VASCO DATA SECURITY INTERNATIONAL INC
Form 10-Q
August 05, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

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. x 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 x 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 x
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 x No

There were 39,666,802 shares of Common Stock, $.001 par value per share, outstanding at July 31, 2014.

Table of Contents

VASCO Data Security International, Inc.

Form 10-Q

For The Quarterly Period Ended June 30, 2014

Table of Contents

This report may contain trademarks of VASCO Data Security International, Inc. and its subsidiaries, which include VASCO, the VASCO V design, DIGIPASS, Digipass as a Service (DPS), MYDIGIPASS.COM, VACMAN, aXsGUARD, Cronto and IDENTIKEY.

Table of Contents

VASCO Data Security International, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and equivalents	$ 93,342	$ 98,607
Short term investments	29,972	0
Accounts receivable, net of allowance for doubtful accounts of $558 in 2014 and $650 in 2013	22,074	28,528
Inventories	25,692	25,653
Prepaid expenses	2,576	2,719
Foreign sales tax receivable	418	543
Deferred income taxes	1,145	1,634
Other current assets	1,652	2,051
Assets of discontinued operations	1,896	1,910
Total current assets	178,767	161,645
Property and equipment:		
Furniture and fixtures	5,394	5,221
Office equipment	11,152	10,407
	16,546	15,628
Accumulated depreciation	(13,354)	(12,483)
Property and equipment, net	3,192	3,145
Goodwill, net of accumulated amortization	24,428	23,532
Intangible assets, net of accumulated amortization	15,293	16,733
Other assets, net of accumulated amortization	8,512	6,822
Total assets	$ 230,192	$ 211,877
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 10,360	$ 6,378
Deferred revenue	17,048	15,703
Accrued wages and payroll taxes	8,274	7,067
Income taxes payable	2,498	4,087
Other accrued expenses	5,384	3,841
Liabilities of discontinued operations	1	30

Total current liabilities	43,565	37,106
Deferred compensation	175	115
Deferred revenue	60	57
Deferred income taxes	295	321
Total liabilities	44,095	37,599
Stockholders equity		
Common stock: $.001 par value per share, 75,000 shares authorized; 39,667 and 39,619 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	40	40
Preferred stock: 500 shares authorized, none issued and outstanding at June 30, 2014 or December 31, 2013	0	0
Additional paid-in capital	81,131	79,871
Accumulated income	102,797	92,401
Accumulated other comprehensive income	2,129	1,966
Total stockholders equity	186,097	174,278
Total liabilities and stockholders equity	$ 230,192	$ 211,877

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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,	
	2014	2013	2014	2013
Revenue	$ 47,654	$ 37,260	$ 86,477	$ 72,626
Cost of goods sold	16,633	13,378	29,660	25,656
Gross profit	31,021	23,882	56,817	46,970
Operating costs:				
Sales and marketing	11,310	10,470	21,681	20,101
Research and development	5,202	5,345	10,343	10,192
General and administrative	5,734	5,492	11,007	10,944
Amortization of purchased intangible assets	1,129	651	2,249	1,093
Total operating costs	23,375	21,958	45,280	42,330
Operating income	7,646	1,924	11,537	4,640
Interest income, net	10	40	34	82
Other income, net	249	265	687	413
Income from continuing operations before income taxes	7,905	2,229	12,258	5,135
Provision for income taxes	1,012	379	1,839	873
Net income from continuing operations	6,893	1,850	10,419	4,262
Income (loss) from discontinued operations	(7)	(41)	(22)	333
Net income	$ 6,886	$ 1,809	$ 10,397	$ 4,595
Net income per share:				
Basic income (loss) per share				
Continuing	$ 0.18	$ 0.05	$ 0.26	$ 0.11
Discontinued	(0.00)	(0.00)	(0.00)	0.01
Total	$ 0.18	$ 0.05	$ 0.26	$ 0.12
Diluted income (loss) per share				
Continuing	$ 0.17	$ 0.05	$ 0.26	$ 0.11
Discontinued	(0.00)	(0.00)	(0.00)	0.01

Total	$ 0.17	$ 0.05	$ 0.26	$ 0.12
Weighted average common shares outstanding:				
Basic	39,358	38,908	39,315	38,798
Diluted	39,471	39,226	39,430	39,145

See accompanying notes to condensed consolidated financial statements.

Table of Contents

VASCO Data Security International, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	$ 6,886	$ 1,809	$ 10,397	$ 4,595
Other comprehensive income				
Cumulative translation adjustment	85	(8)	163	(2,267)
Comprehensive income	$ 6,971	$ 1,801	$ 10,560	$ 2,328

See accompanying notes to condensed consolidated financial statements.

