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): July 27, 2006

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

On July 27, 2006, VASCO Data Security International, Inc. (VASCO) issued a press release providing a financial update for the second quarter, which ended June 30, 2006. The full text of the press release is attached as Exhibit 99.1 to this Current Report on Form 8-K.

On July 27, 2006, VASCO held a conference call with investors to discuss VASCO's earnings and results of operations for the second quarter and the six months ended June 30, 2006. A script read by officers of VASCO during the conference call is furnished as Exhibit 99.2 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 on the face of the Consolidated Statement of Operations. 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

(c) Exhibits

Exhibit Number	Description
99.1	Press release, dated July 27, 2006, providing financial update of VASCO Data Security International, Inc. for the quarter and six-month period ended June 30, 2006.
99.2	Text of script for July 27, 2006 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: July 28, 2006

VASCO Data Security International, Inc.
(Registrant)

By: /s/Clifford K. Bown
Clifford K. Bown
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press release, dated July 27, 2006, announcing financial update of VASCO Data Security International, Inc. for the quarter and six month period ended June 30, 2006.
99.2	Text of script for July 27, 2006 Earnings Conference Call.

EXHIBIT 99.1

VASCO REPORTS RECORD RESULTS FOR SECOND QUARTER AND FIRST SIX MONTHS OF 2006.

REVENUES FOR THE SECOND QUARTER 2006 INCREASE 50% OVER Q2 2005 AND 35% OVER Q1 2006; OPERATING INCOME INCREASES 79% OVER Q2 2005 AND 41% OVER Q1 2006. REVENUE FOR THE QUARTER IS BEST IN THE COMPANY'S HISTORY; VASCO INCREASES ITS FULL-YEAR 2006 GUIDANCE FOR GROSS AND OPERATING MARGINS. FINANCIAL RESULTS FOR THE PERIODS ENDED JUNE 30, 2006 AND GUIDANCE FOR FULL-YEAR 2006 TO BE DISCUSSED ON CONFERENCE CALL TODAY AT 10:00 A.M. E.D.T.

OAKBROOK TERRACE, Ill., and BRUSSELS, Belgium, July 27, 2006 - VASCO Data Security International, Inc. (Nasdaq: VDSI) (www.vasco.com) today reported financial results for the second quarter and six-months ended June 30, 2006.

Revenues for the second quarter of 2006 increased 50% to $18.5 million from $12.3 million in 2005 and, for the first six months of 2006, increased 35% to $32.2 million from $23.8 million in 2005.

Net income available to common shareholders for the second quarter of 2006 was $3.0 million, or $0.08 per diluted share, an increase of $1.4 million or 92% from $1.6 million, or $0.04 per diluted share in 2005. Net income available to common shareholders for the first six months of 2006 was $4.2 million, or $0.11 per diluted share, an increase of $1.2 million or 41% from $3.0 million, or $0.08 per diluted share in 2005.

Financial Highlights:

- Gross profit was $11.9 million or 64% of revenue for the second quarter and $21.3 million or 66% of revenue for the first six months of 2006. Gross profit was $8.0 million or 65% of revenue for the second quarter and $15.3 million or 64% of revenue for the first six months of 2005.

- Operating expenses for the second quarter and first six months of 2006 were $7.8 million and $14.3 million, respectively, an increase of 35% from $5.8 million reported for the second quarter 2005 and an increase of 30% from $11.1 million reported for the first six months of 2005. Operating expenses for the second quarter and first six months of 2006 included $0.4 million and $0.7 million, respectively related to stock-based incentives.

- Operating income for the second quarter and first six months of 2006 was $4.1 million and $7.0 million, respectively, an increase of $1.8 million or 79% from $2.3 million reported for the second quarter of 2005 and an increase of $2.8 million or 66% from the $4.2 million reported for the first six months of 2005. Operating income, as a percentage of revenue, for the second quarter and first six months of 2006 was 22.1% and 21.7%, respectively, compared to 18.5% and 17.7% for the comparable periods in 2005.

- Net income for the second quarter and first six months of 2006 was $3.0 million and $4.2 million, respectively, and compares to net income of $1.6 million reported for the second quarter of 2005 and net income of $3.0 million reported for the first six months of 2005.

