware revenues generally have higher gross margin rates while our card readers have lower gross margin rates due to competitive pricing pressures. Our non-hardware revenues and revenues from card readers represented 24% and 17% of total revenue, respectively, in the fourth quarter of 2009 compared with 32% and 11%, respectively, in the fourth quarter of 2008.

For the full year, the gross margin rate in 2009 was comparable to the rate in 2008. Again, while the rates were comparable, there were a number of offsetting factors, which included the benefit from the aforementioned reserve adjustments and the increase in revenues from the enterprise and applications security business, partially offset by the unfavorable change in currency rates. The change in non-hardware revenue as a percentage of total revenue and the percentage of card readers sold were not major factors in the full-year comparison. Non-hardware revenue as a percentage of total revenue was 23% in 2009 compared to 25% in 2008. Card readers represented 18% of total revenues in 2009 compared to 17% in 2008.

Operating expenses for the fourth quarter of 2009 were $17.0 million, which is essentially unchanged from the fourth quarter of 2008. Operating expenses for the full year of 2009 were $57.7 million, a decrease of $6.1 million or 10% from the same period in 2008.

Operating expenses for the fourth quarter of 2009 included $475,000 of expense related to stock-based incentive plans. For the full year of 2009, operating expenses included a benefit of $309 thousand related to stock-based incentive plans. As noted in our the first quarter conference call, we reversed of approximately $2.0 million of accruals that had been established in prior years for long-term, incentive-based compensation plans where it is no longer likely that the performance targets will be met. Stock-based incentive plan expenses in the fourth quarter and full year of 2008 were $833,000 and $3,117,000, respectively.

It should also be noted that the comparison of operating expenses in 2009 to 2008 was negatively impacted in the fourth quarter by the stronger U.S. dollar, but positively impacted for full year 2009 by the weaker U.S. dollar. We estimate that expenses were $1.2 million higher in the fourth quarter and $3.1 million lower for the full year than they would have been had the exchange rates in 2009 been the same as in 2008.

For the fourth quarter, including the negative impact of currency, operating expenses decreased by $1.3 million, or 13% in sales and marketing, increased by $395,000 or 14% in research and development, and increased by $986,000 or 24% in general and administrative when compared to the fourth quarter in 2008. The decrease in the sales and marketing expense primarily reflected lower compensation expenses resulting from lower average headcount and lower long-term incentive plan costs, lower marketing expense and lower travel expense partially offset by the unfavorable impact of the change in currency rates. The increase in research and development expense primarily reflected higher compensation costs resulting from higher average headcount and the unfavorable impact of change in currency rates. The increase in the general and administrative expense primarily reflected increased compensation expense related to higher direct compensation costs, increased depreciation, increased software licensing costs and the impact of the unfavorable change in currency rates. Our average total headcount in the fourth quarter of 2009 was 6 persons, or 2%, lower than the average headcount in the fourth quarter of 2008. The decrease in average headcount included a decrease of 13 persons in the sales, marketing and operations groups partially offset by an increase of 7 persons in R&D.

For the full year of 2009, operating expenses decreased by $5.1 million, or 14% in sales and marketing, and $0.8 million or 5% in general and administrative when compared to the same period in 2008. Research and development expenses were generally flat in 2009 compared to 2008. In addition to the reasons noted for the changes in the fourth quarter, the decreases in expense for the full year reflected the benefit from the favorable change in currency rates and the reduction in stock-based incentive plan compensation expense noted previously. In addition, the reduction in expense was partially offset by an increase in our average headcount in all areas. Our average headcount for the full year of 2009 was 8 persons, or 5%, higher in sales, marketing and operations staff; 14 persons, or 18% higher in R&D staff; and 8 persons, or 21% higher in general and administrative staff.

Operating income for the fourth quarter of 2009 was $5.4 million, an increase of $3.6 million or 197% from the $1.8 million reported in the fourth quarter of 2008. For the full year, operating income was $13.4 million in 2009, a decrease of $14.7 million or 52% from the $28.1 million reported in 2008.

Operating income as a percent of revenue, or operating margin, was 16.9% for the fourth quarter and 13.2% for the full year of 2009. In 2008, our operating margins were 6.3% for the quarter and 21.2% for the full year. While we have benefited from our cost containment actions, the decrease in operating margin reflects the fact that we have continued to maintain the investments we made in our infrastructure in 2008 that will be needed to support future growth.

