
**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, 2023

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
**(State or Other Jurisdiction of
Incorporation or Organization)**

36-4169320
**(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 Stock, par value \$0.001 per share	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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
		Smaller reporting company	<input type="checkbox"/>

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 39,978,537 shares of Common Stock, \$0.001 par value per share, outstanding at August 1, 2023.

OneSpan Inc.
Form 10-Q
For the Quarter Ended June 30, 2023
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

OneSpan Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	<u>June 30,</u>	<u>December 31,</u>
	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 83,094	\$ 96,167
Restricted cash	993	1,208
Short-term investments	—	2,328
Accounts receivable, net of allowances of \$1,552 in 2023 and \$1,600 in 2022	38,154	65,132
Inventories, net	15,003	12,054
Prepaid expenses	7,909	6,222
Contract assets	5,480	4,520
Other current assets	9,318	10,757
Total current assets	159,951	198,387
Property and equipment, net	15,599	12,681
Operating lease right-of-use assets	4,677	8,022
Goodwill	93,294	90,514
Intangible assets, net of accumulated amortization	12,628	12,482
Deferred income taxes	1,887	1,901
Other assets	10,609	11,095
Total assets	\$ 298,645	\$ 335,082
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 17,605	\$ 17,357
Deferred revenue	52,372	64,637
Accrued wages and payroll taxes	16,213	18,345
Short-term income taxes payable	2,372	2,438
Other accrued expenses	8,494	7,664
Deferred compensation	251	373
Total current liabilities	97,307	110,814
Long-term deferred revenue	4,909	6,269
Long-term lease liabilities	5,543	8,442
Long-term income taxes payable	—	2,565
Deferred income taxes	1,240	1,197
Other long-term liabilities	3,047	2,484
Total liabilities	112,046	131,771
Stockholders' equity		
Preferred stock: 500 shares authorized, none issued and outstanding at June 30, 2023 and December 31, 2022	—	—
Common stock: \$0.001 par value per share, 75,000 shares authorized; 41,017 and 40,764 shares issued; 39,979 and 39,726 shares outstanding at June 30, 2023 and December 31, 2022, respectively	40	40
Additional paid-in capital	114,073	107,305
Treasury stock, at cost, 1,038 shares outstanding at June 30, 2023 and December 31, 2022	(18,222)	(18,222)
Retained earnings	102,631	128,738
Accumulated other comprehensive loss	(11,923)	(14,550)
Total stockholders' equity	186,599	203,311
Total liabilities and stockholders' equity	\$ 298,645	\$ 335,082

See accompanying notes to 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,	
	2023	2022	2023	2022
Revenue				
Product and license	\$ 30,583	\$ 28,731	\$ 63,729	\$ 58,216
Services and other	25,150	24,059	49,611	47,021
Total revenue	55,733	52,790	113,340	105,237
Cost of goods sold				
Product and license	14,038	10,947	25,326	20,026
Services and other	7,401	6,337	14,434	13,027
Total cost of goods sold	21,439	17,284	39,760	33,053
Gross profit	34,294	35,506	73,580	72,184
Operating costs				
Sales and marketing	19,713	14,928	39,724	29,928
Research and development	10,090	11,959	19,553	24,055
General and administrative	15,826	12,952	32,479	27,736
Restructuring and other related charges	5,846	2,688	6,552	5,347
Amortization of intangible assets	583	1,217	1,166	2,599
Total operating costs	52,058	43,744	99,474	89,665
Operating loss	(17,764)	(8,238)	(25,894)	(17,481)
Interest income, net	585	35	1,088	18
Other income (expense), net	29	(675)	(11)	14,972
Loss before income taxes	(17,150)	(8,878)	(24,817)	(2,491)
Provision for income taxes	601	472	1,290	1,645
Net loss	\$ (17,751)	\$ (9,350)	\$ (26,107)	\$ (4,136)
Net loss per share				
Basic	\$ (0.44)	\$ (0.23)	\$ (0.65)	\$ (0.10)
Diluted	\$ (0.44)	\$ (0.23)	\$ (0.65)	\$ (0.10)
Weighted average common shares outstanding				
Basic	40,399	40,157	40,435	39,870
Diluted	40,399	40,157	40,435	39,870

See accompanying notes to condensed consolidated financial statements.

OneSpan Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net loss	\$ (17,751)	\$ (9,350)	\$ (26,107)	\$ (4,136)
Other comprehensive loss				
Cumulative translation adjustment, net of tax	1,025	(5,315)	2,740	(7,335)
Pension adjustment, net of tax	(61)	(22)	(121)	(47)
Unrealized gains (loss) on available-for-sale securities	1	(10)	8	(89)
Comprehensive loss	<u>\$ (16,786)</u>	<u>\$ (14,697)</u>	<u>\$ (23,480)</u>	<u>\$ (11,607)</u>

See accompanying notes to condensed consolidated financial statements.

OneSpan Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

For the Six Months Ended June 30, 2023:

Description	Common Stock		Treasury - Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2022	39,726	\$ 40	1,038	\$ (18,222)	\$ 107,305	\$ 128,738	\$ (14,550)	\$ 203,311
Net loss	—	—	—	—	—	(8,356)	—	(8,356)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	1,715	1,715
Share-based compensation	—	—	—	—	3,812	—	—	3,812
Vesting of restricted stock awards	329	—	—	—	—	—	—	—
Tax payments for stock issuances	(105)	—	—	—	(1,098)	—	—	(1,098)
Unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	—	7	7
Pension adjustment, net of tax	—	—	—	—	—	—	(60)	(60)
Balance at March 31, 2023	39,950	\$ 40	1,038	\$ (18,222)	\$ 110,019	\$ 120,382	\$ (12,888)	\$ 199,331
Net loss	—	—	—	—	—	(17,751)	—	(17,751)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	1,025	1,025
Share-based compensation	—	—	—	—	4,503	—	—	4,503
Vesting of restricted stock awards	44	—	—	—	—	—	—	—
Tax payments for stock issuances	(15)	—	—	—	(449)	—	—	(449)
Unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	—	1	1
Pension adjustment, net of tax	—	—	—	—	—	—	(61)	(61)
Balance at June 30, 2023	39,979	\$ 40	1,038	\$ (18,222)	\$ 114,073	\$ 102,631	\$ (11,923)	\$ 186,599

For the Six Months Ended June 30, 2022:

Description	Common Stock		Treasury - Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2021	40,001	\$ 40	592	(12,501)	\$ 100,250	\$ 143,173	\$ (11,182)	\$ 219,780
Net income	—	—	—	—	—	5,214	—	5,214
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(2,020)	(2,020)
Share-based compensation	—	—	—	—	1,360	—	—	1,360
Vesting of restricted stock awards	34	—	—	—	—	—	—	—
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	<u>40,021</u>	<u>\$ 40</u>	<u>592</u>	<u>\$ (12,501)</u>	<u>\$ 100,975</u>	<u>\$ 148,387</u>	<u>\$ (13,306)</u>	<u>\$ 223,595</u>
Net loss	—	—	—	—	—	(9,350)	—	(9,350)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(5,315)	(5,315)
Share-based compensation	28	—	—	—	1,253	—	—	1,253
Vesting of restricted stock awards	(6)	—	—	—	(88)	—	—	(88)
Tax payments for stock issuances	(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	<u>39,597</u>	<u>\$ 40</u>	<u>1,038</u>	<u>\$ (18,222)</u>	<u>\$ 102,140</u>	<u>\$ 139,037</u>	<u>\$ (18,653)</u>	<u>\$ 204,342</u>

OneSpan Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (26,107)	\$ (4,136)
Adjustments to reconcile net loss from operations to net cash used in operations:		
Depreciation and amortization of intangible assets	2,835	4,043
Impairments of property and equipment, net	2,087	—
Impairments of inventories, net	1,568	—
Gain on sale of equity-method investment	—	(14,810)
Deferred tax benefit	66	729
Stock-based compensation	8,315	2,613
Changes in operating assets and liabilities:		
Accounts receivable and allowance for doubtful accounts	27,307	15,429
Inventories, net	(4,299)	(465)
Contract assets	(1,017)	(1,033)
Accounts payable	35	1,202
Income taxes payable	(2,638)	(1,608)
Accrued expenses	(1,728)	(3,454)
Deferred compensation	(122)	(764)
Deferred revenue	(13,940)	(7,160)
Other assets and liabilities	1,248	(1,870)
Net cash used in operating activities	<u>(6,390)</u>	<u>(11,284)</u>
Cash flows from investing activities:		
Purchase of short-term investments	—	(15,812)
Maturities of short-term investments	2,330	30,550
Additions to property and equipment	(6,491)	(1,039)
Additions to intangible assets	(14)	(13)
Cash paid for acquisition of business	(1,800)	—
Sale of equity-method investment	—	18,874
Net cash (used in) provided by investing activities	<u>(5,975)</u>	<u>32,560</u>
Cash flows from financing activities:		
Tax payments for restricted stock issuances	(1,546)	(722)
Repurchase of common stock	—	(5,721)
Net cash used in financing activities	<u>(1,546)</u>	<u>(6,443)</u>
Effect of exchange rate changes on cash	624	(631)
Net (decrease) increase in cash	(13,287)	14,202
Cash, cash equivalents, and restricted cash, beginning of period	97,374	64,228
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 84,087</u>	<u>\$ 78,430</u>

See accompanying notes to 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 helps organizations accelerate digital transformations by enabling secure, compliant, and easy customer agreements and transaction experiences. The Company is a global leader in providing high-assurance identity and authentication security as well as enterprise-grade electronic signature (e-signature) solutions for use cases ranging from simple transactions to workflows that are complex or require higher levels of security. The Company’s solutions help its clients ensure the integrity of the people and records associated with digital agreements, transactions, and interactions in industries including banking, financial services, healthcare, and professional services. The Company offers a portfolio of products and services across identity verification, authentication, virtual interactions and transactions, and secure digital storage. 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.).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of OneSpan 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 of America (“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, 2022.

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. Operating results for the three and six months ended June 30, 2023 are not necessarily indicative of the results to be expected for any future period or the entire fiscal year.

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

Business Transformation

In May 2022, the Company announced a three-year strategic transformation plan that began on January 1, 2023. In conjunction with the strategic transformation plan and to enable a more efficient capital deployment model, effective with the quarter ended June 30, 2022, the Company began reporting under the following two lines of business, which are its reportable operating segments: Digital Agreements and Security Solutions.

During the six months ended June 30, 2023, and as a result of the ongoing strategic transformation, the Company refined its allocation methodology to better align internal and external costs more directly to where the employee efforts and company resources are being spent on each segment. While the Company’s consolidated results will not be impacted, the Company has recast its segment information for the three and six months ended June 30, 2022 for comparable presentation.

For further information regarding the Company’s reportable segments, see Note 3, *Segment Information*.

Estimates and Assumptions

The preparation of the condensed consolidated 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 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 (expense) income, net. Foreign exchange transaction losses aggregated \$0.2 million and \$0.4 million for the three and six months ended June 30, 2023, respectively. Foreign exchange transaction losses aggregated \$0.9 million and \$1.3 million for the three and six months ended June 30, 2022, respectively.

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, 2022, filed with the SEC on February 28, 2023 that have had a material impact on the Company's condensed consolidated financial statements and related notes.

Restricted Cash

The Company is party to lease agreements that require letters of credit to secure the obligations which totaled \$0.9 million and \$1.1 million at June 30, 2023 and December 31, 2022, respectively. Additionally, the Company maintained a cash guarantee with a payroll vendor in the amount of \$0.1 million at both June 30, 2023 and December 31, 2022. The restricted cash related to the letters of credit and the payroll vendor cash guarantee is recorded in "Restricted cash" on the condensed consolidated balance sheets.

