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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2022

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

OneSpan 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.)**

121 West Wacker Drive, Suite 2050
Chicago, Illinois 60601
(Address of Principal Executive Offices) (Zip Code)

(312) 766-4001
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading Symbol	Name of each exchange on which registered:
Common Shares	OSPN	NASDAQ

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Emerging growth company	☐
		Smaller reporting company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

There were 39,595,180 shares of Common Stock, $.001 par value per share, outstanding at July 29, 2022.

OneSpan Inc.
Form 10-Q
For the Quarter Ended June 30, 2022
Table of Contents

OneSpan Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	June 30, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and equivalents	$ 77,583	$ 63,380
Short term investments	20,226	35,108
Accounts receivable, net of allowances of $2,051 in 2022 and $1,419 in 2021	39,863	56,612
Inventories, net	9,997	10,345
Prepaid expenses	7,117	7,594
Contract assets	5,147	4,694
Other current assets	10,586	9,356
Total current assets	170,519	187,089
Property and equipment, net	10,130	10,757
Operating lease right-of-use assets	8,138	9,197
Goodwill	90,421	96,174
Intangible assets, net of accumulated amortization	18,117	21,270
Deferred income taxes	3,515	3,786
Contract assets - non-current	522	195
Other assets	10,547	13,803
Total assets	$ 311,909	$ 342,271
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 9,119	$ 8,204
Deferred revenue	48,342	54,617
Accrued wages and payroll taxes	13,425	16,607
Short-term income taxes payable	1,434	1,103
Other accrued expenses	6,612	7,668
Deferred compensation	113	877
Total current liabilities	79,045	89,076
Long-term deferred revenue	7,030	9,125
Long-term lease liabilities	9,193	10,180
Other long-term liabilities	7,277	7,770
Long-term income taxes payable	3,080	5,054
Deferred income taxes	1,942	1,286
Total liabilities	107,567	122,491
Stockholders' equity		
Preferred stock: 500 shares authorized, none issued and outstanding at June 30, 2022 and December 31, 2021	—	—
Common stock: $.001 par value per share, 75,000 shares authorized; 40,635 and 40,593 shares issued; 39,597 and 40,001 shares outstanding at June 30, 2022 and December 31, 2021, respectively	40	40
Additional paid-in capital	102,140	100,250
Treasury stock, at cost, 1,038 and 592 shares outstanding at June 30, 2022 and December 31, 2021, respectively	(18,222)	(12,501)
Retained earnings	139,037	143,173
Accumulated other comprehensive loss	(18,653)	(11,182)
Total stockholders' equity	204,342	219,780
Total liabilities and stockholders' equity	$ 311,909	$ 342,271

See accompanying notes to unaudited condensed consolidated financial statements.

OneSpan Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Revenue				
Product and license	$ 28,731	$ 28,378	$ 58,216	$ 56,823
Services and other	24,059	23,899	47,021	46,229
Total revenue	52,790	52,277	105,237	103,052
Cost of goods sold				
Product and license	10,947	10,565	20,026	21,317
Services and other	6,337	6,881	13,027	12,662
Total cost of goods sold	17,284	17,446	33,053	33,979
Gross profit	35,506	34,831	72,184	69,073
Operating costs				
Sales and marketing	16,381	15,021	32,276	32,189
Research and development	12,876	12,096	26,625	24,340
General and administrative	13,270	15,039	28,165	27,590
Amortization of intangible assets	1,217	1,534	2,599	3,107
Total operating costs	43,744	43,690	89,665	87,226
Operating loss	(8,238)	(8,859)	(17,481)	(18,153)
Interest income, net	35	2	18	6
Other income (expense), net	(675)	1,029	14,972	667
Loss before income taxes	(8,878)	(7,828)	(2,491)	(17,480)
Provision (benefit) for income taxes	472	(1,143)	1,645	(1,644)
Net loss	$ (9,350)	$ (6,685)	$ (4,136)	$ (15,836)
Net loss per share				
Basic	$ (0.23)	$ (0.17)	$ (0.10)	$ (0.40)
Diluted	$ (0.23)	$ (0.17)	$ (0.10)	$ (0.40)
Weighted average common shares outstanding				
Basic	40,157	39,694	39,870	39,692
Diluted	40,157	39,694	39,870	39,692

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

OneSpan Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net loss	$ (9,350)	$ (6,685)	$ (4,136)	$ (15,836)
Other comprehensive loss				
Cumulative translation adjustment, net of tax	(5,315)	549	(7,335)	(370)
Pension adjustment, net of tax	(22)	8	(47)	(7)
Unrealized losses on available-for-sale securities	(10)	—	(89)	—
Comprehensive loss	$ (14,697)	$ (6,128)	$ (11,607)	$ (16,213)

See accompanying notes to unaudited condensed consolidated financial statements.

OneSpan Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

For the three and six months ended June 30, 2022:

Description	Common Stock Shares	Common Stock Amount	Treasury - Common Stock Shares	Treasury - Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2021	40,001	$ 40	592	(12,501)	$ 100,250	$ 143,173	$ (11,182)	$ 219,780
Net income (loss)	—	—	—	—	—	5,214	—	5,214
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(2,020)	(2,020)
Restricted stock awards	34	—	—	—	1,360	—	—	1,360
Tax payments for stock issuances	(14)	—	—	—	(635)	—	—	(635)
Unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	—	(79)	(79)
Pension adjustment, net of tax	—	—	—	—	—	—	(25)	(25)
Balance at March 31, 2022	40,021	$ 40	592	$ (12,501)	$ 100,975	$ 148,387	$ (13,306)	$ 223,595
Net income (loss)	—	—	—	—	—	(9,350)	—	(9,350)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(5,315)	(5,315)
Restricted stock awards	28	—	—	—	1,253	—	—	1,253
Tax payments for stock issuances	(6)	—	—	—	(88)	—	—	(88)
Share repurchase	(446)	—	446	(5,721)	—	—	—	(5,721)
Unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	—	(10)	(10)
Pension adjustment, net of tax	—	—	—	—	—	—	(22)	(22)
Balance at June 30, 2022	39,597	$ 40	1,038	$ (18,222)	$ 102,140	$ 139,037	$ (18,653)	$ 204,342

For the three and six months ended June 30, 2021:

Description	Common Stock Shares	Common Stock Amount	Treasury - Common Stock Shares	Treasury - Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2020	40,103	$ 40	250	(5,030)	$ 98,819	$ 173,731	$ (10,220)	$ 257,340
Net income (loss)	—	—	—	—	—	(9,151)	—	(9,151)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	22	(919)	(897)
Restricted stock awards	248	—	—	—	1,342	—	—	1,342
Tax payments for stock issuances	(86)	—	—	—	(2,139)	—	—	(2,139)
Unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	—	(15)	(15)
Pension adjustment, net of tax	—	—	—	—	—	—	—	—
Balance at March 31, 2021	40,265	$ 40	250	$ (5,030)	$ 98,022	$ 164,602	$ (11,154)	$ 246,480
Net income (loss)	—	—	—	—	—	(6,685)	—	(6,685)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	549	549
Restricted stock awards	24	—	—	—	1,292	—	—	1,292
Tax payments for stock issuances	(7)	—	—	—	(91)	—	—	(91)
Share repurchase	(111)	—	111	(2,908)	—	—		(2,908)
Unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	—	8	8
Balance at June 30, 2021	40,171	$ 40	361	(7,938)	99,223	157,917	(10,597)	238,645

OneSpan Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six months ended June 30, 2022	Six months ended June 30, 2021
Cash flows from operating activities:		
Net loss from operations	$ (4,136)	$ (15,836)
Adjustments to reconcile net loss from operations to net cash provided by (used in) operations:		
Depreciation and amortization of intangible assets	4,043	4,582
Loss on disposal of assets	1	19
Gain on sale of equity-method investment	(14,810)	—
Deferred tax benefit	729	(2,194)
Stock-based compensation	2,613	2,634
Changes in operating assets and liabilities:		
Accounts receivable	14,798	12,009
Allowance for doubtful accounts	631	(988)
Inventories, net	(465)	3,585
Contract assets	(1,033)	1,974
Accounts payable	1,202	1,280
Income taxes payable	(1,608)	(2,652)
Accrued expenses	(3,454)	3,660
Deferred compensation	(764)	(1,031)
Deferred revenue	(7,160)	(931)
Other assets and liabilities	(1,871)	(4,927)
Net cash provided by (used in) operating activities	(11,284)	1,184
Cash flows from investing activities:		
Purchase of short term investments	(15,812)	(32,253)
Maturities of short term investments	30,550	16,100
Additions to property and equipment	(1,039)	(1,208)
Additions to intangible assets	(13)	(17)
Sale of equity-method investment	18,874	—
Net cash provided by (used in) investing activities	32,560	(17,378)
Cash flows from financing activities:		
Repurchase of common stock	(5,721)	(2,908)
Tax payments for restricted stock issuances	(722)	(2,230)
Net cash used in financing activities	(6,443)	(5,138)
Effect of exchange rate changes on cash	(631)	(511)
Net increase (decrease) in cash	14,202	(21,843)
Cash, cash equivalents, and restricted cash, beginning of period	64,228	89,241
Cash, cash equivalents, and restricted cash, end of period (1)	$ 78,430	$ 67,398

(1) End of period cash, cash equivalents, and restricted cash includes $0.8 million and $0.9 million of restricted cash at June 30, 2022 and June 30, 2021, respectively.

See accompanying notes to unaudited condensed consolidated financial statements.

OneSpan Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Unless otherwise noted, references in this Quarterly Report on Form 10-Q to "OneSpan," "Company," "we," "our," and "us," refer to OneSpan Inc. and its subsidiaries.

Note 1 – Description of the Company and Basis of Presentation

Description of the Company

OneSpan Inc. and its subsidiaries design, develop, and market solutions that enable secure, compliant, and easy digital customer agreements and transaction experiences. We are a global leader in providing high-assurance identity and authentication security as well as simplified e-signature workflows. Our solutions enable trust that ensures the integrity of the people and artifacts associated with digital agreements and transactions across banking, financial services, healthcare, and professional services. Our solution portfolio includes a broad set of offerings across several categories, including identity verification, authentication, transaction signing, mobile security, electronic signature, and secure video collaboration for virtual interactions and transactions. OneSpan has operations in Austria, Australia, Belgium, Canada, China, France, Japan, The Netherlands, Singapore, Switzerland, the United Arab Emirates, the United Kingdom (U.K), and the United States (U.S.).

Transformation Plan

In May 2022, we announced a three-year strategic transformation plan that we believe will enable us to build on our strong solution portfolio and market position, enhance our enterprise go-to-market strategy, accelerate revenue growth, and drive efficiencies to support margin expansion and increased profitability. In conjunction with the strategic transformation plan and to enable a more efficient capital deployment model, effective with the quarter ended June 30, 2022, we will begin reporting under the following two lines of business, which will be our reportable operating segments: Digital Agreements and Security Solutions. We plan to manage Digital Agreements for accelerated growth and market share gains and Security Solutions for cash flow given its modest growth profile. See Note 16 – Segment Information for additional detail.