- Earnings before interest, taxes, depreciation and amortization was $4.6 million and $6.9 million for the second quarter and first six months of 2006, respectively, an increase of 68% from $2.7 million reported for the second quarter of 2005 and an increase of 34% from $5.1 million reported for the first six months of 2005.

- Net cash balances, cash balances less borrowing under its line of credit, at June 30, 2006 totaled $13.0 million compared to $14.5 million and $14.0 million at March 31, 2006 and December 31, 2005, respectively.

Operational and Other Highlights:

- Approximately 2.7 million Digipasses shipped in the second quarter 2006, an increase of 71% from the second quarter of 2005. For the six months ended June 30, 2006, approximately 4.4 million Digipasses were shipped, an increase of 45% over the same period in 2005.

- VASCO won 361 new customers in Q2 2006 (46 banks and 315 enterprise security) and 702 for the first six months of 2006. Year-to-date new customers include 80 banks and 622 enterprise security.

- Citibank (US), HSBC (UK), Van Lanschot Bankiers (BE), Capitec (South Africa) use Digipass GO3 for Business/Corporate Banking

- Bank Asya (Turkey) uses Digipass 810 for Business and Retail Banking

- Banco Bradesco (Brazil) and Garanti Bank (Turkey) win VASCO's Market Vision Award 2006

- VASCO Wins 15 U.S. Banks during Q2 2006

- VASCO acquires Logico Smart Card Solutions

- VASCO launches Digipass Easy Pack for MS Outlook Web Access

- VASCO adds CAP Token Verification Service to VACMAN Controller

- VASCO launches Partner Certification Program for EMEA

Guidance for full-year 2006:

VASCO is updating its guidance for the full-year 2006 as follows:

- Revenue growth of 35% to 45% for the full-year 2006 over full-year 2005 is reaffirmed and remains unchanged from prior guidance, - Gross margins as a percentage of revenue for full-year 2006 are projected to be in the range of 60% to 65%, up from the previous guidance of 58% to 63% for the full-year 2006, and

- Operating margins as a percentage of revenue for full-year 2006 are projected to be 15% to 20% as reported in accordance with Generally Accepted Accounting Principles, up from the previous guidance of 13% to 18%. Excluding stock related compensation and amortization expenses, operating margins are expected to be 18% to 23% of revenue, up from the previous guidance of 15% to 20%.

"Our Full-Option, All-Terrain Strategy, introduced in the first quarter of 2006, is being very well received in the market," said Ken Hunt, VASCO's CEO and Chairman. "As evidenced by the record revenue and Digipass units shipped in the second quarter, we are seeing strong and continuing interest in our product in all of our markets, including in the United States. Also, as evidenced by our acquisition of Logico in the second quarter, we are executing our make or buy strategy by adding technology and staff with expertise that will help us meet the growing demand of our customers."

"The results of the second quarter continue the trend of strong growth," said Jan Valcke, VASCO's President and COO. "As two-factor authentication becomes more broadly accepted as a cost-effective means of protecting against identity theft, we are seeing both an increase in the number of deals as well as the size of the deals. Customers particularly like our platform, which allows them to use any of our forms of authentication simultaneously. It allows them to deploy an appropriate, cost-effective method of authentication for each user of their application by selecting the appropriate Digipass product, including Digipass for Web. As a market leader, especially in the banking and financial market, we also are seeing increased interest from distributors, solution partners and companies with complimentary technologies. As we start the third quarter, we have a backlog of firm orders to be shipped in the third quarter of $16.1 million, which is 39% higher than the $11.6 million backlog we had, entering the third quarter of 2005."

Cliff Bown, Executive Vice President and CFO added, "Our balance sheet continues to be strong as a result of the strong operating performance. We were able to fund our acquisition of Logico from our existing cash balances. In part due to the acquisition of Logico, our net cash balances decreased $1.3 million or 9% from March 31, 2006 while our working capital increased approximately 7% to $20.1 million at June 30, 2006 from $18.7 million at March 31, 2006. Days Sales Outstanding (DSO) in net accounts receivable increased to approximately 81 days at June 30, 2006 from 76 days at March 31, 2006."

