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 MARCH 31, 2021

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 Shares	OSPN	NASDAQ

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

There were 40,265,066 shares of Common Stock, $.001 par value per share, outstanding at May 1, 2021.

OneSpan Inc.
Form 10-Q
For the Quarter Ended March 31, 2021
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OneSpan Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	March 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and equivalents	$ 70,819	$ 88,394
Short term investments	44,388	26,859
Accounts receivable, net of allowances of $4,170 in 2021 and $4,135 in 2020	47,892	57,537
Inventories, net	11,346	13,093
Prepaid expenses	7,587	7,837
Contract assets	5,090	7,202
Other current assets	9,602	6,256
Total current assets	196,724	207,178
Property and equipment, net	11,722	11,835
Operating lease right-of-use assets	10,559	11,356
Goodwill	97,453	97,552
Intangible assets, net of accumulated amortization	25,697	27,196
Deferred income taxes	7,450	7,030
Contract assets - non-current	1,363	1,877
Other assets	11,509	11,179
Total assets	$ 362,477	$ 375,203
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 5,788	$ 5,684
Deferred revenue	43,162	43,417
Accrued wages and payroll taxes	15,231	13,649
Short-term income taxes payable	967	2,618
Other accrued expenses	9,379	8,334
Deferred compensation	75	1,602
Total current liabilities	74,602	75,304
Long-term deferred revenue	11,651	11,730
Long-term lease liabilities	11,661	12,399
Other long-term liabilities	10,249	10,423
Long-term income taxes payable	6,095	6,095
Deferred income taxes	1,739	1,912
Total liabilities	115,997	117,863
Stockholders' equity		
Preferred stock: 500 shares authorized, none issued and outstanding at December 31, 2021 and 2020	—	—
Common stock: $.001 par value per share, 75,000 shares authorized; 40,265 and 40,103 shares issued; 40,265 and 40,103 shares outstanding at March 31, 2021 and December 31, 2020, respectively	40	40
Additional paid-in capital	98,022	98,819
Treasury stock, at cost, 250 and 250 shares outstanding at March 31, 2021 and December 31, 2020, respectively	(5,030)	(5,030)
Retained earnings	164,602	173,731
Accumulated other comprehensive loss	(11,154)	(10,220)
Total stockholders' equity	246,480	257,340
Total liabilities and stockholders' equity	$ 362,477	$ 375,203

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Revenue		
Product and license	$ 28,445	$ 38,260
Services and other	22,330	18,110
Total revenue	50,775	56,370
Cost of goods sold		
Product and license	9,541	10,738
Services and other	5,781	5,332
Total cost of goods sold	15,322	16,070
Gross profit	35,453	40,300
Operating costs		
Sales and marketing	18,379	14,859
Research and development	12,244	9,994
General and administrative	12,551	12,268
Amortization / impairment of intangible assets	1,573	2,354
Total operating costs	44,747	39,475
Operating income (loss)	(9,294)	825
Interest income, net	4	207
Other income (expense), net	(362)	(338)
Income (loss) before income taxes	(9,652)	694
Provision (benefit) for income taxes	(501)	690
Net income (loss)	$ (9,151)	$ 4
Net income (loss) per share		
Basic	$ (0.23)	$ (0.00)
Diluted	$ (0.23)	$ (0.00)
Weighted average common shares outstanding		
Basic	39,996	40,127
Diluted	39,996	40,338

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended March 31,	
	2021	**2020**
Net income (loss)	$ (9,151)	$ 4
Other comprehensive loss		
Cumulative translation adjustment, net of tax	(919)	(4,278)
Unrealized gains (losses) on available-for-sale securities	(15)	—
Pension adjustment, net of tax	—	(6)
Comprehensive income (loss)	$ (10,085)	$ (4,280)

See accompanying notes to unaudited condensed consolidated financial statements.