While our consolidated results will not be impacted, we have recast our segment information during 2022 for comparable presentation.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of OneSpan Inc. and its subsidiaries and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles in the United States ("U.S. GAAP") 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, 2021.

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 intercompany accounts and transactions have been eliminated. Operating results for the six months ended June 30, 2022 are not necessarily indicative of the results that may be expected for the year ended December 31, 2022.

Revision of Previously Issued Financial Statements

We have revised amounts reported in previously issued financial statements for the periods presented in this Quarterly Report on Form 10-Q to correct prior period immaterial errors. The errors relate to certain costs directly related to the production and distribution of hardware products. The costs were not properly categorized in prior periods, which led to an understatement of product and license cost of goods sold and an overstatement of sales and marketing expense. There was no impact to previously reported revenue or net income.

We evaluated the aggregate effects of the errors to our previously issued financial statements in accordance with SEC Staff Accounting Bulletins No. 99 and No. 108 and, based upon quantitative and qualitative factors, determined that the errors were not material to the previously issued financial statements and disclosures included in our Annual Reports on Form 10-K for the years ended December 31, 2021 and 2020, or for any quarterly periods included therein or through our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021.

The following table presents the effects of the aforementioned revisions on our unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2021.

Condensed Consolidated Statement of Operations (Unaudited)

	Three Months Ended June 30, 2021			**Six Months Ended June 30, 2021**		
in thousands	**As Previously Reported**	**Adjustments**	**As Revised**	**As Previously Reported**	**Adjustments**	**As Revised**
Cost of goods sold						
Product and license	$ 9,589	$ 976	$ 10,565	$ 19,130	$ 2,187	$ 21,317
Total cost of goods sold	16,470	976	17,446	31,792	2,187	33,979
Gross profit	35,807	(976)	34,831	71,260	(2,187)	69,073
Operating costs						
Sales and marketing	15,997	(976)	15,021	34,376	(2,187)	32,189
Total operating costs	44,666	(976)	43,690	89,413	(2,187)	87,226

Principles of Consolidation

The consolidated financial statements include the accounts of OneSpan Inc. and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP 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 (loss). Gains and losses resulting from foreign currency transactions are included in the condensed consolidated statements of operations in other income (expense), net. Foreign exchange transaction losses aggregated $0.9 and $1.3 million for the three and six months ended June 30, 2022, respectively. Foreign exchange transaction gains aggregated $0.6 million and foreign transaction losses aggregated less than $0.1 million for the three and six months ended June 30, 2021, respectively.

The financial position and results of our operations in Singapore, Switzerland, and Canada 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), net.

Note 2 – Summary of Significant Accounting Policies

There have been no changes to the significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 22, 2022 that have had a material impact on the Company's condensed consolidated financial statements and related notes.

Software Capitalization and Depreciation

As part of our transformation plan announced in May 2022, we began investing in the Digital Agreements operating segment for accelerated growth. In conjunction with expanded research and development to grow the Digital Agreements product offerings, we began capitalizing certain costs incurred in connection with obtaining or developing internal use software during the three months ended June 30, 2022. These costs include payroll and payroll-related costs for employees who are directly associated with the internal-use software projects, external direct costs of materials and services and interest costs while developing the software. Capitalized software costs are included in property and equipment, net and are amortized using the straight-line method over the estimated life of three years. Capitalization of such costs ceases when the project is substantially complete and ready for its intended purpose. Costs incurred during the preliminary project and post-implementation stages, as well as software maintenance and training costs, are expensed in the period in which they are incurred. The Company capitalized $0.2 million of internal-use software for the three and six months ended June 30, 2022.

Cash, Cash Equivalents and Restricted Cash

We are party to lease agreements that require letters of credit to secure our obligations. The restricted cash related to these letters of credit is recorded in other non-current assets on the condensed consolidated balance sheet in the amounts of $0.8 million and $0.8 million at June 30, 2022 and December 31, 2021, respectively.

Sale of Equity Method Investment

On January 31, 2022, we sold our equity interest in Promon AS (Promon) for $18.9 million and recorded the gain on sale of $14.8 million in other income (expense), net on the condensed consolidated statement of operations for the six months ended June 30, 2022. Promon is a technology company headquartered in Norway that specializes in mobile app security, whose solutions focus largely on Runtime Application Self-Protection (RASP).

Prior to January 31, 2022, we held a 17% interest in Promon. We applied the equity method of accounting to our investment in Promon because we exercised significant influence on, but did not hold a controlling interest in, the investee. Under the equity method of accounting, the Company's proportionate share of the net earnings (losses) of Promon is reported in other income (expense), net in our condensed consolidated statements of operations. The impact of the proportionate share of net earnings (losses) were immaterial for the six months ended June 30, 2022 and 2021, as were the relative size of Promon's assets and operations in relation to the Company's.

We intend to continue to purchase and integrate Promon's RASP technology into our customer software solutions.

Recently Issued Accounting Pronouncements

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

Note 3 – Revenue

We recognize revenue in accordance with ASC 606 *"Revenue from Contracts with Customers"* ("Topic 606"), as described below.

Disaggregation of Revenues

The following tables present our revenues disaggregated by major products and services, geographical region and timing of revenue recognition.

Revenue by major products (in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Subscription (1)	$ 19,829	$ 15,746	$ 43,098	$ 32,128
Maintenance and support	12,178	13,034	24,124	25,557
Professional services and other (2)	2,000	4,046	3,881	8,248
Hardware products	18,783	19,451	34,134	37,119
Total Revenue	$ 52,790	$ 52,277	$ 105,237	$ 103,052

(1) Subscription includes cloud and on-premises subscription revenue, previously referred to as "subscription" and "term-based software licenses", respectively.

(2) Professional services & other includes perpetual software licenses revenue which was less than 2% of total revenue for both the three and six months ended June 30, 2022, and less than 6% of total revenue for both the three and six months ended June 30, 2021.

Revenue by location of customer for the three months ended June 30, 2022 and 2021 (in thousands)

	EMEA	Americas	APAC	Total
Total Revenue:				
2022	$ 23,521	$ 19,329	$ 9,940	$ 52,790
2021	$ 24,830	$ 17,011	$ 10,436	$ 52,277
Percent of Total:				
2022	44 %	37 %	19 %	100 %
2021	47 %	33 %	20 %	100 %

Revenue by location of customer for the six months ended June 30, 2022 and 2021 (in thousands)

	EMEA	Americas	APAC	Total
Total Revenue:				
2022	$ 48,397	$ 36,578	$ 20,262	$ 105,237
2021	$ 51,819	$ 33,539	$ 17,694	$ 103,052
Percent of Total:				
2022	46 %	35 %	19 %	100 %
2021	50 %	33 %	17 %	100 %

Timing of revenue recognition (in thousands)

	Three Months ended June 30,		Six Months ended June 30,	
	2022	2021	2022	2021
Products and Licenses transferred at a point in time	$ 28,731	$ 28,378	$ 58,216	$ 56,823
Services transferred over time	24,059	23,899	47,021	46,229
Total Revenue	$ 52,790	$ 52,277	$ 105,237	$ 103,052

Contract balances (in thousands)

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

in thousands	June 30, 2022	December 31, 2021
Receivables, inclusive of trade and unbilled	$ 39,863	$ 56,612
Contract Assets (current and non-current)	$ 5,669	$ 4,889
Contract Liabilities (Deferred Revenue current and non-current)	$ 55,372	$ 63,742

Contract assets relate primarily to multi-year term license arrangements and the remaining contractual billings. These contract assets are transferred to receivables when the right to bill occurs, which is normally over 3-5 years. The contract liabilities primarily relate to the advance consideration received from customers for subscription and maintenance services. Revenue is recognized for these services over time.

As a practical expedient, we do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised product or service to a customer and when the customer pays for that product or service will be one year or less. We do not typically include extended payment terms in our contracts with customers.

Revenue recognized during the six months ended June 30, 2022 included $31.7 million that was included on the December 31, 2021 balance sheet in contract liabilities. Deferred revenue increased in the same period due to timing of annual renewals.

Transaction price allocated to the remaining performance obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

in thousands	2022	2023	2024	Beyond 2024	Total
Future revenue related to current unsatisfied performance obligations	$ 20,118	$ 22,932	$ 12,706	$ 7,745	$ 63,501

The Company applies practical expedients and does not disclose information about remaining performance obligations (a) that have original expected durations of one year or less, or (b) where revenue is recognized as invoiced.

Costs of obtaining a contract

The Company incurs incremental costs related to commissions, which can be directly tied to obtaining a contract. The Company capitalizes commissions associated with certain new contracts and amortizes the costs over a period of benefit based on the transfer of goods or services that we have determined to be up to seven years. The amortization is reflected in Sales and Marketing in the condensed consolidated statements of operations. We determined the period of benefit by taking into consideration our customer contracts, our technology and other factors, including customer attrition. Commissions are earned upon invoicing to the customer. For contracts with multiple year payment terms, because the commissions that are payable after year 1 are payable based on continued employment, they are expensed when incurred. Commissions and amortization expense are included in Sales and Marketing expense in the condensed consolidated statements of operations.

Applying the practical expedient, the Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period for the assets that the Company otherwise would have recognized is one year or less. These costs are included in Sales and Marketing expense in the condensed consolidated statements of operations.

The following tables provide information related to the capitalized costs and amortization recognized in the current and prior period:

in thousands		June 30, 2022		December 31, 2021
Capitalized costs to obtain contracts, current	$	2,495	$	2,134
Capitalized costs to obtain contracts, non-current	$	9,497	$	8,675

	Three months ended June 30,				Six months ended June 30,			
in thousands		2022		2021		2022		2021
Amortization of capitalized costs to obtain contracts	$	555	$	361	$	1,090	$	671
Impairments of capitalized costs to obtain contracts	$	-	$	-	$	-	$	-

Note 4 – Inventories, net

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

Inventories, net are comprised of the following:

	June 30, 2022	December 31, 2021
	(in thousands)	
Component parts	$ 4,189	$ 3,841
Work-in-process and finished goods	5,808	6,504
Total	$ 9,997	$ 10,345

Note 5 – Goodwill

Goodwill activity for the six months ended June 30, 2022 consisted of the following.

in thousands		Digital Agreements		Security Solutions		Total
Net balance at December 31, 2021	$	—	$	—	$	96,174
Goodwill reallocation (1)		20,966		75,208		—
Net foreign currency translation		(1,254)		(4,499)		(5,753)
Net balance at June 30, 2022	$	19,712	$	70,709	$	90,421

Goodwill reallocation: As a result of the transformation plan and new reportable operating segments (see Note 1 – Description of the Company), we reallocated the goodwill balances of each reporting unit and respective reportable operating segments. Additionally, we performed a goodwill impairment test on the goodwill balances of each of the reporting units of our reportable operating segments as of May 17, 2022 by comparing the fair value of each reporting unit to its carrying value, including the reallocated goodwill. We concluded that there was no indication of goodwill impairment for any of the reporting units as of May 17, 2022.

No impairment of goodwill was recorded during the six months ended June 30, 2022 or June 30, 2021.