Conference Call Details

In conjunction with this announcement, VASCO Data Security International, Inc. will host a conference call today, July 27, 2006, at 10:00 a.m. EDT - 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 actual results for the for the periods ended June 30, 2006 and full-year 2006 guidance.

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

USA/Canada: +1 877-318-5455
International: +1 973-935-2967

And mention access code: 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
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2006	2005	2006	2005
Net revenues	$ 18,512	$ 12,345	$ 32,202	$ 23,788
Cost of goods sold	6,650	4,296	10,889	8,519
Gross profit	11,862	8,049	21,313	15,269
Operating costs:				
Sales and marketing	4,466	3,535	8,443	6,872
Research and development	1,236	904	2,178	1,713
General and administrative	2,006	1,103	3,540	2,076
Amortization of purchased intangible assets	72	222	170	400
Total operating costs	7,780	5,764	14,331	11,061
Operating income	4,082	2,285	6,982	4,208
Interest income, net	14	16	74	42
Recovery (impairment) of investment in Secured Services, Inc.	189	-	(600)	-
Other income (expense), net	135	131	108	347
Income before income taxes	4,420	2,432	6,564	4,597
Provision for income taxes	1,386	851	2,360	1,609
Net income	$ 3,034	$ 1,581	$ 4,204	$ 2,988
Preferred stock accretion and dividends	-	-	-	(14)
Net income available to common shareholders	$ 3,034	$ 1,581	$ 4,204	$ 2,974
Net income per common share:				
Basic	$ 0.08	$ 0.04	$ 0.12	$ 0.09
Diluted	$ 0.08	$ 0.04	$ 0.11	$ 0.08
Weighted average common shares outstanding:				
Basic	36,210	35,458	36,158	34,943
Diluted	37,690	37,295	37,697	36,796

VASCO DATA SECURITY INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS)

	June 30, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash	$ 16,058	$ 17,143
Accounts receivable, net of allowance for doubtful accounts	16,458	12,083
Inventories, net	2,762	1,570
Prepaid expenses	495	726
Deferred income taxes	505	117
Foreign sales tax receivable	234	89
Other current assets	83	451
Total current assets	36,595	32,179
Property and equipment, net	1,257	982
Intangible assets, net	1,881	1,054
Goodwill	8,424	6,665
Note receivable and investment in SSI	-	600
Other assets	26	25
TOTAL ASSETS	$ 48,183	$ 41,505
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank borrowing	$ 3,088	$ 3,173
Accounts payable	4,339	4,753
Deferred revenue	1,773	1,765
Accrued wages and payroll taxes	2,000	2,329
Income taxes payable	2,907	1,547
Other accrued expenses	2,425	2,287
Total current liabilities	16,532	15,854
Long-term deferred warranty	298	256
STOCKHOLDERS' EQUITY:		
Common stock	36	36
Additional paid-in capital	60,123	59,625
Deferred compensation	-	(403)
Accumulated deficit	(28,781)	(32,985)
Accumulated other comprehensive loss - cumulative translation adjustment	(25)	(878)
Total stockholders' equity	31,353	25,395
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 48,183	$ 41,505

Reconciliation of EBITDA to net income (in thousands):

	THREE MONTHS ENDED JUNE 30, 2006	2005	SIX MONTHS ENDED JUNE 30, 2006	2005
	UNAUDITED		UNAUDITED	
EBITDA	$ 4,591	$ 2,726	$ 6,872	$ 5,110
Interest income, net	14	16	74	42
Provision for income taxes	(1,386)	(851)	(2,360)	(1,609)
Depreciation and amortization	(185)	(310)	(382)	(555)
Net income	$ 3,034	$ 1,581	$ 4,204	$ 2,988

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 the full performance of the Company or its prospects. Such evaluation needs to consider all of the complexities associated with our business including, but not limited to, how past actions are affecting current results and how they may affect future results, how we have chosen to finance the business and how regulations and the other aforementioned items affect the final amounts that are or will be available to shareholders as a return on their investment. Net income determined in accordance with U.S. GAAP is the most complete measure available today to evaluate all elements of our performance. Similarly, our Consolidated Statement of Cash Flows provides the full accounting for how we have decided to use resources provided to us from our customers, lenders and shareholders.

