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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

OR

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

FOR THE TRANSITION PERIOD FROM __________ TO __________

Commission file number 000-24389

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

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

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

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (do not check if smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

There were 40,198,567 shares of Common Stock, $.001 par value per share, outstanding at July 29, 2016.

VASCO Data Security International, Inc.
Form 10-Q
For The Quarterly Period Ended June 30, 2016

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This report contains trademarks of VASCO Data Security International, Inc. and its subsidiaries, which include VASCO, the VASCO "V" design, Digipass as a Service, MYDIGIPASS.COM, DIGIPASS, VACMAN, aXsGUARD, IDENTIKEY, Cronto, and eSignLive.

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

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets		
Cash and equivalents	$ 35,578	$ 78,522
Short term investments	100,172	44,961
Accounts receivable, net of allowance for doubtful accounts of $505 in 2016 and $621 in 2015	32,691	29,426
Inventories	17,919	20,618
Prepaid expenses	3,296	3,051
Foreign sales tax receivable	339	510
Deferred income taxes	0	1,495
Other current assets	4,380	4,778
Assets of discontinued operations	3	4
Total current assets	194,378	183,365
Property and equipment:		
Furniture and fixtures	5,573	5,354
Office equipment	13,205	11,512
	18,778	16,866
Accumulated depreciation	(14,704)	(13,767)
Property and equipment, net	4,074	3,099
Goodwill, net of accumulated amortization	70,937	80,853
Intangible assets, net of accumulated amortization	33,471	37,970
Other assets, net of accumulated amortization	11,263	6,535
Total assets	$ 314,123	$ 311,822
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 7,929	$ 8,803
Deferred revenue	28,331	22,450
Accrued wages and payroll taxes	10,404	10,291
Income taxes payable	6,130	4,823
Other accrued expenses	5,103	7,820
Deferred compensation Deferred revenue	560	1,503
Total current liabilities	58,457	55,690
Other long-term liabilities	59	76
Deferred income taxes	1,025	8,008
Total liabilities	59,541	63,774
Stockholders' equity		
Preferred stock: 500 shares authorized, none issued and outstanding at June 30, 2016 or December 31, 2015	0	0
Common stock: $.001 par value per share, 75,000 shares authorized; 40,199 and 40,108 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	40	40
Additional paid-in capital	87,708	85,766
Accumulated income	173,061	168,036
Accumulated other comprehensive income	(6,227)	(5,794)
Total stockholders' equity	254,582	248,048
Total liabilities and stockholders' equity	$ 314,123	$ 311,822

See accompanying notes to condensed consolidated financial statements.

VASCO Data Security International, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue	$54,293	$65,393	$101,059	$130,528
Cost of goods sold	15,768	26,895	28,606	54,356
Gross profit	38,525	38,498	72,453	76,172
Operating costs:				
Sales and marketing	16,766	9,982	30,731	19,775
Research and development	7,105	4,538	13,403	9,087
General and administrative	9,065	7,105	17,392	13,224
Amortization of purchased intangible assets	2,203	1,120	4,427	2,256
Total operating costs	35,139	22,745	65,953	44,342
Operating income	3,386	15,753	6,500	31,830
Interest income, net	166	97	275	177
Other income (expense), net	253	273	615	(3)
Income from continuing operations before income taxes	3,805	16,123	7,390	32,004
Provision for income taxes	979	2,257	2,365	4,481
Net income from continuing operations	2,826	13,866	5,025	27,523
Income (loss) from discontinued operations	(1)	(14)	(1)	(37)
Net income	$ 2,825	$13,852	$ 5,024	$ 27,486
Net income per share:				
Basic income (loss) per share				
Continuing	$ 0.07	$ 0.35	$ 0.13	$ 0.69
Discontinued	(0.00)	(0.00)	(0.00)	(0.00)
Total	$ 0.07	$ 0.35	$ 0.13	$ 0.69
Diluted income (loss) per share				
Continuing	$ 0.07	$ 0.35	$ 0.13	$ 0.69
Discontinued	(0.00)	(0.00)	(0.00)	(0.00)
Total	$ 0.07	$ 0.35	$ 0.13	$ 0.69
Weighted average common shares outstanding:				
Basic	39,710	39,580	39,695	39,554
Diluted	39,769	39,738	39,762	39,699

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	$ 2,825	$13,852	$5,024	$27,486
Other comprehensive income (loss) - Cumulative translation adjustment	(1,247)	1,282	(433)	(2,262)
Comprehensive income	$ 1,578	$15,134	$4,591	$25,224

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flows from operating activities:		
Net income from continuing operations	$ 5,025	$ 27,523
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operations:		
Depreciation and amortization	5,275	2,929
Loss on asset disposal	14	0
Deferred tax expense (benefit)	(2,726)	1,415
Stock-based compensation	2,943	1,677
Changes in assets and liabilities:		
Accounts receivable, net	(3,065)	(12,411)
Inventories	2,699	3,589
Foreign sales tax receivable	165	283
Other current assets	159	(22)
Accounts payable	(891)	(4,577)
Income taxes payable	1,310	223
Accrued expenses	(953)	(923)
Deferred compensation	(944)	(244)
Deferred revenue	5,889	364
Other long-term liabilities	(7)	0
Net cash provided by operating activities of continuing operations	14,893	19,826
Cash flows from investing activities of continuing operations:		
Purchase of short term investments	(70,096)	(74,807)
Maturities of short term investments	14,876	64,847
Additions to property and equipment	(1,793)	(727)
Additions to intangible assets	(12)	(49)
Other assets	(83)	(18)
Net cash used in investing activities of continuing operations	(57,108)	(10,754)
Cash flows from financing activities of continuing operations:		
Tax payments for restricted stock issuances	(1,000)	(837)
Tax benefit of stock-based compensation	0	430
Net cash used in financing activities of continuing operations	(1,000)	(407)
Cash flows used in discontinued operations:		
Net cash used in operating activities of discontinued operations	0	(63)
Net cash used in discontinued operations	0	(63)
Effect of exchange rate changes on cash	271	1,067
Net increase (decrease) in cash	(42,944)	9,669
Cash and equivalents, beginning of year	78,522	72,441
Cash and equivalents, end of period	$ 35,578	$ 82,110

See accompanying notes to condensed consolidated financial statements.

VASCO Data Security International, Inc.
Notes to Condensed Consolidated Financial Statements
(All amounts are in thousands, except per share data)
(Unaudited)

Unless otherwise noted, references in this Quarterly Report on Form 10-Q to “VASCO,” “company,” “we,” “our,” and “us,” refer to VASCO Data Security International, Inc. and its subsidiaries.

Note 1—Summary of Significant Accounting Policies

Nature of Operations

VASCO Data Security International, Inc. (“VASCO”) and its wholly owned subsidiaries design, develop, market and support hardware and software security systems that manage and secure access to information assets. VASCO has operations in Austria, Australia, Belgium, Brazil, Canada, China, France, India, Japan, The Netherlands, Singapore, Switzerland, the United Arab Emirates, the United Kingdom, and the United States (“U.S.”).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of VASCO and its subsidiaries and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in the company’s Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the results of the interim periods presented. All significant intercompany accounts and transactions have been eliminated. The operating results for the interim periods presented are not necessarily indicative of the results expected for a full year.

Principles of Consolidation

The consolidated financial statements include the accounts of VASCO and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

During 2011, our wholly-owned Dutch subsidiary, DigiNotar B.V., was declared bankrupt. The court-appointed trustee is responsible for the business activities, administration and liquidation of DigiNotar B.V. Accordingly, related assets, liabilities and activities are reflected in discontinued operations.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation and Transactions

The financial position and results of the operations of the majority of the company’s foreign subsidiaries are measured using the local currency as the functional currency. Accordingly, assets and liabilities are translated into U.S. Dollars using current exchange rates as of the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the year. Translation adjustments arising from differences in exchange rates are charged or credited to other comprehensive income. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations in other income (expense).

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

Foreign currency transactions resulted in gains of $64 and $262 for the three and six months ended June 30, 2016, compared to losses of $151 and $768 for the same periods in 2015.

Revenue Recognition

We recognize revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 985-605, *Software – Revenue Recognition*, ASC 985-605-25, *Revenue Recognition – Multiple Element Arrangements,* and Staff Accounting Bulletin 104.

Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection of the revenue is probable.

In multiple-element arrangements, some of our products are accounted for under the software provisions of ASC 985-605 and others under the provisions that relate to the sale of non-software products.

In our typical multiple-element arrangement, the primary deliverables include:

1. a client component (i.e., an item that is used by the person being authenticated in the form of either a new standalone hardware device or software that is downloaded onto a device the customer already owns),
2. host system software that is installed on the customer's systems (i.e., software on the host system that verifies the identity of the person being authenticated) or licenses for additional users on the host system software, if the host system software had been installed previously, and
3. post contract support ("PCS") in the form of maintenance on the host system software or support.

Our multiple-element arrangements may also include other items that are usually delivered prior to the recognition of any revenue and incidental to the overall transaction, such as initialization of the hardware device, customization of the hardware device itself or the packaging in which it is delivered, deployment services where we deliver the device to our customer's end-use customer or employee and, in some limited cases, professional services to assist with the initial implementation of a new customer.

In multiple-element arrangements that include a hardware client device, we allocate the selling price among all elements, delivered and undelivered, based on our internal price lists and the percentage of the selling price of that element, per the price list, to the total of the estimated selling price of all of the elements per the price list. Our internal price lists for both delivered and undelivered elements were determined to be reasonable estimates of the selling price of each element based on a comparison of actual sales made to the price list for each item delivered and to vendor specific objective evidence ("VSOE") for undelivered items.

Undelivered elements primarily are PCS. The method by which we determine VSOE has validated that the price lists are reasonable estimates of the selling price for PCS. The estimated selling price of PCS items is based on an established percentage of the user license fee attributable to the specific software and is applied consistently to all PCS arrangements. The percentage we use to establish VSOE, which is also generally consistent with the percentage used in the price list, is developed using the "bell curve method". Under this method, we conclude VSOE exists when a substantial majority of PCS renewals are within a narrow range of pricing.

In multiple-element arrangements that include a software client device, we account for each element under the standards of ASC 985-605 related to software. When software client device and host software are delivered elements, we use the Residual Method (ASC 605-25) for determining the amount of revenue to recognize for token and software licenses if we have VSOE for all of the undelivered elements. Any discount provided to the customer is applied fully to the delivered elements in such an arrangement. VSOE of fair value of PCS agreements is based on customer renewal transactions on a worldwide basis. In sales arrangements where VSOE of fair value has not been established, revenue for all elements is deferred and amortized over the life of the arrangement.

For transactions other than multiple-element arrangements, we recognize revenue as follows:

1. *Hardware Revenue and License Fees:* Revenue from the sale of computer security hardware or the license of software is recorded upon shipment or, if an acceptance period is allowed, at the latter of shipment or customer acceptance. No significant obligations or contingencies exist with regard to delivery, customer acceptance or rights of return at the time revenue is recognized.
2. *Maintenance and Support Agreements:* Maintenance and support agreements generally call for us to provide software updates and technical support, respectively, to customers. Revenue on maintenance and technical support is deferred and recognized ratably over the term of the applicable maintenance and support agreement.
3. *Services:* Revenue is recognized ratably over the period in which the service is provided.
4. *Consulting and Education Services:* We provide consulting and education services to our customers. Revenue from such services is recognized during the period in which the services are performed.

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

For large-volume transactions, we may negotiate a specific price that is based on the number of users of the software license or quantities of hardware supplied. The per unit prices for large-volume transactions are generally lower than transactions for smaller quantities and the price differences are commonly referred to as volume-purchase discounts.

All revenue is reported on a net basis, excluding any sales taxes or value added taxes.

Cash and Cash Equivalents

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

Short Term Investments

Short term investments are stated at cost plus accrued interest, which approximates fair value. Short term investments consist of bank certificates of deposit and high quality commercial paper with original maturities of more than three and less than twelve months.

Accounts Receivable and Allowance for Doubtful Accounts

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

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

Inventories

Inventories, consisting principally of hardware and component parts, are stated at the lower of cost or market. Cost is determined using the first-in-first-out (FIFO) method. We write down inventory when it appears that the carrying cost of the inventory may not be recovered through subsequent sale of the inventory. The company analyzes the quantity of inventory on hand, the quantity sold in the past year, the anticipated sales volume in the form of sales to new customers as well as sales to previous customers, the expected sales price and the cost of making the sale when evaluating the valuation of our inventory. If the sales volume or sales price of a specific model declines significantly, additional write downs may be required.

Property and Equipment

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

Goodwill and Other Intangibles

We account for goodwill and other intangible assets in accordance with ASC Topic 350-20, *Goodwill and Other*. Indefinite-lived intangible assets include patents and definite-lived intangible assets include proprietary technology, trademarks and other intangible assets. Intangible assets other than patents with definite lives are amortized over the useful life, generally three to seven years for proprietary technology. Patents are amortized over the life of the patent, generally 20 years in the U.S.