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, the Company believes that the issued standards that are not yet effective will not have a material impact on its condensed consolidated financial statements and disclosures upon adoption.

Note 3 – Segment Information

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. The Company's CODM is its Chief Executive Officer.

- **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 OneSpan Sign e-signature and OneSpan Notary. This segment also includes costs attributable to our transaction cloud platform.
- **Security Solutions.** Security Solutions consists of our broad portfolio of software products, software development kits (SDKs) and Digipass authenticator devices that are used to build applications designed to defend against attacks on digital transactions across online environments, devices, and applications. The software products and SDKs included in the Security Solutions segment are largely on-premises software products and include identity verification, multi-factor authentication and transaction signing solutions, such as mobile application security and mobile software tokens.

Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue, sales and marketing, research and development expenses, amortization expense, and restructuring and other related charges 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.

Prior to 2023, the Company allocated certain cost of goods sold and operating expenses to its two reportable operating segments using a direct cost allocation and an allocation based on revenue split between the segments. During the three months ended March 31, 2023, and as a result of the ongoing strategic transformation, the Company refined its allocation methodology to better align internal and external costs more directly to where the employee efforts are being spent on each segment moving forward. As a result of this change, there was an increase in cost of goods sold and operating expenses being allocated to the Digital Agreements segment, which better aligns with the investments the Company is making to grow that segment as compared to its Security Solutions segment.

Effective with the three months ended September 30, 2022, the Company began allocating amortization of intangible assets expense to operating income (loss) for each of its reportable operating segments in order to better align the expense with the operations of each segment. The Company has updated segment operating income (loss) for the three and six months ended June 30, 2022 to reflect the change in presentation. The allocation change had no impact to the Company's condensed consolidated financial statements.

The tables below set forth information about the Company's reportable operating segments for the three and six months ended June 30, 2023 and 2022, along with the items necessary to reconcile the segment information to the totals reported in the accompanying condensed consolidated financial statements.

<i>(In thousands, except percentages)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Digital Agreements				
Revenue	\$ 11,862	\$ 10,454	\$ 23,414	\$ 23,755
Gross profit	\$ 8,583	\$ 7,647	\$ 17,031	\$ 17,933
Gross margin	72 %	73 %	73 %	75 %
Operating income (loss) (1)	\$ (7,121)	\$ (462)	\$ (13,154)	\$ 664
Security Solutions				
Revenue	\$ 43,871	\$ 42,336	\$ 89,926	\$ 81,482
Gross profit	\$ 25,711	\$ 27,859	\$ 56,549	\$ 54,251
Gross margin	59 %	66 %	63 %	67 %
Operating income (2)	\$ 8,523	\$ 7,999	\$ 24,154	\$ 15,688
Total Company:				
Revenue	\$ 55,733	\$ 52,790	\$ 113,340	\$ 105,237
Gross profit	\$ 34,294	\$ 35,506	\$ 73,580	\$ 72,184
Gross margin	62 %	67 %	65 %	69 %
Statements of Operations reconciliation:				
Segment operating income	\$ 1,402	\$ 7,537	\$ 11,000	\$ 16,352
Corporate operating expenses not allocated at the segment level	(19,166)	(15,775)	(36,894)	(33,833)
Operating loss	\$ (17,764)	\$ (8,238)	\$ (25,894)	\$ (17,481)
Interest income, net	585	35	1,088	18
Other income (expense), net	29	(675)	(11)	14,972
Loss before income taxes	\$ (17,150)	\$ (8,878)	\$ (24,817)	\$ (2,491)

(1) Digital Agreements operating income includes \$0.6 million of amortization of intangible assets expense for the three months ended June 30, 2023 and 2022, respectively and \$1.1 million of amortization of intangible assets expense for the six months ended June 30, 2023 and 2022, respectively.

(2) Security Solutions operating income includes \$0 million and \$0.6 million of amortization of intangible assets expense for the three months ended June 30, 2023 and 2022, respectively, and \$0 and \$1.5 million of amortization of intangible assets expense for the six months ended June 30, 2023 and 2022, respectively.

The following tables illustrate the disaggregation of revenues by category and services, including a reconciliation of the disaggregated revenues to revenues from the Company's two reportable operating segments for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,			
	2023		2022	
	Digital Agreements	Security Solutions	Digital Agreements	Security Solutions
<i>(In thousands)</i>				
Subscription	\$ 10,486	\$ 12,499	\$ 8,736	\$ 11,093
Maintenance and support	1,130	10,473	1,408	10,770
Professional services and other (1)	246	1,253	310	1,690
Hardware products	—	19,646	—	18,783
Total Revenue	<u>\$ 11,862</u>	<u>\$ 43,871</u>	<u>\$ 10,454</u>	<u>\$ 42,336</u>

	Six Months Ended June 30,			
	2023		2022	
	Digital Agreements	Security Solutions	Digital Agreements	Security Solutions
<i>(In thousands)</i>				
Subscription	\$ 20,834	\$ 32,107	\$ 20,407	\$ 22,691
Maintenance and support	2,126	20,638	2,760	21,364
Professional services and other (1)	454	2,669	588	3,293
Hardware products	—	34,512	—	34,134
Total Revenue	<u>\$ 23,414</u>	<u>\$ 89,926</u>	<u>\$ 23,755</u>	<u>\$ 81,482</u>

(1) Professional services and other includes perpetual software licenses revenue, which was less than 2% of total revenue for the three and six months ended June 30, 2023 and 2022, respectively.

The Company allocates goodwill by reporting unit, in accordance with Accounting Standards Codification (ASC) 350 – *Goodwill and Other*. Asset information by segment is not reported to or reviewed by the CODM to allocate resources, and therefore, the Company has not disclosed asset information for the segments.

Note 4 – Revenue from Contracts with Customers
Revenue by major products and services

The following tables present the Company's revenues disaggregated by major products and services, geographical region and timing of revenue recognition:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(In thousands)</i>				
Subscription	\$ 22,985	\$ 19,829	\$ 52,941	\$ 43,098
Maintenance and support	11,603	12,178	22,764	24,124
Professional services and other (1)	1,499	2,000	3,123	3,881
Hardware products	19,646	18,783	34,512	34,134
Total Revenue	<u>\$ 55,733</u>	<u>\$ 52,790</u>	<u>\$ 113,340</u>	<u>\$ 105,237</u>

(1) Professional services & other includes perpetual software licenses revenue, which was less than 2% of total revenue for the three and six months ended June 30, 2023 and 2022, respectively.

Revenue by location of customer for the Three and Six Months Ended June 30, 2023 and 2022

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 North, Central, and South America; and 3) Asia Pacific (APAC), which includes Australia, New Zealand, and India. The breakdown of revenue in each of our major geographic areas was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(In thousands, except percentages)</i>				
Revenue				
EMEA	\$ 26,539	\$ 23,521	\$ 54,359	\$ 48,397
Americas	18,331	19,329	38,829	36,578
APAC	10,863	9,940	20,152	20,262
Total revenue	<u>\$ 55,733</u>	<u>\$ 52,790</u>	<u>\$ 113,340</u>	<u>\$ 105,237</u>
% of Total Revenue				
EMEA	48 %	44 %	48 %	46 %
Americas	33 %	37 %	34 %	35 %
APAC	19 %	19 %	18 %	19 %

Timing of revenue recognition

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(In thousands)</i>				
Products and Licenses transferred at a point in time	\$ 30,583	\$ 28,731	\$ 63,729	\$ 58,216
Services transferred over time	25,150	24,059	49,611	47,021
Total Revenue	<u>\$ 55,733</u>	<u>\$ 52,790</u>	<u>\$ 113,340</u>	<u>\$ 105,237</u>

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers as of June 30, 2023 and December 31, 2022:

<i>(In thousands)</i>	June 30, 2023	December 31, 2022
Receivables, inclusive of trade and unbilled	\$ 38,154	\$ 65,132
Contract Assets (current and non-current)	\$ 5,708	\$ 4,642
Contract Liabilities (Deferred Revenue current and non-current)	\$ 57,281	\$ 70,906

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 over a 2 to 5 year period. 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, the Company does not adjust the promised amount of consideration for the effects of a significant financing component when it is expected, at contract inception, that the period between the Company's 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. Extended payment terms are not typically included in contracts with customers.

Revenue recognized during the six months ended June 30, 2023 included \$43.1 million that was included on the December 31, 2022 consolidated balance sheet in contract liabilities. Deferred revenue decreased in the same period due to timing of annual renewals.

Transaction price allocated to the remaining performance obligations

Remaining performance obligations represent the revenue that is expected to be recognized in future periods related to performance obligations that are unsatisfied, or partially unsatisfied, as of the end of the period. The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of June 30, 2023:

<i>(In thousands)</i>	2023	2024	2025	Beyond 2025	Total
Future revenue related to current unsatisfied performance obligations	\$ 21,056	\$ 24,663	\$ 11,922	\$ 7,028	\$ 64,669

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 up to seven years, which is the determined benefit period based on the transfer of goods or services. The Company determined the period of benefit by taking into consideration the customer contracts, its 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:

<i>(In thousands)</i>	June 30, 2023	December 31, 2022
Capitalized costs to obtain contracts, current	\$ 3,112	\$ 2,929
Capitalized costs to obtain contracts, non-current	\$ 10,086	\$ 10,571

<i>(In thousands)</i>	Three Months Ended June 30,	
	2023	2022
Amortization of capitalized costs to obtain contracts	\$ 754	\$ 555
Impairments of capitalized costs to obtain contracts	\$ —	\$ —

Note 5 – 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 first-in, first-out (FIFO) method.

Inventories, net consist of the following:

<i>(In thousands)</i>	June 30, 2023	December 31, 2022
Component parts (1)	\$ 9,211	\$ 6,762
Work-in-process and finished goods	5,792	5,292
Total	\$ 15,003	\$ 12,054

(1) In conjunction with the Company's decision to discontinue investments in its Digipass CX product (see Note 16, *Restructuring and Other Related Charges*), non-cash impairment charges of \$1.6 million for component parts, net, were recorded in "Cost of goods sold, Product and license" on the condensed consolidated statements of operations for the three and six months ended June 30, 2023.

Note 6 – Goodwill

The following table presents the changes in goodwill during the six months ended June 30, 2023:

<i>(In thousands)</i>	Digital Agreements	Security Solutions	Total
Net balance at December 31, 2022	\$ 19,732	\$ 70,782	\$ 90,514
Foreign currency exchange rate effect	475	1,704	2,179
Acquisition during the period (1)	\$ 601	\$ —	\$ 601
Net balance at June 30, 2023	\$ 20,808	\$ 72,486	\$ 93,294

(1) Represents goodwill recorded in conjunction with the acquisition of substantially all the assets of the ProvenDB business of Southbank Software Pty Ltd. during the six months ended June 30, 2023. See Note 17, *Business Acquisitions*, for additional information.

No impairment of goodwill was recorded during the six months ended June 30, 2023 and 2022.

Note 7 – Intangible Assets

Intangible assets as of June 30, 2023 and December 31, 2022 consist of the following:

<i>(In thousands)</i>	Useful Life (in years)	As of June 30, 2023		As of December 31, 2022	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Acquired technology	3 to 7	\$ 43,698	\$ 42,290	\$ 42,022	\$ 41,894
Customer relationships	5 to 12	34,731	24,793	34,386	23,323
Patents, trademarks, and other	10 to 20	13,553	12,271	13,518	12,227
Total		\$ 91,982	\$ 79,354	\$ 89,926	\$ 77,444

Amortization expense was \$0.6 million and \$1.2 million for the three months ended June 30, 2023 and 2022, respectively, and \$1.2 million and \$2.6 million for the six months ended June 30, 2023 and 2022, respectively.