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

For the three months ended March 31, 2021:

Description	Common Stock Shares	Common Stock Amount	Treasury - Common Stock Shares	Treasury - Common Stock Amount	Additional Paid-In Capital	Accumulated Income	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2020	40,103	$ 40	250	(5,030)	$ 98,819	$ 173,731	$ (10,220)	$ 257,340
Net income (loss)	—	—	—	—	—	(9,151)	—	(9,151)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	22	(919)	(897)
Restricted stock awards	248	—	—	—	1,342	—	—	1,342
Tax payments for stock issuances	(86)	—	—	—	(2,139)	—	—	(2,139)
Unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	—	(15)	(15)
Balance at March 31, 2021	40,265	$ 40	250	$ (5,030)	$ 98,022	$ 164,602	$ (11,154)	$ 246,480

For the three months ended March 31, 2020:

Description	Common Stock Shares	Common Stock Amount	Treasury - Common Stock Shares	Treasury - Common Stock Amount	Additional Paid-In Capital	Accumulated Income	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2019	40,207	40	—	—	$ 96,109	$ 179,440	$ (13,295)	$ 262,294
Cumulative effect of change related to adoption of ASU 2016-13, net of tax	—	—	—	—	—	(254)	0	(254)
Net income	—	—	—	—	—	4	—	4
Foreign currency translation adjustment , net	—	—	—	—	—	—	(4,278)	(4,278)
Restricted stock awards	168	—	—	—	1,350	—	—	1,350
Tax payments for stock issuances	(61)	—	—	—	(293)	—	—	(293)
Pension adjustment, net of tax	—	—	—	—	—	—	(6)	(6)
Balance at March 31, 2020	40,314	$ 40	—	—	$ 97,166	$ 179,190	$ (17,579)	$ 258,817

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

	Three months ended March 31,	
	2021	**2020 (1)**
Cash flows from operating activities:		
Net income (loss) from operations	$ (9,151)	$ 4
Adjustments to reconcile net income (loss) from operations to net cash provided by (used in) operations:		
Depreciation and amortization of intangible assets	2,310	3,019
Loss on disposal of assets	22	88
Deferred tax benefit	(732)	(306)
Stock-based compensation	1,342	1,350
Changes in operating assets and liabilities:		
Accounts receivable, net	8,588	(1,817)
Inventories, net	1,748	1,445
Contract assets	2,346	(442)
Accounts payable	140	(1,663)
Income taxes payable	(1,634)	(4,735)
Accrued expenses	3,090	(2,104)
Deferred compensation	(1,527)	418
Deferred revenue	322	4,166
Other assets and liabilities	(3,281)	(1,775)
Net cash provided by operating activities	3,583	(2,352)
Cash flows from investing activities:		
Purchase of short term investments	(25,234)	(6,642)
Maturities of short term investments	7,565	6,500
Additions to property and equipment	(755)	(1,516)
Other	(16)	(13)
Net cash provided by (used in) investing activities	(18,440)	(1,671)
Cash flows from financing activities:		
Tax payments for restricted stock issuances	(2,139)	(293)
Net cash used in financing activities	(2,139)	(293)
Effect of exchange rate changes on cash	(558)	(342)
Net increase (decrease) in cash	(17,554)	(4,658)
Cash, cash equivalents, and restricted cash, beginning of period	89,241	85,129
Cash, cash equivalents, and restricted cash, end of period (1.)	$ 71,687	$ 80,471

(1.) End of period cash, cash equivalents, and restricted cash includes \$0.9 million and \$0.8 million of restricted cash at March 31, 2021 and March 31, 2020, respectively.

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

Note 1 – Description of the Company and Basis of Presentation

Description of the Company

OneSpan Inc. and its wholly owned subsidiaries design, develop, market and support hardware and software security systems that manage and secure access to information assets. OneSpan has operations in Austria, Australia, Belgium, Brazil, Canada, China, France, Japan, The Netherlands, Singapore, Switzerland, the United Arab Emirates, the United Kingdom (U.K), and the United States (U.S.).