Note 6 – Intangible Assets

Intangible asset activity for the six months ended June 30, 2022 is detailed in the following table.

in thousands	Acquired Technology	Customer Relationships	Other	Total Intangible Assets
Net balance at December 31, 2021	$ 753	$ 19,161	$ 1,356	$ 21,270
Additions	9	—	5	14
Net foreign currency translation	(22)	(537)	(9)	(568)
Amortization expense	(615)	(1,948)	(36)	(2,599)
Net balance at June 30, 2022	$ 125	$ 16,676	$ 1,316	$ 18,117
June 30, 2022 balance at cost	$ 41,997	$ 38,520	$ 13,507	$ 94,024
Accumulated amortization	(41,872)	(21,844)	(12,191)	(75,907)
Net balance at June 30, 2022	$ 125	$ 16,676	$ 1,316	$ 18,117

Certain intangible assets are denominated in functional currencies besides the U.S. dollar and are subject to currency fluctuations. No impairment of intangible assets was recorded during the six months ended June 30, 2022 or June 30, 2021.

Note 7 – Property and Equipment

The major classes of property and equipment are as follows:

in thousands	June 30, 2022	December 31, 2021
Office equipment and software	$ 14,728	$ 14,327
Leasehold improvements	10,058	10,296
Furniture and fixtures	4,187	4,223
Capitalized software	198	—
Total	29,171	28,846
Accumulated depreciation	(19,041)	(18,089)
Property and equipment, net	$ 10,130	$ 10,757

Depreciation expense was $0.7 million and $1.4 million for the three and six months ended June 30, 2022 respectively, compared to $0.7 million and $1.5 million for the three and six months ended June 30, 2021, respectively.

Note 8 – Fair Value Measurements

The fair values of cash equivalents, receivables, net, and accounts payable approximate their carrying amounts due to their short duration. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing base upon its own market assumptions.

The Company classifies its investments in debt securities as available-for-sale. In accordance with ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, we review available-for-sale debt securities for impairments related to losses and other factors each quarter. Unrealized gains and losses are recorded to other comprehensive income. The unrealized gains and losses on the available-for-sale debt securities were not material as of June 30, 2022 and December 31, 2021.

The estimated fair value of our financial instruments has been determined by using available market information and appropriate valuation methodologies, as defined in ASC 820, *Fair Value Measurements*. The fair value hierarchy consists of the following three levels:

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived primarily from or corroborated by observable market data.
- Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following tables summarize assets that are measured at fair value on a recurring basis as of June 30, 2022 and December 31, 2021:

		Fair Value Measurement at Reporting Date Using		
in thousands	June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury Notes	$ 3,996	-	$ 3,996	-
Corporate Notes / Bonds	$ 3,808	-	$ 3,808	-
Commercial Paper	$ 5,468	-	$ 5,468	-
U.S. Treasury Bills	$ 6,955	-	$ 6,955	-

		Fair Value Measurement at Reporting Date Using		
in thousands	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury Notes	$ 4,038	-	$ 4,038	-
Corporate Notes / Bonds	$ 9,585	-	$ 9,585	-
Commercial Paper	$ 8,996	-	$ 8,996	-
U.S. Treasury Bills	$ 9,990	-	$ 9,990	-
U.S. Government Agencies	$ 2,499	-	$ 2,499	-

Note 9 – Allowance for credit losses

The changes in the allowance for credit losses during the six months ended June 30, 2022 were as follows:

in thousands	
Balance at December 31, 2021	$ 1,419
Provision	678
Write-offs	(25)
Net foreign currency translation	(21)
Balance at June 30, 2022	$ 2,051

Note 10 – Leases

Operating lease cost details for the three and six months ended June 30, 2022 and 2021 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Building rent	$ 521	$ 677	$ 1,096	$ 1,247
Automobile rentals	361	411	581	744
Total net operating lease costs	$ 882	$ 1,088	$ 1,677	$ 1,991

At June 30, 2022, the weighted average remaining lease term for our operating leases is 6.2 years. The weighted average discount rate for our operating leases is 5%.

During the six months ended June 30, 2022, there were $1.7 million of operating cash payments for lease liabilities, and $0.4 million of right-of use assets obtained in exchange for new lease liabilities.

Maturities of our operating leases are as follows:

	As of June 30, 2022
	(in thousands)
2022	$ 1,351
2023	2,537
2024	1,840
2025	1,737
2026	1,679
Later years	4,326
Less imputed interest	(2,152)
Total lease liabilities	$ 11,318

Note 11 – Income Taxes

Our estimated annual effective tax rate for 2022 before discrete items and excluding entities with a valuation allowance is expected to be approximately 24%. Our global effective tax rate is higher than the U.S. statutory tax rate of 21% primarily due to nondeductible expenses. Our ultimate tax expense will depend on the mix of earnings in various jurisdictions. Income taxes of $1.7 million and $2.0 million were paid during the three and six months ended June 30, 2022, respectively.

Management assesses the need for a valuation allowance on a regular basis, weighing all positive and negative evidence to determine whether a deferred tax asset will be fully or partially realized. In evaluating the realizability of deferred tax assets, significant pieces of negative evidence such as 3-year cumulative losses are considered. Management also reviews reversal patterns of temporary differences to determine if the Company would have sufficient taxable income due to the reversal of temporary differences to support the realization of deferred tax assets.

Certain operations have incurred net operating losses (NOLs), which are currently subject to a valuation allowance. These NOLs may become deductible to the extent these operations become profitable. For each of our operations, we evaluate whether it is more likely than not that the tax benefits related to NOLs will be realized. As part of this evaluation, we consider evidence such as tax planning strategies, historical operating results, forecasted taxable income, and recent financial performance. In the year that certain operations record a loss, we do not recognize a corresponding tax benefit, thus increasing our effective tax rate, or decreasing our effective tax rate when reporting income in a jurisdiction that has a valuation allowance. Upon determining that it is more likely than not that the NOLs will be realized, we will reduce the tax valuation allowances related to these NOLs, which will result in a reduction of our income tax expense and our effective tax rate in the period.

At December 31, 2021, we had deferred tax assets of $43.7 million resulting from US, foreign and state NOL carryforwards of $148.6 million and other foreign deductible carryforwards of $97.5 million. At December 31, 2021, we had a valuation allowance of $31.3 million against deferred tax assets related to certain carryforwards.

Note 12 – Long-Term Compensation Plan and Stock Based Compensation (share counts in thousands)

Under the OneSpan Inc. 2019 Omnibus Incentive Plan, we award restricted stock units subject to time-based vesting, restricted stock units which are subject to the achievement of future performance criteria and restricted stock units that are subject to the achievement of market conditions. Other long-term incentive plan compensation expense includes cash incentives.

We awarded 1,209 restricted stock units during the six months ended June 30, 2022, subject to time-based vesting. The fair value of the unissued time-based restricted stock unit grants was $18.2 million at the dates of grant and the grants are being amortized over the vesting periods of one to four years.

We awarded restricted stock units subject to the achievement of service and future performance criteria during the six months ended June 30, 2022, which allow for up to 138 shares to be earned if the performance criteria are achieved at the target level. The fair value of these awards was $1.7 million at the dates of grant and the awards are being amortized over the vesting period of three years. The Company currently believes that all of these shares are expected to be earned.

During the three and six month periods ended June 30, 2022, stock-based compensation and other long-term incentive plan compensation accruals were reversed for certain employees who were severed from the Company. The reversal of the accrued long-term incentive plan compensation for the severed employees largely offset the expense for the periods. The following table details stock-based compensation expense and other long-term incentive plan compensation expense for the six months ended June 30, 2022 and 2021:

	June 30,		**June 30,**	
	2022	**2021**	**2022**	**2021**
	(in thousands)		**(in thousands)**	
Stock-based compensation	$ 1,253	$ 1,292	$ 2,613	$ 2,634
Other long-term incentive plan compensation	24	275	(112)	474
Total compensation	$ 1,277	$ 1,567	$ 2,501	$ 3,108

Note 13 – Earnings per Share (share counts in thousands)

Basic earnings per share is based on the weighted average number of shares outstanding and excludes the dilutive effect of common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of common stock equivalents to the extent they are not anti-dilutive. Because the Company was in a net loss position for the three and six months ended June 30, 2022 and June 30, 2021, diluted net loss per share for these periods excludes the effects of common stock equivalents, which are anti-dilutive.

The details of the earnings per share calculations for the three months ended June 30, 2022 and 2021 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(in thousands, except per share data)		(in thousands, except per share data)	
Net loss	$ (9,350)	$ (6,685)	$ (4,136)	$ (15,836)
Weighted average common shares outstanding:				
Basic	40,157	39,694	39,870	39,692
Incremental shares with dilutive effect:				
Restricted stock awards	—	—	—	—
Diluted	40,157	39,694	39,870	39,692
Net loss per share:				
Basic	$ (0.23)	$ (0.17)	$ (0.10)	$ (0.40)
Diluted	$ (0.23)	$ (0.17)	$ (0.10)	$ (0.40)

Note 14 – Legal Proceedings and Contingencies

We are a party to or have intellectual property subject to litigation and other proceedings that arise in the ordinary course of our business. These types of matters could result in fines, penalties, compensatory or punitive damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of each of these matters, including the legal proceedings described below, will have a material adverse effect on the corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our financial results in any particular interim reporting period. Among the factors that we consider in this assessment are the nature of existing legal proceedings and claims, the asserted or possible damages or loss contingency (if estimable), the progress of the case, existing law and precedent, the opinions or views of legal counsel and other advisers, our experience in similar cases and the experience of other companies, the facts available to us at the time of assessment and how we intend to respond to the proceeding or claim. Our assessment of these factors may change over time as individual proceedings or claims progress.

Although we cannot predict the outcome of legal or other proceedings with certainty, where there is at least a reasonable possibility that a loss may have been incurred, U.S. GAAP requires us to disclose an estimate of the reasonably possible loss or range of loss or make a statement that such an estimate cannot be made. We follow a process in which we seek to estimate the reasonably possible loss or range of loss, and only if we are unable to make such an estimate do we conclude and disclose that an estimate cannot be made. Accordingly, unless otherwise indicated below in our discussion of legal proceedings, a reasonably possible loss or range of loss associated with any individual legal proceeding cannot be estimated.

We include various types of indemnification clauses in our customer agreements. Our obligations under these indemnification clauses may include, but are not limited to, covering costs for infringement claims related to our intellectual property, direct damages and consequential damages. The type and amount of such indemnification clauses vary substantially based on our assessment of risk and reward associated with each agreement. We believe the estimated fair value of these indemnification clauses is minimal, and we cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions. We have no liabilities recorded for these clauses as of June 30, 2022.

From time to time, we have been involved in litigation, claims and other proceedings incidental to the conduct of our business, such as compensation claims from current or former employees or commercial disputes with vendors. We are not currently a party to any lawsuit, claim or proceeding that, in management's opinion, is likely to have a material adverse effect on our business, financial condition or results of operations.