We assess the impairment of goodwill and intangible assets with indefinite lives each November or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, and significant negative industry or economic trends. In accordance with ASC 350, we consider the company to be one reporting unit. Fair value is determined using a market approach using our stock price which is a level 1 valuation, as defined by ASC 820, *Fair Value Measurements*. The amount of the impairment is computed by comparing carrying value of the assets to fair value. We did not recognize any impairment for the three and six months ended June 30, 2016 as the fair value of our reporting unit substantially exceeded our carrying amount.

Research and Development Costs

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

Software Development Costs

We capitalize software development costs in accordance with ASC 985-20, *Costs of Software to be Sold, Leased, or Marketed*. Research costs and software development costs, prior to the establishment of technological feasibility, determined based upon the creation of a working model, are expensed as incurred. Our software capitalization policy defines technological feasibility as a functioning beta test prototype with confirmed manufacturability (a working model), within a reasonably predictable range of costs. Additional criteria include receptive customers, or potential customers, as evidenced by interest expressed in a beta test prototype, at some suggested selling price. Our policy is to amortize capitalized costs by the greater of (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenue for that product or (b) the straight-line method over the remaining estimated economic life of the product, generally two to five years, including the period being reported on. No software development costs were capitalized during the three and six months ended June 30, 2016.

Income Taxes

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect of a change in tax rates on deferred tax assets and liabilities in income in the period that includes the enactment date.

We monitor our potential income tax exposures as required by ASC 740-10, *Income Taxes*.

We have significant foreign tax credit, net operating loss, and other deductible carryforwards in certain jurisdictions available to reduce the liability on future taxable income. A valuation reserve has been provided to offset some of these future benefits because we have not determined that their realization is more likely than not.

Fair Value of Financial Instruments

At June 30, 2016 and December 31, 2015, our financial instruments were cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities. The estimated fair value of our financial instruments has been determined using level one inputs as defined in ASC 820, *Fair Value Measurements and Disclosures*. The fair values of the financial instruments were not materially different from their carrying amounts at June 30, 2016 and December 31, 2015.

Accounting for Leases

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

Stock-Based Compensation

We have stock-based employee compensation plans, described in Note 9. ASC 718-10, *Stock Compensation* requires us to estimate the fair value of restricted stock granted to employees, directors and others and to record compensation expense equal to the estimated fair value. Compensation expense is recorded on a straight-line basis over the vesting period.

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Warranty

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

Recently Issued Accounting Pronouncements

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, (ASU 2015-17), requiring deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within such annual periods. We have adopted ASU 2015-17 prospectively in our consolidated financial statements as of January 1, 2016. Prior periods were not retrospectively adjusted.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*, (ASU 2015-16), which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within such annual periods and applies prospectively to adjustments to provisional amounts that occur after the effective date. We have adopted ASU 2015-16 in our consolidated financial statements as of January 1, 2016. Measurement period adjustments identified subsequent to December 31, 2015, for the eSignLive Acquisition, further described in Note 4 to the Consolidated Financial Statements, will be recorded and disclosed in accordance with ASU 2015-16.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in applying such process, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

ASU 2014-09 is effective for annual periods beginning after December 15, 2016, and interim periods within such annual periods, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) an approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).

In August 2015, the FASB issued Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers: Deferral of Effective Date* deferring the new revenue standard one year and allowing adoption as of the original effective date.

We are currently evaluating the impact of our pending adoption of ASU 2014-09 and ASU 2015-14 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard and the date of adoption.

On March 17, 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers—Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (ASU 2016-08), which provides guidance on assessing whether an entity is a principal or an agent in a revenue transaction and whether an entity reports revenue on a gross or net basis. On April 14, 2016, the FASB issued Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers—Identifying Performance Obligations and Licensing* (ASU 2016-10), which provides guidance on identifying performance obligations and accounting for licenses of intellectual property. The effective date and transition requirements for ASU 2016-08 and ASU 2016-10 are the same as the effective date and transition requirements of ASU 2014-09. We are evaluating the effect that ASU 2016-08 and ASU 2016-10 will have on our consolidated financial statements and related disclosures

In February 2016, The FASB issued Accounting Standards Update No. 2016-02, *Leases*, which among other things, requires lessees to recognize most leases on the balance sheet. ASU 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018 and mandates a modified retrospective transition method. We are currently evaluating the impact of ASU 2016-02 on our consolidated financial statements.

On March 30, 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, to improve accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes certain aspects of accounting for share-based payment award transactions, including: (1) recognition of excess tax benefits and tax deficiencies as income tax expense or benefit instead of additional paid-in capital; (2) classification of excess tax benefits on the statement of cash flows. The other provisions of ASU 2016-09 are immaterial to the Company. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. We have early adopted ASU 2016-09 in our consolidated financial statements as of January 1, 2016 and applicable aspects described were adopted prospectively. Prior periods were not retrospectively adjusted.

As a result of the adoption of ASU 2016-09, during the three months ended March 31, 2016 the provision for income taxes was reduced by $91 for the windfall benefit of restricted stock vesting that, absent the adoption of ASU 2016-09, would have otherwise been credited to additional paid in capital. There was no impact for the three months ended June 30, 2016. Similarly, for the six months ended June 30, 2016, as a result of the adoption of ASU 2016-09, cashflows from operating activities were $91 greater and cash flows from financing activities were $91 less. The impact of this ASU on future periods is dependent on our stock price at the time restricted stock awards vest.

Note 2 - Inventories

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

Inventories are comprised of the following:

	June 30, 2016	December 31, 2015
Component parts	$ 7,702	$ 9,351
Work-in-process and finished goods	10,217	11,267
Total	$17,919	$ 20,618

Note 3 – Discontinued Operations

During 2011, our wholly-owned Dutch subsidiary, DigiNotar B.V., was declared bankrupt. The court-appointed trustee is responsible for the business activities, administration and liquidation of DigiNotar B.V. Accordingly, related assets, liabilities and activities are reflected in discontinued operations.

The loss from discontinued operations, net of tax, for both the three and six months ended June 30, 2016 was $1, compared to $14 and $37 for the same periods in 2015.

At June 30, 2016 and December 31, 2015, assets of discontinued operations consist of the following:

	June 30, 2016	December 31, 2015
Income tax receivable	$ 4	$ 4
Accrued professional fees	(1)	0
Assets of discontinued operations	$ 3	$ 4

Note 4 – Acquisition of eSignLive

On November 25, 2015, the Company completed its acquisition of Silanis Technology, Inc. (“eSignLive”), a privately-held provider of electronic signature and digital transaction solutions used to sign, send, and manage documents. Pursuant to the arrangement agreement, we acquired all of the issued and outstanding shares of eSignLive for an aggregate purchase price of $75,000. The aggregate purchase price may be subject to further adjustment as provided in the arrangement agreement.

Upon acquisition, eSignLive became our wholly-owned subsidiary. The acquisition is accounted for as a business combination using the acquisition method accounting in accordance with FASB ASC Topic No. 805, *Business Combinations*, whereby the net assets acquired are recognized based on their estimated fair values on the acquisition date.

Aggregate Purchase Price Allocation

The Company initially recognized the acquired assets and liabilities based on preliminary estimates of acquisition date fair values. The initial aggregate purchase price allocation is described in Note 4 of our Audited Consolidated Financial Statements for the year ended December 31, 2015. As additional information becomes known concerning the acquired assets and assumed liabilities, management may make adjustments to the opening balance sheet of the acquired company up to the end of the measurement period, which is no longer than a one-year period following the acquisition date. The determination of the fair values of the acquired assets and liabilities assumed (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. As of June 30, 2016, the Company has not completed its fair value analysis and calculations in sufficient detail necessary to arrive at the final estimates of the fair value of certain working capital and non-working capital acquired assets and assumed liabilities, including the allocations to goodwill and intangible assets, deferred revenue and resulting deferred taxes. All information presented with respect to certain working capital and non-working capital acquired assets and liabilities assumed as it relates to these acquisitions is preliminary and subject to revision pending the final fair value analysis.

As of June 30, 2016, the estimated acquisition-date fair value preliminary estimated purchase price allocation is summarized in the following table:

Tangible assets and liabilities	
Cash	$ 514
Accounts receivable, net	4,471
Other current assets	4,234
Property and equipment	416
Current liabilities	(15,820)
Intangible assets	30,000
Goodwill	51,185
Net assets acquired	$ 75,000

In the three months ended March 31, 2016, a measurement period adjustment was recorded related to the valuation allowance for acquired deferred tax assets. The valuation allowance was reduced from amounts previously reported as of December 31, 2015 by $9,146 thereby reducing goodwill by the same amount. The measurement period adjustment resulted in a provision for income taxes of $311 for the three months ended March 31, 2016. Had the change in the valuation allowance been recorded as of the acquisition date, the provision for income taxes of $311 would have been recorded in prior periods.

The excess of purchase consideration over net assets assumed was recorded as goodwill, which represents the strategic value assigned to eSignLive, including expected benefits from synergies resulting from the acquisition, as well as the knowledge and experience of the workforce in place. In accordance with applicable accounting standards, goodwill is not amortized and will be tested for impairment at least annually, or more frequently, if certain indicators are present. Goodwill and intangible assets related to this acquisition are not deductible for tax purposes.

Based on preliminary estimates of the acquisition valuation, $30,000 of the purchase price has been allocated to identifiable intangible assets. The following table summarizes the major classes of intangible assets, as well as the respective estimated weighted-average amortization periods:

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	Estimated Fair Value (000s)	Weighted-Average Amortization Period (Years)
Identifiable Intangible Assets		
Trademarks and tradenames	$ 200	2.0
Technology	29,000	5.0
Patents	100	5.0
Non-compete agreements	300	5.0
Customer Relationships	400	5.0
	$ 30,000	

Note 5 – Goodwill

Goodwill activity for the six months ended June 30, 2016 consisted of the following:

Goodwill	
Net balance at December 31, 2015	$80,853
Additions	0
Adjustment to provisional estimate of acquisition date fair values	(9,146)
Net foreign currency translation	(770)
Net balance at June 30, 2016	$70,937
June 30, 2016 balance at cost	$71,778
Accumulated amortization	(841)
Net balance at June 30, 2016	$70,937

Certain portions of goodwill are denominated in local currencies and are subject to currency fluctuations.

Note 6 – Intangible Assets

Intangible asset activity for the six months ended June 30, 2016 is detailed in the following table.

	Capitalized Technology	Patents & Trademarks	Other	Total Intangible Assets
Net balance at December 31, 2015	$ 34,632	$ 2,214	$1,124	$ 37,970
Additions-Other	0	14	0	14
Disposals-Other	0	(14)	0	(14)
Net foreign currency translation	(35)	0	(37)	(72)
Amortization expense	(4,164)	(106)	(157)	(4,427)
Net balance at June 30, 2016	$ 30,433	$ 2,108	$ 930	$ 33,471
June 30, 2016 balance at cost	$ 57,095	$ 2,856	$1,682	61,633
Accumulated amortization	(26,662)	(748)	(752)	(28,162)
Net balance at June 30, 2016	$ 30,433	$ 2,108	$ 930	$ 33,471

Certain intangible assets are denominated in local currencies and are subject to currency fluctuations.

Note 7 – Income Taxes

Our effective tax rate for 2016 before discrete items is expected to be 26%. This is lower than the U.S. statutory rate primarily due to income in foreign jurisdictions taxed at lower rates, partially offset by valuation allowances on taxable losses. Discrete items related to the measurement period adjustment described in Note 4 and changes to tax rates on deferred tax liabilities increase the full-year 2016 effective rate to 29%. The effective tax rate for the second quarter was 26%.

Our effective tax rate for the three and six months ended June 30, 2015 was equal to our expected 2015 annual tax rate of 14%. The tax rate was lower than the U.S. statutory rate primarily due to income in foreign jurisdictions taxed at lower rates.

At December 31, 2015, we had foreign tax credit carryforwards of $3,309 for future U.S. tax returns. These foreign tax credits expire in 2023. We have not provided a valuation reserve for the foreign tax credits as we believe it is more likely than not that they will be realized.

At December 31, 2015, we had Canadian net operating loss (NOL) carryforwards of $28,691 and other Canadian deductible carryforwards of $21,682. The Canadian NOL carryforwards expire from 2027 to 2035 and the other deductible carryforwards have no expiration. At December 31, 2015, we had a valuation allowances of $7,379 for the NOL carryforwards and $4,184 for the other deductible carryforwards.