5

Table of Contents

VASCO Data Security International, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows from operating activities:		
Net income from continuing operations	$ 10,419	$ 4,262
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operations:		
Depreciation and amortization	3,168	1,951
Deferred tax benefit	(973)	(1,429)
Stock-based compensation	1,211	1,327
Changes in assets and liabilities:		
Accounts receivable, net	6,368	1,340
Inventories	(40)	(6,339)
Foreign sales tax receivable	134	(301)
Other current assets	581	(55)
Accounts payable	3,992	(1,429)
Income taxes payable	(1,598)	987
Accrued expenses	2,466	1,630
Current deferred compensation	60	(2,393)
Deferred revenue	1,277	2,068
Net cash provided by operating activities of continuing operations	27,065	1,619
Cash flows from investing activities of continuing operations:		
Purchase of short term investments	(29,972)	0
Purchase of Cronto	0	(19,495)
Additions to property and equipment	(964)	(273)
Additions to intangible assets	(88)	(88)
Other assets	(1,326)	321
Net cash used in investing activities of continuing operations	(32,350)	(19,535)
Cash flows from financing activities of continuing operations:		
Proceeds from exercise of stock options	51	19
Tax payments for restricted stock issuances	(123)	(736)
Stock option tax benefits	121	0
Net cash provided by (used in) financing activities of continuing operations	49	(717)
Cash flows used in discontinued operations:		

Net cash provided by (used in) operating activities of discontinued operations	(54)	(473)
Net cash provided by (used in) discontinued operations	(54)	(473)
Effect of exchange rate changes on cash	25	(1,713)
Net increase in cash	(5,265)	(20,820)
Cash and equivalents, beginning of year	98,607	106,469
Cash and equivalents, end of period	$ 93,342	$ 85,649

See accompanying notes to condensed consolidated financial statements.

6

Table of Contents

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, 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, 2013.

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 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). Translation adjustments arising from intercompany loans not expected to be repaid in the foreseeable future are recorded as other comprehensive income.

For the three and six month periods ended June 30, 2014, foreign currency transactions resulted in a loss of $61 and a gain of $99, respectively, compared to losses of $0 and $91 for the same periods in 2013.

Table of Contents

Revenue Recognition

We recognize revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 985-605, *Software Revenue Recognition*, ASC 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 . This method relies on historical data to show that at least 80% of renewals are within 15% of the median renewal percentage rate.

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 for the initial two years 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.

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) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

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, with original maturities of three months or less. Cash and cash equivalents are 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 high quality commercial paper with original maturities of more than three and less than twelve months.

Accounts Receivable and Allowance for Doubtful Accounts

The credit-worthiness 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.

Table of Contents

Goodwill and Other Intangibles

We account for goodwill and indefinite-lived intangible assets in accordance with ASC Topic 350-20, *Goodwill and Other*. Indefinite-lived intangible assets include proprietary technology, patents, 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 year-end 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. Once identified, the amount of the impairment is computed by comparing carrying value of the assets to fair value. Fair value for goodwill and intangible assets is determined using a market approach using our stock price which is a level 1 valuation, as defined in ASC 820-10, *Fair Value Measurements and Disclosures*.

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 or six months ended June 30, 2014.

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 net operating loss and other deductible carryforwards in certain foreign 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, 2014 and December 31, 2013, 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, 2014 and December 31, 2013.

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.

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.

Note 2 Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable represents the balance due on credit sales made to customers. The allowance for doubtful accounts is an estimate of losses that may result from customers inability to make payment on their outstanding balances.

	June 30, 2014	December 31, 2013
Accounts receivable	$ 22,632	$ 29,178
Allowance for doubtful accounts	(558)	(650)
Accounts receivable, net	$ 22,074	$ 28,528

Note 3 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, 2014	December 31, 2013
Component parts	$ 14,804	$ 12,203
Work-in-process and finished goods	10,888	13,450
Total	$ 25,692	$ 25,653

Note 4 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 income (loss) from discontinued operations, net of tax, for the three and six months ended June 30, 2014 was ($7) and ($22), respectively, compared to ($41) and $333 for the same periods in 2013.

Table of Contents

At June 30, 2014 and December 31, 2013, assets of discontinued operations and liabilities of discontinued operations consist of the following:

	June 30, 2014	December 31, 2013
Contingent consideration due from escrow	$ 1,911	$ 1,927
Income taxes receivable (payable)	(15)	(17)
Assets of discontinued operations	$ 1,896	$ 1,910
Accrued professional fees	$ 1	$ 30
Liabilities of discontinued operations	$ 1	$ 30

Note 5 Goodwill

Goodwill activity for the six months ended June 30, 2014 consisted of the following:

Net balance at December 31, 2013	$ 23,532
Additions	673
Net foreign currency translation	223
Net balance at June 30, 2014	$ 24,428
June 30, 2014 balance at cost	$ 25,464
Accumulated amortization	(1,036)
Net balance at June 30, 2014	$ 24,428

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, 2014 is detailed in the following table.