The Company reported income tax expense of $589 thousand for the fourth quarter and $3.5 million for the full year of 2009. The effective tax rate was 10% and 21% for the fourth quarter and full year of 2009, respectively.

For 2008, the Company reported income tax benefit of $411 thousand for the fourth quarter and income tax expense of $4.6 million for the full year. The effective tax rate reported in 2008 was a benefit of 17% for the fourth quarter and an expense of 16% for the full year.

The effective rates in the fourth quarter of both 2009 and 2008 reflect the adjustments need to bring our full-year tax rate to the amount computed for each of our entities. The increase in the tax rate in 2009 compared to 2008 is primarily attributable to reduction in pretax profits. Under our current structure, our effective rate will be very sensitive to the level of pretax income. As pretax income increases, we expect the effective rate to decline. As pretax income decreases, the effective rate will increase.

Earnings before interest, taxes, depreciation, and amortization (EBITDA or operating cash flow if you will) was $7.0 million for the fourth quarter and $18.9 million for the full year of 2009. EBITDA was $4.1 million or 139% higher in the fourth quarter and $12.4 million or 40% lower than in the full year of 2008. The reduction in EBITDA for the full year primarily reflects the reduction in earnings.

The makeup of our workforce as of December 31, 2009 was 294 people worldwide with 156 in sales, marketing and customer support, 92 in research and development and 46 in general and administrative. As noted previously, the average headcount for the fourth quarter of 2009 was 6 persons or 2% lower than the average headcount for the fourth quarter of 2008. The average headcount for the full year of 2009 was 30 persons or 11% higher than the average headcount for the same period in 2008.

Our working capital continued to strengthen during the fourth quarter of 2009 while our cash balances declined slightly. As of December 31, 2009, our net cash balance, which is defined as total cash less bank borrowings, was $67.6 million, a decrease of $3.6 million, or 5% from $71.2 million at September 30, 2009 and an increase of $9.9 million, or 17%, from $57.7 million at December 31, 2008. As of December 31, 2009, our working capital balance was $88.9 million, an increase of $5.6 million, or 7% from $83.3 million at September 30, 2009 and an increase of $13.0 million, or 17%, from $75.9 million at December 31, 2008. We had no debt outstanding during the year.

During the quarter our Days Sales Outstanding in accounts receivable increased to 90 days as of December 31, 2009 from 85 days at September 30, 2009 and from 79 days at December 31, 2008. The increase in DSO was primarily related to the timing of when sales were made in the quarter.

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

Thank you, Cliff

Ken Hunt: Closing Remarks

At our Earnings Call last year at this time, given the uncertainty created by the continued turmoil in the worldwide economy, VASCO decided to temporarily discontinue its practice of providing annual guidance. That was a year ago and the picture is much clearer today. I am pleased to announce that we are once again offering guidance to the market. As in the past, we only comment on annual numbers, not quarterly numbers.

- First, we are offering guidance that full-year 2010 revenue will grow from 15% to 20% over full-year 2009.
- Second, we are offering guidance that full-year 2010 operating income will range between 5% to 10% of revenue.

This guidance reflects the Company's strategy to continue its aggressive growth by investing in its people, our newly announced Digipass as a Service, or DaaS™, and the infrastructure necessary for long-term profitability. It also reflects our continued evolution to a more software-centric company with a focus on recurring revenues.

This concludes our presentations today and we will now open the call for questions. As I mentioned earlier, as a courtesy to others on the call, I would appreciate it if you would limit your questions to an initial question plus a follow-up. If you have additional questions,

Q&A Session:

Ladies and gentlemen, thank you for your attendance today. I look forward to your participation in our next Earnings Conference Call for Q2, 2010. As always, you can rely on VASCO's people to do their very best!