At December 31, 2015, we had other foreign NOL carryforwards of $3,850, other foreign deductible carryforwards of $2,846, and U.S. state NOL carryforwards of $4,853. The foreign NOL carryforwards have no expiration. The other deductible carryforwards expire from 2016 to 2021. The U.S. state NOL carryforwards expire from 2019 to 2027. At December 31, 2015, we had a valuation allowance of $2,023 for certain foreign deferred tax assets and $133 for a U.S. state NOL carryforward.

Note 8 – Warranties

We maintain a reserve for potential warranty claims related to products sold and recognized in revenue. We regularly reassess the adequacy of our estimates and adjust the amounts as necessary. Our warranty reserve is included in other accrued expenses.

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The activity in our warranty liability was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	$ 62	$ 88	$ 43	$ 85
Provision for claims	4	32	24	113
Product or cash issued to settle claims	(7)	(67)	(8)	(145)
Balance, end of period	$ 59	$ 53	$ 59	$ 53

At June 30, 2016, deferred revenue from extended warranties was $49.

Note 9 – Long-Term Compensation Plan and Stock Based Compensation

Under the VASCO Data Security International, Inc. 2009 Equity Incentive Plan ("2009 Equity Incentive Plan"), we awarded 264 shares of restricted stock in the first six months of 2016 consisting of 234 unissued shares subject to future performance criteria and 30 issued shares. The market value of the 30 issued restricted shares of $500 at the date of grant is being amortized over the respective vesting periods of one to four years. The 234 unissued shares subject to performance criteria have a market value of $3,891 at the date of grant and vesting periods of one to three years.

The following table details long-term compensation plan and stock-based compensation expense for the three and six months ended June 30, 2016 and 2015:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Restricted stock	$1,396	$ 882	$2,943	$1,677
Long-term compensation plan	449	509	935	873
Total Non-Cash Compensation	$1,845	$1,391	$3,878	$2,550

Note 10 – Common Stock and Earnings per Share

In connection with the 2009 Equity Incentive Plan, during the six months ended June 30, 2016, we issued 90 total shares of restricted common stock, 30 shares for awards granted in the first six months of 2016 and 60 performance shares related to awards provisioned in prior years.

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Basic earnings per share is based on the weighted average number of shares outstanding and excludes the dilutive effect of common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of common stock equivalents to the extent they are not anti-dilutive. The details of the earnings per share calculations for the three and six months ended June 30, 2016 and 2015 follow:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income - continuing operations	$ 2,826	$13,866	$ 5,025	$27,523
Net income (loss) - discontinued operations	(1)	(14)	(1)	(37)
Net income	$ 2,825	$13,852	$ 5,024	$27,486
Weighted average common shares outstanding				
Basic	39,710	39,580	39,695	39,554
Incremental shares with dilutive effect:				
Restricted stock awards	59	158	67	145
Diluted	39,769	39,738	39,762	39,699
Basic income (loss) per share				
Continuing operations	$ 0.07	$ 0.35	$ 0.13	$ 0.69
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Total net income per share	$ 0.07	$ 0.35	$ 0.13	$ 0.69
Diluted income (loss) per share				
Continuing operations	$ 0.07	$ 0.35	$ 0.13	$ 0.69
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Total net income per share	$ 0.07	$ 0.35	$ 0.13	$ 0.69

Note 11 – Contingencies

During the second quarter of 2015, our management became aware that certain of our products which were sold by our European subsidiary to a third-party distributor may have been resold by the distributor to parties in Iran, potentially including parties whose property and interests in property may be blocked pursuant to Executive Order 13224, Executive Order 13382 or that may be identified under Section 560.304 of 31 C.F.R. Part 560 as the "Government of Iran".

We ceased shipping to such distributor. In addition, the Audit Committee of the Company's Board of Directors initiated an internal review of this matter with the assistance of outside counsel. As a precautionary matter, concurrent initial notices of voluntary disclosure were submitted on June 25, 2015 to each of the U.S. Department of the Treasury, Office of Foreign Assets Control ("OFAC"), and the U.S. Department of Commerce, Bureau of Industry and Security ("BIS").

The Audit Committee with the assistance of outside counsel has completed their review. On December 15, 2015, we filed a letter with BIS (Office of Export Enforcement) with the conclusion that the products supplied to the distributor were not subject to United States Export Control jurisdiction. The Office of Export Enforcement issued a "no action" letter, concluding the voluntary self-disclosure process under the Export Administration Regulations.

On January 13, 2016, we filed a letter with OFAC, with the conclusions that VASCO and its subsidiaries made no direct sales to Iran or any party listed by OFAC as a Specially Designated National over the five-year period under review (i.e., June 1, 2010 to June 30, 2015). The letter further noted that the investigation did not identify any involvement on the part of senior management officials of VASCO, and to the contrary, noted that VASCO executive management officials had sought to implement procedures and provided notices to VASCO's sales personnel to prevent the diversion of VASCO products to unauthorized destinations and end users.

We have not received any response to the letter to OFAC and we cannot predict when OFAC will conclude their review of our voluntary self-disclosures. Based upon the OFAC guidelines for monetary penalties, in the fourth quarter of 2015, we accrued $900 for potential penalties if they are assessed by OFAC. Ultimately no penalty may be assessed or the penalty may be less or greater than the accrual, but in any event we do not believe that the final settlement will have a material adverse impact on our business.

On July 28, 2015 a putative class action complaint was filed in the United States District Court for the Northern District of Illinois, captioned Linda J. Rossbach v. Vasco Data Security International, Inc., et al., case number 1:15-cv-06605, naming VASCO and certain of its current and former executive officers as defendants and alleging violations under the Securities Exchange Act of 1934, as amended. The suit was purportedly filed on behalf of a putative class of investors who purchased VASCO securities between February 18, 2014 and July 21, 2015, and seeks to recover damages allegedly caused by the defendants' alleged violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaint seeks certification as a class action and unspecified compensatory damages plus interest and attorneys' fees. Pursuant to a September 1, 2015 scheduling order entered by the court, the lead plaintiff, once appointed, will have sixty days to file an amended complaint or notify the defendants that the lead plaintiff intends to rely on the current complaint. The defendants will then have sixty days to answer or otherwise respond to the operative complaint. To date, the court has not made any rulings with respect to the appointment of the lead plaintiff. Although the ultimate outcome of litigation cannot be predicted with certainty, the Company believes that this lawsuit is without merit and intends to defend against the action vigorously.

On October 9, 2015, a derivative complaint was filed in the United States District Court for the Northern District of Illinois, captioned Elizabeth Herrera v. Hunt, et al., case number 1:15-cv-08937, naming VASCO's Board of Directors and certain of its current and former executive officers as individual defendants and the Company as a nominal defendant. Two additional derivative complaints, captioned Beth Seltzer v. Hunt, et al., case number 2015-ch-15541 and William Hooper v. Hunt, et al., case number 2016-ch-04054, were filed on October 22, 2015 and March 22, 2016, respectively, in the Circuit Court of Cook County, Illinois naming the same defendants.

The complaints assert, among other things, that the individual defendants breached their fiduciary duties by making material misstatements in, and omitting material information from, the Company's public disclosures and by failing to maintain adequate internal controls and properly manage the Company. Among other things, the complaints seek unspecified compensatory damages and injunctive relief. On February 23, 2016, the court in Herrera granted a stay of the action pending the resolution of a certain motion to dismiss that the parties anticipate to be filed in Rossbach. On October 29, 2015, a defendant removed the Seltzer action to the United States District Court for the Northern District of Illinois. Thereafter, the plaintiff led a motion to remand the action back to the Circuit Court of Cook County, Illinois, which was denied on February 3, 2016. On February 9, 2016, the court granted an agreed motion for voluntary dismissal of the Seltzer action, which dismissed the action with prejudice as to the named plaintiff's individual claims. As for the Hooper action, the court granted a stay on June 8, 2016 on the same terms governing the stay in the Herrera action.

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

Unless otherwise noted, references in this Quarterly Report on Form 10-Q to "VASCO," "company," "we," "our," and "us" refer to VASCO Data Security International, Inc. and its subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended and Section 27A of the Securities Act of 1933, as amended concerning, among other things, our expectations regarding the prospects of, and developments and business strategies for, VASCO and our operations, including the development and marketing of certain new products and services and the anticipated future growth in certain markets in which we currently market and sell our products and services or anticipate selling and marketing our products or services in the future. These forward-looking statements (1) are identified by use of terms and phrases such as "expect", "believe", "will", "anticipate", "emerging", "intend", "plan", "could", "may", "estimate", "should", "objective", "goal", "possible", "potential", "projected" and similar words and expressions, but such words and phrases are not the exclusive means of identifying them, and (2) are subject to risks and uncertainties and represent our present expectations or beliefs concerning future events. VASCO cautions that the forward-looking statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements. These additional risks, uncertainties and other factors have been described in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2015 and include, but are not limited to, (a) risks of general market conditions, including currency fluctuations and the uncertainties resulting from turmoil in world economic and financial markets, (b) risks inherent to the computer and network security industry, including rapidly changing technology, evolving industry standards, increasingly sophisticated hacking attempts, increasing numbers of patent infringement claims, changes in customer requirements, price competitive bidding, and changing government regulations, and (c) risks specific to VASCO, including, demand for our products and services, competition from more established firms and others, pressures on price levels and our historical dependence on relatively few products, certain suppliers and certain key customers. These risks, uncertainties and other factors include the risk that VASCO will not integrate eSignLive into the business of VASCO successfully and the amount of time and expense spent and incurred in connection with the integration; the risk that the revenue synergies, cost savings and other economic benefits that VASCO anticipates as a result of the acquisition are not fully realized or take longer to realize than expected. Thus, the results that we actually achieve may differ materially from any anticipated results included in, or implied by these statements. Except for our ongoing obligations to disclose material information as required by the U.S. federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

General

The following discussion is based upon our consolidated results of operations for the three and six months ended June 30, 2016 and 2015 (percentages in the discussion, except for returns on average net cash balances, are rounded to the closest full percentage point) and should be read in conjunction with our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

We design, develop, market and support both proprietary and open standards-based hardware and software security systems that manage and secure access to information assets. We also design, develop, market, and support patented strong user authentication products and services for e-business and e-commerce. Our products enable secure financial transactions to be made over private enterprise networks and public networks, such as the Internet. Our strong user authentication is delivered via our hardware and software DIGIPASS security products (collectively "DIGIPASSES"), many of which incorporate an electronic and digital signature capability, which further protects the integrity of electronic transactions and data transmissions. Many of our software DIGIPASSES are focused on the mobile platform and can be downloaded directly to mobile devices, such as DIGIPASS for Mobile, while others are integrated directly into mobile applications (using DIGIPASS for Apps) that are downloaded onto mobile devices. Some of our DIGIPASSES are compliant with the Europay MasterCard VISA ("EMV") standard and are compatible with MasterCard's and VISA's Chip Authentication Program ("CAP"). Some of our DIGIPASSES comply with the Initiative for Open Authentication ("OATH"). As evidenced by our current customer base, most of our products are purchased by businesses and, depending on the business application, are distributed to either their employees or their customers. Those customers may be other businesses or, as an example in the case of Internet and mobile banking, our customer banks' corporate and retail customers. Our target market is any business process that uses some form of electronic interface, particularly the Internet, where the owner of that process is at risk if unauthorized users can gain access to its process and either obtain proprietary information or execute transactions that are not authorized. Our products can not only increase the security associated with accessing the business process, thereby reducing the losses from unauthorized access, but also, in many cases, can reduce the cost of the process itself by automating activities that were previously performed manually.

We offer our products either through: (a) a product sales and licensing model or (b) through our services platform, which includes our cloud-based service offering, DIGIPASS as a Service ("DPaaS") or MYDIGIPASS ("MDP") or together ("DPaaS/MDP"). Our product license and sales model is expected to be used in situations where the application owner wants to control all of the critical aspects of the authentication process. We expect that our services platform will be used by: (a) companies lacking technical resources or expertise to implement a full authentication process or preferring to focus their primary attention on other aspects of their business rather than on the authentication process or (b) companies that want to verify identities through our platform or (c) consumers that are aware of the dangers posed by identity theft.

Industry Growth: We do not believe that there are any accurate measurements of the total industry's size or the industry's growth rate. We believe, however, that the industry using our product sales and licensing model will grow at a significant rate as the use of the internet increases and the awareness of the risks of using the internet become more prevalent among application owners. We also believe that a market will develop for our cloud-based service offering and grow at a significant rate as business owners and consumers become more aware of the risks involved in conducting business over the internet. We expect that growth will be driven by new government regulations, growing awareness of the impact of cyber-crime, and the growth in commerce that is transacted electronically. The issues driving the growth are global issues and the rate of adoption in each country is a function of that country's culture, the competitive position of businesses operating in that country, the country's overall economic conditions and the degree to which businesses and consumers within the country use technology.

Economic Conditions: Our revenue may vary significantly with changes in the economic conditions in the countries in which we currently sell products. With our current concentration of revenue in Europe and specifically in the banking/finance vertical market, significant changes in the economic outlook for the European Banking market may have a significant effect on our revenue.