In accordance with ASC 280, Segment Reporting, our operations are reported as a single operating segment. The chief operating decision maker is the Chief Executive Officer who reviews the statement of operations of the Company on a consolidated basis, makes decisions and manages the operations of the Company as a single operating segment.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of OneSpan and its subsidiaries and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles in the United States ("U.S. GAAP") for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the results of the interim periods presented. All intercompany accounts and transactions have been eliminated. Operating results for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ended December 31, 2021, particularly in light of the novel coronavirus (COVID-19) pandemic and its effects on domestic and global economies.

We continue to actively address the effects of the COVID-19 pandemic and its impact globally. Beginning in the Summer of 2020 and continuing through the remainder of 2020, we experienced lengthened sales cycles and reduced demand for some of our security solutions due to economic uncertainty connected to the COVID-19 pandemic. While we hope that the negative consequences on our business associated with the COVID-19 pandemic will subside in 2021, we cannot predict the impact with certainty.

Revision of Previously Issued Financial Statements

We have revised amounts reported in previously issued financial statements for the periods presented in this Quarterly Report on Form 10-Q related to immaterial errors. The errors relate to certain contracts with customers involving term-based software licenses and related maintenance and support services. The net contract assets that originated from a portion of these contracts in prior periods were not properly accounted for in subsequent periods, which caused overstatements of revenue in prior periods.

We evaluated the aggregate effects of the errors to our previously issued financial statements in accordance with SEC Staff Accounting Bulletins No. 99 and No. 108 and, based upon quantitative and qualitative factors, determined that the errors were not material to the previously issued financial statements and disclosures included in our

Annual Reports on Form 10-K for the years ended December 31, 2019 and 2018, or for any quarterly periods included therein or through our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020.

The following tables present the effects of the aforementioned revisions on our unaudited condensed consolidated statement of operations for the three months ended March 31, 2020, our unaudited condensed consolidated statement of comprehensive loss for the three months ended March 31, 2020, our unaudited condensed consolidated statement of stockholders' equity for the three months ended March 31, 2020, and our unaudited condensed consolidated statement of cash flows for the three months ended March 31, 2020 (in thousands).

Condensed Consolidated Statement of Operations (Unaudited)

	Three Months Ended March 31, 2020		
in thousands	**As Previously Reported**	**Adjustments**	**As Revised**
Revenue			
Product and license	$ 38,260	$ —	$ 38,260
Services and other	18,232	(122)	18,110
Total revenue	56,492	(122)	56,370
Gross Profit	40,422	(122)	40,300
Operating income	947	(122)	825
Income before income taxes	816	(122)	694
Provision for income taxes	718	(28)	690
Net Income	98	(94)	4

Condensed Consolidated Statement of Comprehensive Loss (Unaudited)

	Three Months Ended March 31, 2020		
in thousands	As Previously Reported	Adjustments	As Revised
Net income	$ 98	$ (94)	$ 4
Comprehensive loss	(4,186)	(94)	(4,280)

Condensed Consolidated Statement of Stockholders' Equity (Unaudited)

	Total Stockholders' Equity		
in thousands	As Previously Reported	Adjustments	As Revised
Balance at December 31, 2019	$ 264,021	$ (1,727)	$ 262,294
Net income	98	(94)	4
Balance at March 31, 2020	$ 260,639	$ (1,822)	$ 258,817

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Three months ended March 31, 2020		
in thousands	As Previously Reported	Adjustments	As Revised
Cash flows from operating activities:			
Net income	$ 98	$ (94)	$ 4
Changes in operating assets and liabilities:			
Contract assets	(564)	122	(442)
Income taxes payable	(4,707)	(28)	(4,735)
Net cash used in operating activities	(2,352)	—	(2,352)

Principles of Consolidation

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

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation and Transactions

The financial position and results of the operations of the majority of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Accordingly, assets and liabilities are translated into U.S. Dollars using current exchange rates as of the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the year. Translation adjustments arising from differences in exchange rates are charged or credited to other comprehensive income (loss). Gains and losses resulting from foreign currency transactions are included in the condensed consolidated statements of operations in other income (expense), net. Foreign exchange transaction losses aggregated $0.7 million for the three months ended March 31, 2021 and $0.5 million for the three months ended March 31, 2020.