Certain intangible assets are denominated in functional currencies besides the U.S. dollar and are subject to currency fluctuations.

There was no impairment of intangible assets recorded during the six months ended June 30, 2023 and 2022.

Note 8 – Property and Equipment, net

The following table presents the major classes of property and equipment, net, as of June 30, 2023 and December 31, 2022:

<i>(In thousands)</i>	June 30, 2023	December 31, 2022
Office equipment and software	\$ 8,776	\$ 14,451
Leasehold improvements	8,602	9,927
Furniture and fixtures	3,754	4,260
Capitalized software	8,187	4,007
Total	29,319	32,645
Accumulated depreciation	(13,720)	(19,964)
Property and equipment, net	\$ 15,599	\$ 12,681

Depreciation expense was \$0.8 million and \$1.4 million for the three and six months ended June 30, 2023, respectively, compared to \$0.7 million and \$1.4 million for the three and six months ended June 30, 2022, respectively.

As part of the Company's decision to discontinue investments in its Digipass CX product (see Note 16, *Restructuring and Other Related Charges*), non-cash impairment charges of \$1.4 million for capitalized software were recorded in "Restructuring and other related charges" on the condensed consolidated statements of operations for the three and six months ended June 30, 2023.

In conjunction with the Company's Chicago office lease abandonment (see Note 16, *Restructuring and Other Related Charges*), non-cash impairment charges of \$0.6 million for leasehold improvements and \$0.1 million for office equipment and software were recorded in "Restructuring and other related charges" on the condensed consolidated statements of operations for the three and six months ended June 30, 2023.

Note 9 – Fair Value Measurements

The following tables summarize the Company's financial assets by level in the fair value hierarchy, which are measured at fair value on a recurring basis, as of June 30, 2023 and December 31, 2022:

<i>(In thousands)</i>	Fair Value Measurement at Reporting Date Using			
	June 30, 2023	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 Bills	\$ 22,444	—	\$ 22,444	—
Commercial Paper	\$ 13,277	—	\$ 13,277	—
U.S. Treasury Notes	\$ 2,596	—	\$ 2,596	—
Money Market Funds	\$ 61	—	\$ 61	—

<i>(In thousands)</i>	Fair Value Measurement at Reporting Date Using			
	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money Market Funds	\$ 28,388	—	\$ 28,388	—
Commercial Paper	\$ 6,743	—	\$ 6,743	—
Corporate Notes / Bonds	\$ 2,328	—	\$ 2,328	—

The Company classifies its investments in debt securities as available-for-sale. The Company reviews available-for-sale debt securities for impairments related to losses and other factors each quarter. The unrealized gains and losses on the available-for-sale debt securities were not material as of June 30, 2023 and December 31, 2022.

The Company did not have any transfers of assets between Level 1 and Level 2 or Level 3 of the fair value hierarchy during six months ended June 30, 2023. Also, the Company did not have any financial liabilities that are measured at fair value on a recurring basis as of June 30, 2023 and December 31, 2022.

The Company's non-financial assets and liabilities, which include goodwill and long-lived assets held and used, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required, the Company would evaluate the non-financial assets and liabilities for impairment. If an impairment was to occur, the asset or liability would be recorded at its estimated fair value. No impairment was recorded during the six months ended June 30, 2023 and 2022.

Note 10 – Allowance for Credit Losses

The changes in the allowance for credit losses during the six months ended June 30, 2023 were as follows:

<i>(In thousands)</i>		
Balance at December 31, 2022	\$	1,600
Provision		204
Write-offs		(252)
Balance at June 30, 2023	\$	<u>1,552</u>

During the six months ended June 30, 2023, the Company wrote off \$0.3 million of accounts receivable that were fully reserved for and no longer deemed collectible.

Note 11 – Leases

Operating lease cost details for the three and six months ended June 30, 2023 and 2022 are as follows:

	Three Months Ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
<i>(In thousands)</i>				
Building rent	\$ 478	\$ 521	\$ 1,001	\$ 1,096
Automobile rentals	316	361	566	581
Total net operating lease costs	\$ 794	\$ 882	\$ 1,567	\$ 1,677

At June 30, 2023, the Company's weighted average remaining lease term for its operating leases is 4.4 years, and the weighted average discount rate for its operating leases is 5%.

During the six months ended June 30, 2023, there were \$1.5 million of operating cash payments for lease liabilities, and \$0.2 million of right-of-use assets obtained in exchange for new lease liabilities.

As part of its multiyear restructuring plan (see Note 16, *Restructuring and Other Related Charges*), the Company vacated its Chicago office space and abandoned the underlying leases during the three months ended June 30, 2023. The Company accrued a \$1.4 million early lease termination fee, which is reflected on the condensed consolidated statements of operations for the three and six months ended June 30, 2023 in "Restructuring and other related charges". The underlying lease right-of-use asset and lease liability for the Chicago leased office space were written off, and a \$0.3 million gain related to rent concessions and tenant improvement allowances was recorded on the condensed consolidated statements of operations for the three and six months ended June 30, 2023 in "Restructuring and other related charges".

Maturities of the Company's operating leases as of June 30, 2023 are as follows:

	As of June 30, 2023
<i>(In thousands)</i>	
2023	\$ 1,366
2024	2,041
2025	1,164
2026	1,071
2027	886
Later years	1,246
Less imputed interest	(779)
Total lease liabilities	\$ 6,995

Note 12 – Income Taxes

The Company's estimated annual effective tax rate for 2023 before discrete items and excluding entities with a valuation allowance is expected to be approximately 25%. The Company's global effective tax rate is higher than the U.S. statutory tax rate of 21% primarily due to nondeductible expenses. The ultimate tax expense will depend on the mix of earnings in various jurisdictions. Income taxes, net of refunds, of \$3.8 million were paid during the six months ended June 30, 2023. Income taxes, net of refunds, of \$2.0 million were paid during the six months ended June 30, 2022.

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 its operations, the Company evaluates whether it is more likely than not that the tax benefits related to NOLs will be realized. As part of this evaluation, the Company considers 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, the Company does not recognize a corresponding tax benefit, thus increasing its effective tax rate, or decreasing its 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, the Company will reduce the tax valuation allowances related to these NOLs, which will result in a reduction of its income tax expense and its effective tax rate in the period.

At December 31, 2022, the Company had deferred tax assets of \$46.8 million resulting from U.S., foreign and state NOL carryforwards of \$125.7 million and other foreign deductible carryforwards of \$124.2 million. At December 31, 2022, the Company had a valuation allowance of \$37.7 million against deferred tax assets related to certain carryforwards.

Note 13 – Long-Term Compensation Plan and Stock Based Compensation (share counts in thousands)

Under the OneSpan Inc. 2019 Omnibus Incentive Plan, the Company awards 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.

The Company awarded 1.0 million restricted stock units during the six months ended June 30, 2023, subject to time-based vesting. The fair value of the unissued time-based restricted stock unit grants was \$13.1 million at the dates of grant and the grants are being amortized over the vesting periods of one to three years.

The Company awarded restricted stock units subject to the achievement of service and future performance criteria during the six months ended June 30, 2023, which allow for up to 0.9 million shares to be earned if the performance criteria are achieved at the target level. The fair value of these awards was \$12.8 million at the dates of grant and the awards are being amortized over the requisite service period of one to three years. The Company currently believes that approximately 63% of these shares are expected to be earned.

During the six months ended June 30, 2022, stock-based compensation and other long-term incentive plan compensation accruals were reversed for employees who were terminated. The reversal of the accrued long-term incentive plan compensation for the terminated employees largely offset the expense for the period.

The following table presents stock-based compensation expense and other long-term incentive plan compensation expense for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(In thousands)</i>				
Stock-based compensation	\$ 4,503	\$ 1,253	\$ 8,315	\$ 2,613
Other long-term incentive plan compensation	68	24	179	(112)
Total compensation	\$ 4,571	\$ 1,277	\$ 8,494	\$ 2,501

Note 14 – Earnings per Share

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, 2023 and 2022, diluted net loss per share for the period excludes the effects of common stock equivalents, which are anti-dilutive.

The details of the earnings per share calculations for the three and six months ended June 30, 2023 and 2022 are as follows:

<i>(In thousands, except per share data)</i>	Three Months Ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Net loss	\$ (17,751)	\$ (9,350)	\$ (26,107)	\$ (4,136)
Weighted average common shares outstanding:				
Basic	40,399	40,157	40,435	39,870
Incremental shares with dilutive effect:				
Restricted stock awards	—	—	—	—
Diluted	40,399	40,157	40,435	39,870
Net loss per share:				
Basic	\$ (0.44)	\$ (0.23)	\$ (0.65)	\$ (0.10)
Diluted	\$ (0.44)	\$ (0.23)	\$ (0.65)	\$ (0.10)

Note 15 – Legal Proceedings and Contingencies

The Company is subject to certain legal proceedings and claims incidental to the operations of its business. The Company is also subject to certain other legal proceedings and claims that have arisen in the ordinary course of business and that have not been fully adjudicated. The Company currently does not anticipate that these matters, if resolved against the Company, will have a material adverse impact on its financial results or financial condition.

The Company accrues loss contingencies when losses become probable and are reasonably estimable. As of June 30, 2023, the Company has recorded an accrual of \$1.5 million for loss contingencies.

The Company does not accrue for contingent losses that, in the judgment of the Company, are considered to be reasonably possible, but not probable. As of June 30, 2023, the Company does not have any reasonably possible losses for which an estimate can be made. Although the Company intends to defend its legal matters vigorously, the ultimate outcome of these matters is uncertain. However, the Company does not expect the potential losses, if any, to have a material adverse impact on its operating results, cash flows, or financial condition.

Note 16 – Restructuring and Other Related Charges

In December 2021, the Company's Board of Directors (the "Board") approved a restructuring plan ("Plan") designed to advance the Company's operating model, streamline its business, improve efficiency, and enhance its capital resources. As part of the first phase of the Plan, the Company reduced headcount by eliminating positions in certain areas of its organization. The first phase of the Plan 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 is designed to continue to advance the same objectives as the first phase of the Plan.

In connection with the Plan, the Company recorded \$5.8 million and \$6.6 million in "Restructuring and other related charges" in the condensed consolidated statements of operations for the three and six months ended June 30, 2023, respectively, and \$2.7 million and \$5.3 million for the three and six months ended June 30, 2022, respectively.

The main categories of charges are in the following areas:

- Employee costs – include severance, related benefits, and retention pay costs incurred as a result of eliminating positions in certain areas of the Company. For the three and six months ended June 30, 2023, severance-related costs were \$2.4 million and \$3.1 million, respectively. In total, there were approximately 140 employees, across multiple functions, whose positions were made redundant. The \$3.7 million current portion of the restructuring liability at June 30, 2023 is included in "Accrued wages and payroll taxes" in the condensed consolidated balance sheet and is expected to be paid within the next 12 months. The \$0.6 million non-current portion is included in "Other long-term liabilities" in the condensed consolidated balance sheet and is expected to be paid within the

next 24 months.