Note 15 – Restructuring Plan

In December 2021, the Board approved a restructuring plan ("Plan") designed to advance the Company's operating model, streamline its business, and enhance its capital resources. As part of the first phase of the Plan, we reduced headcount by eliminating positions in certain areas of the Company. The first phase began and was substantially completed during the three months ended March 31, 2022.

In May 2022, the Board approved additional actions related to the Plan through the year ending December 31, 2025. This second phase of the Plan consists solely of headcount-related actions and is designed to continue to advance the Company's operating model, streamline its business, and enhance its capital resources.

In connection with the Plan, the Company incurred severance, retention pay, and related benefits costs. These costs are recorded in the sales and marketing, research and development, and general and administrative expense line items in the condensed consolidated statements of operations for the three and six months ended June 30, 2022, as follows:

	Three months ended June 30, 2022	Six months ended June 30, 2022
	(in thousands)	
Operating costs		
Sales and marketing	$ 1,453	$ 2,348
Research and development	917	2,570
General and administrative	318	430
Total restructuring related expenses	$ 2,688	$ 5,348

There are $3.1 million of restructuring related expenses recorded in Accrued Wages and Payroll Expenses on the Company's condensed consolidated balance sheet at June 30, 2022.

Note 16 – Segment Information

In May 2022, we announced a three-year strategic transformation plan that we believe will enable us to build on our strong solution portfolio and market position, enhance our enterprise go-to-market strategy, accelerate revenue growth, and drive efficiencies to support margin expansion and increased profitability. In conjunction with the strategic transformation plan and to enable a more efficient capital deployment model, effective with the quarter ended June 30, 2022, we will begin reporting under the following two lines of business, which will be our reportable operating segments: Digital Agreements and Security Solutions. We expect to manage Digital Agreements for accelerated growth and market share gains and Security Solutions for cash flow given its more modest growth profile.

Segments are defined as components of a company that engage in business activities from which they may earn revenues and incur expenses, and for which separate financial information is available and is evaluated regularly by the chief operating decision maker (CODM), in deciding how to allocate resources and in assessing performance. Our chief operating decision maker, who is our chief executive officer, manages the business under two operating segments, which are our reportable segments: Digital Agreements and Security Solutions.

- **Digital Agreements.** Digital Agreements consists of solutions that enable our clients to secure and automate business processes associated with their digital agreement and customer transaction lifecycles that require consent, non-repudiation and compliance. These solutions, which are largely cloud-based, include our e-signature solution and our Virtual Room solution. As our transformation plan progresses, we expect to include other cloud-based security modules associated with the secure transaction lifecycle of identity verification, authentication, virtual interaction, e-transactions and e-vaulting (storage) in the Digital Agreements segment. This segment also includes costs attributable to our transaction cloud platform.

- **Security Solutions.** Security Solutions consist of our broad portfolio of software products and/or software development kits (SDKs) that are used to build applications designed to defend against attacks on digital transactions across online environments, devices and applications. These solutions, which are largely on-premises software products, include identity verification, multi-factor authentication and transaction signing, such as mobile application security, mobile software tokens, and Digipass tokens that are not cloud connected devices.

Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue, sales and marketing, and research and development expenses that are incurred directly by a segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment.

The tables below set forth information about our operating segments for the three and six months ended June 30, 2022 and 2021, along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Digital Agreements				
Revenue	$ 10,454	$ 9,527	$ 23,755	$ 19,591
Gross profit	$ 7,647	$ 6,626	$ 17,933	$ 14,080
Gross margin	73%	70%	75%	72%
Operating income (loss)	$ 101	$ (795)	$ 1,789	$ (731)
Security Solutions				
Revenue	$ 42,336	$ 42,750	$ 81,482	$ 83,461
Gross profit	$ 27,859	$ 28,205	$ 54,251	$ 54,993
Gross margin	66%	66%	67%	66%
Operating income	$ 8,631	$ 10,035	$ 17,118	$ 16,599
Total Company:				
Revenue	$ 52,790	$ 52,277	$ 105,237	$ 103,052
Gross profit	$ 35,506	$ 34,831	$ 72,184	$ 69,073
Gross margin	67%	67%	69%	67%
Statements of Operations reconciliation:				
Segment operating income	$ 8,732	$ 9,240	$ 18,907	$ 15,868
Operating expenses not allocated at the segment level:				
Corporate operating expenses	$ 15,753	$ 16,573	$ 33,789	$ 30,922
Amortization	1,217	1,526	2,599	3,099
Operating loss	$ (8,238)	$ (8,859)	$ (17,481)	$ (18,153)
Interest income, net	35	2	18	6
Other income (expense), net	(675)	1,029	14,972	667
Loss before income taxes	$ (8,878)	$ (7,828)	$ (2,491)	$ (17,480)

The following tables illustrate the disaggregation of revenues by products and services, including a reconciliation of the disaggregated revenues to revenues from our two operating segments for the three and six months ended June 30, 2022 and 2021.

	Three Months Ended			
	June 30, 2022		June 30, 2021	
	Digital Agreements	Security Solutions	Digital Agreements	Security Solutions
Subscription	$ 8,736	$ 11,093	$ 7,780	$ 7,966
Maintenance and support	1,408	10,770	1,512	11,522
Professional services and other	310	1,690	235	3,811
Hardware products	-	18,783	-	19,451
Total Revenue	$ 10,454	$ 42,336	$ 9,527	$ 42,750

	Six Months Ended			
	June 30, 2022		June 30, 2021	
	Digital Agreements	Security Solutions	Digital Agreements	Security Solutions
Subscription	$ 20,407	$ 22,691	$ 15,939	$ 16,189
Maintenance and support	2,760	21,364	2,889	22,668
Professional services and other	588	3,293	718	7,530
Hardware products	-	34,134	45	37,074
Total Revenue	$ 23,755	$ 81,482	$ 19,591	$ 83,461

We allocate Goodwill by reporting unit, in accordance with ASC 350. Refer to Note 5 – Goodwill for additional information. All other assets and liabilities are unallocated, as the CODM does not evaluate these items at the segment level when addressing segment performance or allocating resources.

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 "OneSpan," "Company," "we," "our," and "us" refer to OneSpan Inc. and its subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of applicable U.S. securities laws, including statements regarding the outcomes we expect from our strategic transformation plan; our plans for managing our Digital Agreements and Security Solutions segments; the potential benefits, performance and functionality of our products and solutions, including future offerings; our expectations, beliefs, plans, operations and strategies relating to our business and the future of our business; product enhancements and introductions; future sales and marketing expenditures; plans to expand our salesforce; foreign currency exchange rate impacts; and our general expectations regarding our financial performance in the future. Forward-looking statements may be identified by words such as "seek", "believe", "plan", "estimate", "anticipate", "expect", "intend", "continue", "outlook", "may", "will", "should", "could", or "might", and other similar expressions. These forward-looking statements involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could materially affect our business and financial results include, but are not limited to: our ability to execute our strategic transformation plan; our ability to hire and train sales and other employees necessary to implement our strategic transformation plan; market acceptance of our products and solutions; investments in new products or businesses that may not achieve expected returns; competition; changes in customer requirements; the potential effects of technological changes; economic recession, inflation, and political instability; the impact of the COVID-19 pandemic and actions taken to contain it; our ability to effectively manage acquisitions, divestitures, alliances, joint ventures and other portfolio actions; the increasing frequency and sophistication of cyber-attacks; claims that we have infringed the intellectual property rights of others; price competitive bidding; changing laws, government regulations or policies; pressures on price levels; component shortages; delays and disruption in global transportation and supply chains; reliance on third parties for certain products and data center services; impairment of goodwill or amortizable intangible assets causing a significant charge to earnings; actions of activist stockholders; and exposure to increased economic and operational uncertainties from operating a global business, as well as those factors described in the "Risk Factors" section of our Annual Report on Form 10-K. Our filings with the Securities and Exchange Commission (the "SEC") and other important information can be found in the Investor Relations section of our website at *investors.onespan.com*. We do not have any intent, and disclaim any obligation, to update the forward-looking information to reflect events that occur, circumstances that exist or changes in our expectations after the date of this Form 10-Q, except as required by law.

Overview

OneSpan designs, develops, and markets solutions that enable secure, compliant, and easy digital customer agreements and transaction experiences. We are a global leader in providing high-assurance identity and authentication security as well as simplified e-signature workflows. Our solutions enable trust that ensures the integrity of the people and artifacts associated with digital agreements and transactions across banking, financial services, healthcare, and professional services. Our solution portfolio includes a broad set of offerings across several categories, including identity verification, authentication, transaction signing, mobile security, electronic signature, and secure video collaboration for virtual interactions and transactions.

We offer our solutions through cloud-based and, in select cases, on-premises solutions using both open standards and proprietary technologies. We offer our products primarily through a subscription licensing model, including our cloud-based service offerings. Our solutions are sold worldwide through our direct sales force, as well as through distributors, resellers, systems integrators, and original equipment manufacturers.

Business Transformation

We are currently in the midst of a business transition and transformation. Our total revenue decreased on a year-over-year basis in 2020, and 2021, and we experienced negative operating income and net losses in both of those years. During 2021 and early 2022, our previous CEO, CFO, and several other senior executives left the company. In late November 2021, our current CEO, Matthew Moynahan, joined us and has been building a new executive team over the course of 2022 to effect the transformation.

In May 2022, we announced a three-year strategic transformation plan that we believe will enable us to build on our strong solution portfolio and market position, enhance our enterprise go-to-market strategy, accelerate revenue growth, and drive efficiencies to support margin expansion and increased profitability. In conjunction with the strategic transformation plan and to enable a more efficient capital deployment model, effective with the quarter ended June 30, 2022, we will begin reporting under the following two lines of business, which will be our reportable operating segments: Digital Agreements and Security Solutions.

- **Digital Agreements.** Digital Agreements consists of solutions that enable our clients to secure and automate business processes associated with their digital agreement and customer transaction lifecycles that require consent, non-repudiation and compliance. These solutions, which are largely cloud-based, include our e-signature solution and our Virtual Room solution. As our transformation plan progresses, we expect to include other cloud-based security modules associated with the secure transaction lifecycle of identity verification, authentication, virtual interaction, e-transactions and e-vaulting (storage) in the Digital Agreements segment. This segment also includes costs attributable to our transaction cloud platform.

- **Security Solutions.** Security Solutions consist of our broad portfolio of software products and/or software development kits (SDKs) that are used to build applications designed to defend against attacks on digital transactions across online environments, devices and applications. These solutions, which are largely on-premises software products, include identity verification, multi-factor authentication and transaction signing, such as mobile application security, mobile software tokens, and Digipass tokens that are not cloud connected devices.

We expect to manage Digital Agreements for accelerated growth and market share gains and Security Solutions for cash flow given its more modest growth profile. Across both segments, we are building on our strong foundation in both e-signature and cybersecurity by enhancing product features, developing new and next-generation solutions, and building out a new transaction cloud platform, which we expect will allow us to efficiently deliver security and e-signature solutions to our customers across their entire digital agreement lifecycle. We also plan to enhance our go-to-market strategy by prioritizing growth at large enterprise accounts, expanding our direct sales force, and accessing new routes to market through alliances and partnerships.