EXHIBIT 99.3

CORPORATE PARTICIPANTS

T. Kendall Hunt

VASCO Data Security International - Chairman, CEO

Jan Valcke

VASCO Data Security International - President, COO

Cliff Bown

VASCO Data Security International - EVP, CFO, Secretary

CONFERENCE CALL PARTICIPANTS

Scott Zeller

Needham & Company - Analyst

Joe Maxa

Dougherty & Company - Analyst

Ahmad Samana

Morgan Keegan & Co., Inc. - Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the VASCO Data Security International fourth-quarter and full-year 2009 earnings conference call. (Operator Instructions). It is now my pleasure to turn the conference over to Mr. T. Kendall Hunt, Founder, Chairman, and Chief Executive Officer. Please go ahead, sir.

T. Kendall Hunt - ***VASCO Data Security International*** - ***Chairman, CEO***

Thank you, Operator. Good morning, everyone. For those listening in from Europe, good afternoon, and from Asia, good evening. My name is Ken Hunt and I am the Chairman, Founder, and CEO of VASCO Data Security International Inc.

On the call with me today are Jan Valcke, our President and Chief Operating Officer, and Cliff Bown, our EVP and Chief Financial Officer.

Before we begin the conference call, I need to brief all of you on forward-looking statements. Statements made in this conference call that relate to future plans, events, or performances are forward-looking statements. Any statement containing words such as believes, anticipates, plans, expects, and similar words is forward-looking, and these statements involve risks and uncertainties that are based on current expectations. Consequently, actual results could differ materially from the expectations expressed in these forward-looking statements.

I direct your attention to the Company’s filings with the U.S. Securities and Exchange Commission for a discussion of such risks and uncertainties in this regard.

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

Despite today’s challenging economic climate, VASCO is pleased to report that all four quarters of 2009 were profitable quarters. Revenues for Q4 were $31.9 million, an increase of approximately 10% compared to fourth-quarter 2008.

Q4 2009 was our 28th consecutive positive quarter in terms of operating income. Our gross profit for the quarter was approximately 70% of revenue and our operating income was approximately 17% of revenue.

During the quarter, we sold an additional 428 new accounts, including 60 new banks and 368 new enterprise security customers. This compares to the fourth quarter a year ago in which we sold 355 new accounts, including 37 banks and 318 enterprise security customers. We now have approximately 9,500 customers, including more than 1,400 banks, in more than 100 countries.

Although management considers the number of new customers as an indicator of the momentum of our business and effectiveness of our distribution channel, the number of new customers is not indicative of future revenue.

During the fourth quarter of 2009, our cash decreased slightly by 5%, while our working capital balance increased 6%. At December 31, 2009, our net cash balance was $67.6 million, and we had approximately $89 million of working capital. This strong cash balance gives us the flexibility to invest in our growth, now the economic storm seems to be over.

In our Q3 2009 earnings conference call, we told you that we believe the financial decline had abated and we expected our volume of orders to increase during the fourth quarter. We can now confirm our belief that the banking crisis is behind us. The number of new projects in the financial sector is improving, which implies that VASCO is on the path to growth again.

The strategies that we initiated years ago are working. As you know, it is dangerous to rely on one major business sector as a primary source of revenue, as we did with the financial sector. Additionally, our gross margin was under pressure due to our rapid growth in the banking vertical. After our management reorganization at the end of 2002, the Company focused on diversifying its business towards higher-margin non-banking markets.

In 2001, 94%, or over $21.3 million of our business, came from banks. Only 6%, or $1.4 million, was generated from the enterprise security sector.

The contrast with 2009 is huge. Last year, 74%, or 74.9 percent — $74.9 million, of our business came from banks, while 26%, or $26.8 million, was enterprise security business. So I repeat, we believe that our strategies are working.

Our business mix between banking and non-banking business, often mentioned by Jan during previous quarters, made the Company's revenue streams more robust. In addition, the mix between high-volume, lower-margin deals in banking and lower-volume, high-margin deals in non-banking has reduced the pressure on our gross margins.

The enterprise security sector is going through a transition phase. With our enhanced product offering, including Identikey and aXs GUARD, we are able to compete in areas that were previously our competitors' strong points. In fact, we have recently experienced an increase in the number of competitive wins and conversions from other vendors' systems to VASCO.

We believe that the focus of some of our competitors is no longer on the authentication of employees. We are ready to take advantage of that shift in focus.

Our nonbanking business is more than just enterprise security. In the B2C e-commerce sector, we are making great progress in verticals such as e-gaming and e-gambling. Jan will tell you more about this later.