- Real estate rationalization costs – include costs to align the real estate footprint with the Company’s needs. The Company vacated its Chicago office space and abandoned the underlying leases during the three months ended June 30, 2023, and accrued contract termination fees of \$1.4 million. The \$0.7 million current portion of the restructuring liability at June 30, 2023 is included in "Other accrued expenses" in the condensed consolidated balance sheet and is expected to be paid within the next 12 months. The \$0.7 million non-current portion is included in "Long-term lease liabilities" in the condensed consolidated balance sheet and is expected to be paid within the next 18 months. In conjunction with the abandonment of the Chicago leases, the underlying right-of-use assets and liability were written off and recorded a \$0.3 million gain that related to rent concessions and tenant improvement allowances. The Company also incurred a \$0.7 million non-cash impairment charge for fixed assets in its Chicago leased office space (See Note 8, *Property and Equipment, net*).
- Product and services optimization costs - include costs to discontinue products and services that are no longer advancing the Company's operating model. The Company made the decision to discontinue investments in its Digipass CX product and incurred \$1.4 million of non-cash impairment charges for capitalized software. The charges are recorded in "Restructuring and other related charges" on the condensed consolidated statements of operations for the three and six months ended June 30, 2023 (See Note 8, *Property and Equipment, net*).
- Vendor rationalization costs – include costs for contractually committed services the Company is no longer utilizing. For the three and six months ended June 30, 2023, these costs totaled \$0.2 million and are included in "Restructuring and other related charges" on the condensed consolidated statements of operations for the three and six months ended June 30, 2023.

The table below sets forth the changes in the carrying amount of our restructuring charge liability by restructuring type for the six months ended June 30, 2023.

<i>(In thousands)</i>	<u>Employee Costs</u>	<u>Real Estate Rationalization</u>	<u>Total</u>
Balance as of December 31, 2022	\$ 3,596	\$ —	\$ 3,596
Additions	3,132	1,795	4,927
Payments	(2,402)	(358)	(2,760)
Balance as of June 30, 2023	<u>\$ 4,326</u>	<u>\$ 1,437</u>	<u>\$ 5,763</u>

Note 17 – Business Acquisitions

On February 22, 2023, the Company acquired substantially all of the assets of the ProvenDB business of Southbank Software Pty Ltd. ("ProvenDB") under the terms of an asset purchase agreement. Pursuant to the terms of the asset purchase agreement, the total consideration for the acquisition was \$2.0 million, of which \$1.8 million was paid in cash at closing. The remaining \$0.2 million was held back as security for any indemnity claims made by the Company, and to the extent not used to satisfy such claims, will be paid to the seller 12 months after the acquisition date.

ProvenDB is a developer of secure storage that leverages blockchain technology in order to prevent data tampering or alteration of documents. The technology acquired in the acquisition is expected to provide a foundational architecture for future blockchain-based digital solutions, including secure storage.

As of June 30, 2023, the Company is still determining the purchase price allocation. A preliminary purchase price allocation of the fair value of the assets acquired and liabilities assumed is included in the table below. These estimates are subject to change and may result in an increase in goodwill with regard to our estimates of the acquired assets and assumed liabilities during the measurement period, which may extend up to one year from the acquisition date.

ProvenDB is allocated entirely to our Digital Agreements reportable operating segment.

<i>(In thousands)</i>	As of Date of Opening Balance Sheet	
Net assets acquired:		
Acquired technology	\$	1,447
Accrued wages and payroll taxes		(47)
Goodwill		600
Total net assets acquired	\$	<u>2,000</u>
Consideration	\$	<u>2,000</u>

The financial impact of this acquisition was not material to our condensed consolidated financial statements, and therefore, we have not presented pro forma results of operations for the acquisition.

Note 18 – Subsequent Events

On August 3, 2023, the Board of Directors of the Company approved cost reduction actions (the “Actions”) intended to achieve greater operational efficiency, drive higher levels of adjusted EBITDA, and strengthen the Company’s ability to create value for its shareholders over the long term.

The Company anticipates incurring restructuring charges in connection with the Actions, and expects that these charges will consist primarily of charges related to employee transition and severance payments, employee benefits and retention related payments, and share-based compensation, with a significantly smaller amount of charges relating to vendor contract termination and rationalization actions.

The workforce related component of the Actions is expected to be substantially complete by mid-2024, subject to local law and consultation requirements. The vendor contract component of the Actions is planned for completion by the end of 2025.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

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.

This commentary should be read in conjunction with the condensed consolidated financial statements and related notes thereto of OneSpan for the periods ended June 30., 2023 and 2022 as well as our consolidated financial statements and related notes thereto and management's discussion and analysis of financial condition and results of operations in our Annual Report on Form 10-K for the year ended December 31, 2022 (the "Form 10-K").

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 and our recently approved cost reduction actions, including the ability of those actions and restructuring plan originally approved in December 2021 to enable us to accelerate adjusted EBITDA growth, enable us to return capital to stockholders, and drive value creation by growing profitably over the long term; estimates concerning the timing and amount of savings, adjusted EBITDA improvements, and/or restructuring charges that may result the recently approved cost reduction actions and our prior restructuring plan; our plans for managing our Digital Agreements and Security Solutions segments; our expectations regarding our use of technology acquired in our ProvenDB acquisition or other acquisitions we may complete in the future; expectations about trends in our cost of goods sold, gross margin, and sales and marketing, research and development, and general and administrative expenses; the impact of foreign currency rate fluctuations; expectations regarding sources and uses of cash; and our general expectations regarding our operational or 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", "confident", 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. Important factors that could materially affect our business and financial results include, but are not limited to: our ability to execute our strategic transformation plan and the additional actions under our restructuring plan in the expected timeframe and to achieve the outcomes we expect from them; unintended costs and consequences of our revised restructuring plan, including higher than anticipated restructuring charges, disruption to our operations, litigation or regulatory actions, reduced employee morale, attrition of valued employees, adverse effects on our reputation as an employer, loss of institutional know-how, slower customer service response times, and reduced ability to complete or undertake new product development projects and other business, product, technical, compliance or risk mitigation initiatives; our ability to attract new customers and retain and expand sales to existing customers; our ability to effectively develop and expand our sales and marketing capabilities; our ability to hire, train, and retain sales and other employees necessary to implement our strategic transformation plan; our ability to successfully develop and market new product offerings and product enhancements; the loss of one or more large customers; difficulties enhancing and maintaining our brand recognition; competition; lengthy sales cycles; departures of senior management or other key employees; changes in customer requirements; interruptions or delays in the performance of our products and solutions; real or perceived malfunctions or errors in our products; the potential effects of technological changes; economic recession, inflation, and political instability; our ability to effectively manage third party partnerships, acquisitions, divestitures, alliances, or joint ventures; security breaches or cyber-attacks; claims that we have infringed the intellectual property rights of others; litigation or regulatory actions; 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 other factors described in the "Risk Factors" section of our most recent Annual Report on Form 10-K, as updated by the "Risk Factors" section of this Quarterly Report on Form 10-Q. 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.

Our website address is included in this Quarterly Report on Form 10-Q as an inactive textual reference only.

Overview

OneSpan helps organizations accelerate digital transformations by enabling secure, compliant, and refreshingly easy digital customer agreements and transaction experiences. We deliver digital agreement products and services that automate and secure customer-facing and revenue-generating business processes. Our solutions help organizations streamline and secure user experiences, which in turn allows them to drive growth, reduce risk, and unlock their business potential.

We are a global leader in providing high-assurance identity and authentication security as well as enterprise-grade electronic signature (e-signature) solutions, for use cases ranging from simple transactions to workflows that are complex or require higher levels of security. Our solutions help our clients ensure the integrity of the people and records associated with digital agreements, transactions, and interactions in industries including banking, financial services, healthcare and professional services. We are trusted by global blue-chip enterprises, including more than 60% of the world's largest 100 banks, and process millions of digital agreements and billions of transactions in more than 100 countries annually.

Our solutions are powered by a portfolio of products and services across identity verification, authentication, virtual interactions and transactions, and secure digital storage. These products and services can be acquired and embedded individually within enterprise business workflows or assembled into tailored solutions for simple yet secure business-to-business, business-to-employee, and business-to-customer experiences.

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. 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 transformation. In May 2022, we announced a three-year strategic transformation plan that began on January 1, 2023 (the "Strategic Plan"). In conjunction with the Strategic Plan and to enable a more efficient capital deployment model, effective with the quarter ended June 30, 2022, we began reporting under the following two lines of business, which are 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 OneSpan Sign e-signature and OneSpan Notary. This segment also includes costs attributable to our transaction cloud platform.
- **Security Solutions.** Security Solutions consists of our broad portfolio of software products, software development kits (SDKs) and Digipass authenticator devices that are used to build applications designed to defend against attacks on digital transactions across online environments, devices, and applications. The software products and SDKs included in the Security Solutions segment are largely on-premises software products and include identity verification, multi-factor authentication and transaction signing solutions, such as mobile application security and mobile software tokens.

In connection with the Strategic Plan, during the six months ended June 30, 2023 we changed our methodology for allocating expenses between the segments to better reflect the shift in employee time, effort, and costs toward supporting the growth of our Digital Agreements segment instead of our Security Solutions segment.

During the quarter ended June 30, 2023, we determined that it will take longer than originally expected to achieve the revenue growth levels contemplated by our Strategic Plan. It has been more time consuming than we projected to build our Digital Agreements sales pipeline, generate demand for our Digital Agreements solutions through marketing efforts, and improve our sales force productivity levels. A number of factors have contributed to the challenges achieving the originally planned growth levels on the timeframes set forth in the Strategic Plan, including: macroeconomic uncertainties, which have resulted in longer sales cycles and greater price sensitivity on the part of customers; increasing maturity and competitiveness in the market for e-signature solutions; and higher pricing aggressiveness from competitors in recent months.

As a result of the additional insights we have gained into our business transformation process, our Board of Directors (the "Board") recently approved cost reduction actions to seek to drive higher levels of adjusted EBITDA while maintaining our long-term growth potential. Please see "Recent Developments" below for further information about these cost reduction actions. We intend to continue to pursue the overall strategy set forth in our original Strategic Plan while implementing adjustments to our operating model that are intended to achieve greater operational efficiency, drive higher levels of adjusted EBITDA, and strengthen OneSpan's ability to create value for our shareholders over the long term.

Our updated Strategic Plan, the cost reduction actions we are undertaking, and our restructuring plan originally adopted in December 2021 involve numerous risks and uncertainties. For additional details please see Item IA, Risk Factors, below and Part 1, Item 1A, Risk Factors in our Form 10-K.

Restructuring Plan

In December 2021, our Board approved a restructuring plan designed to advance our operating model, streamline our business, improve efficiency, 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 are designed to continue to advance the same objectives as the first phase of the plan.

Actions taken under the plan consist of the following:

- We have reduced headcount by eliminating approximately 140 redundant positions and incurred severance, related benefits, and retention pay costs.
- During the three months ended June 30, 2023, we vacated our Chicago leased office space and abandoned the underlying leases, and, in future periods, plan to further align our real estate footprint with the Company's operating needs. We recorded lease termination costs, non-cash impairment charges related to the vacated location's fixed assets, and a gain on the underlying right-of-use asset and liability write-off for the three and six months ended June 30, 2023.
- We are evaluating our product and service offerings to enhance our operating efficiency. As a result of this evaluation, the Company made the decision to discontinue investments in its Digipass CX product and incurred non-cash impairment charges for capitalized software for the three and six months ended June 30, 2023.
- We are evaluating our vendor spend and updating or eliminating service providers in instances where there are cost saving opportunities and where redundancies exist. Vendor rationalization costs include costs for contractually committed services the Company is no longer utilizing.

We plan to incrementally take actions under the restructuring plan until December 31, 2025, when the plan terminates.

