

VASCO Data Security International, Inc.
Consolidated Statements of Operations
(Unaudited)
(In thousands, except per share data)

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Net revenues	\$18,707	\$13,272	\$50,909	\$37,060
Cost of goods sold	5,922	5,138	16,811	13,657
Gross profit	12,785	8,134	34,098	23,403
Operating costs:				
Sales and marketing	4,570	3,387	13,013	10,259
Research and development	1,446	902	3,624	2,615
General and administrative	1,624	1,128	5,164	3,205
Amortization of intangible assets	169	179	339	578
Total operating costs	7,809	5,596	22,140	16,657
Operating income	4,976	2,538	11,958	6,746
Impairment of investment in Secured Services, Inc.	-	-	(600)	-
Interest income (expense), net	(58)	(10)	16	32
Other income, net	27	166	135	512
Income before income taxes	4,945	2,694	11,509	7,290
Provision for income taxes	1,658	943	4,018	2,552
Net income	3,287	1,751	7,491	4,738
Preferred stock dividends	-	-	-	(14)
Net income available to common shareholders	\$3,287	\$1,751	\$7,491	\$4,724
Net income per common share:				
Basic	\$0.09	\$0.05	\$0.21	\$0.13
Diluted	\$0.09	\$0.05	\$0.20	\$0.13
Weighted average common shares outstanding:				
Basic	36,251	35,848	36,190	35,235
Diluted	37,712	37,703	37,701	37,088

VASCO Data Security International, Inc.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

September 30, December

	2006	2005
ASSETS		
Current assets:		
Cash	\$23,486	\$17,143
Accounts receivable, net of allowance for doubtful accounts	13,391	12,083
Inventories	2,682	1,570
Prepaid expenses	496	726
Deferred income taxes	436	117
Other current assets	94	540
Total current assets	40,585	32,179
Property and equipment, net	1,252	982
Intangible assets, net	1,707	1,054
Goodwill	8,951	6,665
Investment in SSI	-	600
Other assets	26	25
Total assets	\$52,521	\$41,505
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank borrowing	\$3,079	\$3,173
Accounts payable	4,004	4,753
Deferred revenue	1,635	1,765
Accrued wages and payroll taxes	2,516	2,329
Income taxes payable	2,711	1,547
Other accrued expenses	2,594	2,287
Total current liabilities	16,539	15,854
Long-term deferred warranty	297	256
Deferred tax liability	157	-
Stockholders' equity:		
Common stock	36	36
Additional paid-in capital	60,834	59,625
Deferred compensation	-	-
(403)		
Accumulated deficit	(25,494)	
(32,985)		
Accumulated other comprehensive loss - cumulative translation adjustment	152	
(878)		
Total stockholders' equity	35,528	25,395
Total liabilities and stockholders' equity	\$52,521	\$41,505

Reconciliation of EBITDA to net income (in thousands):

Ended	Three Months Ended		Nine Months	
	September 30,	September 30,	September 30,	September 30,
	2006	2005	2006	2005
	Unaudited	Unaudited	Unaudited	Unaudited

EBITDA	\$5,319	\$2,970	\$12,191	\$8,080
Interest income, net	(58)	(10)	16	32
Provision for income taxes (2,552)	(1,658)	(943)	(4,018)	
Depreciation and amortization (822)	(316)	(266)	(698)	
Net income	\$3,287	\$1,751	\$7,491	\$4,738

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

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