Our margins are also supported by our product mix. Since 2003, the Company has invested strongly in its software and server product lines. In 2003, almost all of our revenue came from the sales of hardware DIGIPASS. In 2008 and 2009, this situation changed dramatically. In 2008, 25%, and in 2009, 23%, respectively, of our revenue came from non-hardware.

We expect that the proportion of non-hardware revenue will grow further during 2010 due to the regent loss of DIGIPASS for iPhone and DIGIPASS for Windows Mobile, and due to the growing success of our Identikey authentication server.

We can state that our 2002 strategies to diversify our business and our product range have allowed VASCO to report four profitable quarters during 2009. We are convinced that this business model will keep bearing fruit in the years to come.

Now it's time to start the next phase in VASCO's history. We are pleased to announce DIGIPASS as a service, or DAS. With our DIGIPASS as a service, we plan to create even more shareholder value and to reach out to thousands of applications that were never in our reach before. Jan will tell you more about this exciting new announcement during his remarks.

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

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

Think you, Ken. Ladies and gentlemen, 2009 was a profitable year for VASCO, thanks to our business and product mix, cost control, and the right investments.

As Ken already mentioned, we believe that the banking crisis is over for VASCO and that we can start growing again. For 2010, we have two different strategies. First, we have continued our end-to-end authentication strategies. This is our traditional business. We sell authentication products to banks for customer security, to corporations for employee security but also for customer security, to business-to-consumer companies for customer security.

Secondly, we will implement our DIGIPASS as a service strategy. With DIGIPASS as a service, we are able to secure a multitude of different applications with one and the same DIGIPASS credential.

In end-to-end security, these are our objectives for 2010.

In the banking markets, we will continue our efforts to become even more dominant. We see that the financial sector is recovering from the crisis. We have proven in the fourth quarter that we are already taking advantage of this revival.

In the enterprise security, we will keep strengthening our channel and invest in the further training of our partners. As I said in previous calls, our SEAL training team is doing a great job.

In the application security, or B2C, we want to copy the success that we have in the banking vertical. Therefore, we are developing several competent centers. The first is a financial sector, including retail and corporate banking, also brokerage and insurance. The second is the e-gaming and the e-gambling, our latest hit. The third is the government sector, and the fourth competent center will be securing the software as a service in the ASP sector.

DIGIPASS as a service is a brand-new business for VASCO. Many online applications cannot benefit from strong authentication due to two reasons. The first is the relatively low value of the accounts, such as a social network site. Secondly is the relatively low frequency of use, such as a frequent flyer account.

This is really the home turf of DIGIPASS as a service. DIGIPASS as a service allows customers to secure a multitude of enterprise and end-user applications with one single DIGIPASS credential. This means that the company will be able to secure common access to its webmail, network, ERP, CRM, etc., etc. It also means that the consumer will be able to securely bank online, buy tickets over the Internet, play Internet e-games, access his or her social network account with one and the same DIGIPASS.

VASCO's DIGIPASS as a service is built around VACMAN, VASCO's core authentication engine, and Identikey, VASCO's leading authentication server. On the end-user side, VASCO's [position] is a target range of over 50 hardware and software DIGIPASS line authentication products.

In addition, VASCO boost its effort to embed its authentication solutions in the products of the world's leading technology companies.

For application owners and companies, the benefits of VASCO's DIGIPASS as a service are obvious — extra service to the end users, potential source of revenue, lower cost of ownership because the cost of the authentications are shared among several parties. This brings strong authentication into almost every online applications code. Ease of distribution and fulfillment, shared back-office cost, short [rolo] times, protection against lost revenue due to account sharing.

The launch of the VASCO's DIGIPASS as a service offering is a giant step in the Company's evolution. We believe that the combination of VASCO's DAS with our existing end-to-end authentication solutions will bring any existing online application into the reach of VASCO's market-leading DIGIPASS authentication.

As a conclusion, I would like to thank all the VASCO people for their great work during the challenging year 2009. 2010 brings us another story, a more positive story. We are convinced that 2010 will be a good year for the Company and all its stakeholders.