	Capitalized Technology	Patents & Trademarks	Other	Total Intangible Assets
Net balance at December 31, 2013	$ 13,776	$ 1,961	$ 996	$ 16,733
Additions	673	92	0	765
Net foreign currency translation	15	(1)	30	44
Amortization expense	(2,008)	(98)	(143)	(2,249)

Net balance at June 30, 2014	$ 12,456	$ 1,954	$ 883	$ 15,293

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

Note 7 Income Taxes

Our effective tax rate for the six months ended June 30, 2014 is equal to our expected 2014 annual tax rate of 15%. This is lower than the U.S. statutory rate of 35%, primarily due to income in foreign jurisdictions taxed at lower rates. In the first quarter of 2014, our expected annual tax rate was estimated to be 19%.

Table of Contents

Our effective tax rate for the quarter ended June 30, 2014 was 13%. The effective rate for the second quarter of 2014 is lower than the expected annual rate of 15% because it includes an adjustment for the first quarter of 2014 to account for the reduction in the expected annual rate from 19% to 15%.

Our effective tax rate for the three and six months ended June 30, 2013 was equal to our expected 2013 annual tax rate of 17%. The expected annual rate was lower than the U.S. statutory rate primarily due to income in foreign jurisdictions taxed at lower rates.

At December 31, 2013, we had foreign tax credit carryforwards of $5,058 available for offset against future U.S. taxes on foreign earnings. Foreign tax credits of $944 expire in 2015 and the remaining $4,114 expire in 2023.

At December 31, 2013, we had foreign loss carryforwards of $5,093 and other foreign deductible carryforwards of $3,898. The foreign loss carryforwards have no expiration and the other deductible carryforwards expire from 2016 to 2020.

At December 31, 2013, we had a valuation allowance of $2,399 for certain foreign deferred tax assets.

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.

The activity in our warranty liability was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Balance, beginning of period	$ 91	$ 46	$ 116	$ 45
Provision for claims	17	35	68	66
Product or cash issued to settle claims	(49)	(47)	(125)	(77)
Balance, end of period	$ 59	$ 34	$ 59	$ 34

At June 30, 2014, deferred revenue from extended warranties was $95.

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 252 shares of restricted stock in the first quarter of 2014 consisting of 203 unissued shares subject to future performance criteria and 49 issued shares. The market value of the 49 issued restricted shares of $380 at the date of grant is being amortized over the vesting period of one year. The market value of the 203 unissued shares subject to performance criteria of $1,571 at the date of grant is being amortized over the respective vesting periods of three to four years.

13

Table of Contents

The following table details long-term compensation plan and stock-based compensation expense for the three and six months ended June 30, 2014 and 2013:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Restricted stock	$ 612	$ 573	$ 1,211	$ 1,327
Long-term compensation plan	176	31	219	31
Total Non-Cash Compensation	$ 788	$ 604	$ 1,430	$ 1,358

Note 10 Common Stock and Earnings per Share

In connection with the 2009 Equity Incentive Plan, during the three months ended March 31, 2014, we issued 49 shares of restricted common stock for awards granted in the first quarter of 2014.

Basic earnings per share is based on the weighted average number of shares outstanding and excludes the dilutive effect of unexercised common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of unexercised 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, 2014 and 2013 follow:

	Three months ended June 30,		**Six months ended June 30,**	
	2014	**2013**	**2014**	**2013**
Net income from continuing operations	$ 6,893	$ 1,850	$ 10,419	$ 4,262
Income (loss) from discontinued operations	(7)	(41)	(22)	333
Net income	$ 6,886	$ 1,809	$ 10,397	$ 4,595
Net income per share:				
Basic income (loss) per share				
Continuing	$ 0.18	$ 0.05	$ 0.26	$ 0.11
Discontinued	(0.00)	(0.00)	(0.00)	0.01
Total	$ 0.18	$ 0.05	$ 0.26	$ 0.12
Diluted income (loss) per share				
Continuing	$ 0.17	$ 0.05	$ 0.26	$ 0.11
Discontinued	(0.00)	(0.00)	(0.00)	0.01
Total	$ 0.17	$ 0.05	$ 0.26	$ 0.12
Weighted average common shares outstanding:				

Basic	39,358	38,908	39,315	38,798
Diluted	39,471	39,226	39,430	39,145

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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 , po 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 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, 2013 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. 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 quarters and six months ended June 30, 2014 and 2013 (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 condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

We design, develop, market and support 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. Some of our DIGIPASSES are compliant with the Europay MasterCard Visa (EMV) standard and are compatible with the MasterCard and VISA 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 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 banking, our customer banks corporate and retail customers. In future years, we expect that our customers will increasingly use our cloud-based service offering, DIGIPASS as a Service (DPS) or MYDIGIPASS.COM (MDP) or together (DPS/MDP) as described below.