ABOUT VASCO: VASCO designs, develops, markets and supports patented user authentication products for the financial world, remote access, e-business and e-commerce. VASCO's user authentication software is delivered via its Digipass hardware and software security products. With over 25 million Digipass products sold and delivered, VASCO has established itself as a world-leader for strong User Authentication with approximately 500 international financial institutions and over 2,800 blue-chip corporations and governments located in more than 100 countries.

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," 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 Company's public filings with the US Securities and Exchange Commission for further information regarding the Company and its operations.

For more information contact:
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EXHIBIT 99.2

Earnings Conference Call July 27, 2006

Ken Hunt:
Good morning everyone. For those listening in from Europe, good afternoon, and from Asia, good evening. We have continuing good news to discuss with you today!

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 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 2nd quarter 2006. 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.

First, I would like to address revenue for 2nd quarter 2006. It was $18.5 million, an increase of 50% over 2nd quarter 2005, and our strongest quarter ever, even surpassing our extraordinary 4th quarter of 2005. It was also our 14th consecutive positive quarter in terms of Operating Income and Cash Flow.

New accounts continued to grow during the 2nd Quarter. During the quarter, we sold an additional 361 new accounts, including 46 new banks, an absolute company record, and 315 new Enterprise Security customers. YTD we have sold 702 new accounts, including 80 new banks and 622 new Enterprise Security customers. Comparatively, for all of 2005, we produced 821 new accounts, including 89 banks and 732 Enterprise Security customers. We now have over 500 banks and almost 3000 Enterprise Security customers including corporations, federal, state and local governments as customers located in over 100 countries around the world.

Most importantly, we are making significant business progress in the US. In fact, 15 of the 46 new banks in Q2 were signed here in the US. This success has definitely been fueled by the very strong banking industry directive issued on October 12th of last year here in the United States by the FFIEC, an umbrella group of regulators that includes the FDIC.

VASCO'S SUSTAINABLE, REPEATABLE SALES MODEL:
All of you should know this one by now. I have been consistent with this message for 14 quarters. Namely, that VASCO has developed a sustainable, repeatable sales model mainly driven by our strong vertical market, banking and finance. Our bank customers launch multi-year projects that are supported by our strong authentication products. These projects are directed

towards large corporate and consumer audiences and are rolled out over 2-4 years. Additionally, we continue to add new banks every quarter that contribute an ever-growing number of new projects. This has created the "layering or stacking effect" that I often speak about, and is driving our top line revenue and guidance.

FULL-OPTION, ALL-TERRAIN MODEL:
We introduced our Full-Option, All Terrain Strategy in the first quarter of 2006 to further penetrate and protect our existing and growing customer base. We will build on our strategy of being the high-volume, high-quality, low-cost producer by expanding our flexible platform to support a growing array of authentication products. Some of those products, like our Digipass for Web, which we announced in the 1st quarter, will allow customers to implement a strong authentication solution as a complement to or as an alternative to deploying hardware authentication devices. Our platform, which allows any of our forms of authentication to be used simultaneously, will allow customers to deploy an appropriate, cost-effective method of authentication for each user of their application by selecting the appropriate Digipass product, including Digipass for Web. We believe that Digipass for Web will provide a seamless, non-invasive way to authenticate users that goes well beyond today's fraud detection products. With the addition of Digipass for Web, VASCO will be able to serve and authenticate every audience that needs strong authentication, from people buying a book online once a year to CFO's of companies, transacting millions of dollars on a daily basis. We will also be looking to acquire companies that can expand our authentication product offerings and product development capabilities.

We sold and shipped a record 2.7 million Digipass units during Q2 2006, once again demonstrating the effectiveness our strategies, focus and execution. Program-to-date, approximately 28 million Digipass units have been sold and shipped including the units sold by AOS Hagenuk prior to our acquisition. We expect that our unit sales will continue to accelerate as we develop new markets and identify new audiences for the Company's products.