Business Acquisitions

On February 22, 2023, we acquired substantially all of the assets of the ProvenDB business of Southbank Software Pty Ltd. ("ProvenDB") under the terms of an asset purchase agreement. ProvenDB is a developer of secure storage that leverages blockchain technology in order to prevent data tampering or alteration of documents. The technology acquired in the acquisition is expected to provide a foundational architecture for future blockchain-based digital solutions, including secure storage. The results of operations since the acquisition date are included in our Digital Agreements reportable operating segment.

Macroeconomic Conditions

During the first six months of 2023, we continued to operate under uncertain market conditions, influenced by instability in certain parts of the banking sector, supply chain constraints, the inflationary cost environment, and general concerns about economic conditions. Our customers have increased scrutiny on spending decisions, which has resulted in longer sales cycles for both existing customer and new customer opportunities. For a complete discussion of the risks we encounter in our business, please refer to Item IA, Risk Factors, below and Part 1, Item 1A, *Risk Factors*, in our Form 10-K.

Recent Developments

On August 3, 2023, our Board of Directors approved cost reduction actions (the "Actions") intended to achieve greater operational efficiency, drive higher levels of adjusted EBITDA, and strengthen our ability to create value for our shareholders over the long term.

We anticipate incurring restructuring charges in connection with the Actions, and expect that these charges will consist primarily of charges related to employee transition and severance payments, employee benefits and retention related

payments, and share-based compensation, with a significantly smaller amount of charges relating to vendor contract termination and rationalization actions. We preliminarily estimate that we will incur from \$15 million to \$20 million in total restructuring charges associated with the Actions, a significant majority of which are expected to relate to the workforce related component of the Actions.

The workforce related component of the Actions is expected to be substantially complete by mid-2024, subject to local law and consultation requirements. The vendor contract component of the Actions is planned for completion by the end of 2025.

Components of Operating Results

Revenue

We generate revenue from the sale of our subscriptions, maintenance and support, professional services, and Digipass hardware products. We believe comparison of revenues between periods is heavily influenced by the timing of orders and shipments reflecting the transactional nature of significant parts of our business.

- *Product and license revenue.* Product and license revenue includes Digipass 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, freight, and inventory impairments for discontinued products and services.
- *Cost of service and other revenue.* Cost of service and other revenue primarily consists of costs related to cloud subscription solutions, including personnel and equipment costs, depreciation, amortization, 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 50% and 60% of our operating expenses. In addition, a number of other expense categories are directly related to headcount. We attempt to manage our headcount within the context of the economic environments in which we operate and the investments we believe we need to make for our infrastructure to support future growth and for our products to remain competitive.

Historically, operating expenses have been impacted by changes in foreign exchange rates. We estimate the change in currency rates during the three months ended June 30, 2023 compared to the comparable prior year period resulted in an increase in operating expenses of approximately \$0.1 million. We estimate the change in currency rates during the six months ended June 30, 2023 compared to the comparable prior year period resulted in a decrease in operating expenses of approximately \$0.5 million.

The comparison of operating expenses can also be impacted significantly by costs related to our stock-based and long-term incentive plans. Long-term incentive plan compensation expense includes both stock-based incentives and an immaterial amount of cash-based incentives. During the three months ended June 30, 2023 and 2022, operating expenses included \$4.6 million and \$1.3 million, respectively, of expenses related to stock-based and long-term incentive plans. During the six months ended June 30, 2023 and 2022, operating expenses included \$8.5 million and \$2.5 million, respectively, of expenses related to stock-based and long-term incentive plans.

Stock-based compensation expense for the three and six months ended June 30, 2023 reflected our 2023 annual equity grant to executives and other employees who were hired in the second and third quarters of 2022, including the impact of an overall expansion of the equity incentive program that we put in place during 2022 for the long-term retention of our employees. The reversal in the three and six months ended June 30, 2022 of certain long-term incentive plan compensation accruals and unvested stock-based incentives for employees who were severed from the Company during that period was also a factor in the year-over-year increase in stock-based compensation expense.

Our operating expenses consist of:

- *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 decrease in absolute dollars as we take the Actions described in "Recent Developments" above. However, 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 decrease in absolute dollars as we implement the Actions, and as we capitalize certain costs related to the expansion of our cloud product portfolio. However, our research and development expenses may fluctuate as a percentage of total revenue.
- *General and administrative.* General and administrative expenses consist primarily of personnel costs, legal, consulting and other professional fees, and long-term incentive compensation. We expect general and administrative expenses to decrease in absolute dollars as we implement the Actions, 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.
- *Restructuring and related charges.* Restructuring and other related charges consist of employee costs which include severance and related benefits incurred from headcount reductions as part of our restructuring plan and the Actions; real estate rationalization costs incurred to optimize our real estate footprint which include lease contract termination costs, asset impairment charges, and lease right-of-use asset and lease liability write-off gains or losses; product and services optimization costs incurred to advance our operating model which include impairments of capitalized software assets no longer in use; and vendor rationalization costs for contractually committed services the Company is no longer utilizing. We plan to incrementally incur additional restructuring costs through December 31, 2025, when the plan terminates.

Segment Results

Segment operating income (loss) consists of the revenue generated by a segment, less the direct costs of revenue, sales and marketing, research and development amortization and impairment charges that are incurred directly by a segment. Unallocated corporate costs include general and administrative expense and other company-wide costs that are not attributable to a particular segment. Financial results by reportable operating segment are included below under Results of Operations.

Interest Income, Net

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

Other (Expense) Income, Net

Other (expense) income, 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. The e-signature IP in our Digital Agreements business is owned by a subsidiary in Canada. These subsidiaries have entered into agreements with most of the other OneSpan entities under which those other entities provide services to the IP owners 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 flow to the IP owners.

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%.

Impact of Currency Fluctuations

During the three months ended June 30, 2023 and 2022, respectively, we generated approximately 83% and 81% of our revenues and incurred approximately 55% and 69% of our operating expenses outside of the U.S. During the six months ended June 30, 2023 and 2022, respectively, we generated approximately 82% and 85% of our revenues and incurred approximately 55% and 69% of our operating expenses outside of the U.S. As a result, changes in currency exchange rates, especially the Euro exchange rate and the Canadian Dollar exchange rate, can have a significant impact on our revenue and operating expenses.

While the majority of our revenue is generated outside of the U.S., a significant amount of our revenue earned during the six months ended June 30, 2023 was denominated in U.S. Dollars. For the six months ended June 30, 2023, approximately 52% of our revenue was denominated in U.S. Dollars, 43% was denominated in Euros and 5% was denominated in other currencies. For the six months ended June 30, 2022, approximately 55% of our revenue was denominated in U.S. Dollars, 40% was denominated in Euros and 5% was denominated in other currencies.

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

The financial position and the results of operations of our foreign subsidiaries, with the exception of our subsidiaries in Switzerland, Singapore and Canada, are measured using the local currency as the functional currency. Accordingly, assets and liabilities are translated into U.S. Dollars using current exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments arising from differences in exchange rates generated comprehensive gain of \$1.0 million and \$2.7 million during the three and six months ended June 30, 2023, respectively. For the three and six months ended June 30, 2022, translation adjustments arising from differences in exchange rates generated comprehensive loss of \$5.3 million and \$7.3 million, respectively. The functional currency for our subsidiaries in Switzerland, Singapore and Canada is the U.S. Dollar.

Gains and losses resulting from foreign currency transactions are included in the condensed consolidated statements of operations in other (expense) income, net. Losses resulting from foreign currency transactions were \$0.2 million and \$0.4 million for the three and six months ended June 30, 2023, respectively. For the three and six months ended June 30, 2022, losses resulting from foreign currency transactions were \$0.9 million and \$1.3 million, respectively.

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 are our reportable operating segments: Digital Agreements and Security Solutions.

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

<i>(In thousands, except percentages)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Digital Agreements				
Revenue	\$ 11,862	\$ 10,454	\$ 23,414	\$ 23,755
Gross profit	\$ 8,583	\$ 7,647	\$ 17,031	\$ 17,933
Gross margin	72 %	73 %	73 %	75 %
Operating income (loss)	\$ (7,121)	\$ (462)	\$ (13,154)	\$ 664
Security Solutions				
Revenue	\$ 43,871	\$ 42,336	\$ 89,926	\$ 81,482
Gross profit	\$ 25,711	\$ 27,859	\$ 56,549	\$ 54,251
Gross margin	59 %	66 %	63 %	67 %
Operating income	\$ 8,523	\$ 7,999	\$ 24,154	\$ 15,688
Total Company:				
Revenue	\$ 55,733	\$ 52,790	\$ 113,340	\$ 105,237
Gross profit	\$ 34,294	\$ 35,506	\$ 73,580	\$ 72,184
Gross margin	62 %	67 %	65 %	69 %
Statements of Operations reconciliation:				
Segment operating income	\$ 1,402	\$ 7,537	\$ 11,000	\$ 16,352
Corporate operating expenses not allocated at the segment level	(19,166)	(15,775)	(36,894)	(33,833)
Total Company operating loss	\$ (17,764)	\$ (8,238)	\$ (25,894)	\$ (17,481)

Revenue

Revenue by products and services allocated to the segments for the three and six months ended June 30, 2023 and 2022 is as follows:

<i>(In thousands)</i>	Three Months Ended June 30,			
	2023		2022	
	Digital Agreements	Security Solutions	Digital Agreements	Security Solutions
Subscription	\$ 10,486	\$ 12,499	\$ 8,736	\$ 11,093
Maintenance and support	1,130	10,473	1,408	10,770
Professional services and other (1)	246	1,253	310	1,690
Hardware products	—	19,646	—	18,783
Total Revenue	\$ 11,862	\$ 43,871	\$ 10,454	\$ 42,336

	Six Months Ended June 30,			
	2023		2022	
	Digital Agreements	Security Solutions	Digital Agreements	Security Solutions
<i>(In thousands)</i>				
Subscription	\$ 20,834	\$ 32,107	\$ 20,407	\$ 22,691
Maintenance and support	2,126	20,638	2,760	21,364
Professional services and other (1)	454	2,669	588	3,293
Hardware products	—	34,512	—	34,134
Total Revenue	\$ 23,414	\$ 89,926	\$ 23,755	\$ 81,482

(1) Professional services and other includes perpetual software licenses revenue, which was less than 2% of total revenue for the three and six months ended June 30, 2023 and 2022, respectively.

Total revenue increased by \$2.9 million, or 6%, during the three months ended June 30, 2023 compared to the three months ended June 30, 2022. Changes in foreign exchange rates as compared to the same period in 2022 favorably impacted revenue by approximately \$0.5 million. For the six months ended June 30, 2023, revenue increased by \$8.1 million, or 8%, compared to the six months ended June 30, 2022. Changes in foreign exchange rates as compared to the same period in 2022 negatively impacted revenue by approximately \$0.9 million.

Additional information on our revenue by segment follows.