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 both our DPS product offering, which was first made available in the fourth quarter of 2010, and our MDP product offering, which was introduced in April 2012. DPS/MDP is our cloud-based authentication platform. 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) consumers that are aware of the dangers posed by identity theft.

By using our DPS/MDP authentication platform, business customers can deploy two-factor authentication more quickly, incur less upfront costs and be able to use strong authentication when logging onto a larger number of internet sites and applications. We expect those applications using DPS/MDP to include B2B applications and B2E applications (e.g., employees of companies logging into third party applications operated in the cloud). We believe that corporations or application service providers will pay us a fee based on either the number of users accessing their application through our platform or the number of authentication clicks consumed by their users when accessing their application.

While there were minimal revenues generated from the services platform to date, we expect that DPS/MDP will start making a small contribution in 2014. We believe that DPS/MDP has the potential for significant future growth as it will make two-factor authentication more affordable and readily available to users and application markets.

Comparison of Results for the Three and Six Months Ended June 30, 2014 and 2013

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 use of strong authentication products 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 identity theft, 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.

There continues to be significant global economic uncertainty, including Europe, our most important market. It appears that the economic conditions in the European region have stabilized and are improving. As a result of the improving conditions, we believe that customers from Europe will become an increasing percentage of our total business in 2014. Should the economic conditions decline significantly in Europe, it could have a major negative impact on the global economy, not just the economies of Western Europe, and our business.

In the second quarter of 2014, revenue from our Europe, Middle East and Africa (EMEA) region, which accounted for 57% of our total revenue, increased 10% when compared to the second quarter of 2013. For the first six months of 2014, revenue from our EMEA region, which accounted for 62% of our total revenue, increased 16% when compared to the first six months of 2013. We believe that the increase in revenues in the second quarter and first six months of 2014 compared to the comparable periods of 2013 was due in part to an improvement 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. Products and services, such as DPS/MDP, that are focused on providing authentication services 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.

Table of Contents

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 review our security procedures on a regular basis. Our reviews include the processes and software programs we are currently using as well as new forms of cyber incidents and new or updated software programs that may be available in the market that would help mitigate the risk of incidents. While we do not insure against cyber incidents today, we would likely review insurance policies related to our new product offering in the future. 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 two subsidiaries, one in the U.S. and one in Switzerland. These two 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 8% to 12%.

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.

Currency Fluctuations: In both the second quarter and first six months of 2014, approximately 95% of our revenue was generated outside the United States. In addition, in both the second quarter and first six months of 2014, approximately 82% 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.

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.

Table of Contents

The U.S. Dollar, on average, weakened against the Euro approximately 6% for the quarter and 4% for the six months ended June 30, 2014, as compared to the same periods in 2013. We estimate that the change in currency rates in 2014 compared to 2013 resulted in an increase in revenue of approximately $861 and $1,114 for the quarter and six months ended June 30, 2014, respectively, compared to the same periods in 2013 and an increase in operating expenses of approximately $830 and $1,140 for the quarter and six months ended June 30, 2014, respectively, compared to the same periods in 2013.

The financial position and the results of operations of most of our foreign subsidiaries, with the exception of our subsidiaries in 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 income of $85 and $163 in the second quarter and first six months of 2014, respectively, and other comprehensive loss of $8, and $2,267 in the in the second quarter and first six months of 2013, respectively. These amounts are included as a separate component of stockholders equity. The functional currency for both our subsidiaries in 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 losses aggregating $61 in the second quarter of 2014 compare to no gains or losses in the second quarter of 2013. Foreign exchange transaction gains aggregating $99 in the first six months of 2014 compare to transaction losses of $91 in the first six months of 2013.

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 Rim; 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:					
2014	$ 27,017	$ 2,360	$ 12,893	$ 5,384	$ 47,654
2013	24,460	2,904	6,670	3,226	37,260
Percent of Total:					
2014	57%	5%	27%	11%	100%
2013	65%	8%	18%	9%	100%
Six months ended June 30:					
Revenue:					
2014	$ 53,774	$ 4,635	$ 19,415	$ 8,653	$ 86,477
2013	46,478	5,930	11,356	8,862	72,626
Percent of Total:					
2014	62%	5%	23%	10%	100%
2013	64%	8%	16%	12%	100%

Total revenue in the second quarter of 2014 increased $10,394, or 28%, from the second quarter of 2013. The increase was primarily attributable to a 31% increase in revenues from the Banking market and a 14% increase in revenues from the Enterprise and Application Security market. For the first six months of 2014, total revenue increased $13,851 or 19% from the first six months of 2013. The increase was primarily attributable to a 19% increase in revenues from the Banking market and a 20% increase in revenues from the Enterprise and Application security market. 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 2014 was $2,557, or 10%, higher than the second quarter of 2013. For the first six months, revenue generated in EMEA was $7,296, or 16% higher than the first six months of 2013. The increase in revenues in both the second quarter and first six months of 2014 compared to the same periods in 2013 reflected an increase in revenues from both the Banking and the Enterprise and Application Security markets.