The financial position and results of our operations in Singapore, Switzerland, and Canada are measured in U.S. Dollars. For these subsidiaries, gains and losses that result from foreign currency transactions are included in the consolidated statements of operations in other income (expense), net.

Note 2 – Summary of Significant Accounting Policies

There have been no changes to the significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 25, 2021 that have had a material impact on the Company's condensed consolidated financial statements and related notes.

Cash, Cash Equivalents and Restricted Cash

We are in lease agreements that require letters of credit to secure the obligations. The restricted cash related to these letters of credit is recorded in other non-current assets on the Condensed Consolidated Balance Sheet in the amounts of $0.9 million and $0.8 million at March 31, 2021 and December 31, 2020, respectively.

Equity Method Investment

We apply the equity method of accounting to our investment in Promon AS (Promon), because we exercise significant influence, but not controlling interest, in the investee. Promon is a technology company headquartered in Norway that specializes in mobile app security, whose solutions focus largely on Runtime Application Self-Protection (RASP). We exercise significant influence over Promon as a result of our 17% ownership interest in Promon, our representation on Promon's Board of Directors, and the significance to Promon of our business activities with them. We integrate Promon's RASP technology into our software solution, which are licensed to our customers. Under the equity method of accounting, the Company's proportionate share of the net earnings (losses) of Promon is reported in other income (expense), net in our condensed consolidated Statements of Operations. The impact of the proportionate share of net earnings (losses) were immaterial for the three months ended March 31, 2021 and 2020 as were the relative size of Promon's assets and operations in relation to the Company's. The carrying value of our equity method investment is reported in other noncurrent assets in the condensed consolidated Balance Sheets and is reported originally at cost and adjusted each period for the Company's share of the investee's earnings (losses) and dividends paid, if any. The Company also assesses the investment for impairment whenever events or changes in circumstances indicate that the carrying value of the investment may not be recoverable. The Company did not record any impairment charges during the three month periods ended March 31, 2021 and 2020. The Company recorded $1.6 million and $1.2 million in costs of sales during the three months ended March 31, 2021 and March 31, 2020, respectively for license fees owed to Promon for use of their software and technology. The Company owed Promon $2.7 million as of March 31, 2021, which is included in accounts payable and accrued liabilities.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Simplification for Accounting for Income Taxes*, which removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. ASU 2020-12 was effective beginning January 1, 2021. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This update provides optional expedients and exceptions for applying generally accepted accounting principles to certain contract modifications and hedging relationships that reference London Inter-bank Offered Rate (LIBOR) or another reference rate expected to be discontinued. The guidance is effective upon issuance and can be applied through December 31, 2022. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

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

Note 3 – Revenue

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

Disaggregation of Revenues

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

Revenue by major products (in thousands)

	Three months ended March 31, 2021	2020
Hardware products	$ 17,668	$ 19,738
Software licenses	10,777	18,522
Subscription	8,405	5,707
Professional services	1,402	1,421
Maintenance, support and other	12,523	10,982
Total Revenue	$ 50,775	$ 56,370

Revenue by location of customer for the three months ended March 31, 2021 and 2020 (in thousands)

	EMEA	Americas	APAC	Total
Total Revenue:				
2021	$ 26,989	$ 16,528	$ 7,258	$ 50,775
2020	$ 33,604	$ 12,333	$ 10,433	$ 56,370
Percent of Total:				
2021	53 %	33 %	14 %	100 %
2020	59 %	22 %	19 %	100 %

Timing of revenue recognition (in thousands)

	Three months ended March 31, 2021	2020
Products and Licenses transferred at a point in time	$ 28,445	$ 38,260
Services transferred over time	22,330	18,110
Total Revenue	$ 50,775	$ 56,370

Contract balances

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

	March 31, 2021	December 31, 2020
Receivables, inclusive of trade and unbilled	$ 47,892	$ 57,537
Contract Assets (current and non-current)	$ 6,453	$ 9,079
Contract Liabilities (Deferred Revenue current and non-current)	$ 54,813	$ 55,147

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 billing occurs, which is normally over 3-5 years. The contract liabilities primarily relate to the advance consideration received from customers for subscription and maintenance services. Revenue is recognized for these services over time.