T. Kendall Hunt - ***VASCO Data Security International*** - ***Chairman, CEO***

Thank you, Jan. I now would like to introduce Cliff Bown, VASCO's Chief Financial Officer. Cliff?

Cliff Bown - *VASCO Data Security International - EVP, CFO, Secretary*

Thanks, Ken. Welcome to everyone on the call.

As noted earlier by Ken, revenues for the fourth quarter of 2009 were $31.9 million, an increase of $3 million, or 10%, from the fourth quarter of 2008. For the full year, revenues were $101.7 million, a decrease of $31.3 million, or 24%, from the comparable periods in 2008.

The increase in revenue for the fourth quarter reflected increases from both the banking and the enterprise and application security markets. The decrease in revenue for the full year reflected a significant decline in revenues from the banking market, partially offset by an increase in revenues from the enterprise and application security market.

Revenues from the banking market increased 3% for the fourth quarter and decreased 31% for the full-year 2009 when compared to the same periods in 2008. Revenues from the enterprise and application security market increased 45% and 11% for the fourth quarter and full year of 2009, respectively, compared to the same periods of 2008.

It should also be noted that the comparison of revenues was positively impacted by the stronger U.S. dollar in the fourth quarter of 2009. We estimate that revenues in the fourth quarter were — of 2009 were approximately $1.8 million higher than they would have been had the exchange rates in 2009 been the same as in 2008. For the full year, however, the U.S. dollar was weaker than it was for the full year of 2008, resulting in an estimated reduction in revenues of $2.5 million in 2009 when compared to 2008.

The percentage of revenue coming from the enterprise and application security market increased in 2009 when compared to 2008. The distribution of revenue in the fourth quarter of 2009 between our two primary markets was 76% from banking and 24% from enterprise and application security. This compares to 82% from banking and 18% from enterprise and application security in Q4 of 2008.

For the full-year 2009, 74% of our revenue was from banking and 26% was from enterprise security, and compares to 82% from banking and 18% from the enterprise and application security area for the year 2008.

Our revenues continue to come predominantly from outside the United States. The geographic distribution of our revenue in the fourth quarter was approximately 70% from Europe, 9% from the United States, 10% from Asia, and the remaining 11% from other countries. For full-year 2009, approximately 72% of revenue came from Europe, 7% from the United States, 9% from Asia, and the remaining 12% from other countries.

Gross profit as a percentage of revenue for both the fourth quarter and full-year 2009 was approximately 70%. In 2008, gross profit as a percentage of revenue was 65% and 69% for the fourth quarter and full year, respectively. The improvement in gross profit for the fourth quarter of 2009, compared to the fourth quarter of 2008, was primarily due to two factors. One, the fourth quarter of 2008 included an impairment charge of $1.3 million related to development costs of a project that did not result in revenues as expected. And two, the fourth quarter of 2009 benefited from the release of $390,000 of warranty reserves that were determined to no longer to be needed.

Other factors that impacted our gross margin rate for the quarter largely offset each other. Compared to the fourth quarter of 2008, the fourth quarter of 2009 benefited from stronger currency rates and a higher percentage of our business coming from the enterprise and application security area, but reflected lower non-hardware revenues as a percentage of total revenue, and included more card readers as a percentage of total revenue.

As noted in prior calls, sales into the enterprise and application security market and revenues from our non-hardware area generally have higher gross margin rates, while card readers have lower gross margin rates due to competitive pricing pressures. Our non-hardware revenues and revenues from card readers represented 24% and 17% of total revenue, respectively, in the fourth quarter of 2009, compared to 32% and 11%, respectively, in the fourth quarter of 2008.

For the full year, the gross margin rate in 2009 was comparable to the rate in 2008. Again, while the rates were comparable, there were a number of offsetting factors, which included the benefit from the aforementioned reserve adjustments and the increase in revenues from enterprise and application security business, partially offset by unfavorable change in currency rates, the change in non-hardware revenue as a percentage of total revenue, and the percentage of card readers sold were not a major factors in the full-year comparison.

Non-hardware revenue as a percentage of total revenue was 23% in 2009, compared to 25% in 2008. Card readers represented 18% of total revenues in 2009, compared to 17% in 2008.