During June 2016, voters in the United Kingdom passed a referendum providing for withdrawal from the European Union. There continues to be significant global economic uncertainty, including Europe, our most important market. While the European Union and European Central Bank continue to implement programs in response to changing economic conditions, Europe continues to struggle with sovereign debt issues and weakening currencies. As a result, Europe may continue to face difficult economic conditions in 2016. We believe economic conditions in Europe may limit our growth opportunities in the Enterprise and Application Security market, but do not expect economic conditions will have a significant impact on the Banking market. Should the sovereign debt issue escalate, economic difficulties may negatively impact the global economy and our business.

In the second quarter and first half of 2016, revenue from our Europe, Middle East and Africa ("EMEA") region, which accounted for 49% of our total revenue, decreased 41% and 47%, respectively compared to the same periods of 2015. The decrease in revenue from our EMEA region in the second quarter and first half of 2016 reflected delivery of a significant amount of card readers using our Cronto technology to Rabobank in 2015. Excluding shipments to Rabobank, we believe changes in revenues in the second quarter and first half of 2016 compared to the same periods in 2015 primarily reflected the timing of when orders are received and goods are shipped rather than being attributable to changes in the economic environment.

Cybersecurity: Our use of technology is increasing and is critical in three primary areas of our business:

1. Software and information systems that we use to help us run our business more efficiently and cost effectively;
2. The products we have traditionally sold and continue to sell to our customers for integration into their software applications contain technology that incorporates the use of secret numbers and encryption technology; and
3. New products and services that we introduced to the market, such as DPaaS/MDP, are focused on processing information through our servers (or in the cloud from our customers' perspective).

We believe that the risks and consequences of potential incidents in each of the above areas are different.

In the case of the information systems we use to help us run our business, we believe that an incident could disrupt our ability to take orders or deliver product to our customers, but such a delay in these activities would not have a material impact on our overall results. To minimize this risk, we actively use various forms of security and monitor the use of our systems regularly to detect potential incidents as soon as possible.

In the case of products that we have traditionally sold, we believe that the risk of a potential cyber incident is minimal. We offer our customers the ability to either create the secret numbers themselves or have us create the numbers on their behalf. When asked to create the numbers, we do so in a secure environment with limited physical access and store the numbers on a system that is not connected to any other network, including other VASCO networks, and similarly, is not connected to the internet.

In the case of our new products and services, which involve the active daily processing of the secret numbers on our servers or servers managed by others in a hosted environment, we believe a cyber incident could have a material impact on our future business. We also believe that these products may be more susceptible to cyber-attacks than our traditional products since it involves the active processing of transactions using the secret numbers. While we do not have a significant amount of revenue from these products today, we believe that these products have the potential to provide substantial future growth. A cyber incident involving these products in the future could substantially impair our ability to grow the business and we could suffer significant monetary and other losses and significant reputational harm.

To minimize the risk, we regularly review our security procedures. Reviews include current processes and software programs, new forms of cyber incidents, and software programs that mitigate risk of incidents. Certain insurance coverages may apply to certain cyber incidents. Overall, we expect the cost of securing our networks will increase in future periods, whether through increased staff, systems or insurance coverage.

Income Taxes: Our effective tax rate reflects our global structure related to the ownership of our intellectual property ("IP"). All our IP is owned by three subsidiaries, one in the U.S., one in Switzerland, and one in Canada. The U.S. and Swiss subsidiaries have entered into agreements with most of the other VASCO entities under which those other entities provide services to our U.S. and Swiss subsidiaries on either a percentage of revenue or on a cost plus basis or both. Under this structure, the earnings of our service provider subsidiaries are relatively constant. These service provider companies tend to be in jurisdictions with higher effective tax rates. Fluctuations in earnings tend to flow to the U.S. company and the Swiss company. Earnings flowing to the U.S. company are expected to be taxed at a rate of 35% to 40%, while earnings flowing to the Swiss company are expected to be taxed at a rate ranging from 10 % to 12%. The Canadian subsidiary currently sells and services directly to global customers.

With the majority of our revenues being generated outside of the U.S., our consolidated effective tax rate is strongly influenced by the effective tax rate of our foreign operations. Changes in the effective rate related to foreign operations reflect changes in the geographic mix of where the earnings are realized and the tax rates in each of the countries in which it is earned. The statutory tax rates for the primary foreign tax jurisdictions range from 8% to 35%.

The geographic mix of earnings of our foreign subsidiaries will primarily depend on the level of our service provider subsidiaries' pretax income, which is recorded as an expense by the U.S. and Swiss subsidiaries and the benefit that is realized in the U.S. and Switzerland through the sales of product. The level of pretax income in our service provider subsidiaries is expected to vary based on:

1. the staff, programs and services offered on a yearly basis by the various subsidiaries as determined by management, or
2. the changes in exchange rates related to the currencies in the service provider subsidiaries, or
3. the amount of revenues that the service provider subsidiaries generate.

For items 1 and 2 above, there is a direct impact in the opposite direction on earnings of the U.S. and Swiss entities. Any change from item 3 is generally expected to result in a larger change in income in the U.S. and Swiss entities in the direction of the change (increased revenues expected to result in increased margins/pretax profits and conversely decreased revenues expected to result in decreased margins/pretax profits).

In addition to the provision of services, the intercompany agreements transfer the majority of the business risk to our U.S. and Swiss subsidiaries. As a result, the contracting subsidiaries' pretax income is reasonably assured while the pretax income of the U.S. and Swiss subsidiaries varies directly with our overall success in the market.

In November 2015, we acquired Silanis Technology Inc. ("eSignLive"), a foreign company with substantial IP and net operating loss and other tax carryforwards. The tax benefit of the carryforwards, net of deferred tax liabilities, has been fully reserved as realization has not been deemed more likely than not. We are currently evaluating the operations of eSignLive. In the event eSignLive continues to generate losses, the impact will be to increase our effective tax rate.

Comparison of Results for the Three and Six Months Ended June 30, 2016 and 2015

Currency Fluctuations: In the second quarter and first six months of 2016, approximately 89% and 90%, respectively of our revenue was generated outside the United States. While the majority of our revenues are generated outside of the United States, the majority of our revenue in the second quarter and first six months of 2016 were denominated in U.S. Dollars. We estimate that 71% and 73% of our revenues were denominated in U.S. Dollars in the second quarter and first six months of 2016. In addition, in the second quarter and first six months of 2016, approximately 79% and 78%, respectively, of our operating expenses were generated/incurred outside of the United States. As a result, changes in currency exchange rates, especially from the Euro to U.S. Dollar, can have a significant impact on revenue and expenses.

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In general, to minimize the net impact of currency fluctuations on operating income, we attempt to denominate an amount of billings in a currency such that it would provide a hedge against the operating expenses being incurred in that currency. We expect that changes in currency rates may also impact our future results if we are unable to match amounts of revenue with our operating expenses in the same currency. If the amount of our revenue in Europe denominated in Euros continues as it is now or declines, we do not expect that we will be able to balance fully the exposures of currency exchange rates on revenue and operating expenses.

The Euro, on average, strengthened against the U.S. Dollar approximately 2.9% for the quarter, and weakened 1.4% for the six months ended June 30, 2016, as compared to the same periods in 2015. We estimate that the change in currency rates in 2016 compared to 2015 resulted in an increase in revenue of approximately $238 and decrease of approximately $447 for the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 and an increase in operating expenses of approximately $240 and for the quarter and decrease of $631 for the six months ended June 30, 2016, respectively, compared to the same periods in 2015.

The financial position and the results of operations of most of our foreign subsidiaries, with the exception of our subsidiaries in Canada, Switzerland, and Singapore, are measured using the local currency as the functional currency. Accordingly, assets and liabilities are translated into U.S. Dollars using current exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. Translation adjustments arising from differences in exchange rates generated other comprehensive loss of $1,247 and $433 for the second quarter and first six months of 2016, respectively, and other comprehensive income of $1,282, and other comprehensive loss of $2,262 in the second quarter and first six months of 2015, respectively. These amounts are included as a separate component of stockholders' equity. The functional currency for our subsidiaries in Canada, Switzerland and Singapore is the U.S. Dollar.

Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations in other non-operating income (expense). Foreign exchange transaction gains aggregating $64 in the second quarter of 2016 compare to exchange losses of $151 in the second quarter of 2015. Foreign exchange transaction gains aggregating $262 in the first six months of 2016 compare to transaction losses of $768 in the first six months of 2015.

Revenue

Revenue by Geographic Regions: We classify our sales by customers' location in four geographic regions: 1) EMEA, which includes Europe, the Middle East and Africa; 2) the United States, which for our purposes includes sales in Canada; 3) Asia Pacific; and 4) Other Countries, including Australia, Latin America and India. The breakdown of revenue in each of our major geographic areas was as follows:

	EMEA	United States	Asia Pacific	Other Countries	Total
Three months ended June 30:					
Revenue:					
2016	$26,739	$ 6,072	$ 17,318	$ 4,164	$ 54,293
2015	$45,624	$ 2,888	$ 10,830	$ 6,051	65,393
Percent of Total:					
2016	49%	11%	32%	8%	100%
2015	70%	4%	17%	9%	100%
Six months ended June 30:					
Revenue:					
2016	$49,117	$10,185	$ 33,576	$ 8,181	$101,059
2015	$92,961	$ 5,686	$ 22,155	$ 9,726	$130,528
Percent of Total:					
2016	49%	10%	33%	8%	100%
2015	71%	4%	17%	8%	100%

Total revenue in the second quarter of 2016 decreased $11,100, or 17%, from the second quarter of 2015. For the first six months of 2016, total revenue decreased $29,469 or 23% from the first six months of 2015. These differences are largely attributed to revenues from card readers sold to Rabobank during the second quarter and six months of 2015. Revenues from all other customers, excluding eSignLive, increased 13% for the second quarter of 2016 as compared to the second quarter of 2015, and increased by 5% for the six months of 2016 as compared to the same period in 2015.

Please see the discussion below under “Revenue by Target Market” for additional information regarding the changes in revenue from the Banking and the Enterprise and Application Security markets.

Revenue generated in EMEA during the second quarter of 2016 was $18,885, or 41%, lower than the second quarter of 2015. For the first six months, revenue generated in EMEA was $43,844, or 47% lower than the first six months of 2015. The decrease in revenues in both the second quarter and first six months of 2016 compared to the same periods in 2015, results from the sale of card readers to Rabobank discussed above are recorded as EMEA revenue. Revenues from all other customers increased $767, or more than 3% for the second quarter of 2016 as compared to the second quarter of 2015, and decreased $4,840, or 10% for the first six months of 2016 as compared to the same period in 2015.

Revenue generated in the United States for the second quarter was $3,184, or 110%, higher than the second quarter of 2015. For the first six months, revenue generated in the United States was $4,499, or 79% higher than the first six months of 2015. Excluding the impact of the eSignLive acquisition, revenues increased $225, or 8% for the second quarter of 2016 as compared to the second quarter of 2015, and decreased $626, or 11% for the six months of 2016 as compared to the same period in 2015.

Revenue generated in the Asia Pacific region during the second quarter of 2016 was $6,488, or 60%, higher than the second quarter of 2015. For the first six months of 2016 revenue was $11,421, or 52% higher than the first six months of 2015. Revenues in Japan increased 191% in Q2 2016 to $13,934, and 119% to $28,018 in the first six months of 2016, respectively, compared to the same periods in 2015.

Revenue generated from Other Countries during the second quarter of 2016 was $1,887, or 31%, lower than the second quarter of 2015. For the first six months of 2016 revenue was $1,545, or 16%, lower than the first six months of 2015.

We expect that revenues from regions other than EMEA will be more volatile given the earlier stage of development of the authentication market in those countries. VASCO, however, plans to continue to invest in new markets based on our estimates of the each market’s demand for strong user authentication.

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

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	Banking	Enterprise & Application Security	Total
Three months ended June 30:			
Revenue:			
2016	$ 42,938	$ 11,355	$ 54,293
2015	$ 57,812	$ 7,581	$ 65,393
Percent of Total:			
2016	79%	21%	100%
2015	88%	12%	100%
Six months ended June 30:			
Revenue:			
2016	$ 79,603	$ 21,456	$101,059
2015	$115,082	$ 15,446	$130,528
Percent of Total:			
2016	79%	21%	100%
2015	88%	12%	100%

Revenue in the second quarter of 2016 from the Banking market decreased $14,874, or 26%, from the second quarter of 2015 and revenue from the Enterprise and Application Security market increased $3,782, or 50%, in the same period. Revenue for the first six months of 2016 from the Banking market decreased $35,479, or 31%, compared to the first six months of 2015, while revenue from the Enterprise and Application Security market increased $6,010 or 39% in the same period.