I believe that VASCO, as a company, is gaining a reputation for its focus and discipline. We focus on markets where we have a differentiated and unique platform. We don't spend money lavishly, but focus on profitability for our shareholders. We don't acquire companies recklessly, but use a disciplined, well-developed process that assures a fair price, and an optimal and profitable outcome.

INTRODUCE JAN VALCKE:
At this time I would like to introduce Jan Valcke, VASCO's President and Chief Operating Officer. Jan congratulations to you and your team on another fine quarter.

COMMENTS BY JAN
Thank you, Ken.

Ladies and gentlemen, our successful second quarter proves once again that our strategy works. By focusing on authentication, we make sure that customers and prospects understand what we are doing. This is a huge advantage compared with competitors for whom authentication is just a side-show.

As always, I will discuss the four elements of the company: the markets, the products, the people and the money.

The markets:

Our global success proves our market strategy. In every one of our geographical targets, VASCO has won market share. Facts don't lie. This shows that our VACMAN Controller strategy is working.

I just want to quote some of the most resounding customer wins and successes:

1. Banco Bradesco in Brazil is the first bank in the world that has announced to protect its customer's assets with both hard-and software Digipass products. We see a growing interest in our software products, where as our hardware product range is becoming more successful every quarter. In the second quarter VASCO sold and delivered a record amount of Digipass, a spectacular 2.7 million units.

2. VASCO won 15 new banks in the United States during the second quarter for corporate banking. Two of these new customers are the recently announced Citibank and Old National. All fifteen banks have implemented VACMAN Controller or VACMAN Middleware. VASCO's strategy is to focus on the corporate banking market first. Once a bank has deployed a first batch of Digipass and has integrated VACMAN Controller, it is technically ready for larger deployments in other applications, including retail banking. VASCO expects the first strong authentication projects for retail banking in the US to happen in 2007. The company believes that Digipass for Web will be an important tool to reach that goal.

3. VASCO organized successful banking summits in Turkey and Moscow. In total, we received over 200 representatives of leading banks.

Successes with Garanti Bank and Bank Asya (Turkey) have shown that VASCO's position in the important Turkish market is getting stronger rapidly.

In addition to the geographic markets, VASCO distinguishes so called vertical markets. Of those, the financial market and the enterprise security markets are currently the most important. Emerging markets are b-to-b e-commerce, b-to-c e-commerce and e-government.

The financial market, VASCO's traditional stronghold, grows quickly with the addition of 46 new banks in Q2, of which 15 for the United States. Our growth in the US is a cause for optimism. In order to gain even more momentum, we step up the organization of new banking summits and round tables in the US. On August 22, we'll tackle the Central Region by means of a round table in Columbus, Ohio.

In total, over 500 financial institutions, of which 50 in the U.S., protect their customers with VASCO's Digipass. We can safely state that Digipass is used for retail banking on every continent except Antarctica!

The enterprise security market, formerly known as C.N.A., is growing quickly. In Q2, we won 315 new customers in this field. VASCO's total number of Enterprise Security customers is close to the 3,000 mark.

Both e-government and e-commerce are emerging. In Belgium for example, we have seen the first cases of local police forces using our E-ID reader technology, based on the Digipass 820 platform.

Products:
VASCO's continuing efforts to broaden its product line, pay off. Our customers and prospects see us as the full-option, all terrain authentication company, being able to offer "a la carte authentication".

Around the VACMAN Controller authentication platform, banks and other organizations can truly choose which client authentication they want to use for which type of customer. VASCO is much more than a hardware authentication vendor. More and more banks show interest in mixing hard- and software Digipass authentication. The before mentioned Bradesco case is a nice example of this approach.

The second quarter of 2006 saw very important evolutions in the product sphere.

VASCO developed and launched Digipass for Web, the software, web based Digipass that will be an important asset, especially in e-commerce and the U.S. retail banking market.

The launch of Digipass Easy Pack was the prelude of the creation of a suite of products especially aimed at the Enterprise Security market. You will see a lot more of this kind of products in the near future.

As always, VASCO uses a "make or buy" strategy for new products and new technologies.