Operating expenses for the fourth quarter of 2009 were $17 million, which is essentially unchanged from the fourth quarter of 2008. Operating expenses for the full year of 2009 were $57.7 million, an increase of $6.1 million, or 10%, from the same period in 2008.

Operating expenses for the fourth quarter of 2009 included $475,000 of expense related to stock-based incentive programs. For the full year of 2009, operating expenses included a benefit of $309,000 related to stock-based incentive plans.

As noted in our first-quarter conference call, we reversed approximately $2 million of (technical difficulty) had been established in prior years for long-term, incentive-based compensation plans where it is no longer likely that the performance targets will be met. Stock-based incentive plan expenses in the fourth quarter and full year of 2008 were $833,000 and $3,117,000, respectively.

It should also be noted that the comparison of operating expenses in 2009 to 2008 was negatively impacted in the fourth quarter by the stronger U.S. dollar, but positively impacted for the full year 2009 by the weaker U.S. dollar. We estimate that expenses were $1.2 million higher in the fourth quarter and $3.1 million lower for the full year than they would've been had the exchange rates in 2009 been the same as in 2008.

For the fourth quarter, including the negative impact of currency, operating expenses decreased by $1.3 million, or 13%, in sales and marketing; increased by $395,000, or 14%, in research and development; and increased by $986,000, or 24%, in general and administrative when compared to the fourth quarter of 2008.

The decrease in sales and marketing expense primarily reflected lower compensation expenses resulting from lower average headcount and lower long-term incentive-plan costs. (Technical difficulty) marketing expenses, employee travel expenses partially offset by the unfavorable impact of the change in currency rates. The increase in research and development expense primarily reflected higher compensation costs resulting from higher average headcount and the unfavorable impact of change in currency rates.

The increase in G&A expenses primarily reflected increased compensation expenses related to higher direct compensation costs, increased depreciation expenses, increased software licensing costs, and the impact of the unfavorable change in currency rates. Our average total headcount in the fourth quarter of 2009 was six persons, or 2% lower than the average headcount in the fourth quarter of 2008. The decrease in average headcount included a decrease of 13 persons in sales and marketing and the operations group, partially offset by an increase of seven persons in the R&D group.

For the full year of 2009, operating expenses decreased by $5.1 million, or 14%, in sales and marketing; $800,000, or 5%, in general and administrative when compared to the same period in 2008. Research and development expenses were generally flat in 2009 compared to 2008.

In addition to the reasons noted for the changes in the fourth quarter, the decreases in expenses for the full year reflected the benefit from the favorable change in currency rates and the reduction in stock-based incentive plan compensation expense noted previously.

In addition, the reduction in expense was partially offset by an increase in our average headcount in all areas. Our average headcount for full-year 2009 was eight persons, or 5% higher, in sales, marketing, and operations staff; 14 persons, or 18%, higher in R&D staff; and eight persons, or 21% higher, in general and administrative staff.

Operating income for the fourth quarter of 2009 was $5.4 million, an increase of $3.6 million, or 197%, from the $1.8 million reported for the fourth quarter of 2008. For the full year, operating income was $13.4 million in 2009, a decrease of $14.7 million, or 52%, from $28.1 million reported in 2008.

Operating income as a percentage of revenue or operating margin was 16.9% for the fourth quarter and 13.2% for the full year of 2009. In 2008, our operating margins were 6.3% for the quarter and 21.2% for the full year.

While we have benefited from our cost-containment action, the decrease in operating margin reflects the fact that we have continued to maintain the investments we made in our infrastructure in 2008 that will be needed to support future growth.

The Company reported income tax expense of $589,000 for the quarter and $3.5 million for the full year of 2009. The effective tax rate was 10% and 21% for the fourth quarter and full year of 2009, respectively. For 2008, the Company reported a tax benefit of $411,000 for the fourth quarter and income tax expense of $4.6 million for the full year.

The effective rate reported in 2008 was a benefit of 17% in the fourth quarter and an expense of 16% for the full year. Effective rates in the fourth quarter of both 2009 reflect the adjustments needed to bring our full-year tax rate to the amount computed for each of our entities.

The increase in the tax rate in 2009, when compared to 2008, is primarily attributable to a reduction in pretax profits. Under our current structure, our effective tax rate will vary — will be very sensitive to the level of pretax income. As pretax income increases, we expect the effective rate to decline, and as pretax income decreases, the effective rate will increase.