Our transformation plan involves numerous risks and uncertainties. Please see Item IA, Risk Factors.

Foreign Exchange Rate Impact

We generate approximately 85% of our revenue and have substantial operations outside of the United States, and therefore changes in foreign currency exchange rates can have a significant impact on our revenue and operating expenses. We estimate that changes in exchange rates, especially for the Euro, negatively impacted our revenue for the three months and six months ended June 30, 2022 by approximately $3.2 million and $4.8 million, respectively, as compared to the applicable prior year periods. These changes also benefitted our operating expenses for the three months and six months ended June 30, 2022 by an estimated $2.0 and $3.1 million, respectively, as compared to the applicable prior year periods. Most of this exchange rate impact was in our Security Solutions segment. Based on current exchange rates, we expect to see continued but more moderate exchange rate impact in future periods.

Restructuring Plan

In December 2021, our Board approved a restructuring plan designed to advance our operating model, streamline our business, and enhance our capital resources. The first phase of this restructuring plan began and was substantially completed during the three months ended March 31, 2022.

In May 2022, our Board approved additional actions related to the restructuring plan through the year ending December 31, 2025. The additional actions consist solely of headcount-related reductions designed to continue to advance the same objectives as the first phase of the plan.

As part of the restructuring plan, we reduced headcount by eliminating positions in certain areas of the Company. We incurred severance and related benefits costs, which are recorded in the sales and marketing, research and development, and general and administrative expense line items in the condensed consolidated statements of operations for the three and six months ended June 30, 2022. See Note 15 – Restructuring Plan for additional detail.

Components of Operating Results

Revenue

We generate revenue from the sale of on-premises and cloud subscriptions, maintenance and support, professional services, and our hardware products. Our revenue is heavily influenced by the timing of orders and shipments, which may affect the comparability of our period-to-period results, particularly over shorter timeframes.

- *Product* and *license revenue*. Product and license revenue includes hardware products and software licenses, which are provided on a perpetual or term basis subscription model.
- *Service and other revenue*. Service and other revenue includes solutions that are provided on a cloud-based subscription model, maintenance and support, and professional services.

Cost of Goods Sold

Our total cost of goods sold consists of cost of product and license revenue and cost of service and other revenue. We expect our cost of goods sold to increase in absolute dollars as our business grows, although it may fluctuate as a percentage of total revenue from period to period.

- *Cost of product and license revenue*. Cost of product and license revenue primarily consists of direct product and license costs, including personnel costs, production costs, and freight.
- *Cost of service and other revenue*. Cost of service and other revenue primarily consists of costs related to cloud solutions, including personnel and equipment costs, and personnel costs of employees providing professional services and maintenance and support.

Gross Profit

Gross profit is revenue net of the cost of goods sold. Gross profit as a percentage of total revenue, or gross margin, has been and will continue to be affected by a variety of factors, including our average selling price, manufacturing costs, the mix of products sold, and the mix of revenue among products, subscriptions and services. We expect our gross margins to fluctuate over time depending on these factors.

Operating Expenses

Our operating expenses are generally based on anticipated revenue levels and fixed over short periods of time. As a result, small variations in revenue may cause significant variations in the period-to-period comparisons of operating income or operating income as a percentage of revenue.

Generally, the most significant factor driving our operating expenses is headcount. Direct compensation and benefit plan expenses generally represent between 55% and 65% of our operating expenses, respectively. 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.

The comparison of operating expenses can be impacted significantly by costs related to our stock-based and long-term incentive plans. Operating expenses for the three and six months ended June 30, 2022 included $1.3 million and $2.5 million, respectively of expenses related to stock-based and long-term incentive plan costs compared to $1.6 million and $3.1 million of stock-based and long-term incentive plan cost for the three and six months ended June 30, 2021, respectively. Stock-based compensation expense during the six months ended June 30, 2022 was favorably impacted by the forfeiture of unvested awards by certain severed sales management and executive management during the periods, offset by new grants.

- *Sales and marketing*. Sales and marketing expenses consist primarily of personnel costs, commissions and bonuses, trade shows, marketing programs and other marketing activities, travel, outside consulting costs, and long-term incentive compensation. We expect sales and marketing expenses to increase in absolute dollars as we expand our salesforce and marketing activities to support our strategic transformation plan, although our sales and marketing expenses may fluctuate as a percentage of total revenue.
- *Research and development*. Research and development expenses consist primarily of personnel costs and long-term incentive compensation. We expect research and development costs to increase in absolute dollars as we continue to enhance and expand our product offerings and cloud platform. However, our research and development expenses may fluctuate as a percentage of total revenue including due to expected growth of our team and capitalization of certain costs related to the expansion of our cloud product portfolio.
- *General and administrative*. General and administrative expenses consist primarily of personnel costs, legal and other professional fees, and long term incentive compensation. We expect general and administrative expenses to increase in absolute dollars to support the anticipated growth of our business, although our general and administrative expenses may fluctuate as a percentage of total revenue.
- *Amortization of intangible assets*. Acquired intangible assets are amortized over their respective amortization periods, and are periodically evaluated for impairment.

Segment Results

Segment operating income consists of the revenue generated by a segment, less the direct costs of revenue, sales and marketing, and research and development expenses that are incurred directly by a segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment. Financial results by operating segment are included below under Results of Operations.

Interest Income, Net

Interest income, net consists of income earned on our cash, cash equivalents and short term investments. Our cash equivalents and short term investments are invested in short-term instruments at current market rates.

Other Income (Expense), Net

Other income (expense), net 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 expenses.

Income Taxes

Our effective tax rate reflects our global structure related to the ownership of our intellectual property ("IP"). The majority of our IP in our Security Solutions business 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 OneSpan 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 Swiss company. In 2022, earnings flowing to the U.S. company are expected to be taxed at a rate of 21% to 25%, while earnings flowing to the Swiss company are expected to be taxed at a rate ranging from 11% to 15%, plus Swiss federal withholding tax of an additional 5%. A Canadian and UK subsidiary currently sell to and service global customers directly. In addition, many of our entities operate as distributors for all of our OneSpan products.

As the majority of our revenues are 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 earnings and the tax rates in each of the countries in which it is earned. The statutory tax rate for the primary foreign tax jurisdictions ranges from 11% to 35%.

The geographic mix of earnings of our foreign subsidiaries primarily depends on the level of pretax income of our service provider subsidiaries and the benefit realized in 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 functional currencies of the service provider subsidiaries, or

3. the amount of revenue 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 business results.

In November 2015, we acquired OneSpan Canada Inc. (formerly eSignLive), a foreign company with substantial IP and net operating losses and other tax carryforwards. The tax benefit of the carryforwards has been fully reserved as realization has not been deemed more likely than not.

In May 2018, we acquired Dealflo Limited ("Dealflo"), a foreign company with substantial IP and net operating losses. The tax benefit of existing loss carryforwards at the time of acquisition was not recorded as we determined they were not more likely than not to be realized.

Management assesses the need for a valuation allowance on a regular basis, weighing all positive and negative evidence to determine whether a deferred tax asset will be fully or partially realized. In evaluating the realizability of deferred tax assets, significant pieces of negative evidence such as 3-year cumulative losses are considered.

Results of Operations

In conjunction with our strategic transformation plan, effective with the quarter ended June 30, 2022, we began reporting under the following two lines of business which will be our reportable operating segments: Digital Agreements and Security Solutions.

The following table sets forth, for the periods indicated, selected segment and consolidated operating results.

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Digital Agreements				
Revenue	$ 10,454	$ 9,527	$ 23,755	$ 19,591
Gross profit	$ 7,647	$ 6,626	$ 17,933	$ 14,080
Gross margin	73%	70%	75%	72%
Operating income (loss)	$ 101	$ (795)	$ 1,789	$ (731)
Security Solutions				
Revenue	$ 42,336	$ 42,750	$ 81,482	$ 83,461
Gross profit	$ 27,859	$ 28,205	$ 54,251	$ 54,993
Gross margin	66%	66%	67%	66%
Operating income	$ 8,631	$ 10,035	$ 17,118	$ 16,599
Total Company:				
Revenue	$ 52,790	$ 52,277	$ 105,237	$ 103,052
Gross profit	$ 35,506	$ 34,831	$ 72,184	$ 69,073
Gross margin	67%	67%	69%	67%
Statements of Operations reconciliation:				
Segment operating income	$ 8,732	$ 9,240	$ 18,907	$ 15,868
Operating expenses not allocated at the segment level:				
Corporate operating expenses	$ 15,753	$ 16,573	$ 33,789	$ 30,922
Amortization	1,217	1,526	2,599	3,099
Operating loss	$ (8,238)	$ (8,859)	$ (17,481)	$ (18,153)

Revenue

We generate revenue from the sale of our subscriptions, maintenance and support, professional services, and hardware products. Subscription includes cloud and on-premises subscription revenue, previously referred to as “subscription” and “term-based software licenses”, respectively.

Revenue by products and services allocated to the segments for the three and six months ended June 30, 2022 and 2021 is as follows:

	Three Months Ended June 30, 2022 Digital Agreements	Three Months Ended June 30, 2022 Security Solutions	Three Months Ended June 30, 2021 Digital Agreements	Three Months Ended June 30, 2021 Security Solutions
Subscription (1)	$ 8,736	$ 11,093	$ 7,780	$ 7,966
Maintenance and support	1,408	10,770	1,512	11,522
Professional services and other (2)	310	1,690	235	3,811
Hardware products	-	18,783	-	19,451
Total Revenue	$ 10,454	$ 42,336	$ 9,527	$ 42,750

	Six Months Ended			
	June 30, 2022		June 30, 2021	
	Digital Agreements	Security Solutions	Digital Agreements	Security Solutions
Subscription (1)	$ 20,407	$ 22,691	$ 15,939	$ 16,189
Maintenance and support	2,760	21,364	2,889	22,668
Professional services and other (2)	588	3,293	718	7,530
Hardware products	-	34,134	45	37,074
Total Revenue	$ 23,755	$ 81,482	$ 19,591	$ 83,461

(1) Subscription includes cloud and on-premises subscription revenue, previously referred to as “subscription” and “term-based software licenses”, respectively.

(2) Professional services & other includes perpetual software licenses revenue which was less than 2% of total revenue for both the three and six months ended June 30, 2022, and less than 6% of total revenue for both the three and six months ended June 30, 2021.

Total revenue increased $0.5 million or 1%, during the three months ended June 30, 2022 compared to the three months ended June 30, 2021. For the six months ended June 30, 2022, total revenue increased by $2.2 million, or 2% compared to the six months ended June 30, 2021. This increase in total revenue was driven by an $11.0 million increase in subscription revenue, offset by lower non-recurring revenue, which consisted of $4.4 million lower professional services and other revenue, $3.0 million lower hardware revenue, and $1.4 million lower maintenance and support revenue.

Additional information on our revenue by segment follows.