The recent acquisition of the Austrian smart card specialist Logico fits perfectly in that strategy. Logico has developed a range of password management and PKI enabling technologies and products. They sell those products to enterprises in -- amongst others - the healthcare, government and industrial sectors. The existing Logico products are a direct reinforcement of VASCO's product range for enterprise security. The combination of VASCO's existing offerings and Logico's password management tools creates great synergies, that will become apparent in the short term, certainly when used in conjunction with VASCO's VACMAN Controller and Identikey server.

I would like to conclude the "product" chapter by referring to last quarter's conference call. During that call we explained VASCO's solutions for the different types of fraud schemes that are currently used on the Internet by organized crime. Man-in-the-middle attacks and Trojans are highly sophisticated forms of attacks, that can be completely neutralized by using VASCO's proven e-signature technology. E-signature, or transaction signing, is a functionality that is embedded into VASCO's Digipass since the first half of the Nineties of last century. Because information about the transaction is a part of the signature calculation, the transaction can not be hijacked and sent to a different account by a man-in-the-middle or a Trojan. We are more than willing to discuss this Digipass functionality later today.

A large number of banks have used used Digipass signatures for many years. This gives VASCO an enormous competitive advantage in times when attacks get ever more sophisticated. For your information, the e-signature functionality is included in Digipass for Web.

People:
VASCO's staff is growing steadily. At the end of Q2, we had over 150 employees worldwide.

Hiring took place globally, and we gained a lot of R&D resources with the acquisition of Logico.

Logico, or VASCO Austria, will act as VASCO's smartcard technology R&D centre. The integration is going smoothly and we have high expectations about the added value of Logico to our product and solution range.

Cash:
I will not tell you too much about our cash situation, because Cliff Bown, our CFO, will do that. What I can tell you, is that VASCO is growing quickly, and that we can finance our growth with the money that we earn every quarter. And that for both organic growth and acquisitions.

We will keep focusing on both growth and profitability in the future, whilst keeping costs under control.

Thank you.

KEN HUNT INTRODUCE CLIFF BOWN:
At this time I would like to turn the call over to Cliff Bown, our Chief Financial Officer.

CLIFF:
Thank you Ken and hello to all on the call.

Revenues for the second quarter and six months ended June 30, 2006 were $18.5 million and $32.2 million, respectively, an increase of $6.2 million or 50% over the second quarter of 2005 and an increase of $8.4 million or 35% over the six months ended June 30, 2005. On a sequential basis, revenue for the second quarter of 2006 was 35% higher than the first quarter of 2006.

Compared to 2005, the increase in revenue for the second quarter and six months ended June 30 reflected significant increases from both the Banking and the Enterprise Security markets. Revenues in the second quarter of 2006 from the Banking and the Enterprise Security markets increased 52% and 40%, respectively. Revenues for the six months ended June 30, 2006 from the Banking and the Enterprise Security markets increased 34% and 43%, respectively.

The distribution of our revenue in the second quarter of 2006 between our two primary markets was comparable to the distribution in the second quarter of 2005. In 2006, approximately 87% of our revenues came from Banking while 13% came from the Enterprise Security. In the second quarter of 2005, approximately 86% came from the Banking and 14% came from Enterprise Security.

The geographic distribution of our revenue in the second quarter of 2006 was significantly different than in 2005. In the second quarter of 2006, approximately 62% from Europe, 14% from the U.S., 5% from Asia and the remaining 20% from other countries. For the second quarter of 2005, 79% of the revenue was from Europe, 6% was from the U.S. and 12% was from Asia and 2% was from other countries. It should be noted that with the exception of Asia, our total revenue from each of the primary geographic areas increased in the second quarter 2006 as compared to the second quarter of 2005.

The geographic distribution of our revenue for the six months ended June 30, 2006 was approximately 65% from Europe, 11% from the U.S., 7% from Asia and the remaining 18% from other countries. For the six months ended June 30, 2005, 83% of the revenue was from Europe, 6% was from the U.S., 7% from Asia and 3% was from other countries. On a year-to-date basis, revenue from all of our primary geographic areas increased as compared to the six months ended June 30, 2005.

