



OneSpan Reports Second Quarter 2022 Financial Results

August 2, 2022

- **Total revenue grew 1% year-over-year to \$52.8 million; Subscription revenue grew 26% to \$19.8 million**
- **Annual Recurring Revenue (ARR) grew 21% to \$134.3 million¹**
- **Dollar-based net expansion (DBNE) rate of 116%²**

CHICAGO--(BUSINESS WIRE)-- OneSpan Inc. (NASDAQ: OSPN), the digital agreements security company, today reported financial results for the second quarter ended June 30, 2022.

"We delivered a solid quarter with 21% ARR growth and 26% subscription revenue growth despite meaningful FX headwind," stated OneSpan CEO, Matt Moynahan. "We are just getting started with OneSpan 2.0 and are now reporting results under our two operating segments: Digital Agreements, which we plan to manage for accelerated growth, and Security Solutions, which we plan to manage for cash flow. I am confident we will unlock shareholder value as we advance our strategic plan to drive growth and profitability."

See "Segment Information" in this release for additional detail on our reportable operating segments, Digital Agreements and Security Solutions.

Second Quarter 2022 Financial Highlights

- Total revenue was \$52.8 million, an increase of 1% compared to \$52.3 million for the same quarter of 2021. Digital Agreements revenue was \$10.5 million, an increase of 10% year-over-year. Security Solutions revenue was \$42.3 million, a decrease of less than 1% year-over-year.
- Gross margin was 67% compared to 67% in the same period last year. Digital Agreements and Security Solutions gross margins were 73% and 66% compared to 70% and 66% in the same period last year, respectively.
- Total operating loss was \$8.2 million, compared to operating loss of \$8.9 million in the same period last year. Digital Agreements operating income was \$0.1 million, compared to operating loss of \$(0.8) million in the same period last year. Security Solutions operating income was \$8.6 million, compared to operating income of \$10.0 million in the same period last year.
- GAAP net loss was \$9.4 million, or \$0.23 per diluted share compared to \$6.7 million, or \$0.17 per diluted share in the same period last year.
- Non-GAAP net loss was \$4.0 million, or \$0.10 per diluted share, compared to \$1.8 million, or \$0.04 per diluted share in the same period last year.
- Adjusted EBITDA was \$(1.5) million compared to \$(1.0) million in the same period last year.
- Cash, cash equivalents and short-term investments were \$97.8 million at June 30, 2022. During the six months ended June 30, 2022, we repurchased \$5.7 million in shares of our common stock, compared to \$2.9 million in shares repurchased during the six months ended June 30, 2021.

Outlook

For the Full Year 2022, OneSpan expects:

- Revenue to meet or exceed full year 2021 revenue.
- ARR growth of 16% - 18%.
- Adjusted EBITDA to be in the range of negative \$5 million to negative \$7 million.³

Conference Call Details

In conjunction with this announcement, OneSpan Inc. will host a conference call today, August 2, 2022, at 4:30 p.m. EDT. During the conference call, Mr. Matthew Moynahan, CEO, and Mr. Jan Kees van Gaalen, interim CFO, will discuss OneSpan's results for the second quarter of 2022.

To access the conference call, dial 844-200-6205 for the U.S. or Canada and 1-929-526-1599 for international callers. The access code is 842970.

The conference call is also available in listen-only mode at investors.onespan.com. The recorded version of the conference call will be available on the OneSpan website as soon as possible following the call and will be available for replay for approximately one year.

¹ ARR is calculated as the annualized value of our customer recurring contracts with a term of at least one year, as of the measurement date. These include subscription, term-based license, and maintenance contracts and exclude one-time fees. To the extent that we are negotiating a renewal with a customer after the expiration of a recurring contract, we continue to include that revenue in ARR if we are actively in discussion with the customer for a new recurring contract or renewal, or until such customer notifies us that it is not renewing its recurring contract.

² DBNE is defined as the year-over-year growth in ARR from the same set of customers at the end of the prior year period.

³ An explanation of the use of Non-GAAP financial measures is included below under the heading "Non-GAAP Financial Measures." A reconciliation of each Non-GAAP financial measure to the most directly comparable GAAP financial measure has also been provided in the tables below. We are not providing a reconciliation of Adjusted EBITDA guidance to GAAP net income, the most directly comparable GAAP measure, because we are unable to predict certain items included in GAAP net income without unreasonable efforts.

About OneSpan

OneSpan helps organizations accelerate digital transformations by enabling secure, compliant, and refreshingly easy customer agreements and transaction experiences. Organizations requiring high assurance security, including the integrity of end-users and the fidelity of transaction records behind every agreement, choose OneSpan to simplify and secure business processes with their partners and customers. Trusted by global blue-chip enterprises, including more than 60% of the world's largest 100 banks, OneSpan processes millions of digital agreements and billions of transactions in 100+ countries annually.