- **Digital Agreements** revenue increased $0.9 million, or 10%, during the three months ended June 30, 2022 compared to the three months ended June 30, 2021. For the six months ended June 30, 2022, Digital Agreements revenue increased $4.2 million, or 21%, compared to the same period in the prior year. Year-over-year growth in Digital Agreements for the three and six months ended June 30, 2022 was affected by a higher proportion of cloud subscription revenue relative to on-premises revenue for both periods. More restrained customer purchasing behavior as compared to the height of the COVID-19 pandemic was also a factor.

- **Security Solutions** revenue decreased $0.4 million, or approximately 1%, during the three months ended June 30, 2022 compared to the three months ended June 30, 2021. For the six months ended June 30, 2022, Security Solutions revenue decreased $2.0 million, or 2%, compared to the same period in the prior year. The decrease for both periods is due to decreases in revenue generated by professional services and other, maintenance and support, and hardware products. The decreases were offset by an increase in on-premises subscription revenue driven by higher demand. Security Solutions revenue was impacted by foreign exchange rate changes, electronic component shortages and shipping delays during the three and six months ended June 30, 2022, which may also affect revenue generated during the second half of the year.

Our revenue is heavily influenced by the timing of orders and shipments As a result, we believe that the overall strength of our business is best evaluated over a longer term where the impact of transactions in any given period is not as significant as in a quarter-over-quarter comparison.

Revenue by Geographic Regions: We classify our sales by customer location in three geographic regions: 1) EMEA, which includes Europe, Middle East and Africa; 2) the Americas, which includes sales in North, Central, and South America; and 3) Asia Pacific (APAC), which includes Asia as well as Australia and New Zealand. The breakdown of revenue in each of our major geographic areas was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Revenue				
EMEA	$ 23,521	$ 24,830	$ 48,397	$ 51,819
Americas	19,329	17,011	36,578	33,539
APAC	9,940	10,436	20,262	17,694
Total revenue	$ 52,790	$ 52,277	$ 105,237	$ 103,052
% of Total Revenue				
EMEA	44%	47%	46%	50%
Americas	37%	33%	35%	33%
APAC	19%	20%	19%	17%

Revenue generated in EMEA during the three months ended June 30, 2022 was $1.3 million, or 5% lower than the three months ended June 30, 2021, driven primarily by lower hardware sales. For the six months ended June 30, 2022, revenue generated in EMEA was $3.4 million or 7% lower than the same period in 2021, driven by lower hardware revenue.

Revenue generated in the Americas during the three months ended June 30, 2022 was $2.3 million, or 14% higher than the three months ended June 30, 2021. For the six months ended June 30, 2022, revenue generated in the Americas was $3.0 million or 9% higher than the same period in 2021. Increases in revenue for both periods was primarily driven by higher cloud and on-premises subscription revenue.

Revenue generated in the Asia Pacific region during the three months ended June 30, 2022 was $0.5 million, or 5% lower than the three months ended June 30, 2021, driven by lower cloud subscription revenue. For the six months ended June 30, 2022, revenue generated in the Asia Pacific region was $2.6 million or 15% higher than the same period in 2021, driven by higher on-premise and cloud subscription revenue.

Cost of Goods Sold and Gross Margin

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Cost of goods sold				
Product and license	$ 10,947	$ 10,565	$ 20,026	$ 21,317
Services and other	6,337	6,881	13,027	12,662
Total cost of goods sold	$ 17,284	$ 17,446	$ 33,053	$ 33,979
Gross profit	$ 35,506	$ 34,831	$ 72,184	$ 69,073
Gross margin				
Product and license	62%	63%	66%	62%
Services and other	74%	71%	72%	73%
Total gross margin	67%	67%	69%	67%

The cost of product and license revenue increased by $0.4 million or 4% during the three months ended June 30, 2022 compared to the three months ended June 30, 2021, driven primarily by higher on-premises subscription revenue. During the six months ended June 30, 2022, the cost of product and license revenue decreased $1.3 million or 6% compared to the six months ended June 30, 2021 due to lower token costs, which were driven by lower hardware sales as a percentage of total revenue

The cost of services and other revenue decreased by $0.5 million, or 8% during the three months ended June 30, 2022 compared to the three months ended June 30, 2021, driven by lower maintenance and professional services revenue. For the six months ended June 30, 2022, the cost of services and other revenue increased by $0.4 million, or 3% compared to the six months ended June 30, 2021. The increase reflects higher cloud subscription revenue.

Gross profit increased $0.7 million, or 2% during the three months ended June 30, 2022 compared to the three months ended June 30, 2021. During the six months ended June 30, 2022 gross profit increased by $3.1 million, or 5% compared to the six months ended June 30, 2021. Gross profit margin was 67% and 69% for the three and six months ended June 30, 2022, respectively, compared to 67% and 67% for the three and six months ended June 30, 2021, respectively. The increase in profit margins for the six months ended June 30, 2022 was due to stronger product and license margin driven by product mix and improved cost management.

The majority of our inventory purchases are denominated in U.S. Dollars. Our sales are denominated in various currencies, including the Euro. The impact of changes in currency rates are estimated to have decreased revenue by approximately $3.2 million and $4.8 million for the three and six months ended June 30, 2022, respectively. Had currency rates in 2021 been equal to rates in 2021, the gross profit margin would have been approximately 6 and 5 percentage points higher for the three and six months ended June 30, 2022, respectively.

Additional information on our gross profit by segment follows.

- **Digital Agreements** gross profit increased $1.0 million or 15% during the three months ended June 30, 2022 compared to the three months ended June 30, 2021. For the six months ended June 30, 2022, Digital Agreements gross profit increased $3.9 million or 27% compared to the same period in the prior year. The increase in gross profit is driven by stronger margins, primarily due to lower outside services costs for operating our cloud platform. Digital Agreements gross margins for the three and six months ended June 30, 2022 were 73% and 75%, respectively, compared to 70% and 72% for the three and six months ended June 30, 2021.

- **Security Solutions** gross profit decreased $0.3 million or approximately 1% during the three months ended June 30, 2022 compared to the three months ended June 30, 2021. For the six months ended June 30, 2022, Security Solutions gross profit decreased $0.7 million or 1% compared to the same period in the prior year. Security Solutions gross margins for the three and six months ended June 30, 2022 were 66% and 67%, respectively, compared to 66% and 66% for the three and six months ended June 30, 2021, respectively.

Operating Expenses

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Operating costs				
Sales and marketing	$ 16,381	$ 15,021	$ 32,276	$ 32,189
Research and development	12,876	12,096	26,625	24,340
General and administrative	13,270	15,039	28,165	27,590
Amortization of intangible assets	1,217	1,534	2,599	3,107
Total operating costs	$ 43,744	$ 43,690	$ 89,665	$ 87,226

Sales and Marketing Expenses

Sales and marketing expenses for the three months ended June 30, 2022 were $16.4 million, an increase of $1.3 million or 9%, from the three months ended June 30, 2021, driven primarily by severance costs incurred as part of our restructuring plan. Sales and marketing expenses for the six months ended June 30, 2022 were $32.3 million, an increase of less than $0.1 million or approximately 0% from the same period in 2021.

Average full-time sales, marketing, support, and operating employee headcount for the three and six months ended June 30, 2022 was 343 and 351, respectively, compared to 379 and 374 for the three and six months ended June 30, 2021, respectively. Average headcount was 9% and 6% lower for the three and six months ended June 30, 2022, respectively, compared to the same periods in 2021.

In future periods, we expect sales and marketing spend to increase as we enhance our enterprise go-to-market strategy. We are focused on new logo growth through building brand awareness, as well as expanding offerings to our existing customers. We expect to expand our sales force and add new distribution channels.

Research and Development Expenses

Research and development expenses for the three months ended June 30, 2022, were $12.9 million, an increase of $0.8 million, or 6%, from the three months ended June 30, 2021. Research and development expenses for the six months ended June 30, 2022, were $26.6 million, an increase of $2.3 million, or 9%, from the six months ended June 30, 2021. The increase in both periods was driven by severance costs incurred as part of our restructuring plan.

Average full-time research and development employee headcount for the three and six months ended June 30, 2022 was 349 and 357, compared to 352 and 355 for the three and six months ended June 30, 2021, respectively. Average headcount was approximately 1% lower for the three and six months ended June 30, 2022, respectively, when compared to the same periods in 2021.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2022, were $13.3 million, a decrease of $1.8 million, or 12%, from the three months ended June 30, 2021. This decrease was driven primarily by one-time outside service and settlement costs related to the proxy contest that took place in 2021, partially offset by higher personnel costs in 2022. General and administrative expenses for the six months ended June 30, 2022 were $28.2 million, an increase of $0.6 million, or 2%, from the six months ended June 30, 2021. This increase was driven by non-recurring outside service costs related to our strategic action plan and severance costs related to our restructuring plan, partially offset by one-time outside service and settlement costs related to the proxy contest that took place in 2021.

Average full-time general and administrative employee headcount for the three and six months ended June 30, 2022 was 138 and 138, respectively, compared to 134 and 134 for the three and six months ended June 30, 2021, respectively. Average headcount was approximately 3% higher for the three and six months ended June 30, 2022, when compared to the same periods in 2021.

Amortization of Intangible Assets

Amortization of intangible assets for the three months ended June 30, 2022 was $1.2 million, compared to $1.5 million for the three months ended June 30, 2021. Amortization expense for the six months ended June 30, 2022 was $2.6 million compared to $3.1 million for the six months ended June 30, 2021. The expense decrease for both periods was driven by certain assets acquired in the Silanis acquisition becoming fully amortized.

Segment Operating Income (Loss)

Information on our operating income (loss) by segment follows.

- **Digital Agreements** operating income (loss) for the three months ended June 30, 2022 was $0.1 million, compared to $(0.8) million for the comparable period in the prior year. Operating income (loss) for the six months ended June 30, 2022 was $1.8 million, compared to $(0.7) million for the comparable period in the prior year. Operating income increases for both periods reflect our strategic transformation plan to accelerate growth in this operating segment.

- **Security Solutions** operating income for the three months ended June 30, 2022, was $8.6 million which was a year-over-year decrease of $1.4 million or 14% from the three months ended June 30, 2021, driven primarily by a decline in perpetual software license revenue. For the six months ended June 30, 2022 Security Solutions operating income was $17.1 million, which was $0.5 million or 3% higher than the comparable period of the prior year. Modest year-over-year operating income growth reflects our strategic transformation plan to manage this operating segment for cash flow.

Interest income, net

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Interest income, net	$ 35	$ 2	$ 18	$ 6

Interest income, net was less than $0.1 million for both the three months ended June 30, 2022 and 2021 or the six months ended June 30, 2022 and 2021, interest income, net was less than $0.1 million.

Other income, net

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Other income (expense), net	($ 675)	$ 1,029	$ 14,972	$ 667

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

Other income (expense), net for the three months ended June 30, 2022 was $(0.7) million, compared to $1.0 million for the comparable period of 2021, driven primarily by currency fluctuations. For the six months ended June 30, 2022, other income (expense), net was $15.0 million, compared to $0.7 million for the six months ended June 30, 2021. The fluctuation was primarily driven by $14.8 million gain on sale of our investment in Promon AS.