Gross profit as a percentage of revenue was relatively comparable in 2006 and 2005. Gross profit as a percentage of revenue for the second quarter of 2006 was 64% compared to 65% in 2005. For the six months ended June 30, 2006 gross profit as a percentage of revenue was approximately 66% compared to 64% for the same period in 2005. In general, for both the quarter and six months ended June 30, the percentage decline in average sales price was offset by the percentage decline average cost of product produced.

As has often been noted previously, our strategy of being the high-volume, high-quality, low-cost producer has positioned the company to compete effectively for the larger deployments of Digipasses, especially in the consumer market, and has resulted in significant increase in the number of Digipasses sold. VASCO shipped approximately 2.7 million Digipasses in the second quarter 2006, which was 71% greater than the second quarter of 2005. For the six months ended June 30, 2006, VASCO shipped approximately 4.4 million Digipasses, which was 45% greater than for the six months ended June 30, 2005. The average selling price per Digipass, including related software, was approximately $6.86 for the second quarter of 2006 and $7.24 for the six months ended June 30, 2006. In 2005, the average selling price per Digipass, including related software was approximately $7.85 for the second quarter and $7.73 for the six months ended June 30th.

Operating expenses for the second quarter of 2006 were $7.8 million, an increase of $2.0 million or 35% from the second quarter of 2005. Operating expenses for the quarter included $430,000 related to stock-based incentive plans.

Operating expenses for the second quarter increased by $931,000, or 26% in sales and marketing, $332,000 or 37% in research and development, and $903,000 or 82% general and administrative when compared to the second quarter in 2005. The majority of the increase in the sales and marketing area were related to the Company's increased investment is sales staff and marketing programs. The increase in research and development costs was primarily related to increased compensation due to increased headcount. The increases in the general and administrative categories were primarily related to increases in the Company's provision for uncollectible accounts, stock-based incentive program costs, increased compensation, increased insurance costs and increased professional service costs.

Operating expenses for the first six months of 2006 were $14.3 million, an increase of $3.3 million or 30% from the comparable period of 2005. Operating expenses for the six-month period in 2006 included $712,000 related to stock-based incentive plans. The reasons for the increase in the expense for the six-month period are generally the same as previously noted for the quarter over quarter comparison.

Operating income for the second quarter of 2006 was $4.1 million, an increase of $1.8 million, or 79%, from the $2.3 million reported in the second quarter of 2005. Operating income for the six months ended June 30, 2006 was $7.0 million, an increase of $2.8 million, or 66%, from the $4.2 million reported in the six months ended June 30, 2005.

Operating income as a percent of revenue, or operating margin, was approximately 22% for the quarter and the six months ended June 30, 2006 and is approximately 4 percentage points higher than the same periods of 2005. The increase in operating margin for the quarter is primarily attributable to the reduction in operating expenses as a percentage of revenue. The increase in operating margin for the six months ended June 30th is attributable in equal parts to the improvement in the gross margin rate and to the reduction in operating expenses as a percentage of revenue

As we look forward, and as has been mentioned in previous calls, we plan to invest a portion of our increased operating profit in discretionary programs that will increase our sales and marketing capability, and over time, are expected to generate incremental revenues from new geographic regions or increase our penetration in existing markets.

Now I would like to make a few comments on non-operating income and expense items.

In the second quarter of 2006, Secured Services, Inc. repaid their installment note in full. As a result, we recorded $189,000 of income related to the recovery of impairment charges recorded in the first quarter of 2006. For the six months ended June 30, 2006 we have reported an impairment charge of $600 thousand, which reflects a full reserve against the investment the Company had in Secured Services' preferred stock.

Other income/expense primarily consists of exchange gains and losses on transactions denominated in currencies of than the reporting entities' functional currency and subsidies received from foreign governments related to our export businesses in those countries. There were no significant changes in other income and expense for the quarter. For the six-month period, the decrease in other income and expense is primarily due to a reduction in transaction gains in 2006 as compared to 2005.

Income tax expense for the second quarter of 2006 was $1.4 million, an increase of approximately $500 thousand from the second quarter of 2005. The increase in tax expense is attributable to higher pre-tax income partially offset by a lower effective tax rate. The effective tax rate was 32% for the second quarter of 2006 compared to 35% for the second quarter of 2005.