- **Digital Agreements** revenue increased \$1.4 million, or 13%, during the three months ended June 30, 2023 compared to the three months ended June 30, 2022. The increase in Digital Agreements revenue was attributable to higher cloud subscription revenue, driven by both new customers and existing customer expansion. For the six months ended June 30, 2023, Digital Agreements revenue decreased \$0.3 million, or 1%. Higher cloud subscription revenue was offset by lower on-premises subscription revenue, which was driven by the non-renewal of several contracts and contraction due to our strategy of sunsetting our on-premises e-signature product. Changes in foreign currency rates compared to the same periods in 2022 negatively impacted Digital Agreements revenue by less than \$0.1 million for both the three and six months ended June 30, 2023.
- **Security Solutions** revenue increased \$1.5 million, or approximately 4%, during the three months ended June 30, 2023 compared to the three months ended June 30, 2022. The increase in Security Solutions revenue was attributable to higher on-premises term subscription revenue, which was driven by existing customer expansion and, to a lesser extent, new customer revenue. Higher hardware revenue also contributed to the increase. Changes in foreign exchange rates for the three months ended June 30, 2023 compared to the same period in 2022 favorably impacted Security Solutions revenue by \$0.5 million. For the six months ended June 30, 2023, Security Solutions revenue increased \$8.4 million, or 10%, which was driven primarily by higher on-premises term subscription revenue and an increase in hardware revenue, as a result of a higher average selling price, partially offset by lower volumes. Changes in foreign exchange rates for the six months ended June 30, 2023 compared to the same period in 2022 negatively impacted Security Solutions revenue by \$0.8 million.

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. In particular, our Security Solutions revenue for the six months ended June 30, 2023 benefited from the timing of certain contract renewals.

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 Australia, New Zealand, and India. The breakdown of revenue in each of our major geographic areas was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(In thousands, except percentages)</i>				
Revenue				
EMEA	\$ 26,539	\$ 23,521	\$ 54,359	\$ 48,397
Americas	18,331	19,329	38,829	36,578
APAC	10,863	9,940	20,152	20,262
Total revenue	<u>\$ 55,733</u>	<u>\$ 52,790</u>	<u>\$ 113,340</u>	<u>\$ 105,237</u>
% of Total Revenue				
EMEA	48 %	44 %	48 %	46 %
Americas	33 %	37 %	34 %	35 %
APAC	19 %	19 %	18 %	19 %

For the three months ended June 30, 2023, revenue generated in EMEA was \$3.0 million, or 13%, higher than the same period in 2022, primarily due to an increase in on-premises term subscription revenue from existing customer expansion and new customers, as well as an increase in hardware revenue. For the six months ended June 30, 2023, revenue generated in EMEA was \$6.0 million, or 12%, higher than the same period in 2022 driven by an increase in on-premises term subscription revenue, partially offset by lower hardware revenue.

For the three months ended June 30, 2023, revenue generated in the Americas was \$1.0 million, or 5%, lower than the three months ended June 30, 2022. The decrease was driven by lower maintenance on on-premises subscription revenue and lower customer purchase volumes of hardware. For the six months ended June 30, 2023, revenue generated in the Americas was \$2.3 million, or 6%, higher than the six months ended June 30, 2022. The increase was primarily driven by both higher cloud subscription revenue and higher hardware revenue, driven by both increased customer purchase volumes and a higher average selling price due to customer mix.

For the three months ended June 30, 2023, revenue generated in APAC was \$0.9 million, or 9%, higher than the three months ended June 30, 2022, driven by higher customer purchase volumes of hardware products and a higher average selling price. For the six months ended June 30, 2023, revenue generated in APAC was \$0.1 million, or less than 1%, lower than the three months ended June 30, 2022.

Cost of Goods Sold and Gross Margin

The following table presents cost of goods sold for our products and services for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(In thousands, except percentages)</i>				
Cost of goods sold				
Product and license	\$ 14,038	\$ 10,947	\$ 25,326	\$ 20,026
Services and other	7,401	6,337	14,434	13,027
Total cost of goods sold	\$ 21,439	\$ 17,284	\$ 39,760	\$ 33,053
Gross profit	\$ 34,294	\$ 35,506	\$ 73,580	\$ 72,184
Gross margin				
Product and license	54 %	62 %	60 %	66 %
Services and other	71 %	74 %	71 %	72 %
Total gross margin	62 %	67 %	65 %	69 %

The cost of product and license revenue increased by \$3.1 million, or 28%, and \$5.3 million, or 26%, during the three and six months ended June 30, 2023, respectively, compared to the three and six months ended June 30, 2022. Cost of goods sold for both the three and six months ended June 30, 2023 was driven by \$1.6 million of inventory impairments in conjunction with the discontinuation of investments in our Digipass CX product. The increase for both periods was also impacted by price increases for our hardware components, higher freight costs, and higher third-party license costs than the prior year.

The cost of services and other revenue increased by \$1.1 million, or 17%, and \$1.4 million, or 11%, during the three and six months ended June 30, 2023, respectively, compared to the three and six months ended June 30, 2022. The increase for both periods was due to the amortization of our capitalized software and higher cloud platform costs, due primarily to higher volume usage.

Gross profit decreased \$1.2 million, or 3%, during the three months ended June 30, 2023 compared to the three months ended June 30, 2022. Gross profit margin was 62% for the three months ended June 30, 2023, compared to 67% for the three months ended June 30, 2022. Gross profit increased \$1.4 million, or 2%, during the six months ended June 30, 2023 compared to the six months ended June 30, 2022. Gross profit margin was 65% for the six months ended June 30, 2023, compared to 69% for the six months ended June 30, 2022. The decrease in profit margin for both the three and six months ended June 30, 2023 was driven by inventory impairments, customer and product mix, and higher freight costs in our hardware business.

The majority of our inventory purchases are denominated in U.S. Dollars. Our sales are denominated in various currencies, including the Euro. Overall, cost of goods sold are estimated to have been impacted by changes in currency rates. The impact of changes in currency rates are estimated to have had an unfavorable impact on overall cost of goods sold of less than \$0.1 million for the three months ended June 30, 2023 and a favorable impact on overall cost of goods sold of \$0.2 million for the six months ended June 30, 2023. Had currency rates during the three months ended June 30, 2023 been equal to rates in the comparable period of 2022, the gross profit margin would have been less than 1 percentage point higher, driven by the favorable currency rate impact to revenue. Had currency rates during the six months ended June 30, 2023 been equal to rates in the comparable period of 2022, the gross profit margin would have been less than 1 percentage point lower, driven by the unfavorable currency rate impact to revenue.

Additional information on our gross profit by segment follows.

- **Digital Agreements** gross profit increased \$0.9 million, or 12%, during the three months ended June 30, 2023 compared to the three months ended June 30, 2022, driven by higher overall revenue. Digital Agreements gross margin for the three months ended June 30, 2023 was 72%, compared to 73% for the three

months ended June 30, 2022. For the six months ended June 30, 2023, Digital Agreements gross profit decreased \$0.9 million, or 5%, compared to the comparable period in 2022. The decrease in gross profit was driven by less favorable customer mix and revenue mix. Digital Agreements gross margin for the six months ended June 30, 2023 was 73%, compared to 75% for the six months ended June 30, 2022.

- **Security Solutions** gross profit decreased \$2.1 million, or approximately 8%, during the three months ended June 30, 2023 compared to the three months ended June 30, 2022, driven by inventory impairments and product mix. Security Solutions gross margin for the three months ended June 30, 2023 was 59%, compared to 66% for the three months ended June 30, 2022, as a result of inventory impairments and higher hardware costs. For the six months ended June 30, 2023, Security Solutions gross profit increased 2.3 million, or 4%, compared to the comparable period in 2022. The increase in gross profit was driven by higher overall revenue, partially offset by inventory impairments. Security Solutions gross margin for the six months ended June 30, 2023 was 63%, compared to 67% for the six months ended June 30, 2022. The decrease was driven by inventory impairments and higher hardware costs.

Operating Expenses

Operating expenses increased by \$8.3 million, or 19%, during the three months ended June 30, 2023 compared to the three months ended June 30, 2022. For the three months ended June 30, 2023, changes in foreign exchange rates negatively impacted operating expenses by approximately \$0.1 million as compared to the same period in 2022. Operating expenses increased by \$9.8 million, or 11%, during the six months ended June 30, 2023 compared to the six months ended June 30, 2022. For the six months ended June 30, 2023, changes in foreign exchange rates favorably impacted operating expenses by approximately \$0.5 million as compared to the same period in 2022.

The following table presents the breakout of operating expenses by category as of June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(In thousands)</i>				
Operating costs				
Sales and marketing	\$ 19,713	\$ 14,928	\$ 39,724	\$ 29,928
Research and development	10,090	11,959	19,553	24,055
General and administrative	15,826	12,952	32,479	27,736
Restructuring and other related charges	5,846	2,688	6,552	5,347
Amortization of intangible assets	583	1,217	1,166	2,599
Total operating costs	\$ 52,058	\$ 43,744	\$ 99,474	\$ 89,665

Sales and Marketing Expenses

Sales and marketing expenses for the three months ended June 30, 2023 increased by \$4.8 million, or 32%, compared to the three months ended June 30, 2022. The increase was driven by higher employee compensation costs which included increases in commissions, annual bonus, and long-term incentive plan expenses. Costs incurred to expand our digital marketing initiatives also contributed to the increase. Sales and marketing expenses for the six months ended June 30, 2023 increased by \$9.8 million, or 33%, compared to the six months ended June 30, 2022. The increase was driven by higher expenses for sales-related activities, higher employee compensation costs, and costs to expand our digital marketing initiatives.

Average full-time sales, marketing, support, and operating employee headcount for the three and six months ended June 30, 2023 was 374 and 362, respectively, compared to 343 and 351 for the three and six months ended June 30, 2022, respectively. Average headcount was 9% and 3% higher for the three and six months ended June 30, 2023, respectively, compared to the same periods in 2022.

Research and Development Expenses

Research and development expenses for the three months ended June 30, 2023 decreased by \$1.9 million, or 16%, compared to the three months ended June 30, 2022, driven primarily by the capitalization of expanded research and

development costs of \$2.6 million to enhance our transaction cloud platform and our Digital Agreements product offerings. The overall decrease in expense was partially offset by higher outside services costs. Research and development expenses for the six months ended June 30, 2023 decreased by \$4.5 million, or 19%, compared to the six months ended June 30, 2022. The decrease in expense was driven primarily by the capitalization of research and development costs of \$2.7 million, partially offset by higher outside services costs and higher travel and entertainment costs.

Average full-time research and development employee headcount for the three and six months ended June 30, 2023 was 319 and 315, respectively, compared to 349 and 357 for the three and six months ended June 30, 2022, respectively. Average headcount was 9% and 12% lower for the three and six months ended June 30, 2023, respectively, compared to the same periods in 2022.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2023 increased by \$2.9 million, or 22%, compared to the three months ended June 30, 2022. General and administrative expenses for the six months ended June 30, 2023 increased by \$4.7 million, or 17%, compared to the six months ended June 30, 2022. The increase in expense for both the three and six months ended June 30, 2023 was driven by higher long-term incentive plan expense and the expansion of our executive team. The increase in expense was partially offset by a decrease in consulting fees related to our strategic transformation plan incurred during the period compared to the three and six months ended June 30, 2022.

Average full-time general and administrative employee headcount for the three and six months ended June 30, 2023 was 146 and 145, respectively, compared to 138 for both the three and six months ended June 30, 2022, respectively. Average headcount was 6% and 5% higher for the three and six months ended June 30, 2023, respectively, compared to the same periods in 2022.

Restructuring and Other Related Charges

Restructuring and other related charges for the three months ended June 30, 2023 increased by \$3.2 million, or 117%, compared to the three months ended June 30, 2022, driven by real estate rationalization costs, product and services optimization costs, and vendor rationalization spend. Restructuring and other related charges for the six months ended June 30, 2023 increased by \$1.2 million, or 23%, compared to the six months ended June 30, 2022. The increase was driven by product and services optimization costs, partially offset by a more significant number of headcount reductions taken during the six months ended June 30, 2022 in conjunction with our restructuring plan.