Earnings before interest, taxes, depreciation, and amortization, EBITDA, or operating cash flow, if you will, was $7 million for the fourth quarter and $18.9 million for the full year of 2009. EBITDA was $4.1 million, or 139% higher, in the fourth quarter and $12.4 million, or 40% lower, for the full year — than in the full year of 2008. The reduction in EBITDA for the full year primarily reflects the reduction in earnings.

The make-up of our workforce at December 31, 2009, was 294 people worldwide, with 156 in sales, marketing, and customer support; 92 in research and development; and 46 in general and administrative. As noted previously, the average headcount (technical difficulty) 2009 was six persons, or 2% lower than the average headcount for the fourth quarter of 2008. The average headcount for the full year of 2009 was 30 persons, or 11% higher than the average headcount for the same period of 2008.

Our working capital continued to strengthen during the quarter of 2009, and while our cash balances declined slightly. As of December 31, 2009, our net cash balance, which is defined as total cash less bank borrowings, was $67.6 million, a decrease of $3.6 million, or 5%, from $71.2 million at September 30, 2009, and an increase of $9.9 million, or 17%, from $57.7 million at December 31, 2008.

As of December 31, 2009, our working capital balance was $88.9 million, an increase of $5.6 million, or 7%, from $83.3 million at September 30 and an increase of $13 million, or 7%, from $75.9 million at December 31, 2008.

We had no debt outstanding at any time during the year. During the quarter, our days sales outstanding and Accounts Receivables increased to 90 days as of December 31, 2009, from 85 days at September 30, 2009, and from 79 days at September 30 (technical difficulty) December 31, 2008. The increase in DSO was primarily related to the timing of when sales were made in the quarter.

Thank you very much for your attention, and I'd now like to turn the meeting back to Ken.

T. Kendall Hunt - ***VASCO Data Security International*** - ***Chairman, CEO***

Thank you, Cliff. At our earnings call last year at this time, given the uncertainty created by the continued turmoil in the worldwide economy, VASCO decided to temporarily discontinue its practice of providing annual guidance. That was a year ago and the picture is much clearer now.

I'm pleased to announce that we are once again offering guidance to the market. As in the past, we will only comment on annual numbers, not quarterly numbers. First, we are offering guidance that full-year 2010 revenue will grow from 15% to 20% over full-year 2009. Second, we are offering guidance that full-year 2010 operating income will range between 5% to 10% of revenue.

This guidance reflects the Company's strategy to continue its aggressive growth by investing in its people; our newly-announced DIGIPASS as a service, or DAS; and the infrastructure necessary for long-term profitability. It also reflects our continued evolution to a more software-centric company with a focus on recurring revenues.

This concludes our presentations today, and we will now open the call for questions. As I mentioned earlier, as a courtesy to others on the call, I would appreciate it if you'd limit your questions to an initial question plus a follow-up. If you have additional questions, you can circle back and ask them again. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions). Scott Zeller, Needham & Company.

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

Could you give us some color around the operating-margin outlook for the year? You know, with the strong revenue guidance, I guess any color on gross margin due to product mix, whether or not you expect that to approve through calendar 2010. And then, also, the OpEx control through the year as it relates to the revenue growth that you've forecasted. Thanks.

T. Kendall Hunt - ***VASCO Data Security International - Chairman, CEO***

As it relates to gross margin, we expect that to maintain about the same level of 2009.

As you've witnessed over the last several years, and more particularly over the last year or so, we have continued to do better and be successful in generating more non-hardware revenue of all types, and that tends to buoy up our gross margins in spite of the fact that a relatively significant portion of our revenues come from card readers, which, as been reported, are lower margin.

As far as operating margin is concerned, we are going to continue to invest in the business. We have announced consistently that we are building our infrastructure to make us a more mature firm, one that can report better, one that can control better, and we'll continue that investment.

We're also continuing to invest in our people, particularly in areas that show great promise, and then, lastly, the new DIGIPASS authentication service is something that we need to continue to build out. Jan or Cliff, do you have any other points or questions?

Jen Valcke - ***VASCO Data Security International - President, COO***

No.