Table of Contents

Revenue generated in the United States for the second quarter was $544, or 19%, lower than the second quarter of 2013. For the first six months, revenue generated in the United States was $1,295, or 22% lower than the first six months of 2013. Revenues for both the second quarter and first six months of 2014 compared to the same periods in 2013 reflected a decline in revenue from the Banking market partially offset by an increase in revenues from the Enterprise and Application Security market.

Revenue generated in the Asia Pacific region during the second quarter of 2014 was $6,223, or 93%, higher than the second quarter of 2013. For the first six months of 2014 revenue was $8,059, or 71% higher than the first six months of 2013. The increase in revenues reflected an increase in revenue from the Banking market partially offset by a decline in revenues from the Enterprise and Application Security market.

Revenue generated from Other Countries during the second quarter of 2014 was $2,158, or 67%, higher than the second quarter of 2013. For the first six months of 2014 revenue was $209, or 2%, lower than the first six months of 2013. The increase in revenues from Other Countries in the second quarter of 2014 compared to 2013 was primarily due to an increase in revenues from the Banking markets in Latin America and an increase in revenues from the Enterprise and Application Security markets in Australia. The decrease in revenues from Other Countries for the first six months of 2014 compared to 2013 was primarily due to a decrease in revenues from the Banking markets in Australia partially offset by an increase in revenues from the Enterprise and Application Security markets in Australia.

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/finance (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:

	Banking	Enterprise & Application Security	Total
Three months ended June 30:			
Revenue:			
2014	$ 40,342	$ 7,312	$ 47,654
2013	30,827	6,433	37,260
Percent of Total:			
2014	85%	15%	100%
2013	83%	17%	100%
Six months ended June 30:			
Revenue:			

2014	$ 71,653	$ 14,824	$ 86,477
2013	60,267	12,359	72,626
Percent of Total:			
2014	83%	17%	100%
2013	83%	17%	100%

Revenue in the second quarter of 2014 from the Banking market increased $9,515, or 31%, from the second quarter of 2013 and revenue from the Enterprise and Application Security market increased $879, or 14%, in the same period. Revenue for the first six months of 2014 from the Banking market increased $11,386, or 19%, compared to the first six months of 2013, while revenue from the Enterprise and Application Security market increased $2,465 or 20% in the same period.

The increase in revenues from the Banking market in the second quarter and first six months of 2014 compared to the same periods of 2013 reflected an increase in revenues from both hardware and non-hardware products sold.

Revenues from the Banking market in the second quarter of 2014 compared to the same periods of 2013 increased in all regions other than the United States. For the first six months of 2014 compared to the same period of 2013, increases in revenues from the Banking markets in EMEA and Asia Pacific regions were partially offset by decreases in revenues from the Banking markets in United States and Other Countries regions. 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.

The increase in revenues from the Enterprise and Application Security market in the second quarter of 2014 compared to the second quarter of 2013 reflected an increase in revenues from non-hardware products partially offset by a decline in revenues from hardware products. For the first six months of 2014 compared to the same period of 2013, the increase in revenue reflected an increase in revenues from both hardware products and non-hardware products sold.

Revenues in the Enterprise and Application Security market in both the second quarter and first six months of 2014 compared to the same periods of 2013 increased in all regions other than Asia Pacific.

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 that the growth over a longer period of time reflects the growth in our customer base, which we expect will lead to continued increases in revenues in future years, albeit with uneven growth reported annually.

Table of Contents

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 months and six months ended June 30, 2014 and 2013:

AS A PERCENTAGE OF REVENUE

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	34.9%	35.9%	34.3%	35.3%
Gross profit	65.1%	64.1%	65.7%	64.7%
Operating costs:				
Sales and marketing	23.7%	28.1%	25.1%	27.7%
Research and development	10.9%	14.3%	12.0%	14.0%
General and administrative	12.0%	14.7%	12.7%	15.1%
Amortization of purchased intangible assets	2.4%	1.8%	2.6%	1.5%
Total operating costs	49.0%	58.9%	52.4%	58.3%
Operating income	16.1%	5.2%	13.3%	6.4%
Interest income	0.0%	0.1%	0.0%	0.1%
Other income (expense)	0.5%	0.7%	0.8%	0.6%
Income from continuing operations before income taxes	16.6%	6.0%	14.1%	7.1%
Provision for income taxes	2.1%	1.0%	2.1%	1.2%
Net income from continuing operations	14.5%	5.0%	12.0%	5.9%