Amortization of Intangible Assets

Amortization of intangible assets expense for the three months ended June 30, 2023 decreased by \$0.6 million, or 52%, compared to the three months ended June 30, 2022. Amortization of intangible assets expense for the six months ended June 30, 2023 decreased by \$1.4 million, or 55%, compared to the three months ended June 30, 2022. The decrease in expense in both periods was driven by certain intangible assets acquired in prior years becoming fully amortized or impaired during 2022.

Segment Operating Income (Loss)

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

- **Digital Agreements** operating loss for the three and six months ended June 30, 2023 was \$7.1 million and \$13.2 million, respectively, compared to operating income of \$(0.5) million and \$0.7 million for the three and six months ended June 30, 2022, respectively. Operating loss for the three and six months ended June 30, 2023 was largely attributable to the change in expense allocations between the segments primarily impacting operating expenses, higher sales and marketing expense which was driven by higher travel and entertainment costs, higher employee compensation costs, and additional headcount on our sales team, partially offset by lower research and development expenses driven by software capitalization.
- **Security Solutions** operating income for the three months ended June 30, 2023 was \$8.5 million, which was a year-over-year increase of \$0.5 million, or 7%, from the three months ended June 30, 2022. Operating income for the six months ended June 30, 2023 was \$24.2 million, which was a year-over-year increase of \$8.5 million, or 54% from the six months ended June 30, 2022. The increase for both periods was driven by

the change in expense allocations between the segments primarily impacting operating expenses, higher on-premises subscription revenue, lower research and development expense, and lower amortization as a result of the Dealflo intangible asset impairment in 2022. The increase was partially offset by higher personnel costs, asset impairments, and freight costs.

Interest income, net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(In thousands)</i>				
Interest income, net	\$ 585	\$ 35	\$ 1,088	\$ 18

Interest income, net was \$0.6 million for the three months ended June 30, 2023 compared to interest income, net of less than \$0.1 million for the three months ended June 30, 2022. Interest income, net was \$1.1 million for the six months ended June 30, 2023 compared to interest income, net of less than \$0.1 million for the six months ended June 30, 2022. The increase in interest income is related to higher interest rates.

Other Income (Expense), net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(In thousands)</i>				
Other income (expense), net	\$ 29	\$ (675)	\$ (11)	\$ 14,972

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 and six months ended June 30, 2023 was less than \$0.1 million. Other income (expense), net for the three months ended June 30, 2022 of \$(0.7) million consisted mostly of exchange losses. Other income (expense), net for the six months ended June 30, 2022 primarily consisted of the \$14.8 million gain on sale of our equity-method investment in Promon AS ("Promon").

Provision for Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>(In thousands)</i>				
Provision for income taxes	\$ 601	\$ 472	\$ 1,290	\$ 1,645

We recorded income tax expense of \$0.6 million and \$0.5 million for the three months ended June 30, 2023 and 2022, respectively. Higher income tax expense for the three months ended June 30, 2023 was primarily attributable to earnings at subsidiaries without a valuation allowance. We recorded income tax expense of \$1.3 million and \$1.6 million for the six months ended June 30, 2023 and 2022, respectively. Lower income tax expense for the six months ended June 30, 2023 was primarily attributable to tax on the gain on sale of our investment in Promon recorded during the six months ended June 30, 2022.

Liquidity and Capital Resources

At June 30, 2023, we had cash balances (total cash and cash equivalents) of \$83.1 million. Our cash and cash equivalents balance includes U.S. treasury notes and bills, money market funds, and high quality commercial paper with maturities at acquisition of less than three months.

At December 31, 2022, we had cash balances of \$96.2 million and short-term investments of \$2.3 million.

The Company is party to lease agreements that require letters of credit to secure the obligations which totaled \$0.9 million and \$1.1 million at June 30, 2023 and December 31, 2022, respectively. Additionally, the Company maintained a cash guarantee with a payroll vendor in the amount of \$0.1 million at both June 30, 2023 and December 31, 2022. The restricted cash related to the letters of credit and the payroll vendor cash guarantee is recorded in "Restricted cash" on the condensed consolidated balance sheets.

As of June 30, 2023, we held \$43.2 million of cash and cash equivalents in subsidiaries outside of the United States. Of that amount, \$42.6 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,	
	2023	2022
<i>(In thousands)</i>		
Cash provided by (used in):		
Operating activities	\$ (6,390)	\$ (11,284)
Investing activities	(5,975)	32,560
Financing activities	(1,546)	(6,443)
Effect of foreign exchange rate changes on cash and cash equivalents	624	(631)

Operating Activities

Cash used in operating activities primarily consists of net income (loss), as adjusted for non-cash items, and changes in operating assets and liabilities. Non-cash adjustments consist primarily of amortization of intangible assets, deferred taxes, depreciation of property and equipment, and stock-based compensation. We expect cash inflows from operating activities to be affected by increases or decreases in sales and timing of collections and payment of expenditures. Our primary uses of cash from operating activities have been for personnel and vendor costs. We expect cash outflows from operating activities to be affected by increases in personnel costs as we grow our business.

For the six months ended June 30, 2023, \$6.4 million of cash was used in operating activities. This was driven by a decrease in our accounts receivable balance during the period, partially offset by a decrease in deferred revenue and an increase in inventories, net. For the six months ended June 30, 2022, \$11.3 million of cash was used in operating activities.

Our working capital at June 30, 2023 was \$62.6 million compared to \$87.6 million at December 31, 2022. The decrease was driven by a lower accounts receivable balance and a lower deferred revenue balance, partially offset by a higher inventory balance. The decrease was also driven by a \$26.1 million net loss for the six months ended June 30, 2023 which resulted primarily from increased investments in our sales, marketing and executive leadership functions as we continue to execute our multiyear transformation plan.

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 as to continue to invest in our infrastructure and activity in connection with acquisitions.

For the six months ended June 30, 2023, net cash used in investing activities was \$6.0 million, compared to net cash provided by investing activities of \$32.6 million for the six months ended June 30, 2022. Cash used in investing activities consisted of additions to property and equipment, net, and the purchase of ProvenDB. Cash usage during the period was partially offset by the maturity of our entire short-term investments balance. For the six months ended June 30, 2022, net cash provided by investing activities consisted of the \$18.9 million sale of our investment in Promon and maturities of short-term investments.

Financing Activities

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

Cash of \$1.5 million used in financing activities during the six months ended June 30, 2023 was attributable to tax payments for stock issuances. Cash of \$6.4 million used in financing activities during the six months ended June 30, 2022 was attributable to repurchases of common stock and tax payments for stock issuances.

Key Business Metrics and Non-GAAP Financial Measures

In our quarterly earnings press releases and conference calls, we discuss the below key metrics and financial measures that are not calculated according to generally accepted accounting principles (“GAAP”). These metrics and non-GAAP financial measures help us monitor and evaluate the effectiveness of our operations and evaluate period-to-period comparisons. Management believes that these metrics and non-GAAP financial measures help illustrate underlying trends in our business. We use these metrics and non-GAAP financial measures to establish budgets and operational goals (communicated internally and externally), manage our business and evaluate our performance. We also believe that both management and investors benefit from referring to these metrics and non-GAAP financial measures as supplemental information in assessing our performance and when planning, forecasting, and analyzing future periods. We believe these metrics and non-GAAP financial measures are useful to investors both because they allow for greater transparency with respect to financial measures used by management in their financial and operational decision-making and also because they are used by investors and the analyst community to help evaluate the health of our business.

Annual Recurring Revenue

We use annual recurring revenue, or ARR, as an approximate measure to monitor the growth of our recurring business. ARR represents the annualized value of the active portion of SaaS, term-based license, and maintenance and support contracts at the end of the reporting period. ARR is calculated as the approximate annualized value of our customer recurring contracts as of the measurement date. These include subscription, term-based license, and maintenance and support contracts and exclude one-time fees. For term-based license arrangements, the amount included in ARR is consistent with the amount that we invoice the customer annually for the term-based license transaction. A customer with a one-year term-based license contract will be invoiced for the total value of the contract at the beginning of the contractual term, while a customer with a multi-year term-based license contract will be invoiced for each annual period at the beginning of each year of the contract. For contracts that include annual values that increase over time because there are additional deliverables in subsequent periods, we include in ARR only the annualized value of components of the contract that are considered active as of the date of the ARR calculation. We do not include the future committed increases in the contract value as of the date of the ARR calculation.

We consider a contract to be active from when the product or service contractual term commences (the “start date”) until the right to use the product or service ends (the “expiration date”). Even if the contract with the customer is executed before the start date, the contract will not count toward ARR until the customer right to receive the benefit of the products or services has commenced.

To the extent that we are negotiating a renewal with a customer within 90 days after the expiration of a recurring contract, we continue to include that revenue in ARR if we are actively in discussions with the customer for a new recurring contract or renewal and the customer has not notified us of an intention not to renew. We exclude from the calculation of ARR renewal contracts that are more than 90 days after their expiration date, even if we are continuing to negotiate a renewal at that time.

ARR is not calculated based on recognized or unearned revenue and there is no direct relationship between revenue recognized in accordance with ASC 606 and the Company’s ARR business metric. We believe ARR is a valuable operating measure to assess the health of our SaaS, term-based license, and maintenance and support contracts because it illustrates our customer recurring contracts as of the measurement date. ARR is not a forecast of future revenue, which can be impacted by contract start and end dates and renewal rates, and does not include revenue from perpetual licenses, purchases of Digipass authenticators, training, professional services or other sources of revenue that are not deemed to be recurring in nature.

ARR does not have any standardized meaning and is therefore unlikely to be comparable to similarly titled measures presented by other companies. ARR should be viewed independently of revenue and deferred revenue as ARR is an operating metric and is not intended to be combined with or replace these items. Investors should consider our ARR operating measure only in conjunction with our GAAP financial results.

At June 30, 2023, we reported ARR of \$144.4 million, which was 8% higher than ARR of \$134.3 million at June 30, 2022. Changes in foreign exchange rates during the six months ended June 30, 2023 as compared to the prior year negatively impacted ARR by approximately \$1.9 million. ARR growth was primarily driven by an increase in

subscription contracts, offset by foreign exchange rate impacts and the same factors that affected NRR, as discussed below.

Net Retention Rate

Net Retention Rate, or NRR, is defined as the approximate year-over-year percentage growth in ARR from the same set of customers at the end of the prior year period. It measures our ability to increase revenue across our existing customer base through expanded use of our platform, offset by customers whose subscription contracts with us are not renewed or renew at a lower amount. The Company's ability to drive growth and generate incremental revenue depends, in part, on our ability to maintain and grow our relationships with customers. NRR is an important way in which we track our performance in this area.

We reported NRR of 106% and 116% at June 30, 2023 and 2022, respectively. Year-over-year, NRR was impacted by foreign exchange rate impacts, longer sales cycles, timing related to contract renewals, a small number of lost contracts in 2022, and our decision to discontinue certain product portfolio offerings.

Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) before interest, taxes, depreciation, amortization, long-term incentive compensation, restructuring and other related charges, and certain non-recurring items, including acquisition related costs, rebranding costs, and non-routine shareholder matters. Adjusted EBITDA is a non-GAAP financial metric. 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, impairment of intangible assets, restructuring costs, and certain other 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, restructuring costs, impairment charges) 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 that of our competitors.