The increase in revenue from the Banking market for the second quarter and six months of 2016 compared to the same periods is 2015, excluding revenues from the sale of card readers to Rabobank, was primarily due to an increase in revenue from Asia Pacific. The increase in revenue from the Enterprise and Application Security market for the second quarter and first six months of 2016 compared to the same periods in 2015 was primarily due to the addition of eSignLive and increased maintenance and support revenues in Asia Pacific.

Revenues from the Banking market in the second quarter of 2016 compared to the second quarter of 2015, excluding revenues from the sale of card readers to Rabobank, increased in all regions except Other Countries. Revenues from the Banking market for the first six months of 2016 compared to the same period of 2015, increased in Asia Pacific and United States. While we believe that the global Banking market is relatively stable, our revenues may vary significantly period to period and region to region based on the size and timing of shipment of individual orders.

Revenues in the Enterprise and Application Security market in both the second quarter and first six months of 2016 compared to the same periods of 2015 increased predominantly in Asia Pacific, and Other Countries.

The respective changes in revenue in both markets reflects the transactional nature of our business where the absolute amount of revenue reported in any given period is a reflection of transactions closed in that period. Because of the volatility in our business, we believe that the overall strength of our business is best evaluated over a longer term where the impact of transactions being recorded in any given period are not as significant as they appear to be in a quarter-over-quarter comparison.

Also, given the sustainable, repeatable nature of our revenue model, we believe growth over a longer period of time reflects growth in our customer base, which we expect will lead to increases in future revenues, albeit with uneven annual growth.

Gross Profit and Operating Expenses

The following table sets forth, for the periods indicated, certain consolidated financial data as a percentage of revenue from continuing operations for the three and six months ended June 30, 2016 and 2015:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	29.0%	41.1%	28.3%	41.6%
Gross profit	71.0%	58.9%	71.7%	58.4%
Operating costs:				
Sales and marketing	30.9%	15.3%	30.4%	15.2%
Research and development	13.1%	6.9%	13.3%	7.0%
General and administrative	16.7%	10.9%	17.2%	10.1%
Amortization of purchased intangible assets	4.1%	1.7%	4.4%	1.7%
Total operating costs	64.8%	34.8%	65.3%	34.0%
Operating income	6.2%	24.1%	6.4%	24.4%
Interest income	0.3%	0.1%	0.3%	0.1%
Other income (expense), net	0.5%	0.4%	0.6%	(0.0)%
Income from continuing operations before income taxes	7.0%	24.7%	7.3%	24.5%
Provision for income taxes	1.8%	3.5%	2.3%	3.4%
Net income from continuing operations	5.2%	21.2%	5.0%	21.1%

Gross Profit

Consolidated gross profit for the quarter ended June 30, 2016 was $38,525, an increase of $27, or 0.1%, from the quarter ended June 30, 2015. Gross profit as a percentage of revenue (gross profit margin) was 71% for the quarter ended June 30, 2016, as compared to 59% for the quarter ended June 30, 2015. The increase in gross profit as a percentage of revenue for the second quarter of 2016 compared to 2015 primarily reflects:

- Decrease in lower margin cardreaders as a portion of total revenues.
- Increase in higher margin software solutions as a portion of total revenues.
- Increase in higher margin Enterprise and Application Security market revenues as a portion of total revenues.

Consolidated gross profit for the six months ended June 30, 2016 was $72,453, a decrease of $3,719, or 4.9%, from the comparable period in 2015. Gross profit as a percentage of revenue (gross profit margin) was 72% for the six months ended June 30, 2016 and 58% for the six months ended June 30, 2015. The increase in gross profit as a percentage of revenue for the first half of 2016 compared to 2015 primarily reflects the same factors noted above for the comparison of the second quarter of 2016 to the second quarter of 2015.

The gross margins generated from the banking market in any specific period will vary based on a number of factors including, but not limited to, the products sold, the quantity sold, the geographic location of the sales and competition based on product or geography. Generally, we experience significant competition when the sale involves card readers. Card readers generally have a gross

profit margin that is approximately 25 to 35 percentage points lower than other hardware-related margins due to competitive pricing pressures. There are a number of competitors in the EMV (Europay, Mastercard and VISA) market that produce card reader products with fewer features at a lower cost than our products. Card readers represented 11% and 13% of our total revenue in the second quarter and first six months of 2016, respectively, as compared to 41% and 40% of our total revenue in the second quarter and first six months of 2015.

The majority of our inventory purchases are denominated in U.S. Dollars. Our sales are denominated in various currencies including the Euro. As the U.S. Dollar weakened against the Euro in the second quarter of 2016 compared to the second quarter of 2015, revenue from second quarter sales made in Euros increased, as measured in U.S. Dollars, without a corresponding change in the cost of goods sold. For the first half of 2016, the U.S. Dollar strengthened against the Euro compared to the first half of 2015. The impact from changes in currency rates are estimated to have increased revenue by approximately $238 in the second quarter and decreased revenue by approximately $447 in the first six months of 2016. Had the currency rates in 2016 been equal to the rates in 2015, the gross profit margin would have been approximately 0.1 percentage points lower for the second quarter of 2016 and 0.1 percentage points higher for the first six months of 2016.

The increase in the percentage of our revenue that came from the Enterprise and Application Security market reflected the fact that revenue from that market increased 50% and 39% for the second quarter and first six months of 2016, respectively. Conversely, revenue from the Banking market decreased 26% and 31% in the second quarter and first six months of 2016, respectively, compared to the same periods in 2015. Revenue from our Enterprise and Application Security market, which generally has margins that are 30 to 40 percentage points higher than the Banking market, was 21% of our total revenue in both the second quarter and first six months of 2016 compared to 12% of total revenue in the second quarter and first six months of 2015, respectively.

Similarly, revenue from our non-hardware products generally has margins that are 30 to 40 percentage points higher than our hardware products. The amount of revenue from our non-hardware products not only increased 29% and 33% in the second quarter and first six months of 2016, respectively, compared to the comparable periods of 2015, but also as a percentage of total revenue from 21% and 20% in the second quarter and first six months of 2015, respectively, to 32% and 34% of revenue in the second quarter and first six months of 2016, respectively.

Operating Expenses

Our operating expenses are generally based on anticipated revenue levels and the majority of such expenses are fixed over short periods of time. As a result, small variations in the amount of revenue recognized in any given quarter could cause significant variations in the quarter-to-quarter comparisons of either the absolute amounts of operating income or operating income as a percentage of revenue.

Generally, the most significant factor driving our operating expenses is our headcount. Direct compensation and benefit plan expenses generally represent between 55% and 65% of our operating expenses. In addition, a number of other expense categories are directly related to headcount. We attempt to manage our headcount within the context of the economic environments in which we operate and the investments we believe we need to make for our infrastructure to support future growth and for our products to remain competitive. For the second quarter and first six months of 2016, average headcount was 58% and 54% higher, respectively, than the same periods in 2015. On a consolidated basis, our operating expenses for the quarter and six months ended June 30, 2016 were $35,139 and $65,953, respectively, an increase of $12,394, or 54%, from the second quarter of 2015, and an increase of $21,611, or 49%, from the six months ended June 30, 2015.The increase in consolidated operating expenses for the second quarter and first six months of 2016 compared to the same periods in 2015 was primarily related to:

- the addition of eSignLive operations
- increased average headcount
- increased long-term incentive plan expense
- increased amortization of purchased intangible assets

Historically, operating expenses can be impacted by changes in foreign exchange rates. As noted above, we estimate that the change in currency rates in 2016 compared to 2015 resulted in an increase in operating expenses of approximately $240 for the three months ended June 30, 2016 and a decrease of $631 for the six months ended June 30, 2016, compared to the same periods in 2015.

The comparison of operating expenses can also be impacted significantly by costs related to our stock-based and long-term incentive plans. Operating expenses for the second quarter and first six months of 2016 included $1,845 and $3,878, respectively, of expenses related to long-term incentive plan costs compared to $1,391 and $2,550 of long-term incentive plan costs for the second quarter and first six months of 2015, respectively.

Sales and Marketing Expenses

Consolidated sales and marketing expenses for the quarter ended June 30, 2016 were $16,766, an increase of $6,784, or 68%, from the second quarter of 2015. Consolidated sales and marketing expenses for the six months ended June 30, 2016, were $30,731, an increase of $10,956, or 55%, from the same period of 2015. This increase for both periods reflects the inclusion of eSignLive's sales and marketing operating expenses, as well as increased headcount in EMEA and United States.

Average full-time sales, marketing, support, and operating employee headcount for the three and six months ended June 30, 2016 was 290 and 280, respectively compared to 187 and 184 for the three and six months ended June 30, 2015, respectively. Headcount was 55% higher for the second quarter of 2016 compared to the second quarter of 2015 and 52% higher for the six months ended June 30, 2016 when compared to the same period in 2015.

Research and Development Expenses

Consolidated research and development expenses for the quarter ended June 30, 2016, were $7,105, an increase of $2,567, or 57%, from the second quarter of 2015. Consolidated research and development costs for the six months ended June 30, 2016, were $13,403, an increase of $4,316, or 47%, from the same period of 2015. The increase in research and development for both periods reflected the impact of eSignLive and expenses in EMEA.

Average full-time research and development employee headcount for the three and six months ended June 30, 2016 was 227 and 221 compared to 135 for both the second quarter and six months ended June 30, 2015, respectively. Headcount was approximately 68% and 64% higher for the second quarter and first six months of 2016, respectively, when compared to the same periods in 2015.

General and Administrative Expenses

Consolidated general and administrative expenses for the quarter ended June 30, 2016, were $9,065, an increase of $1,960, or 28%, from the second quarter of 2015. Consolidated general and administrative expenses for the six months ended June 30, 2016, were $17,392, an increase of $4,168, or 32%, when compared to the same period of 2015. The increase in general and administrative expenses in both the second quarter and first six months of 2016 compared to the comparable periods in 2015 primarily reflected the increase in headcount and expenses associated with eSignLive, noted above.

Average full-time general and administrative employee headcount for the three and six months ended June 30, 2016 was 84 and 81 compared to 58 for both the three and six months ended June 30, 2015, respectively. Average headcount for the second quarter of 2016 was 45% higher from the second quarter of 2015 and approximately 40% higher for the first six months of 2016 compared to the same period in 2015.

Amortization of Intangible Assets

Amortization of intangible assets for the three and six months ended June 30, 2016 was $2,203 and $4,427, respectively, compared to $1,120 and $2,256 for the same periods of 2015. The increase in amortization expense largely relates to amortization of intangibles acquired in the eSignLive acquisition.

Interest Income

Interest income was $166 and $275 for the three and six months ended June 30, 2016 as compared to $97 and $177 for the same periods of 2015. The increase in interest income for 2016 compared to the same periods in 2015 primarily reflects an increase in the average interest rate earned on the invested balances partially offset by a decrease in the average invested balance.

Other Income (Expense), Net

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

Other income for the three and six months ended June 30, 2016 was $253 and $615 compared to income of $273 and losses of $3 for the same periods of 2015. Other income included exchange gains of $64 and $262 for the three and six months ended June 30, 2016 compared to exchange losses of $151 and $768 for the three and six months ended June 30, 2015.

Income Taxes

Income tax expense for the three and six months ended June 30, 2016 was $979 and $2,365, respectively, a decrease of $1,278 and $2,116 from the same periods 2015. The decrease in tax expense in 2016 from 2015 is primarily attributable to lower pretax income partially offset by an increase in the effective tax rate.

Our estimated annual tax rate for 2016 before discrete items is expected to be 26%. This is lower than the U.S. statutory rate primarily due to income in foreign jurisdictions taxed at lower rates, partly offset by valuation allowances on taxable losses. Discrete items related to the measurement period adjustment described in Note 4 and changes to tax rates on deferred tax liabilities increased the full-year 2016 effective rate to 29% and increased the first half effective rate to 32%.

Our effective tax rate for the quarter and six months ended June 30, 2015 was equal to our expected 2015 annual tax rate of 14%. This was lower than the U.S. statutory rate primarily due to income in foreign jurisdictions taxed at lower rates.

At December 31, 2015, we had foreign tax credit carryforwards of $3,309 for future U.S. tax returns. These foreign tax credits expire in 2023. We have not provided a valuation reserve for the foreign tax credits as we believe it is more likely than not that they will be realized.

At December 31, 2015, we had Canadian net operating loss (NOL) carryforwards of $28,691 and other Canadian deductible carryforwards of $21,682. The Canadian NOL carryforwards expire from 2027 to 2035 and the other deductible carryforwards have no expiration. At December 31, 2015, we had valuation allowances of $7,379 for the NOL carryforwards and $4,184 for the other deductible carryforwards.