Gross Profit

Consolidated gross profit for the quarter ended June 30, 2014 was $31,021, an increase of $7,139, or 30%, from the quarter ended June 30, 2013. Gross profit as a percentage of revenue (gross profit margin) was 65% for the quarter ended June 30, 2014, as compared to 64% for the quarter ended June 30, 2013. The increase in gross profit as a percentage of revenue for the second quarter of 2014 compared to 2013 primarily reflects:

- lower non-product costs, which includes freight, inventory write-downs and various other components not related to the manufacture of our products, and

- the benefit of the strengthening of the Euro versus the U.S. Dollar,

partially offset by,

- a decline in revenue from the Enterprise and Application Security market as a percentage of total revenue,
- an increase in card readers as a percentage of total revenue, and
- a decrease in non-hardware revenue as a percentage of total revenue.

Consolidated gross profit for the six months ended June 30, 2014 was $56,817, an increase of $9,847, or 21%, from the comparable period in 2013. Gross profit as a percentage of revenue (gross profit margin) was 66% for the six months ended June 30, 2014 and 65% for the six months ended June 30, 2013. The increase in gross profit as a percentage of revenue for the first half of 2014 compared to 2013 primarily reflects:

- lower non-product costs, and
- the benefit of the strengthening of the Euro versus the U.S. Dollar, partially offset by,
- an increase in card readers as a percentage of total revenue.

Table of Contents

The majority of our inventory purchases are denominated in U.S. Dollars. Also, as previously noted, our sales are denominated in various currencies including the Euro. As the U.S. Dollar weakened against the Euro in 2014, when compared to the same periods in 2013, revenue from sales made in Euros increased, as measured in U.S. Dollars, without a corresponding change in the cost of goods sold. As noted earlier, the impact from changes in currency rates are estimated to have increased revenue by approximately $861 for the second quarter and $1,114 for the first six months of 2014 as compared to the same periods in 2013. Had the currency rates in 2014 been equal to the rates in 2013, the gross profit margin would have been approximately 0.6 percentage points lower for the second quarter of 2014 and 0.4 percentage points lower for the six months ended June 30, 2014.

Revenue from the Enterprise and Application Security market, which generally has margins that are 20 to 30 percentage points higher than the Banking market, was 15% of our total revenue for the second quarter of 2014 compared to 17% of our total revenue for the second quarter of 2013. Revenue from the Enterprise and Application Security market was 17% of our total revenue for both the six months ended June 30, 2014 and 2013.

Card readers, which generally have a gross profit margin that is approximately 10 to 20 percentage points lower than other hardware-related margins due to competitive pricing pressures, were 19% and 20% of our total revenue for the second quarter and first six months of 2014, respectively, compared to 13% and 15% of our total revenue for the second quarter and first six months of 2013, respectively.

Non-hardware revenue, which generally has a gross profit margin that is approximately 20 to 30 percentage points higher than hardware-related revenue, depending on the model and quantity of the hardware units sold, was approximately 26% of total revenue for the second quarter and 28% of total revenue for the first six months of 2014, compared to approximately 27% of total revenue for the second quarter and 28% of total revenue for the first six months of 2013.

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 2014, average headcount did not change significantly from the same periods in 2013.

On a consolidated basis, our operating expenses for the quarter and six months ended June 30, 2014 were $23,375 and $45,280, respectively, an increase of $1,417, or 6%, from the second quarter of 2013 and an increase of $2,950, or 7%, from the six months ended June 30, 2013.

The increase in consolidated operating expenses for the second quarter and first six months of 2014 compared to the same periods in 2013 was primarily related to increased incentive compensation expenses related to higher revenues, incremental expenses associated with the acquisition of Cronto Ltd. in the second quarter of 2013, and the strengthening of the Euro versus the U.S. Dollar. As noted above, we estimate that the change in currency rates in 2014 compared to 2013 resulted in an increase in operating expenses of approximately $830 and $1,140 for the quarter and six months ended June 30, 2014, respectively, compared to the same periods in 2013.

Operating expenses for the second quarter and first six months of 2014 included $788 and $1,430, respectively, of expenses related to long-term incentive plan costs compared to $604 and $1,358 of long-term incentive plan costs for the second quarter and first six months of 2013, respectively.