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

Revenue recognized during the three months ended March 31, 2021 included $15.0 million that was included on the December 31, 2020 balance sheet in contract liabilities. Deferred revenue increased in the same period due to timing of annual renewals.

Transaction price allocated to the remaining performance obligations

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

in thousands	2021	2022	2023	Beyond 2023	Total
Future revenue related to current unsatisfied performance obligations	$ 17,467	$ 15,600	$ 10,020	$ 6,652	$ 49,739

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

Costs of obtaining a contract

The Company incurs incremental costs related to commissions, which can be directly tied to obtaining a contract. The Company capitalizes commissions associated with certain new contracts and amortizes the costs over a period of benefit based on the transfer of goods or services that we have determined to be up to seven years. The Amortization is reflected in Sales and Marketing in the Statements of Operations. We determined the period of benefit by taking into consideration our customer contracts, our technology and other factors, including customer attrition. Commissions are earned upon invoicing to the customer. For contracts with multiple year payment terms, as 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 expenses on 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 periods:

in thousands	**March 31, 2021**	**December 31, 2020**
Capitalized costs to obtain contracts, current	$ 1,380	$ 1,222
Capitalized costs to obtain contracts, non-current	$ 5,635	$ 5,464

in thousands	Three months ended March 31, 2021	2020
Amortization of capitalized costs to obtain contracts	$ 310	$ 169
Impairments of capitalized costs to obtain contracts	$ -	$ -

Note 4 – Inventories, net

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

Inventories, net are comprised of the following:

	March 31, 2021	December 31, 2020
	(in thousands)	
Component parts	$ 5,372	$ 5,439
Work-in-process and finished goods	5,974	7,654
Total	$ 11,346	$ 13,093

Note 5 – Goodwill

Goodwill activity for the three months ended March 31, 2021 consisted of the following:

in thousands	
Net balance at December 31, 2020	$ 97,552
Net foreign currency translation	(99)
Net balance at March 31, 2021	$ 97,453

No impairment of goodwill was recorded during the three months ended March 31, 2021 or March 31, 2020.

Note 6 – Intangible Assets

Intangible asset activity for the three months ended March 31, 2021 is detailed in the following table.

in thousands	Acquired Technology	Customer Relationships	Other	Total Intangible Assets
Net balance at December 31, 2020	$ 2,277	$ 23,200	$ 1,719	$ 27,196
Additions	2	—	14	16
Disposals	—	—	(21)	(21)
Net foreign currency translation	17	66	(4)	79
Amortization expense	(387)	(999)	(187)	(1,573)
Net balance at March 31, 2021	$ 1,909	$ 22,267	$ 1,521	$ 25,697
March 31, 2021 balance at cost	$ 43,405	$ 40,055	$ 13,555	$ 97,015
Accumulated amortization	(41,496)	(17,788)	(12,034)	(71,318)
Net balance at March 31, 2021	$ 1,909	$ 22,267	$ 1,521	$ 25,697

Certain intangible assets are denominated in functional currencies besides the U.S. dollar and are subject to currency fluctuations. No impairment of intangible assets was recorded during the three months ended March 31, 2021 or March 31, 2020.

Note 7 – Property and Equipment

The major classes of property and equipment are as follows:

in thousands	March 31, 2021	December 31, 2020
Office equipment and software	$ 13,788	$ 13,540
Leasehold improvements	10,388	10,593
Furniture and fixtures	3,875	3,827
Total	28,051	27,960
Accumulated depreciation	(16,329)	(16,125)
Property and equipment, net	$ 11,722	$ 11,835

Depreciation expense was $0.7 million and $0.7 million for the three months ended March 31, 2021 and March 31, 2020, respectively.

Note 8 – Fair Value Measurements

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

The Company classifies its investments in debt securities as available-for-sale. In accordance with ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, we review available-for-sale debt securities for impairments related to losses and other factors each quarter. Unrealized gains and losses are recorded to other comprehensive income. The unrealized gains and losses on the available-for-sale debt securities were not material as of March 31, 2021 and December 31, 2020.