At December 31, 2015, we had other NOL carryforwards of $3,850, other foreign deductible carryforwards of $2,846, and U.S. state NOL carryforwards of $4,853. The foreign NOL carryforwards have no expiration. The other deductible carryforwards expire from 2016 to 2021. The U.S. state NOL carryforwards expire from 2019 to 2027. At December 31, 2015, we had a valuation allowance of $2,023 for certain foreign deferred tax assets and $133 for a U.S. state NOL carryforward.

Loss from Discontinued Operations

We reported an after-tax loss from discontinued operations of $1 for both the three and six months ended June 30, 2016 compared to losses of $14 and $37 for the comparable periods in 2015. The losses include ongoing expenses related to the bankruptcy and discontinuation of the DigiNotar business in the first quarter of 2011.

Liquidity and Capital Resources

At June 30, 2016, we had net cash balances (total cash, cash equivalents and restricted cash less bank borrowings) of $35,578 and short-term investments of $100,172. At December 31, 2015, we had net cash balances of $78,522 and short-term investments of $44,961. We had no outstanding debt or restricted cash at June 30, 2016, or December 31, 2015.

Short-term investments at June 30, 2016, and December 31, 2015, consisting of high quality commercial paper with maturities of less than six months, were held by our U.S. and Swiss entities and issued by domestic and foreign corporations.

Our working capital at June 30, 2016 was $135,921, an increase of $8,246 or 6% from $127,675 at December 31, 2015. The increase in the combined balance of cash and short-term investments as well as the increase in working capital at June 30, 2016 from December 31, 2015 primarily reflects the benefit from the cash flow from operations for the first half of 2016.

As of June 30, 2016, we held $29,509 of cash and short-term investments in banks outside of the United States. Of that amount, $28,558 is not subject to repatriation restrictions, but may be subject to taxes upon repatriation.

We believe that our financial resources are adequate to meet our operating needs over the next twelve months.

Recently Issued Accounting Pronouncements

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, (ASU 2015-17), requiring deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within such annual periods. ASU 2015-17 may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We have adopted ASU 2015-17 prospectively in our consolidated financial statements as of January 1, 2016.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*, (ASU 2015-16), which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within such annual periods and applies prospectively to adjustments to provisional amounts that occur after the effective date. Measurement period adjustments identified subsequent to December 31, 2015, for the eSignLive Acquisition, further described in Note 4 to the Consolidated Financial Statements, will be recorded and disclosed in accordance with ASU 2015-16.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in applying such process, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

ASU 2014-9 is effective for annual periods beginning after December 15, 2016, and interim periods within such annual periods, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).

In August, 2015, the FASB issued Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers: Deferral of Effective Date*, which allowed companies to defer implementation of ASU 2014-9 one year but also allowed early adoption as of the original effective date.

We are currently evaluating the impact of our pending adoption of ASU 2014-09 and Update No. 2015-14 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard.

In February 2016, The FASB issued Accounting Standards Update No. 2016-02, *Leases*, which among other things, requires lessees to recognize most leases on balance sheet. ASU 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018 and mandates a modified retrospective transition method. We are currently evaluating the impact of ASU 2016-02 on our consolidated financial statements.

On March 30, 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, to improve accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes certain aspects of accounting for share-based payment award transactions, including: (1) recognition of excess tax benefits and tax deficiencies as income tax expense or benefit instead of additional paid-in capital; (2) classification of excess tax benefits on the statement of cash flows. The other provisions of ASU 2016-09 are immaterial to the Company. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. We have early adopted ASU 2016-09 in our consolidated financial statements as of January 1, 2016 and applicable aspects described were adopted prospectively. Prior periods were not retrospectively adjusted.

As a result of the adoption of ASU 2016-09, during the three months ended March 31, 2016 the provision for income taxes was reduced by $91 for the windfall benefit of restricted stock vesting that, absent the adoption of ASU 2016-09, would have otherwise been credited to additional paid in capital. There was no additional impact for the three months ended June 30, 2016. Similarly, for the six months ended June 30, 2016, as a result of the adoption of ASU 2016-09, cashflows from operating activities were $91 greater and cashflows from financing activities were $91 less. The impact of this ASU on future periods is dependent on our stock price at the time restricted stock awards vest.

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, our management believes that the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in our market risk during the three and six months ended June 30, 2016. For additional information, refer to "Item 7A. Quantitative and Qualitative Disclosures about Market Risk", included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Item 4. Controls and Procedures

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

Changes in Internal Controls

There were no changes in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three and six months ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, on November 25, 2015, the Company completed the acquisition of Silanis Technology, Inc. (eSignLive). As a result, in its Annual Report on Form 10-K for the period ended December 31, 2015, management excluded eSignLive from its assessment of internal control over financial reporting. Management is in the process of documenting and testing eSignLive's internal controls over financial reporting, and will incorporate eSignLive into its annual assessment of internal control over financial reporting for its fiscal year ending December 31, 2016. eSignLive is a wholly-owned subsidiary whose total assets and total revenues represent 27 percent and 5 percent, respectively, of the related condensed consolidated financial statement amounts as of and for the three and six months ended June 30, 2016.

Inherent Limitations on the Effectiveness of Controls

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

In addition to the legal matters described below, we are, from time to time, involved in routine legal matters incidental to the conduct of our business, including legal matters such a to protect our intellectual property rights and resolve employment claims. We believe that the ultimate resolution of any such current routine matter will not have a material adverse effect on our continued financial position, results of operations or cash flows.

On January 10, 2011, we purchased our wholly-owned subsidiary, DigiNotar B.V., a private company organized and existing in The Netherlands from the shareholders ("Sellers"). On September 19, 2011, DigiNotar B.V. filed a bankruptcy petition under Article 4 of the Dutch Bankruptcy Act in the Haarlem District Court, The Netherlands. On September 20, 2011, the court declared DigiNotar B.V. bankrupt and appointed a bankruptcy trustee and a bankruptcy judge to manage all affairs of DigiNotar B.V. through the bankruptcy process. The trustee took over management of DigiNotar B.V.'s business activities and is responsible for the administration and liquidation of DigiNotar B.V. In connection with the bankruptcy of DigiNotar B.V., subsequent to September 20, 2011, a number of claims and counter-claims have been filed with the courts in The Netherlands (collectively, the "Court") related to discontinued assets and discontinued liabilities and other available remedies.

On July 30, 2014, the Court issued a judgment in the DigiNotar case in favor of VASCO for €4,108 ($5,176 at an exchange rate of 1.26 U.S. Dollars per Euro, all amounts in thousands) plus interest related to the Sellers' failure to achieve earn-out targets established in the purchase agreement, breach of certain representations and warranties under the share purchase agreement and reimbursement of certain costs incurred by VASCO as a result of such breach. The judgment was subject to additional legal proceedings.

In November 2014, all matters with the Sellers related to the sale and bankruptcy of DigiNotar B.V. were settled for €2,263 ($2,854 at an exchange rate of 1.26 U.S. Dollars per Euro, all amounts in thousands). The funds were applied first in full satisfaction of the previously recorded contingent consideration due from escrow included in assets of discontinued operations and the remainder of $1,088 recorded as income from discontinued operations net of tax of $108.

In January 2015, we received a notice of potential claim by the trustee against all of the individuals who served as Directors of DigiNotar, both before and after our acquisition of DigiNotar. T. Kendall Hunt, Jan Valcke, and Clifford K. Bown were the Directors of DigiNotar following its purchase by VASCO. The basis for the potential claim from the trustee appears to be based primarily on the same arguments that VASCO presented in its case against the sellers, which were adjudicated in VASCO's favor. While we believe that we have strong defenses against the claim, we have also notified our provider of director and officer insurance should a claim be filed and we do not expect the resolution of the potential claim to have a material adverse effect on our business, financial condition or results of operations. VASCO is indemnifying Messrs. Hunt, Valcke, and Bown for this matter.

On July 28, 2015 a putative class action complaint was filed in the United States District Court for the Northern District of Illinois, captioned Linda J. Rossbach v. Vasco Data Security International, Inc., et al., case number 1:15-cv-06605, naming VASCO and certain of its current and former executive officers as defendants and alleging violations under the Securities Exchange Act of 1934, as amended. The suit was purportedly filed on behalf of a putative class of investors who purchased VASCO securities between February 18, 2014 and July 21, 2015, and seeks to recover damages allegedly caused by the defendants' alleged violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaint seeks certification as a class action and unspecified compensatory damages plus interest and attorneys' fees. Pursuant to a September 1, 2015 scheduling order entered by the court, the lead plaintiff, once appointed, will have sixty days to file an amended complaint or notify the defendants that the lead plaintiff intends to rely on the current complaint. The defendants will then have sixty days to answer or otherwise respond to the operative complaint. To date, the court has not made any rulings with respect to the appointment of the lead plaintiff. Although the ultimate outcome of litigation cannot be predicted with certainty, the Company believes that this lawsuit is without merit and intends to defend against the action vigorously.

On October 9, 2015, a derivative complaint was filed in the United States District Court for the Northern District of Illinois, captioned Elizabeth Herrera v. Hunt, et al., case number 1:15-cv-08937, naming VASCO's Board of Directors and certain of its executive officers as individual defendants and the Company as a nominal defendant. Two additional complaints captioned Beth Seltzer v. Hunt, et al., case number 2015-ch-15541 and William Hooper v. Hunt, et al., case number 2016-ch-04054, were filed on October 22, 2015 and March 22, 2016, respectively, in the Circuit Court of Cook County, Illinois naming the same defendants.

The complaints assert, among other things, that the individual defendants breached their fiduciary duties by making material misstatements in, and omitting material information from, the Company's public disclosures and by failing to maintain adequate internal controls and properly manage the Company. Among other things, the complaints seek unspecified compensatory damages and injunctive relief. On February 23, 2016, the court in Herrera granted a stay of the action pending the resolution of a certain motion to dismiss that the parties anticipate to be filed in Rossbach. On October 29, 2015, a defendant removed the Seltzer action to the United States District Court for the Northern District of Illinois. Thereafter, the plaintiff filed a motion to remand the action back to the Circuit Court of Cook County, Illinois, which was denied on February 3, 2016. On February 9, 2016, the court granted an agreed motion for voluntary dismissal of the Seltzer action, which dismissed the action with prejudice as to the named plaintiff's individual claims. As for the Hooper action, the court granted a stay on June 8, 2016 on the same terms governing the stay in the Herrera action.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(c) The following table provides information about purchases by the Company of its shares of common stock during the three month period ended June 30, 2016:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
April 1, 2016 through April 30, 2016	1,241	$ 17.05	0	0
May 1, 2016 through May 31, 2016	32,072	$ 16.53	0	0
June 1, 2016 through June 30, 2016	1,628	$ 16.96	0	0

(1.) All transactions represent surrender of vested shares in satisfaction of mandatory minimum tax withholdings by grantees under the 2009 Equity Incentive Plan.
(2.) The Company has no publicly announced plans or programs to repurchase its shares.

Item 5. Other Information.

During the second quarter of 2015, VASCO management became aware that certain of its products which were sold by a VASCO European subsidiary to a third-party distributor may have been resold by the distributor to parties in Iran, potentially including parties whose property and interests in property may be blocked pursuant to Executive Order 13224, Executive Order 13382 or that may be identified under Section 560.304 of 31 C.F.R. Part 560 as the "Government of Iran".

We ceased shipping to such distributor. In addition, the Audit Committee of the Company's Board of Directors initiated an internal review of this matter with the assistance of outside counsel. As a precautionary matter, concurrent initial notices of voluntary disclosure were submitted on June 25, 2015 to each of the U.S. Department of the Treasury, Office of Foreign Assets Control ("OFAC"), and the U.S. Department of Commerce, Bureau of Industry and Security ("BIS").

The Audit Committee with the assistance of outside counsel has completed their review. On December 15, 2015, we filed a letter with BIS (Office of Export Enforcement) with the conclusion that the products supplied to the distributor were not subject to United States Export Control jurisdiction. The Office of Export Enforcement issued a "no action" letter, concluding the voluntary self-disclosure process under the Export Administration Regulations.

On January 13, 2016, we filed a letter with OFAC, with the conclusions that VASCO and its subsidiaries made no direct sales to Iran or any party listed by OFAC as a Specially Designated National over the five-year period under review (i.e., June 1, 2010 to June 30, 2015). The letter further noted that the investigation did not identify any involvement on the part of senior management officials of VASCO, and to the contrary, noted that VASCO executive management officials had sought to implement procedures and provided notices to VASCO's sales personnel to prevent the diversion of VASCO products to unauthorized destinations and end users.

We have not received any response to the letter to OFAC and we cannot predict when OFAC will conclude their review of our voluntary self-disclosures. Based upon the OFAC guidelines for monetary penalties, we have recorded a reserve of $900,000 for potential penalties if they are assessed by OFAC. Ultimately no penalty may be assessed or the penalty may be less or greater than the reserve, but in any event we do not believe that the final settlement will have a material adverse impact on our business.

