

VASCO Reports Results for Third Quarter and First Nine Months of 2005

Revenues for the third quarter 2005 increase 79% over Q3 2004; Operating income increases 51% over Q3 2004. Both revenue and operating income for the third quarter 2005 are best in the Company's history. Financial results for the periods ended September 30, 2005 and guidance for full-year 2005 to be discussed on conference call today at 10:00 a.m. E.D.T.

OAKBROOK TERRACE, Ill., and BRUSSELS, Belgium, October 27, 2005 - VASCO Data Security International, Inc. (Nasdaq: VDSI) (www.vasco.com), today reported financial results for the third quarter and nine-months ended September 30, 2005.

Revenues for the third quarter of 2005 increased 79% to \$13,272,000 from \$7,400,000 in 2004 and, for the first nine months of 2005, increased 80% to \$37,060,000 from \$20,595,000 in 2004. Revenues for the quarter and nine months ended September 30, 2005 included \$1,156,000 and \$3,386,000, respectively, from AOS-Hagenuk B.V. ("AOS"), which was acquired on February 4, 2005.

Net income available to common shareholders for the third quarter of 2005 was \$1,751,000, or \$0.05 per diluted share, an increase of \$601,000 or 52% from \$1,150,000, or \$0.03 per diluted share in 2004. Net income available to common shareholders for the first nine months of 2005 was \$4,724,000, or \$0.13 per diluted share, an increase of \$2,184,000 or 86% from \$2,540,000, or \$0.08 per diluted share in 2004.

Financial Highlights:

- Results reflect the eleventh consecutive quarter of operating profit and positive earnings before interest, taxes, depreciation and amortization ("EBITDA").
- Results reflect the sixth consecutive quarter-over-quarter increase in revenue.
- Gross profit was \$8,134,000 or 61% of revenue for the third quarter and \$23,403,000 or 63% of revenue for the first nine months of 2005. Gross profit was \$5,156,000 or 70% of revenue for the third quarter and \$14,677,000 or 71% of revenue for the first nine months of 2004.
- Operating expenses for the third quarter and first nine months of 2005 were \$5,596,000 and \$16,657,000, respectively, an increase of 61% from \$3,475,000 reported for the third quarter 2004 and an increase of 57% from \$10,618,000 reported for the first nine months of 2004. Operating expenses from AOS for the third quarter were \$586,000, including \$91,000 of expense related to amortization of intangible assets resulting from the acquisition. Operating expenses included in the results for the first nine months from AOS were \$1,740,000, including \$313,000 of amortization expense.

- Operating income for the third quarter and first nine months of 2005 was \$2,538,000 and \$6,746,000, respectively, an increase of \$857,000 or 51% from \$1,681,000 reported for the third quarter of 2004 and an increase of \$2,687,000 or 66% from the \$4,059,000 reported for the first nine months of 2004. Operating income, as a percentage of revenue, for the third quarter and first nine months of 2005 was 19.1% and 18.2%, respectively, compared to 22.7% and 19.7% for the comparable periods in 2004.
- Net income for the third quarter and first nine months of 2005 was \$1,751,000 and \$4,738,000, respectively, and compares to income of \$1,201,000 reported for the third quarter of 2004 and net income of \$2,737,000 reported for the first nine months of 2004.
- Earnings before interest, taxes, depreciation and amortization was \$2,970,000 and \$8,080,000 for the third quarter and first nine months of 2005, respectively, an increase of 64% from \$1,806,000 reported for the third quarter of 2004 and an increase of 77% from \$4,562,000 reported for the first nine months of 2004.
- Net cash balances, cash balances less borrowing under its line of credit, at September 30, 2005 totaled \$9,272,000 compared to \$8,009,000 and \$8,220,000 at June 30, 2005 and December 31, 2004, respectively.

Operational and Other Highlights:

- Approximately 1.8 million Digipasses shipped in the third quarter 2005, an increase of more than 175% from the third quarter of 2004. For the nine months ended September 30, 2005, approximately 4.9 million Digipasses were shipped, also an increase of more than 175% over the same period in 2004.
- VASCO won 194 new customers in Q3 2005 (27 banks and 167 corporate customers) and 570 for the first nine months of 2005. Year-to-date new customers include 68 banks and 502 corporate customers.
- VASCO is the first company to receive Mastercard's EMV-CAP 2004 approval and the Belgian EPCI certification.
- VASCO and I-Flex sign solution partnership.
- VASCO signs Online Distribution to tackle CNA market in the Middle-East.

“The results of the third quarter confirm that our strategies are working worldwide” said Ken Hunt, VASCO’s CEO and Chairman. “Even though the third quarter is seasonally weak in Europe due to the holidays, the growth in revenues in other countries more than offset the seasonality in Europe, resulting in our sixth consecutive quarterly increase in revenues. Those increases in revenues have been combined with increases in operating productivity and margins. Operating income, as a percentage of revenue, increased for the third consecutive quarter to 19% of revenue.”