Income tax expense for the first six months of 2006 was $2.4 million, an increase of approximately $750 thousand from the same period in 2005. The increase in tax expense reflects the tax on increased earnings and an increase in the effective tax rate. The effective tax rate for the first six months of 2006 was 36% compared to 35% the first six months of 2005. The tax rate for the first six months of 2006 is higher than the expected tax rate for the full year as it does not include a benefit for the impairment charge. The normalized effective tax rate for full-year 2006 is currently 33% and compares to 35% in 2005. The effective tax rate for both periods reflects the Company's estimate of its full-year tax rate at the end of each respective period. The rate reported in 2006 is lower than the rate reported in 2005 as the Company's expectation of earnings in countries in which the Company has a tax loss carryforward are higher in 2006 than they were at the end of the second quarter in 2005.

Earnings before interest, taxes, depreciation, and amortization (EBITDA or operating cash flow if you will) from continuing operations was $4.6 million and $6.9 million for the second quarter and six months ended June 30, 2006, respectively. EBITDA in 2006 reflects an improvement of $1.9 million or 68% from the second quarter of 2005 and an improvement of $1.8 million or 34% for the six months ended June 30, 2005. The second quarter of 2006 reflected the fourteenth consecutive quarter of positive operating cash flow.

The makeup of our workforce as of June 30, 2006 was 150 people worldwide with 85 in sales, marketing and customer support, 46 in research and development and 19 in general and administrative. The average headcount for the six months ended June 30, 2006 increased by approximately 31 persons or 30% over the average six months ended June 30 headcount in 2005

Finally, I like to make a few comments on the balance sheet. Our net cash balance and working capital balance decreased from the prior quarter as a result the Company's purchase of Logico Smart Card Solutions and increased investment in other components of working capital, primarily accounts receivable. During the second quarter, our net cash balance, total cash less bank borrowings, decreased $1.5 million, or 10%, to $13.0 million from $14.5 million at March 31, 2006. Our working capital increased $1.4 million, or 7%, to $20.1 million from $18.7 million at March 31, 2006. Bank borrowings noted on the balance sheet of $3.1 million were borrowed under the line of credit and relate solely to our hedging program. There was no impact on working capital from the hedging program as the additional cash was offset by short-term debt.

During the quarter our Days Sales Outstanding in accounts receivable increased from 76 days at March 31, 2006 to 81 days at the end of the second quarter. The increase in DSO is primarily related to the increased volume of revenue recorded in last month of the quarter and was not yet due at the end of the quarter.

The Company continues to have no term debt. The Company has approximately $400,000, as of June 30, 2006, available for additional borrowings under its line of credit that is secured by its receivables.

Now, I would like to turn the meeting back to Ken.

COMMENTS ON 3RD QUARTER AND FULL-YEAR 2006 -- KEN HUNT

First, I would like to comment on order backlog for Q3 2006. As of this date, we have firm orders with shipments scheduled for the 3rd Quarter of approximately $16.1 million. Any new orders received before quarter's end and shipped during the quarter would be additive to this number. This backlog shows the strength of our order flow, as it is 39% higher than the backlog going in to Q3 2005. In addition, the backlog is 21% higher than the $13.3 million in revenues reported for Q3 2005.

Today, we are updating guidance for full-year 2006. As in the past, we only comment on annual numbers, not quarterly numbers. First, we maintain our estimate that full-year revenue will grow 35%-45% in 2006 over 2005. Second, we expect that full-year gross margins will be in the range of 60% to 65% of revenue, up from our previous estimate of 58-63%. Finally, we are projecting that operating income will be in the range of 15-20% of revenue on a U.S. GAAP basis, up from our previous estimate of 13-18%. Excluding amortization costs and the non-cash costs associated with the Company's equity and long-term incentive compensation plans, we expect that operating income will be between 18% and 23% on a proforma basis, up from the previous guidance of 15% to 20%.

In summary, we are very pleased with our results for Q2 2006, and look forward to a strong performance for the remainder of 2006. And, as always, you can rely on VASCO's people to do their very best!

Q&A SESSION:

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, please re-enter the queue after the answers to your initial questions have been given.

OPERATOR