On August 2, 2016, we entered into a fourth amendment (the "U.S. Amendment") with T. Kendall Hunt, our Chairman and Chief Executive Officer, to the Amended and Restated Employment Agreement dated January 1, 2011 (the "U.S. Employment Agreement"), as amended, by and between VASCO Data Security International, Inc. (the "Company") and Mr. Hunt.

On August 2, 2016, we also entered into an employment agreement (the "Swiss Agreement") with Mr. Hunt related to his part year assignment to our international operations located in Switzerland, by and between the Swiss affiliate of the Company and Mr. Hunt.

Among other things, the U.S. Amendment (i) extends the term of Mr. Hunt's employment with the Company through January 1, 2018, (ii) decreases Mr. Hunt's annual base salary by $180,000, the approximate amount of the new base salary in the Swiss Agreement, to $270,000, and (iii) provides for the Swiss assignment letter agreement dated February 15, 2011 to be coterminous with the U.S. Employment Agreement.

Among other things, the Swiss Agreement (i) provides for Mr. Hunt's employment as managing director of the Company's Swiss affiliate, (ii) provides Mr. Hunt a base salary of 180,000 Swiss francs, (iii) provides for an additional discretionary bonus if determined by the Company, (iv) provides for confidentiality and non-competition obligations for Mr. Hunt, and (v) provides for other customary employment terms.

The foregoing summary descriptions of the U.S. Amendment and the Swiss Agreement do not purport to be complete and are qualified in their entirety by reference to the full texts filed as exhibits 10.1 and 10.2.

Item 6. Exhibits.

Exhibit 10.1 - Fourth Amendment dated August 2, 2016, to Amended and Restated Employment Agreement effective January 1, 2011 between VASCO Data Security International, Inc. and T. Kendall Hunt. (Incorporated by reference - Form 10-Q filed August 4, 2016.)

Exhibit 10.2 - Employment Agreement, dated August 2, 2016, by and between VASCO Data Security International GmbH and T. Kendall Hunt. (Incorporated by reference - Form 10-Q filed August 4, 2016)

Exhibit 31.1 - Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 4, 2016.

Exhibit 31.2 - Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 4, 2016.

Exhibit 32.1 - Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 4, 2016.

Exhibit 32.2 - Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 4, 2016.

Exhibit 101.INS – XBRL Instance Document

Exhibit 101.SCH – XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL – XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.LAB – XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE – XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 101.DEF – XBRL Taxonomy Extension Definition Linkbase Document

* Certain exhibits, schedules and annexes have been omitted pursuant to Item 601(b)(2) of Regulation S-K. VASCO undertakes to furnish supplementally copies of any such omitted items upon request by the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 4, 2016.

VASCO Data Security International, Inc.

/s/ T. Kendall Hunt

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

/s/ Mark S. Hoyt

Mark S. Hoyt
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

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Exhibit 10.1

FOURTH AMENDMENT TO

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS FOURTH AMENDMENT (the “Amendment”), to be effective as of September 24, 2016 (the “Amendment Effective Date”), amends that certain Amended and Restated Employment Agreement, effective as of January 1, 2011, as amended by the First Amendment to Amended and Restated Employment Agreement, dated as of April 23, 2014, the Second Amendment to Amended and Restated Employment Agreement, dated November 24, 2014 and the Third Amendment to Amended and Restated Employment Agreement, dated November 20, 2015 (the “Agreement”), by and between VASCO Data Security International, Inc., a Delaware corporation (the “Company”), and T. Kendall Hunt (“Employee”). Capitalized terms used but not defined in this Amendment shall have the meanings ascribed to such terms in the Agreement.

RECITALS

WHEREAS, the Company and Employee are party to that certain Letter Agreement, dated as of February 15, 2011 (the “Letter Agreement”), which provides for the terms and conditions applicable to Employee’s assignment to work in Switzerland;

WHEREAS, the Assignment Term (as defined in the Letter Agreement) expires at the end of the Employment Period;

WHEREAS, the Company and Employee desire to amend the Agreement and the Letter Agreement in order to extend the term of the Employment Period and the Assignment Term, as applicable;

WHEREAS, the Company and Employee desire to amend the Agreement to divide the Base Salary between the Agreement and the Employee’s employment agreement with an affiliate of the Company in Switzerland of even date herewith (“Swiss Employment Agreement”);

WHEREAS, Section 6.10 of the Agreement permits the amendment of the Agreement with the written consent of the Company and Employee; and

WHEREAS, extending the term of the Employment Period will extend the term of the Assignment Term.

NOW, THEREFORE, in consideration of the foregoing premises, the terms and conditions hereinafter set forth, the mutual benefits to be gained by the performance thereof, and other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged and accepted, the parties hereto agree as follows:

AGREEMENT

1. Section 1.1 of the Agreement is amended in its entirety to read as follows:

“Unless earlier terminated as provided in this Agreement, the term of Executive’s employment under this Agreement (the “Employment Period”) shall commence on the Effective Date and continue until the seventh anniversary of such date (i.e. January 1, 2018).”

2. Section 2.1 of the Agreement is amended to provide that the Base Salary amount shall be $270,000 USD; it being understood that the balance of Employee's current Base Salary shall be paid under the Swiss Employment Agreement.

3. In all other respects, the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Amendment to be duly executed by a duly authorized officer thereof, and Employee has hereunto set his hand, agreeing to this Amendment.

VASCO DATA SECURITY INTERNATIONAL, INC.

By: /s/ Mark S. Hoyt

Name: Mark S. Hoyt

Its: Chief Financial Officer

Date: August 2, 2016

/s/ T. Kendall Hunt

T. Kendall Hunt, Employee

Date: August 2, 2016

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT is made and entered into between:

(1) **VASCO Data Security International GmbH**, a Swiss limited liability company, with business address at Balsberg, Balz-Zimmermannstrasse 7, 8152 Glattbrugg, Switzerland (the "**Company**")

and

(2) **T. Kendall Hunt**, of Andermatt in the Canton of Uri, Switzerland (the "**Employee**")

(Company and Employee together hereinafter the "**Parties**", each of them the "**Party**")

The Company is a wholly owned subsidiary of VASCO Data Security International, Inc., 1901 South Meyers Road, Suite 210, Oakbrook Terrace, IL 60181, USA (the parent company and all of its subsidiaries hereinafter the "VASCO Group").

THE PARTIES HEREBY AGREE as follows:

EMPLOYMENT

1. Employment

The Company hereby agrees to employ the Employee and the Employee hereby accepts employment as **Managing Director** subject to the terms and conditions specified in this Employment Agreement (the "**Agreement**"). The Employee will directly report to the sole shareholder of the Company.

2. Commencement Date

This Agreement shall commence on September 24, 2016 (the "**Commencement Date**") and stay in force until it is terminated.

3. Tasks and responsibilities

The Employee's initial tasks and responsibilities are set forth in Annex 1 attached hereto. The Employee's tasks and responsibilities may, from time to time, in the sole discretion of the Company be expanded to include other assignments or responsibilities, or reduced by the Company, or otherwise changed by the Company, to support the Company's overall business objectives, however they must remain consistent with an executive level position.

The Employee agrees to perform his obligations in accordance with the rules and regulations of the Company, including, but not limited to the Company's Code of Conduct and Ethics as included in clause 15 below, and the instructions given by the Company. The Employee agrees to comply at all times with any and all laws that may be either applicable to his employment or applicable to acts performed hereunder on behalf of the Company.

4. Place of work

The Employee will be working at his home office in Andermatt in the Canton of Uri with occasional visits to the business address of the Company as dictated by business needs. The Parties understand that the position of the Employee will include travel activities as needed to perform the duties of the position.

5. Working hours

The standard working hours of the Company are from 08:00 to 17:00. Due to the nature of the position of the Employee, the hours of work may vary but are expected to be approximately 40 hours per week.

REMUNERATION

6. Base salary

The Employee shall receive an annual gross base salary of **CHF —180,000.** The base salary will accrue from day to day and be paid monthly in arrears. The base salary includes compensation for any kind of overtime work.

7. Bonus payment

In addition to the fixed regular base salary in accordance with clause 6 above, the Employee shall be eligible to earn a bonus upon fulfilment of the objectives and targets set forth by the Company, subject to and in accordance with the terms and conditions, and in the amounts, established by the Company in its sole discretion. Bonus payments shall not be deemed as part of the Employee's regular compensation. Bonus payments, if earned, will be paid annually in arrears upon discretion of the Company.

8. Deductions

The salary and bonus payments noted in clauses 6 and 7 above are gross payments. The Company may make deductions or withholdings as required by applicable law, or as may be or has been agreed to in writing by the Employee.

OTHER BENEFITS

9. Business expenses

The Company shall pay or reimburse Employee in accordance with the Company's policy, which may change from time to time at the Company's sole discretion, for all expenses reasonably incurred by Employee during the period of employment in connection with the performance of Employee's duties under this Agreement, including, without limitation, travel, entertainment and automobile expenses. As the Company may reasonably request, Employee shall provide to the Company documentation or supporting information relating to the expenses for which Employee seeks reimbursement.

10. Work items

The Company undertakes to put at the Employee's disposal for the period of his employment the work items specified in Annex 2 attached hereto. It is understood and agreed that such work items, as well as any other property of the Company that may be issued to the Employee, will be used only for business purposes and will remain the property of the Company at all times. The Company will be responsible for any failure or malfunction of the work items that result from normal wear and tear that comes from ordinary use of the work items. The Employee agrees to exercise proper care of the work items and further agrees to be responsible for any loss or damage to the work items that results from the Employee's abuse, negligence or wilful misconduct related to the work items.

11. Paid vacation

The Employee is entitled to earn 20 days working days' (four weeks) vacation for each full year of employment with the Company. The vacation days earned will be prorated for any period worked that is less than a full year. Vacation days may be taken when approved in advance by the Company. The Company may withhold approval in its sole discretion based on the needs

of the business. All earned and accrued vacation days shall be taken no later than the year following the year in which they are earned. The Employee agrees to reimburse the Company for any days taken that were not earned.

12. Unplanned Absence and Sick-leave

The Employee agrees to notify the human resources department of the Company as soon as practicable if he is unable to work for any reason. Notification should include information as to the reason for absence.

If the absence is due to illness, and such absence exceeds two working days, the Employee agrees to provide a doctor's certificate validating the medical need to be absent from work. The Company may ask for a medical certificate as from the first day of absence. The Employee further agrees that he will use his best efforts to keep the Company informed as to the date he expects to return to work and, if requested, will submit himself to examination by a medical practitioner nominated by the Company. The Employee shall release his doctors as well as the medical practitioner appointed by the Company from their secrecy obligation to the extent required for the Company to assess its rights and obligations. If Employee declines to do any of the above, his salary may be withheld and Employee may be subject to termination.

The Employee understands and agrees that unauthorized absenteeism may result in an immediate termination for cause according to clause 21 below.

OTHER CONDITIONS

13. Loyalty

During working hours, the Employee agrees to devote all of his time, attention and best efforts exclusively to the Company in furtherance of the Company's interests. The Employee shall faithfully and diligently perform the duties and responsibilities assigned to him.

14. Code of Conduct and Ethics

Employee acknowledges that the Company requires the commitment of its people to maintain the highest level of integrity and ethics. Accordingly, The Company has established a Code of Conduct and Ethics (the "Code"), which may be modified from time to time at the Company's sole discretion, in order that all employees are all clear as to what is required of each one of them. The Employee agrees that he will read the Code and, when requested by the Company, certify his/her compliance at all times with all of its terms. Employee further acknowledges that a violation of any of any of the provisions of the Code may be grounds for termination for cause under clause 21 below.

15. Confidentiality

The Employee agrees that he will neither during the term of employment (except in the proper performance of his duties) nor at any time (without limit) after the termination thereof, use for his own benefit or for the benefit of others or reveal, divulge, or in any way make known to any other person, firm, or corporation directly or indirectly, any technology, inventions, trade or commercial secrets or any other confidential information relating or belonging to the Company or the VASCO Group (the "**Confidential Information**"). The Confidential Information includes, *inter alia*, insider information relating to particular securities or to a particular issuer that has not been made public, and if made public, would be likely to have a significant effect on the price of any security, as well as information relating to clients or customers, client or customer lists or requirements, market information, business plans, financial information and plans, trading models, market access information, research activities, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, any document marked "confidential", or any information which the Employee has been told or reasonably should know being confidential, or any information which has been given in confidence by customers, suppliers, or other persons whether the same shall or may

have been originated, discovered or invented by Employee or otherwise. **The most perfect secrecy in connection with the Confidential Information, in particular with any part of VASCO Group's technology or trade is of the essence of this Agreement.**

After the Agreement has ended, the Employee agrees to continue to preserve and not use the Confidential Information, but (for the sake of clarity) the Company agrees that the Employee will not be prevented from using his own business skills and experience in another employment.