Sales and Marketing Expenses

Consolidated sales and marketing expenses for the quarter ended June 30, 2014 were $11,310, an increase of $840, or 8%, from the second quarter of 2013. Consolidated sales and marketing expenses for the six months ended June 30, 2014, were $21,681, an increase of $1,580, or 8%, from the same period of 2013. The increase in sales and marketing expenses for both periods reflected an increase in incentive compensation expenses related to higher revenues and the impact of the strengthening of the Euro.

Table of Contents

Average full-time sales, marketing, support, and operating employee headcount for the three and six months ended June 30, 2014 was 187 and 189, respectively compared to 188 and 183 for the three and six months ended June 30, 2013, respectively. Headcount was approximately 1% lower for the second quarter of 2014 compared to the second quarter of 2013 and 3% higher for the six months ended June 30, 2014 when compared to the same period in 2013.

Research and Development Expenses

Consolidated research and development expenses for the quarter ended June 30, 2014, were $5,202, a decrease of $143, or 3%, from the second quarter of 2013. Consolidated research and development costs for the six months ended June 30, 2014, were $10,343, an increase of $151, or 1%, from the same period of 2013. The decrease in research and development expenses for the second quarter of 2014 as compared to the second quarter of 2013 reflected a decrease in expense associated with the closure of our facility in Brisbane in 2013 partially offset by an increase in expenses associated with the purchase of Cronto Limited in the second quarter of 2013 and the impact of the strengthening of the Euro.

Average full-time research and development employee headcount for the three and six months ended June 30, 2014 was 137 and 139, respectively, compared to 143 for both the quarter and six months ended June 30, 2013, respectively. Headcount was approximately 4% and 3% lower for the second quarter and first six months of 2014, respectively, when compared to the same periods in 2013.

General and Administrative Expenses

Consolidated general and administrative expenses for the quarter ended June 30, 2014, were $5,734, an increase of $242, or 4%, from the second quarter of 2013. Consolidated general and administrative expenses for the six months ended June 30, 2014, were $11,007, an increase of $63, or less than 1%, when compared to the same period of 2013. The increase in general and administrative expenses in the second quarter of 2014 compared to the second quarter of 2013 primarily reflected the impact of the strengthening of the Euro.

Average full-time general and administrative employee headcount for the three and six months ended June 30, 2014 was 58 and 59, respectively, compared to 60 and 59 for the three and six months ended June 30, 2013, respectively. Headcount was approximately 3% lower for the second quarter of 2014 when compared to the same period in 2013 and unchanged for the six month periods ended June 30, 2014 and 2013.

Amortization of Intangible Assets

Amortization of intangible assets for the second quarter and first six months of 2014 was $1,129 and $2,249, respectively, an increase of $478 when compared to the second quarter of 2013 and an increase of $1,156 when compared to the six months ended June 30, 2013. The increase in amortization expense for both the second quarter and first six months of 2014 primarily reflects the amortization of purchased intangible assets related to the acquisition of Cronto Limited in the second quarter of 2013.

Interest Income

Consolidated net interest income was $10 in the second quarter of 2014 as compared to $40 in the second quarter of 2013. For the six months ended June 30, 2014, interest income was $34 compared to $82 for the same period of 2013. The decrease in interest income for the second quarter and first six months of 2014 compared to the same periods in 2013 reflects a reduction in the average interest rate earned on the invested balances partially offset by an increase in the average invested balance.

Our average cash balance in the second quarter and first six months of 2014 of $112,785 and $108,026, respectively, was 18% and 6% higher, respectively, than in the second quarter and first six months of 2013. Our annual return on invested cash was approximately 0.04% and 0.06% for the second quarter and six months ended June 30, 2014, respectively, compared to 0.17% and 0.16% for the comparable periods in 2013.

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 second quarter of 2014 was $249 compared to other income of $265 for the second quarter of 2013. Other income (expense) included exchange losses of $61 for the quarter ended June 30, 2014 compared to no significant exchange gains or losses for the quarter ended June 30, 2013.

Table of Contents

Other income for the first six months of 2014 was $687 compared to $413 for the first six months of 2013. Other income included exchange gains of $99 for the six months ended June 30, 2014 compared to exchange losses of $91 for the six months ended June 30, 2013.

Income Taxes

Income tax expense for the second quarter of 2014 was $1,012, an increase of $633 from the second quarter of 2013. Income tax expense for the first six months of 2014 was $1,839, an increase of $966 from the same period in 2013. The increase in tax expense in 2014 from 2013 in both periods is attributable to higher pretax income partially offset by a lower effective tax rate. The effective tax rate was 13% for the second quarter of 2014 and 15% for the first six months of 2014 compared to 17% for both periods in 2013.

The decline in the tax rate was primarily related to an increase in the estimated earnings, primarily in our foreign operations, which are taxed at a more favorable rate than in the U.S.