The following table reconciles net income (loss) as reported on our condensed consolidated statements of operations to Adjusted EBITDA:

<i>(In thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	\$ (17,751)	\$ (9,350)	\$ (26,107)	\$ (4,136)
Interest income, net	(585)	(35)	(1,088)	(18)
Provision for income taxes	601	472	1,290	1,645
Depreciation and amortization of intangible assets (1)	1,516	1,946	2,835	4,043
Long-term incentive compensation (2)	4,571	1,277	8,494	2,501
Restructuring and other related charges	5,846	2,688	6,552	5,347
Other non-recurring items (3)	1,974	1,462	2,559	(10,682)
Adjusted EBITDA	\$ (3,828)	\$ (1,540)	\$ (5,465)	\$ (1,300)

(1) Includes depreciation and amortization expense directly related to generating cloud subscription revenue of \$0.1 million and \$0.3 million for the three and six months ended June 30, 2023, respectively, and \$0 for the three and six months ended June 30, 2022. Costs are recorded in Cost of service and other revenue.

(2) Long-term incentive compensation includes immaterial expense for cash incentive grants awarded to employees located in jurisdictions where we do not issue stock-based compensation due to tax, regulatory or similar reasons.

The expense associated with these cash incentive grants was \$0.1 million and less than \$0.1 million for the three months ended June 30, 2023 and 2022, respectively, and \$0.2 million and less than \$0.1 million for the six months ended June 30, 2023 and 2022, respectively.

(3) For the three months ended June 30, 2023, other non-recurring items consist of \$1.6 million of inventory impairment charges and \$0.4 million of fees related to non-recurring projects.

For the three months ended June 30, 2022, other non-recurring items consist of outside services related to our strategic action plan.

For the six months ended June 30, 2023, other non-recurring items consist of \$1.6 million of inventory impairment charges and \$1.0 million of fees related to non-recurring projects and our acquisition of ProvenDB.

For the six months ended June 30, 2022, other non-recurring items include a \$(14.8) million non-operating gain on sale of our investment in Promon and \$4.2 million of outside services related to our strategic action plan.

Adjusted EBITDA for the three months ended June 30, 2023 was \$(3.8) million compared to \$(1.5) million for the three months ended June 30, 2022. Adjusted EBITDA for the six months ended June 30, 2023 was \$(5.5) million compared to \$(1.3) million for the six months ended June 30, 2022. The decrease for both periods was driven by higher operating expenses as we increased investments in our sales and marketing function to drive top line growth, as well as by higher compensation in our executive team due to 2022 executive hires, both in connection with our business transformation.

Year-over-year changes in foreign exchange rates favorably impacted Adjusted EBITDA by approximately \$0.2 million for the three months ended June 30, 2023 and negatively impacted Adjusted EBITDA by approximately \$0.9 million for the six months ended June 30, 2023.

Critical Accounting Policies

Our accounting policies are fully described in Note 1, *Summary of Significant Accounting Policies*, to our Consolidated Financial Statements in our Form 10-K for the year ended December 31, 2022 and Note 2, *Summary of Significant Accounting Policies*, to our interim Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for the period ended June 30, 2023. 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, 2023. For additional information, refer to Part II, Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, included in our Form 10-K.

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, 2023. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2023, 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, 2023.

PART II. OTHER INFORMATION

Item 1 - Legal Proceedings

We are subject to certain legal proceedings and claims incidental to the operation of our business. We are also subject to certain other legal proceedings and claims that have arisen in the ordinary course of business that have not been fully adjudicated. We currently do not anticipate that these matters, if resolved against us, will have a material adverse impact on our financial results.

For further information regarding our legal proceedings and claims, see Note 15, *Legal Proceedings and Contingencies*, included in Part I, Item 1, *Condensed Consolidated Financial Statements*, of this Quarterly Report on Form 10-Q.

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, 2022, filed with the SEC on February 28, 2023, except as set forth below.

Our planned cost reduction actions and our restructuring plan originally approved in December 2021 involve numerous risks and may not achieve the results we expect.

In May 2022, we announced our three-year Strategic Plan, which began on January 1, 2023. During the quarter ended June 30, 2023, we determined that it will take longer than originally expected to achieve the revenue growth levels contemplated by our Strategic Plan. It has been more time consuming than we projected to build our Digital Agreements sales pipeline, generate demand for our Digital Agreements solutions through marketing efforts, and improve our sales force productivity levels. A number of factors have contributed to the challenges achieving the originally planned growth levels on the timeframes set forth in the Strategic Plan, including: macroeconomic uncertainties, which have resulted in

longer sales cycles and greater price sensitivity on the part of customers; increasing maturity and competitiveness in the market for e-signature solutions; and higher pricing aggressiveness from competitors in recent months.

As a result of the additional insights we have gained into our business transformation process, our Board recently approved cost reduction Actions to seek to drive higher levels of adjusted EBITDA while maintaining our long-term growth potential. The Actions are expected to consist primarily of workforce related reductions, with a significantly smaller contribution from vendor contract termination and rationalization actions. Further information about the Actions, including associated expected restructuring charges, can be found in “*Management’s Discussion and Analysis*”. The Actions and our previously adopted restructuring plan may yield unintended consequences and costs, such as: higher than anticipated restructuring charges; disruption to our operations; litigation and regulatory actions; reduced employee morale, attrition of valued employees, and adverse effects on our reputation as an employer; loss of institutional know-how; slower customer service response times; and reduced ability to complete or undertake new product development projects and other business, product, technical, compliance or risk mitigation initiatives. In addition, our ability to complete the Actions and achieve the anticipated benefits from the Actions within the expected time frame or at all is subject to estimates and assumptions and may vary materially from our expectations, including as a result of factors that are beyond our control, such that we may not succeed in achieving all or part of the intended benefits of the Actions.

Item 6 - Exhibits

[Exhibit 4.1 - Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934.](#)

[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 9, 2023.](#)

[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 9, 2023.](#)

[Exhibit 32.1 – Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 9, 2023.](#)

[Exhibit 32.2 – Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 9, 2023.](#)

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

*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 9, 2023.

OneSpan Inc.

/s/ Matthew P. Moynahan

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

/s/ Jorge Martell

Jorge Martell
Chief Financial Officer
(Principal Financial Officer)

/s/ John Bosshart

John Bosshart
Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 4.1

DESCRIPTION OF SECURITIES REGISTERED UNDER SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

General

OneSpan Inc. (the “Company,” “us,” “we,” or “our”) is currently authorized to issue up to 75,000,000 shares of common stock, par value \$0.001 per share and up to 500,000 shares of preferred stock, par value \$0.01 per share. Our common stock is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

The following summary is not complete. For a complete description of our capital stock, you should refer to the applicable provisions of our certificate of incorporation, as amended, and our amended and restated bylaws and to the Delaware General Corporation Law (the “DGCL”).

Common Stock

Voting Rights

Each holder of our common stock is entitled to one vote for each share on all matters submitted to a vote of the stockholders, including the election of directors. Generally, a matter submitted for stockholder action shall be approved if the votes cast “for” the matter exceed the votes cast “against” such matter, unless a greater or different vote is required by statute, any applicable law or regulation, the rights of any authorized class of stock, or our certificate of incorporation, as amended, or our amended and restated bylaws. Other than in a contested election where directors are elected by a plurality vote, a director nominee shall be elected to the board if the votes cast “for” such nominee’s election exceeds the votes cast “against” such nominee’s election. Holders of shares of our common stock have no cumulative voting rights.

Dividends

Holders of common stock are entitled to receive those dividends, if any, as may be declared from time to time by the board of directors out of legally available funds, subject to the rights of holders of any preferred stock that may be issued and outstanding and to restrictions contained in agreements to which the Company may be a party.

Rights Upon Liquidation

In the event of any liquidation, dissolution or winding up of the Company, holders of common stock will be entitled to share ratably in all assets available for distribution to holders of common stock.

Rights and Preferences

Holders of shares of common stock have no preemptive, conversion or subscription rights and there are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of the holders of shares of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate in the future.

Preferred Stock

No shares of our preferred stock are currently outstanding. Under our certificate of incorporation, as amended, our board of directors, without further action by our stockholders, is authorized to issue up to 500,000 shares of preferred stock in one or more series. The board may fix the designation, powers, preferences and rights of the preferred stock, along with any qualifications, limitations or restrictions, including voting rights, dividend rights, conversion rights, redemption privileges, sinking fund rights, the number of shares constituting, or the designation of, such series, liquidation preferences and any other relative rights, preferences and limitations of each series of preferred stock, any or all of which may be greater than the rights of common stock. The issuance of preferred stock could adversely affect the voting power or other rights of holders of our common stock and the likelihood that such holders will receive dividend payments and payments upon our liquidation. The issuance of preferred stock could also have the effect, under certain circumstances, of delaying, deferring or preventing a change of control of the Company.

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

Our certificate of incorporation, as amended, and our amended and restated bylaws contain certain provisions that could have the effect of delaying, deferring or preventing another party from acquiring control of us. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors rather than pursue non-negotiated takeover attempts. These provisions include the items described below.

Director Vacancies

Under our amended and restated bylaws, except as required by law or our certificate of incorporation, as amended, and subject to the rights of holders of any series of preferred stock with respect to the election of directors, any vacancy of our board of directors, however occurring, including a vacancy resulting from an increase in the size of our board of directors, may only be filled by the affirmative vote of a majority of our directors then in office even if less than a quorum. The limitation on the ability of our stockholders to fill vacancies could make it more difficult for stockholders to change the composition of our board of directors or for a third party to acquire, or discourage a third party from seeking to acquire, control of our company.

Amendment to Bylaws

Our amended and restated bylaws provide that our amended and restated bylaws may only be amended by our board of directors or by the affirmative vote of the holders of not less than a majority of the voting power of all then outstanding shares of capital stock entitled to vote generally in the election of directors, voting together as a single class.

Special Meetings of Stockholders; Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our amended and restated bylaws provide that special meetings of our stockholders may be called at any time only by our board or our chief executive officer. Our amended and restated bylaws provide that a stockholder must notify us in writing, within timeframes specified in the bylaws, of any stockholder nomination of a director and of any other business that the stockholder intends to bring at a meeting of stockholders. Our amended and restated bylaws specify the requirements as to form and content of all stockholders' notices. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control or management of the Company.

Authorized but Unissued Shares

Our authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to stock exchange rules. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. One of the effects of the existence of authorized but unissued common stock or preferred stock may be to enable our board to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of the company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive our stockholders of opportunities to sell their shares of common stock at prices higher than prevailing market prices.

Delaware Business Combinations Statute

We are subject to the provisions of Section 203 of the DGCL. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a three-year period following the time that the person becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes, among other things, a merger, asset sale or other transaction resulting in a financial benefit, other than proportionately as a stockholder, to the interested stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation's voting stock.

Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:
(1) before the stockholder became an interested

stockholder, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; (2) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers, and employee stock plans, in some instances; or (3) at or after the time the stockholder became an interested stockholder, the business combination was approved by the board of directors and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

Under certain circumstances, these provisions will make it more difficult for a person who would be an “interested stockholder” to effect various business combinations with the company for a three-year period. These provisions may encourage companies interested in acquiring the company to negotiate in advance with our board because the stockholder approval requirement would be avoided if our board approves either the business combination or the transaction which results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in our board and may make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

**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 9, 2023

/s/ Matthew P. Moynahan

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

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

I, Jorge Martell, 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 9, 2023

/s/ Jorge Martell

Jorge Martell

Chief Financial Officer

(Principal Financial Officer)

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, 2023, 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 9, 2023

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, Jorge Martell, certify, based upon a review of the Quarterly Report on Form 10-Q for OneSpan Inc. for the second quarter ended on June 30, 2023, 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/ Jorge Martell

Jorge Martell
Chief Financial Officer

August 9, 2023