Operator

Joe Maxa, Dougherty & Company.

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

Ken, on the revenue guidance, presumably you are having additional strength in your RFP activity. I was curious if you could give us color on the activity as far as the 12-month POs that you've had in the past?

T. Kendall Hunt - ***VASCO Data Security International - Chairman, CEO***

I'll let Jan answer that question.

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

Thank you, Ken. So basically, what we see is, of course, and you mentioned right here at the end of the earnings call in the third quarter, we said we decreased around (technical difficulty) as a consequence (technical difficulty) banks are getting back to the same principle like they did in the past (technical difficulty) DIGIPASS (technical difficulty). Does that give you an answer, Joe?

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

I’m sorry, I’m having difficulty with my phone. Please move to the next caller.

Operator

Brian Freed, Morgan Keegan & Co., Inc.

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

It’s [Ahmad Samana] here for Brian Freed. I wanted to follow up on the operating-margin question. Can you quantify the operating-margin impact, what it would’ve been if you wouldn’t be rolling out this staff solution? How should we look at absolute operating-expense growth? Should it be significantly more than revenue?

Cliff Bown - ***VASCO Data Security International*** - ***EVP, CFO, Secretary***

In general, no, we won’t break out the investment in DAS as a separate item. We don’t want to get down to that level of detail.

Our strategies for 2010, and as Ken mentioned, are very broad. It’s not only investing in DAS, it’s continuing to invest in markets that we have. It’s continuing to do more things in the enterprise and application security business. So, there are quite a number of variables that go into that operating-expense line item.

In terms of the overall OpEx, I’m not sure that I can give you much more detail than what we’ve given here. Obviously, VASCO has a model that is very leverageable. We contract, or we have all of our manufacturing with outside contractors. But we use the distribution channel effectively, so we continue to use that leverage in our model.

However, we view 2010 as an opportunity to make the investments to take the next step in the Company’s future, which includes these investments in the new DAS. It includes the investment in those new markets.

Operator

(Operator Instructions). Daniel Ives, FBR Capital Markets.

Unidentified Participant

This is actually Mike for Daniel. Just another follow-up question on margins. In 2009, did you guys maybe scale back your spending and maybe that’s why we are seeing an uptick there? And then, just a quick follow-up.

T. Kendall Hunt - ***VASCO Data Security International*** - ***Chairman, CEO***

Certainly, we reacted to the challenging economic environment in 2009 and we cut back discretionary budgets wherever we could.

We reassessed our staffing and, indeed, we did cut our expenses rather dramatically, but as we had announced, I think, consistently in every quarter, we weren’t going to slash and burn. We weren’t going to kill the company just because there was an economic downturn and we even said that we were going to continue investing in some territories with senior salespeople where we saw good opportunity. But, yes, overall, our expenses were down.

Unidentified Participant

And then, a follow-up to the other question because I also — my phone was cutting out when you guys responded. What gives you the confidence in terms of the topline guide? Thanks.

T. Kendall Hunt - ***VASCO Data Security International*** - ***Chairman, CEO***

Well, it’s again — if you look back to when we reported the third quarter, we were more optimistic. We said that suddenly we were seeing more requests for proposals, requests for information, and for some time, that new account activity, it kind of dried up.

We also saw an improving forecast for our existing customers and their anticipated purchases. So, I think we simply delivered, maybe a little more than anybody expected, a good solid quarter based upon those factors that I mentioned last quarter and have repeated here.

Jan just a few seconds ago also mentioned that many of our customers are going back to the 12-month planning that kind of went away for many quarters. So volume purchase agreements that results in 12-month purchase orders with four call-offs so that we can plan better, and we actually have some backlog that we can see over the next 12 months. That's a very positive sign.

Operator

Mr. Hunt, there are no further questions at this time. I'll turn the call back to you. Please continue with your presentation or closing remarks.

T. Kendall Hunt - ***VASCO Data Security International*** - ***Chairman, CEO***

All right, very good, very good. Well, ladies and gentlemen, thanks for your attendance today. We look forward to your participation in the next earnings conference call for Q2 2010, and as always, I appreciate the efforts of VASCO's people around the world, and you as investors can always rely that VASCO people will continue to do their very best. Good afternoon.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.