For more information, go to www.onespan.com. You can also follow [@OneSpan](https://twitter.com/OneSpan) on Twitter or visit us on [LinkedIn](https://www.linkedin.com/company/onespan) and [Facebook](https://www.facebook.com/onespan).

Forward-Looking Statements

This Press Release contains forward-looking statements within the meaning of applicable U.S. securities laws, including statements regarding our plans for managing our Digital Agreements and Security Solutions segments; the outcomes we expect from our strategic transformation plan (including our ability to unlock shareholder value and drive accelerated growth and profitability); our expected financial results for full year 2022; 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.

Unless otherwise noted, references in this press release to "OneSpan", "Company", "we", "our", and "us" refer to OneSpan Inc. and its subsidiaries.

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021 (1)	2022	2021 (1)
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	<u>43,744</u>	<u>43,690</u>	<u>89,665</u>	<u>87,226</u>
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	<u>\$ (9,350)</u>	<u>\$ (6,685)</u>	<u>\$ (4,136)</u>	<u>\$ (15,836)</u>
Net loss per share				
Basic	<u>\$ (0.23)</u>	<u>\$ (0.17)</u>	<u>\$ (0.10)</u>	<u>\$ (0.40)</u>
Diluted	<u>\$ (0.23)</u>	<u>\$ (0.17)</u>	<u>\$ (0.10)</u>	<u>\$ (0.40)</u>
Weighted average common shares outstanding				
Basic	<u>40,157</u>	<u>39,694</u>	<u>39,870</u>	<u>39,692</u>
Diluted	<u>40,157</u>	<u>39,694</u>	<u>39,870</u>	<u>39,692</u>

(1) 2021 results have been revised to correct for certain immaterial misstatements. For additional information, see the "Revision of Prior Period Financial Statements" section of this press release.

OneSpan Inc.
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 \$2,048 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	<u>10,586</u>	<u>9,356</u>
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	<u>10,547</u>	<u>13,803</u>
Total assets	<u>\$ 311,909</u>	<u>\$ 342,271</u>
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

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

	Six months ended June 30,	
	2022	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	\$ 78,430	\$ 67,398

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.

- 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. Financial results by operating segment are included below under Segment and consolidated operating results.

Segment and consolidated operating results (in thousands, unaudited):

	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)

Revenue by major products and services (in thousands, unaudited):

	Three Months Ended			
	June 30, 2022		June 30, 2021	
	Digital Agreements	Security Solutions	Digital Agreements	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 and 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.

Non-GAAP Financial Measures

We report financial results in accordance with GAAP. We also evaluate our performance using certain Non-GAAP financial metrics, namely Adjusted EBITDA, Non-GAAP Net Income (Loss) and Non-GAAP Diluted Net Income Per Share. Our management believes that these measures, when taken together with the corresponding GAAP financial metrics, provide useful supplemental information regarding the performance of our business, as further discussed in the descriptions of each of these Non-GAAP metrics below.

These Non-GAAP financial measures are not measures of performance under GAAP and should not be considered in isolation or as alternatives or substitutes for the most directly comparable financial measures calculated in accordance with GAAP. While we believe that these Non-GAAP financial measures are useful for the purposes described below, they have limitations associated with their use, since they exclude items that may have a material impact on our reported results and may be different from similar measures used by other companies. Additional information about the Non-GAAP financial measures and reconciliations to their most directly comparable GAAP financial measures appear below.

Adjusted EBITDA

We define Adjusted EBITDA as net income before interest, taxes, depreciation, amortization, long-term incentive compensation, and certain non-recurring items, including acquisition related costs, lease exit costs, rebranding costs, and non-routine shareholder matters. We use Adjusted EBITDA as a simplified measure of performance for use in communicating our performance to investors and analysts and for comparisons to other companies within our industry. As a performance measure, we believe that Adjusted EBITDA presents a view of our operating results that is most closely related to serving our customers. By excluding interest, taxes, depreciation, amortization, long-term incentive compensation, and certain non-recurring items, we are able to evaluate performance without considering decisions that, in most cases, are not directly related to meeting our customers’ requirements and were either made in prior periods (e.g., depreciation, amortization, long-term incentive compensation, non-routine shareholder matters), deal with the structure or financing of the business (e.g., interest, one-time strategic action costs) or reflect the application of regulations that are outside of the control of our management team (e.g., taxes). In addition, removing the impact of these items helps us compare our core business performance with our that of our competitors

Reconciliation of Net Income (Loss) to Adjusted EBITDA (in thousands, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net income (loss)	\$ (9,350)	\$ (6,685)	\$ (4,136)	\$ (15,836)
Interest income (expense), net	(35)	(2)	(18)	(6)
Provision (benefit) for income taxes	472	(1,143)	1,645	(1,644)
Depreciation and amortization of intangible assets	1,946	2,272	4,043	4,582
Long-term incentive compensation	1,277	1,567	2,501	3,109
Non-recurring items (1)	4,150	3,025	(5,335)	3,573
Adjusted EBITDA	\$ (1,540)	\$ (966)	\$ (1,300)	\$ (6,222)

(1) For the three months ended June 30, 2022, non-recurring items consist of \$1.5 million of outside services related to our strategic action plan and \$2.7 million of severance and retention bonus costs related to our restructuring plan.