Provision for Income Taxes

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Provision (benefit) for income taxes	$ 472	($ 1,143)	$ 1,645	($ 1,644)

We recorded income tax expense for the three months ended June 30, 2022 of $0.5 million, compared to income tax benefit of $1.1 million for the three months ended June 30, 2021. The expense recorded during three months ended June 30, 2022 was primarily attributable to earnings at subsidiaries without a valuation allowance. We recorded income tax expense for the six months ended June 30, 2022 of $1.6 million compared to income tax benefit of $1.6

million for the six months ended June 30, 2021. The expense recorded for the six months ended June 30, 2022 was primarily attributable to the gain recognized on the sale of our investment in Promon AS and income taxes on earnings at subsidiaries without a valuation allowance.

Liquidity and Capital Resources

At June 30, 2022, we had cash balances (total cash and cash equivalents) of $77.6 million and short-term investments of $20.2 million. Short term investments consist of U.S. treasury notes and bills, corporate notes and bonds, and high quality commercial paper with maturities at acquisition of more than three months and less than twelve months.

At December 31, 2021, we had cash balances of $63.4 million and short-term investments of $35.1 million.

We are party to lease agreements that require letters of credit to secure the obligations. The restricted cash related to these letters of credit is recorded in other non-current assets on the condensed consolidated balance sheet in the amounts of $0.8 million and $0.8 million at June 30, 2022 and December 31, 2021, respectively.

Our working capital at June 30, 2022 was $91.5 million compared to $98.0 million at December 31, 2021.

As of June 30, 2022, we held $54.4 million of cash and cash equivalents in subsidiaries outside of the United States. Of that amount, $53.3 million is not subject to repatriation restrictions, but may be subject to taxes upon repatriation.

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

Our cash flows are as follows:

	Six months ended June 30,	
	2022	2021
	(in thousands)	
Cash provided by (used in):		
Operating activities	($ 11,284)	$ 1,184
Investing activities	32,560	(17,378)
Financing activities	(6,443)	(5,138)
Effect of foreign exchange rate changes on cash and cash equivalents	(631)	(511)

Operating Activities

Cash generated by operating activities is primarily comprised of net income, as adjusted for non-cash items, and changes in operating assets and liabilities. Non-cash adjustments consist primarily of amortization of intangible assets, depreciation of property and equipment, deferred tax benefit, and stock-based compensation. We expect cash inflows from operating activities to be affected by increases or decreases in sales and timing of collections. Our primary uses of cash from operating activities have been for personnel costs.

For the six months ended June 30, 2022, net cash used in operating activities was $11.3 million, compared to net cash provided by operating activities of $1.2 million during the six months ended June 30, 2021. This was primarily driven by the sale of our equity method investment in Promon AS.

Investing Activities

The changes in cash flows from investing activities primarily relate to timing of purchases, maturities and sales of investments, purchases of property and equipment, and activity in connection with acquisitions. We expect to continue to purchase property and equipment to support the growth of our business as well to continue to invest in our infrastructure.

For the six months ended June 30, 2022, net cash provided by investing activities was $32.6 million, compared to net cash used in investing activities of $17.4 million for the six months ended June 30, 2021. Cash provided by investing activities during the six months ended June 30, 2022 was driven by the $18.9 million sale of our investment in Promon AS. Cash used in investing activities during the six months ended June 30, 2021 was driven by the timing of the purchases and maturities of our short term investments, as well as property and equipment purchases.

Financing Activities

The changes in cash flows from financing activities is primarily related to the purchases of common stock under our share repurchase program and tax payments for restricted stock issuances.

For the six months ended June 30, 2022, net cash used in financing activities was $6.4 million, compared to net cash used in financing activities of $5.1 million for the six months ended June 30, 2021. The increase is driven by a higher volume of share repurchases during the first six months of 2022 compared to 2021, partially offset by lower tax payments for restricted stock issuances.

Critical Accounting Policies

Our accounting policies are fully described in Note 1 - Summary of Significant Accounting Policies, to our Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2021 and Note 2 – Summary of Significant Accounting Policies to our Interim Unaudited Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022. We believe our most critical accounting policies include revenue recognition, credit losses, and accounting for income taxes.

Item 3 - Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in our market risk during the three months ended June 30, 2022. 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, 2021.

Item 4 - Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2022. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2022, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports we file or submit under the Exchange Act, and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There have been no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the quarter ended June 30, 2022.

PART II. OTHER INFORMATION

Item 1 - Legal Proceedings

From time to time, we are a party to litigation, claims and other proceedings that arise in the ordinary course of our business, such as compensation claims from current or former employees or commercial disputes with vendors. We are not currently a party to any lawsuit, claim or proceeding that, in management's opinion, is likely to have a material adverse effect on our business, financial condition or results of operations. However, the results of such legal proceedings or claims cannot be predicted with certainty, and regardless of the outcome, can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A – Risk Factors

There were no material changes to the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 22, 2022, except as set forth below.

Our strategic transformation plan involves numerous risks, and may not achieve the results we expect.

In May 2022, we announced a three-year strategic transformation plan. Although we believe that this plan will enable to us accelerate revenue growth and increase profitability, we may not be successful in executing the plan on our expected timeframe, or the plan may not achieve the results we expect, for a number of reasons, including the following:

- The assumptions we used in developing the plan, including assumptions regarding customer acquisition, customer retention, market needs, and the impact of our marketing initiatives, may prove incorrect;

- We may experience challenges or delays in growing our salesforce to support our growth plans or in training and incentivizing our salespeople to execute our new go-to-market approach;

- We may have difficulties in hiring and retaining employees in general due to the challenging hiring environment;

- It may be more difficult, time consuming, or expensive than we anticipate to build a robust sales pipeline, increase our brand awareness, or enhance our product distribution channels;

- We may encounter difficulties and delays in platform- and product-related initiatives to support our growth, including the buildout of our new transaction cloud platform, due to staffing and other resource constraints;

- Ongoing component shortages and shipping delays affecting our Digipass devices could negatively impact revenue and cash flow for our Security Solutions segment, which we are relying upon to help fund growth in our Digital Agreements segment; and

- Economic recession, inflation, political instability or conflict, and changes in foreign exchange rates may negatively affect our financial and operating results.

Table of Contents

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases by the Company of its shares of common stock during the first quarter of 2022:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1, 2022 through April 30, 2022	—	$ —	—	37,498,973
May 1, 2022 through May 31, 2022	169,545	$ 12.35	169,545	47,900,542
June 1, 2022 through June 30, 2022	276,516	$ 13.07	276,516	44,278,939

(1.) On May 12, 2022, the Board of Directors terminated the stock repurchase program adopted on June 10, 2020 and adopted a new stock repurchase program under which the Company is authorized to repurchase up to $50 million of our issued and outstanding shares of common stock. Share purchases under the program will take place in open market transactions or in privately negotiated transactions and may be made from time to time depending on market conditions, share price, trading volume, and other factors. The timing of the repurchases and the amount of stock repurchased in each transaction is subject to our sole discretion and will depend upon market and business conditions, applicable legal and credit requirements and other corporate considerations. The authorization is effective until May 11, 2024 unless the total amount has been used or authorization has been cancelled.

Item 6 - Exhibits

Exhibit 3.1 – Certificate of Incorporation of the Registrant, as amended

Exhibit 10.1 – 2022 Management Incentive Plan*

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 2, 2022.

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 2, 2022.

Exhibit 32.1 – Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 2, 2022.

Exhibit 32.2 – Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 2, 2022.

Exhibit 101.INS – Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

Exhibit 101.SCH – Inline XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL – Inline XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.LAB – Inline XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE – Inline XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 101.DEF – Inline XBRL Taxonomy Extension Definition Linkbase Document

Exhibit 104 – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

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*Compensatory plan or management contract.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 4, 2022.

OneSpan Inc.

/s/ Matthew P. Moynahan
Matthew P. Moynahan
Chief Executive Officer
(Principal Executive Officer)

/s/ Jan Kees van Gaalen
Jan Kees van Gaalen
Interim Chief Financial Officer
(Principal Financial Officer)

/s/ John Bosshart
John Bosshart
Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 3.1

CERTIFICATE OF AMENDMENT OF

CERTIFICATE OF INCORPORATION OF

VASCO DATA SECURITY INTERNATIONAL, INC.

VASCO Data Security International, Inc. (the "**Corporation**"), a corporation organized and existing under the General Corporation Law of the State of Delaware, hereby certifies as follows:

1. This Certificate of Amendment (the "**Certificate of Amendment**") amends the provisions of the Corporation's Certificate of Incorporation filed with the Delaware Secretary of State on July 15, 1997 (the "**Certificate of Incorporation**").

2. Article First of the Certificate of Incorporation is hereby amended and restated in its entirety as follows:

FIRST. The name of the corporation is OneSpan Inc. (hereinafter, the “Corporation”).

3. This amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

4. All other provisions of the Certificate of Incorporation shall remain in full force and effect.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by Steven R. Worth, its Secretary, this 31st day of May, 2018.

By /s/ Steven R. Worth
Steven R. Worth
Secretary

SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 01:00 PM 08/12/1997
971268904 - 2773477

CERTIFICATE OF AMENDMENT
OF

CERTIFICATE OF INCORPORATION
OF

VASCO DATA SECURITY INTERNATIONAL, INC.

Pursuant to Section 242 of the General

Corporation Law of the State of Delaware

VASCO DATA SECURITY INTERNATIONAL, INC., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

FIRST: The Certificate of Incorporation of the Corporation is hereby amended as follows:

The first paragraph of Article FOURTH is amended to read in its entirety as follows:

> "FOURTH: The total number of shares of stock which the Corporation shall have the authority to issue is 75,500,000 shares, divided into 75,000,000 shares of common stock, $.001 par value per share (hereinafter referred to as "Common Stock"), and 500,000 shares of preferred stock, $.01 par value per share (hereinafter referred to as "Preferred Stock")."

SECOND: The amendment to the Certificate of Incorporation effected hereby has been proposed by the Board of Directors of the Corporation and duly adopted by the sole stockholder of the Corporation in accordance with Section 242 of the General Corporation Law of the State of Delaware (the "DGCL") and by written consent of such sole stockholder pursuant to Section 228 of the DGCL.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by its President as of this 11th day of August, 1997.

VASCO DATA SECURITY INTERNATIONAL, INC.

By: /s/ T. Kendall Hunt
T. Kendall Hunt
President

SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 03: 00 PM 07/15/1997
971234480 - 2773477

CERTIFICATE OF INCORPORATION
OF
VASCO DATA SECURITY INTERNATIONAL, INC.

I, the undersigned, for the purposes of incorporating and organizing a corporation under the General Corporation Law of the State of Delaware (the "General Corporation Law"), do execute this Certificate of incorporation and do hereby certify as follows:

FIRST. The name of the corporation (hereinafter, the “Corporation”) is VASCO Data Security International, Inc.

SECOND. The registered office of the Corporation in the State of Delaware is located at 1209 Orange Street, in the City of Wilmington, County of New Castle 19801, and its registered agent at such address is The Corporation Trust Company.

THIRD. The purpose or purposes of the Corporation shall be to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law.