The effective tax rate for both periods reflects our estimate of our full-year tax rate at the end of each respective period. The decrease in the tax rate is primarily attributable to an increase in pretax income in tax jurisdictions that either have a lower statutory tax rate or have tax loss carryforwards that have been reserved. We believe that our effective tax rate may vary significantly quarter to quarter as actual earnings or losses are realized in countries with differing tax rates or with loss carryforwards that have been reserved.

At December 31, 2013, we had foreign tax credit carryforwards of $5,058 for future U.S. tax returns. Foreign tax credits of $944 expire in 2015 and the remaining $4,114 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, 2013, we had foreign NOL carryforwards of $5,093 and other foreign deductible carryforwards of $3,898. The foreign NOL carryforwards have no expiration dates and the other deductible carryforwards expire from 2016 to 2020. At December 31, 2013, we had a valuation allowance of $2,399 for certain foreign deferred tax assets.

Loss from Discontinued Operations

We reported an after-tax loss from discontinued operations of $7 and $22 for the quarter and six months ended June 30, 2014, respectively. The loss for both periods include ongoing expenses related to the bankruptcy and discontinuation of the DigiNotar business in the third quarter of 2011. The after tax losses of $41 and income of $333 for the quarter and six months ended June 30, 2013, respectively, reflect the results of the DigiNotar operation during those time periods. The income reported in the first six months of 2013 reflected a change in the estimated cost to settle certain liabilities accrued in previous periods.

As previously reported, 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 VASCO s favor in the DigiNotar case. The Court ruled that the Sellers must pay VASCO €1,400 ($1,911 at an exchange rate of 1.37 U.S. Dollars per Euro) plus accrued interest related to the Sellers failure to achieve the earn-out targets established in the purchase agreement. The amount has been previously recorded as contingent consideration due from escrow included in assets of discontinued operations (see Note 4 to the Condensed Consolidated Financial Statements).

The Court also ruled that the Sellers must pay VASCO an additional €2,708 ($3,709 at an exchange rate of 1.37 U. S. Dollars per Euro) plus accrued interest related to the breach of other representations and warranties under the share purchase agreement. The additional amount includes the reimbursement of certain costs incurred by VASCO as a result of such breach. Both awards are subject to appeal for a period of three months and are not considered final until the judgment becomes unassailable and no longer subject to appeal. Upon settlement, the amount will be recorded as income from discontinued assets.

Liquidity and Capital Resources

At June 30, 2014, our combined balance of cash and short term investments was $ 123,314, an increase of 13,822, or 13% from $109,492 at March 31, 2014, and an increase of $24,707, or 25%, from $98,607 at December 31, 2013. Also, at June 30, 2014, we had working capital of $135,202, an increase of $7,463, or 6%, from $127,739 at March 31, 2014 and an increase of $10,663, or 9%, from $124,539 reported at December 31, 2013. The increase in cash is primarily the result of a reduction in our receivable balances and the cash generated from operations. The increase in working capital from December 31, 2013 primarily reflects the benefit from the quarter s cash flow from operations.

As of June 30, 2014, we held $59,606 of cash in banks outside of the United States. Of that amount, $59,048 is not subject to repatriation restrictions, but may be subject to taxes upon repatriation. We have provided $823 of U.S. tax on foreign earnings of $43,305 available for repatriation. We have not provided U.S. tax on unremitted foreign earnings of approximately $63,725 that we consider to be permanently invested.

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

Recently Issued Accounting Pronouncements

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.

Table of Contents

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). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

From time to time, new accounting pronouncements are issued by the FASB or other standards 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, 2014. 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, 2013.

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, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings. 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 VASCO s favor in the DigiNotar case. The Court ruled that the Sellers must pay VASCO €1,400 ($1,911 at an exchange rate of 1.37 U.S. Dollars per Euro) plus accrued interests related to the Sellers failure to achieve the earn-out targets established in the purchase agreement. The Court also ruled that the Sellers must pay VASCO an additional €2,708 ($3,709 at an exchange rate of 1.37 U. S. Dollars per Euro) plus accrued interests related to the breach of other representations and warranties under the share purchase agreement. The additional amount includes the reimbursement of certain costs incurred by VASCO as a result of such breach. Both awards are subject to appeal for a period of three months and are not considered final until the judgment becomes unassailable and no longer subject to appeal.

Item 6. Exhibits.

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 5, 2014.
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 5, 2014.
Exhibit 32.1	Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 5, 2014.
Exhibit 32.2	Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 5, 2014.
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

Table of Contents

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 5, 2014.

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/ Clifford K. Bown
Clifford K. Bown
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal

Accounting Officer)

27

Table of Contents

EXHIBIT INDEX

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 5, 2014.
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 5, 2014.
Exhibit 32.1	Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 5, 2014.
Exhibit 32.2	Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 5, 2014.
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