"As a leader in the banking and financial markets, our products are being deployed in large quantities in many countries around the world" said Jan Valcke, VASCO's President and COO. "Two-factor authentication is being accepted in more and more countries and our products are setting the standard as the high-volume, high-quality, low-cost solution. The success that we have enjoyed with many of the world's largest banks give many other banks the confidence that our solutions are right for them as well. We now have over 400 banks as customers in over 100 countries. That success can also be seen in our increasing backlog of orders. As we start the fourth quarter, we have a backlog of firm orders to be shipped in the fourth quarter of \$12.7 million, which is 87% higher than the \$6.8 million backlog we had entering the fourth quarter of 2004."

Cliff Bown, Executive Vice President and CFO added, "Our balance sheet continues to strengthen as a result of our strong operating performance. Our net cash balances at September 30, 2005 were \$9,272,000, an increase of \$1,263,000 or 16% from June 30, 2005 and our working capital increased approximately 24% to \$12,851,000 at September 30, 2005 from \$10,325,000 at June 30, 2005. Days Sales Outstanding (DSO) in net accounts receivable increased to approximately 59 days at September 30, 2005 from 54 days at June 30, 2005."

Conference Call Details

In conjunction with this announcement, VASCO Data Security International, Inc. will host a conference call today, October 27, 2005, 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 periods ended September 30, 2005 and full-year 2005 guidance.

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

USA/Canada: +1 800-322-0079

International: +1 973 409-9258

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 September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net revenues	\$ 13,272	\$ 7,400	\$ 37,060	\$ 20,595
Cost of goods sold	5,138	2,244	13,657	5,918
Gross profit	8,134	5,156	23,403	14,677
Operating costs:				
Sales and marketing	3,387	1,975	10,259	6,218
Research and development	902	595	2,615	1,803
General and administrative	1,128	855	3,205	2,384
Restructuring costs (recovery)	-	(32)	-	(32)
Amortization of purchased intangible assets	179	82	578	245
Total operating costs	5,596	3,475	16,657	10,618
Operating income	2,538	1,681	6,746	4,059
Interest income (expense), net	(10)	34	32	88
Other income (expense), net	166	(45)	512	-
Income before income taxes	2,694	1,670	7,290	4,147
Provision for income taxes	943	469	2,552	1,410
Net income	\$ 1,751	\$ 1,201	\$ 4,738	\$ 2,737
Preferred stock dividends	-	(51)	(14)	(197)
Net income available to common shareholders	\$ 1,751	\$ 1,150	\$ 4,724	\$ 2,540
Net income per common share:				
Basic	\$ 0.05	\$ 0.04	\$ 0.13	\$ 0.08
Diluted	\$ 0.05	\$ 0.03	\$ 0.13	\$ 0.08
Weighted average common shares outstanding:				
Basic	35,848	32,578	35,235	31,897
Diluted	37,703	35,172	37,088	35,217

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

	<u>September 30,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,754	\$ 8,220
Accounts receivable, net	8,552	5,965
Inventories, net	2,517	1,346
Prepaid expenses	485	791
Deferred income taxes	23	23
Foreign sales tax receivable	316	313
Other current assets	422	464
Total current assets	<u>24,069</u>	<u>17,122</u>
Property and equipment, net	950	838
Intangible assets, net	1,036	1,134
Goodwill	6,637	250
Investment in SSI	570	760
Other assets	25	146
Total assets	<u><u>\$ 33,287</u></u>	<u><u>\$ 20,250</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,951	\$ 3,065
Bank borrowings	2,482	-
Deferred revenue	1,145	620
Accrued wages and payroll taxes	1,712	1,602
Income taxes payable	849	435
Other accrued expenses	2,079	1,345
Total current liabilities	<u>11,218</u>	<u>7,067</u>
Long-term deferred warranty	238	152
Stockholders' equity:		
Series D convertible preferred stock	-	1,504
Common stock	36	34
Additional paid-in capital	58,934	51,825
Deferred compensation	(451)	-
Accumulated deficit	(35,948)	(40,672)
Accumulated other comprehensive income (loss) - cumulative translation adjustment	(740)	340
Total stockholders' equity	<u>21,831</u>	<u>13,031</u>
Total liabilities and stockholders' equity	<u><u>\$ 33,287</u></u>	<u><u>\$ 20,250</u></u>

Reconciliation of EBITDA to net income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	Unaudited		Unaudited	
EBITDA	\$ 2,970	\$ 1,806	\$ 8,080	\$ 4,562
Interest (income) expense, net	10	(34)	(32)	(88)
Provision for income taxes	943	469	2,552	1,410
Depreciation and amortization	266	170	822	503
Net income	<u>\$ 1,751</u>	<u>\$ 1,201</u>	<u>\$ 4,738</u>	<u>\$ 2,737</u>

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 18 million Digipass products sold and delivered, VASCO has established itself as a world-leader for strong user authentication with more than 400 international financial institutions and 2,000 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.

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