FOURTH. The total number of shares of stock which the Corporation shall have the authority to issue is Fifty Million Five Hundred Thousand (50,500,000) shares, divided into Fifty Million (50,000,000) shares of Common Stock, par value $.001 per share (hereinafter referred to as “Common Stock”) and Five Hundred Thousand (500,000) shares of Preferred Stock, par value $.01 per share (hereinafter referred to as "Preferred Stock").

COMMON STOCK

Subject to the rights of any Preferred Stock of any series issued and outstanding, each issued and outstanding share of Common Stock shall entitle the holder thereof to receive such dividends as may be declared from time to time by the Board of Directors of the Corporation (the “Board”) out of funds legally available therefor, each issued and outstanding share of Common Stock shall entitle the holder thereof to share ratably in all assets available for distribution to holders of Common Stock in the event of any liquidation, dissolution or winding up of the Corporation, and, except as otherwise provided by law, each issued and outstanding share of Common Stock shall entitle the holder thereof to cast one vote on each matter submitted to a vote of the stockholders of the Corporation.

PREFERRED STOCK

The Board is authorized, subject to limitations prescribed by law and the provisions of this Article FOURTH, to provide for the issuance of the shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such, series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof.

The authority of the Board with respect to each series shall include, but not be limited to, determination of the following: (a) The number of shares constituting that series and the distinctive designation of that series; (b) The dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, If any, of payment of dividends on shares of that series; (c) Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights; (d) Whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board shall determine; (e) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates; (f) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund; (g) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, or payment of shares of that series; (h) Any other relative rights, preferences and limitations of that series.

If, upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the assets available for distribution to holders of shares of Preferred Stock of all series shall be insufficient to pay such holders the full preferential amount to which they are entitled, then such assets shall be distributed ratably among the shares of all series of Preferred Stock in accordance with the respective preferential amounts (including unpaid cumulative dividends, if any) payable with respect thereto.

FIFTH. The Board shall have the power to adopt amend or repeal the by-laws.

SIXTH. A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law as the same exists or may hereafter be amended. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of a director of the Corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

SEVENTH. The powers of the incorporator are to terminate upon the filing of this Certificate of Incorporation with the Secretary of State of the State of Delaware. The names and mailing addresses of the persons who are to serve as the initial directors of the Corporation until the first annual meeting of stockholders of the Corporation, or until their successors are duly elected .and qualified, are:

T. Kendall Hunt
1919 S. Highland Ave., Suite 118-C
Lombard, Illinois 60148

Forrest D. Laidley
1919 S. Highland Ave., Suite 118-C
Lombard, Illinois 60148

Robert A Anderson
1919 S. Highland Ave., Suite 118-C
Lombard, Illinois 60148

Gerald Guice
1919 S. Highland Ave., Suite 118-C
Lombard, Illinois 60148

Michael A. Mulshine
1919 S. Highland Ave., Suite 118-C
Lombard, Illinois 60148

EIGHTH. The incorporator of the Corporation is Gregory T. Apple, whose mailing address is c/o VASCO CORP., 1919 S. Highland Ave., Suite l18-C, Lombard, 111inois 60148.

The undersigned incorporator hereby acknowledges that the foregoing Certificate of Incorporation is his act and deed on this the 14th day of July, I997.

Gregory T. Apple
Incorporator

Exhibit 10.1

OneSpan Inc.
2022 Management Incentive Plan (MIP)

1. PURPOSE

The purpose of the OneSpan Inc. (together with its subsidiaries, the "Company" or "OneSpan") 2022 Management Incentive Plan ("2022 MIP") is to share the success of the Company with our leaders and top performers.

2. PARTICIPATION

Employees participating in the 2022 MIP will be notified in writing. You must be hired before October 1, 2022, to be eligible to participate in the 2022 MIP.

3. OVERVIEW

Participants in the 2022 MIP are eligible to receive a cash bonus ("Bonus") based upon a combination of (1) the Company's achievement against targets for designated performance metrics ("Company Performance Factors") and (2) your individual performance (the "Individual Performance Factor"). The Company Performance Factors are weighted to account for a total of 80% of your potential Bonus amount and the Individual Performance Factor is weighted to account for 20% of your potential Bonus amount. The weighted Company Performance Factors and Individual Performance Factor are added together to create a Combined Performance Factor, which is used to calculate the amount of your Bonus. More detail on this calculation is provided below in Sections 4 and 5 of this document.

In addition to the Company Performance Factors and the Individual Performance Factor, your potential Bonus depends on your eligible target bonus amount, which may be expressed either as a fixed dollar amount or as a percentage of your base salary. If you do not know your eligible target bonus amount, please contact your manager or Human Resources.

If you joined OneSpan in 2022, your participation effective date for the 2022 MIP is your hire date and any Bonus will be pro-rated accordingly (unless otherwise set forth in your offer letter or employment agreement, if any).

4. PERFORMANCE FACTORS

Company Performance Factors - 80% of your potential Bonus amount is calculated based on the Company's achievement against specified targets for the Company Performance Factors. Company Performance Factors and associated targets are determined by the Compensation Committee (the "Compensation Committee") of the Company's Board of Directors (the "Board").

For the 2022 MIP, the two Company Performance Factors are Revenue and Adjusted EBITDA. "Revenue" refers to the Company's publicly reported revenue, and Adjusted EBITDA is defined in the Company's publicly reported earnings releases. The Revenue factor is weighted at 60% and the Adjusted EBITDA factor is weighted at 20% (for a total Company Performance Factor weighting of 80%).

2022 MIP targets and payout levels for Revenue and Adjusted EBITDA will be communicated to you separately. Different levels of achievement against the Revenue and Adjusted EBITDA targets will correspond to different Bonus payout levels, as follows:

- **Revenue**: The Company must achieve a minimum of 97.7% of the Revenue target in order for the Revenue factor to contribute to the Bonus payout calculation. A 97.7% achievement level would correspond to the minimum payout level of 50%; a 100% achievement level would correspond to the target payout level of 100%; and a 109.1% or greater achievement level would correspond to the maximum payout level of 150%.

- **Adjusted EBITDA**: The Company must achieve 100% of the Adjusted EBITDA target in order for the Adjusted EBITDA factor to contribute to the Bonus payout calculation at the target payout level of 100%. There is no payout for achievement levels below 100% of the Adjusted EBITDA target, and the maximum possible payout level for overachievement of the Adjusted EBITDA target is 150%.

For achievement levels that fall between the maximum, target, and minimum Revenue and Adjusted EBITDA achievement levels, the corresponding payout levels will be calculated using linear interpolation.

Individual Performance Factor - 20% of your potential bonus amount is calculated based on your performance against individual performance objectives set by your manager. These objectives will consist of a mix of metrics tied to the OneSpan 2.0 operational plan and other key business metrics pertinent to your role. Performance that meets expectations will correspond to a 100% payout level for the Individual Performance Factor, and performance that is below or above expectations will be adjusted accordingly.

5. EXAMPLE BONUS CALCULATIONS

Assume for purposes of these examples that your eligible target bonus amount is $15,000.

Example 1:

If the Company achieves 97.7% of the Revenue factor and 100% of the Adjusted EBITDA factor, and if your individual performance meets expectations, your Bonus will be paid out at 70% of your eligible target bonus amount, based on a Combined Performance Factor of 70%:

	Achievement Level against Target	Payout Level	Weight	Weighted Factor (Payout Level*Weight)
Company Performance Factors				
Revenue	97.7%	50%	60%	30%
Adjusted EBITDA	100%	100%	20%	20%
Individual Performance Factor	100%	100%	20%	20%
Combined Performance Factor (sum of the three weighted factors)				**70%**

The Combined Performance Factor is then applied to the $15,000 eligible target bonus amount for a Bonus payout of $10,500 (70% of $15,000).

Example 2:

If the Company achieves 100% of the Revenue factor and 90% of the Adjusted EBITDA factor, and if your individual performance meets expectations, your Bonus will be paid out at 80% of your eligible target bonus amount, based on a Combined Performance Factor of 80%:

	Achievement Level against Target	Payout Level	Weight	Weighted Factor (Payout Level*Weight)
Company Performance Factors				
Revenue	100%	100%	60%	60%
Adjusted EBITDA	90%	0%	20%	0%
Individual Performance Factor	100%	100%	20%	20%
Combined Performance Factor (sum of the three weighted factors)				**80%**

The Combined Performance Factor is then applied to the $15,000 eligible target bonus amount for a Bonus payout of $12,000 (80% of $15,000).

6. DETERMINATION OF ACHIEVEMENT

The Company expects that the assessment of achievement against Company Performance Factors and the Individual Performance Factor for 2022 will be completed during the first quarter of 2023, and that any Bonus earned would be paid out via payroll by the end of that quarter. The Company may adjust these dates depending upon the timing of its year-end audit and other factors.

Achievement against the Company Performance Factors is based on the Company's 2022 financial performance and is approved by Board or the Compensation Committee. The Board or the Compensation Committee may make adjustments to the targets for the Company Performance Factors to address the impact of any mergers, acquisitions or other unexpected activities, developments, trends or events. In addition, achievement of the targets for the Company Performance Factors may, in the Board or Compensation Committee's discretion, include or exclude the impact of any of the following events that occur during 2022: any reorganization or restructuring transactions; extraordinary nonrecurring items; and significant acquisitions or divestitures.

7. GENERAL TERMS

Unless otherwise prohibited by applicable law, any Bonus amount is not earned until it is determined based on the Company's 2022 financial performance as approved by the Board or Compensation Committee. To receive any Bonus under the 2022 MIP, and unless prohibited by applicable law, you must be actively working for the Company at the time payment is made. The 2022 MIP is valid for 2022 only and will not continue to apply for future years. Participants do not have any contractual or otherwise acquired right to MIP participation in any future years. There are no promises or guarantees of payments under the 2022 MIP, and the Company reserves the right to unilaterally alter or discontinue the program at its complete discretion, unless specifically prohibited under local law.

EXHIBIT 31.1

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

I, Matthew Moynahan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OneSpan Inc.;

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

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

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

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

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

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

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

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

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

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

Dated: August 4, 2022

/s/ Matthew P. Moynahan
Matthew P. Moynahan
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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

I, Jan Kees van Gaalen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OneSpan Inc.;

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

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

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

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

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

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

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

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

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

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

Dated: August 4, 2022

/s/ Jan Kees van Gaalen
Jan Kees van Gaalen
Interim Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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

I, Matthew Moynahan, certify, based upon a review of the Quarterly Report on Form 10-Q for OneSpan Inc. for the second quarter ended June 30, 2022, that to the best of my knowledge:

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

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

/s/ Matthew P. Moynahan
Matthew P. Moynahan
Chief Executive Officer

August 4, 2022

EXHIBIT 32.2

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

I, Jan Kees van Gaalen, certify, based upon a review of the Quarterly Report on Form 10-Q for OneSpan Inc. for the second quarter ended on June 30, 2022, that to the best of my knowledge:

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

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

/s/ Jan Kees van Gaalen
Jan Kees van Gaalen
Interim Chief Financial Officer

August 4, 2022