16. Inventions

The Employee agrees to promptly assign to the Company any design, invention and improvement in connection with the products and services or which could be relevant to the business of the Company and/or the VASCO Group, which the Employee, by himself or with others, is working towards, makes or discovers, whether or not during the course of his employment (the "**Inventions**"). All rights relating to the Inventions, including, *inter alia*, any copyrights or patents as well as any rights in computer programs shall vest or be automatically transferred to the Company. The Employee will supply all documents and information in his possession or control, to enable the Company to exploit the same to the Company's best advantage. To the extent Inventions may not automatically be transferred by the applicable law, the Company has the right to acquire the Inventions. The remuneration to be paid under this Agreement entirely compensates the Employee for the transfer of any rights under this clause 16.

The Employee shall at the request and cost of the Company, notwithstanding termination of the Agreement, sign and execute all such documents and do all such acts as the Company may reasonably require *(i)* to apply and obtain in the sole name of the Company, unless directed otherwise by the Company, patent, registered design, or other protection of any nature whatsoever in respect of the Inventions in any country throughout the world and, when so obtained or vested, to renew and maintain the same, *(ii)* to resist any objection or opposition to obtaining and any petitions or applications for revocations of, any such patent, registered design or other protection, *(iii)* to bring any proceedings for infringement of any such patent, registered design or other protection, and *(iv)* otherwise to give effect to the assignments, waivers and licenses.

Inventions made within one year following the termination of the Agreement shall be deemed to belong to the Company under this clause 16 unless proved by the Employee to have been first conceived and made following such termination.

17. Non-Competition

The Employee hereby agrees that, during his employment and, if his employment is terminated, for a period of two years from the term thereof, he will not, directly or indirectly and in any way, contact, interfere with, solicit other than on behalf of the Company, or attempt to entice away from the Company or the VASCO Group *(i)* any client or customer, *(ii)* any contract, agreement or arrangement that the Company or the VASCO Group is actively negotiating with any other party, and *(iii)* any prospective business opportunity that the Company or the VASCO Group has identified.

18. Penalty

In the event of Employee's actual or threatened breach of the provisions of the clauses 15 through 17 above, the Company shall be entitled to an injunction restraining the Employee from any of the foregoing. Furthermore, the Employee agrees that the sum equivalent to the remuneration received by the Employee from the Company and the VASCO Group during the last six months of his employment shall be due to the Company as contractual penalty upon each violation of a duty or obligation under the clauses 15 through 17 above. Payment of the contractual penalty shall not release the Employee from complying with his obligations under the clauses 15 through 17 above. However, nothing herein shall be construed as prohibiting the Company from pursuing any other available remedies for such breach or threatened breach, including the recovery of damages exceeding the amount of the contractual penalty from the Employee.

19. Reasonableness of restrictions

The Employee acknowledges that, during the term of the Agreement, the Company will provide and the Employee will have access to and come into contact with Confidential Information, such as trade secrets of the Company and the VASCO Group, and will obtain knowledge of and influence over its customers and employees. The Employee therefore agrees that the restrictions contained in clauses 15 through 17 above are reasonable and necessary to protect the legitimate business interests of the Company both during and after the termination of the Agreement.

TERMINATION

20. Ordinary termination

Either Party may terminate this Agreement without cause at any time, by giving three (3) months prior written notice to the other Party with effect to the end of a calendar day. . The Company has at any time the right to relieve the Employee from his obligation to work at full pay, provided however that any income that the Employee receives from any activity during such release period shall be deducted. The Employee shall compensate any vacations during such release period and shall not engage in any competing activity.

21. Immediate termination

The Company may, at any time, terminate this Agreement with immediate effect for cause. For the purpose of this Agreement, "Cause" shall mean:

(a) Employee materially breaches Employee's obligations under this Agreement, the Code of Conduct or an established policy of the Company; (Annex 3)

(b) Employee engages in conduct prohibited by law (other than minor violations), commits an act of dishonesty, fraud, or wilful misconduct in connection with his job duties, or engages in unethical or immoral conduct that, in the reasonable judgement of the Company, could injure the integrity, character or reputation of the Company;

(c) Use or disclosure by Employee of confidential information or trade secrets other than in the furtherance of the Company's business interests, or other violation of a fiduciary duty to the Company (including, without limitation, entering into any transaction or contractual relationship causing diversion of business opportunity from the Company (other than with the prior written consent of the Company's shareholder));

(d) Employee fails or refuses to perform, or habitually neglects Employee's material duties and responsibilities hereunder and continues such failure, refusal or neglect after having been given written notice by the Company that specified what duties Employee failed to perform and an opportunity to cure of thirty (30) days; or

(e) Employee fails to reasonably cooperate with any audit or investigation involving the Company or its business practices after having been given written notice by the Company that specifies the Employee's failure to cooperate and an opportunity to cure of ten (10) days.

If the Employee's employment is terminated by the Company for Cause pursuant to this paragraph, the date on which Notice of Termination is given shall be the date of termination. The Company will pay to the Employee all compensation owing through the date of termination; however, in no event will any bonus be paid to an Employee terminated for Cause. Employee is bound by the Non-Compete terms contained in this Agreement for the period of time set forth in Clause 17.

22. Return of work items

Upon termination of this Agreement for any reason, the Employee shall return to the Company all property, work items, files and any company documents (and all copies thereof) concerning the business of the Company and the VASCO Group in his possession or open to his access, as well as documents incorporating Confidential Information, including all designs, customer and price lists, printed material, documents, sketches, notes, drafts as well as copies thereof, regardless whether or not the same are originally furnished by the Company or the VASCO Group. Any retention right is excluded.

MISCELLANEOUS

23. Data protection

The Employee consents that the Company and the VASCO Group may store, transfer, change and delete all personal data in connection with this Agreement within the jurisdiction the work is performed as well as within all jurisdictions the Company or the VASCO Group are located, in particular, within USA and Switzerland.

24. Employee's warranty

The Employee represents and warrants that he is not prevented by any other agreement, arrangement, contract, understanding, court order or otherwise, which in any way directly or indirectly conflicts, is inconsistent with, or restricts or prohibits him from fully performing the duties of this Agreement. The Employee also represents and warrants that he will not bring any information in any form to the Company, which would be considered proprietary in nature to any competitor of the Company, without the competitor's prior written consent.

25. Notices

All notices required to be given under this Agreement or which any of the Parties may desire to give hereunder shall be in writing and delivered personally or sent by fax, e-mail, first-class letter post to the address referred to on the first page of this Agreement, or, as the case may be, to another address of the recipient Party which has been notified in writing. Notices sent by first-class letter post shall be deemed to have been served on the first working day following posting. Notices sent by fax shall be deemed to have been served on the following day, but only if a transmission report is generated by the sender's fax machine recording a message from the recipient's fax machine, confirming that the fax was sent to the correct number and that all pages were successfully transmitted.

26. Assignment

The Employee agrees and understands that the Company may, without the Employee's consent, fully and freely transfer all of its rights and obligations herein to any company of the VASCO Group. It is understood that, as soon as the VASCO Group has set up a branch or a company within the jurisdiction of the place of work, this Agreement will be transferred to such branch or company, with recognition of the Employee's accrued seniority and at the same terms and conditions.

27. Severability

The various provisions of this Agreement are severable, and if any provision or identifiable part thereof is held to be invalid or unenforceable by any court of the competent jurisdiction, then such invalidity or unenforceability shall not affect the validity of enforceability of the remaining provisions or identifiable parts in this Agreement. The invalid or unenforceable provision shall be replaced by such valid and enforceable provision that best reflects the Parties' intent and the economic effects of the invalid or unenforceable provision.

28. Previous agreements

This Agreement supersedes and replaces all previous agreements and arrangements, if any, between the Employee and the VASCO Group. All such agreements and arrangements are deemed terminated by mutual consent with effect from the Commencement Date.

29. Local pay-roll agent

The Company can appoint a third company (not necessarily being a company of the VASCO Group) as payroll agent which payroll agent will manage the administrative processes related to any social insurance and tax withholdings obligations regarding this Agreement and the payment of the remuneration and bonus payments to the Employee.

30. Applicable law and Jurisdiction

This Agreement is governed by and construed in accordance with the laws of Switzerland.

Any disputes arising out of or in connection with this Agreement shall be settled exclusively by the competent courts at the ordinary place of work or the registered seat or domicile of the defendant.

31. Complete Understanding

This offer contains the entire understanding of the Parties. It may not be changed orally but only by an agreement in writing signed by the Party against whom enforcement of any waiver, change, modification, extension, or discharge is sought.

32. Counterparts

This offer may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

The Employee declares that he has read, understood and that he accepts all the terms, conditions, and clauses included in this Agreement as well as in its Annexes, the latter being the following:

Annex 1: Responsibilities and duties (Job Description)

Annex 2: Work Items

Annex 3: Company's Code of Conduct and Ethics Certification Form

VASCO Data Security International GmbH

Date: August 2, 2016

Signature: /s/ Mark S. Hoyt
Name: Mark S. Hoyt
Title: Managing Officer

The Employee

Date: August 2, 2016

Signature: /s/ T. Kendall Hunt
Name: T. Kendall Hunt

ANNEX 1

RESPONSIBILITIES AND DUTIES

MANAGING DIRECTOR

- **GENERAL OVERSIGHT OF COMPANY**
- **CHIEF EXECUTIVE OFFICER GUIDANCE TO THE OPERATION OF THE COMPANY**
- **GUIDANCE OF SUPERVISION OF THE SENIOR MANAGEMENT OF THE COMPANY**
- **REPRESENTATION OF THE REPUTATION OF THE COMPANY IN SWITZERLAND**

- Notebook Computer
- Keys or key card
- Other items as mutually agreed

ANNEX 3

Certification Form
VASCO DATA SECURITY INTERNATIONAL, INC. (the "Company") CODE OF CONDUCT AND ETHICS
As applicable to my work responsibilities:

1. I will comply, both in letter and spirit with the laws, rules and regulations in the countries in which I conduct business on behalf of the Company.

2. I will deal honestly and ethically with the Company and on the Company's behalf in all matters.

3. I will treat people fairly and will not discriminate or harass others that I work with or retaliate against others that may report violations of this Code of Conduct and Ethics.

4. I will not use, distribute, sell or possess illegal drugs or other controlled substances and will report to work drug and alcohol free.

5. I will avoid actual or apparent conflicts with the Company's interests.

6. I will comply with the Company's standards, policies, and procedures regarding gifts, meals and entertainment.

7. I will protect the Company's assets and promote their efficient and legitimate business use.

8. I will protect both the Company's confidential information and the confidential information of customers and others, which I receive in the course of conducting the Company's business.

9. I will treat the Company's customers with respect and courtesy.

10. I will cooperate fully with the Company's accounting department and auditors to help ensure the accuracy, completeness and integrity of the Company's books and records.

11. I will not misstate any material fact or omit to state a material fact that is necessary to ensure that the financial statements, reports and documents filed by the Company with all regulatory agencies including, but not limited to the United States Securities and Exchange Commission, are complete, fair, accurate, timely and understandable.

12. I will not participate in any way in unethical or illegal receipts or payments of Company funds or the maintenance of any unrecorded cash or non-cash funds for the purpose of any such receipts or payments.

13. I will promptly report any request for payment (direct or indirect through any intermediary) for or to any public official or family member of any public official, foreign or domestic, in order to obtain or retain any business for the Company.

14. I will not trade in the Company's securities if I am in possession of material "insider" information.

15. I will not trade in the Company's securities during the period that begins two weeks prior to the end of a calendar quarter and ends after two full business days have passed after the release of earnings for that calendar quarter.

16. I will not use the Company's funds, assets, materials or services to support a particular candidate for political office or political party.

I certify that I have received, read, and understood the Company's Code of Conduct and Ethics. I further certify that during my employment with the Company that I have abided by, and will continue to abide by, the Company's Code of Conduct and Ethics.

/s/ T. Kendall Hunt August 2, 2016
Signature & Date

T. Kendall Hunt
Printed Name

EXHIBIT 31.1

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

I, T. Kendall Hunt, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: August 4, 2016

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

EXHIBIT 31.2

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

I, Mark S. Hoyt, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: August 4, 2016

/s/ Mark S. Hoyt
Mark S. Hoyt
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 32.1

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

I, T. Kendall Hunt, certify, based upon a review of the Quarterly Report on Form 10-Q for VASCO Data Security International, Inc. for the quarter ended June 30, 2016, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ T. Kendall Hunt

T. Kendall Hunt
Chief Executive Officer and Chairman
of the Board of Directors
August 4, 2016

EXHIBIT 32.2

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

I, Mark S. Hoyt, certify, based upon a review of the Quarterly Report on Form 10-Q for VASCO Data Security International, Inc. for the quarter ended on June 30, 2016, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Mark S. Hoyt
Mark S. Hoyt

Chief Financial Officer
August 4, 2016