For the six months ended June 30, 2022, non-recurring items consist of \$4.2 million of outside services related to our strategic action plan, \$5.3 million of severance and retention bonus costs related to our restructuring plan, and a \$(14.8) million non-operating gain on the sale of our investment in Promon AS.

For the three months ended June 30, 2021, non-recurring items consist of \$2.3 million of outside service costs related to the proxy contest that took place in 2021 and the related \$0.7 million settlement with Legion Partners.

For the six months ended June 30, 2021, non-recurring items consist of \$2.8 million of outside service costs related to the proxy contest that took

place in 2021 and the related \$0.7 million settlement with Legion Partners.

Non-GAAP Net Income (Loss) and Non-GAAP Diluted Net Income (Loss) Per Share

We define Non-GAAP Net Income (Loss) and Non-GAAP Diluted Net Income (Loss) Per Share as net income (loss) or diluted net income (loss) per share, as applicable, before the consideration of long-term incentive compensation expenses, the amortization of intangible assets, and certain non-recurring items. We use these measures to assess the impact of our performance excluding items that can significantly impact the comparison of our results between periods and the comparison to competitor results.

Long-term incentive compensation for management and others is directly tied to performance, and this measure allows management to see the relationship of the cost of incentives to the performance of the business operations directly if such incentives are based on that period's performance. To the extent that such incentives are based on performance over a period of several years, there may be periods that have significant adjustments to the accruals in the period that relate to a longer period of time, which can make it difficult to assess the results of the business operations in the current period. In addition, the Company's long-term incentives generally reflect the use of restricted stock unit grants or cash awards, while other companies may use different forms of incentives that have different cost impacts, which makes a comparison difficult. We exclude amortization of intangible assets as we believe the amount of such expense in any given period may not be correlated directly to the performance of the business operations and that such expenses can vary significantly between periods as a result of new acquisitions, the full amortization of previously acquired intangible assets, or the write down of such assets due to an impairment event. However, intangible assets contribute to current and future revenue, and related amortization expense will recur in future periods until expired or written down.

We also exclude certain non-recurring items including one-time strategic action costs and non-recurring shareholder matters, as these items are unrelated to the operations of our core business. By excluding these items, we are better able to compare the operating results of our underlying core business from one reporting period to the next.

We make a tax adjustment based on the above adjustments resulting in an effective tax rate on a Non-GAAP basis, which may differ from the GAAP tax rate. We believe the effective tax rates we use in the adjustment are reasonable estimates of the overall tax rates for the Company under its global operating structure.

Reconciliation of Net Income (Loss) to Non-GAAP Net Income (Loss) (in thousands, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net income (loss)	\$ (9,350)	\$ (6,685)	\$ (4,136)	\$ (15,836)
Long-term incentive compensation	1,277	1,567	2,501	3,109
Amortization of intangible assets	1,217	1,534	2,599	3,107
Non-recurring items (1)	4,150	3,025	(5,335)	3,573
Tax impact of adjustments (2)	(1,329)	(1,225)	47	(1,958)
Non-GAAP net income (loss)	\$ (4,035)	\$ (1,784)	\$ (4,324)	\$ (8,005)
Non-GAAP diluted net income (loss) per share	\$ (0.10)	\$ (0.04)	\$ (0.11)	\$ (0.20)
Weighted average number of shares used to compute Non-GAAP diluted net income (loss) per share	40,157	39,694	39,870	39,692

(1) See the footnotes to the Reconciliation of Net Income (Loss) to Adjusted EBITDA for a description of the components of non-recurring items for each period presented.

(2) The tax impact of adjustments is calculated as 20% of the adjustments in all periods.

Revision of Prior Period Financial Statements

As previously disclosed, the Company identified immaterial errors related to certain costs directly attributable to the production and distribution of hardware products. The costs were not properly categorized in certain prior periods, which resulted in an understatement of product and license cost of goods sold and an overstatement of sales and marketing expense.

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 Quarterly Report on Form 10-Q and Current Report on Form 8-K for the quarterly period ended June 30, 2021. Additional information around the prior period adjustments is available in the notes to the financial statements in our forthcoming Quarterly Report on Form 10-Q for the quarter ended June 30, 2022.

To correct these immaterial errors related to prior periods, the company adjusted the prior period product and license cost of goods sold and sales and marketing expense in this earnings press release and expects to adjust the prior period amounts in future filings with the SEC.

The following table tables present the effects of the aforementioned revisions on our consolidated statements of operations for the three and six months ended June 30, 2022.

in thousands	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
	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

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