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

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

The following tables summarize assets that are measured at fair value on a recurring basis as of March 31, 2021 and December 31, 2020:

in thousands	March 31, 2021	Fair Value Measurement at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury Notes	$ 2,439	-	$ 2,439	-
Corporate Notes / Bonds	$ 13,307	-	$ 13,307	-
Commercial Paper	$ 7,596	-	$ 7,596	-
U.S. Treasury Bills	$ 4,824	-	$ 4,824	-
U.S. Government Agencies	$ 16,223	-	$ 16,223	-

in thousands	December 31, 2020	Fair Value Measurement at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury Notes	$ 4,951	-	$ 4,951	-
Corporate Notes / Bonds	$ 8,780	-	$ 8,780	-
Commercial Paper	$ 4,098	-	$ 4,098	-
U.S. Treasury Bills	$ 5,292	-	$ 5,292	-
U.S. Government Agencies	$ 3,738	-	$ 3,738	-

Note 9 – Allowance for credit losses

The changes in the allowance for credit losses during the three months ended March 31, 2021 were as follows:

in thousands	
Balance at December 31, 2020	$ 4,135
Provision	290
Write-offs	(253)
Net foreign currency translation	(2)
Balance at March 31, 2021	$ 4,170

Note 10 – Leases

Operating lease cost details for the three months ended March 31, 2021 and 2020 are as follows:

	Three months ended March 31, 2021: 2021	2020
	(in thousands)	
Building rent	$ 570	$ 691
Automobile rentals	333	352
Total net operating lease costs	$ 903	$ 1,043

At March 31, 2021, the weighted average remaining lease term for our operating leases is 6.7 years. The weighted average discount rate for our operating leases is 5%.

During the three months ended March 31, 2021, there were $0.9 million of operating cash payments for lease liabilities, and $0 of right-of use assets obtained in exchange for new lease liabilities.

Maturities of our operating leases are as follows:

	As of March 31, 2021 (in $ thousands)
2021	$ 2,538
2022	3,118
2023	2,517
2024	1,714
2025	1,581
Later years	5,922
Less imputed interest	(3,005)
Total lease liabilities	$ 14,385

Note 11 – Income Taxes

Given our expected projected loss (before tax) for the year, our estimated annual effective tax rate for 2021 before discrete items is expected to be approximately 6%. Our global effective tax rate is lower than the U.S. statutory tax rate of 21% primarily due to losses in jurisdictions for which a valuation allowance is required and therefore no benefit is received, along with nondeductible expenses. Our ultimate tax expense will depend on the mix of earnings in various jurisdictions. Income taxes of $5.0 million were paid during the three months ended March 31, 2021.

At December 31, 2020, we had deferred tax assets of $30.0 million resulting from foreign and state NOL carryforwards of $119.5 million and other foreign deductible carryforwards of $64.7 million. At December 31, 2020, we had a valuation allowance of $19.9 million against deferred tax assets related to certain carryforwards.

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

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

Under the OneSpan Inc. 2020 Omnibus Incentive Plan, we award restricted stock units subject to time-based vesting, restricted stock units which are subject to the achievement of future performance criteria and restricted stock units that are subject to the achievement of market conditions. Other long-term incentive plan compensation expense includes cash incentives.

We awarded 169 restricted stock units during the three months ended March 31, 2021, subject to time-based vesting. The fair value of the unissued time-based restricted stock unit grants was $4.1 million at the dates of grant and the grants are being amortized over the vesting periods of one to four years.

We awarded restricted stock unit grants during the three months ended March 31, 2021, subject to the achievement of market and service conditions, which allow for up to 41 shares to be earned if the market conditions are fully achieved. The fair value of these awards was $1.7 million at the dates of grant and the awards are being amortized over the vesting period of three years.

We awarded restricted stock units subject to the achievement of service and future performance criteria during the three months ended March 31, 2021, which allow for up to 114 shares to be earned if the performance criteria are fully achieved. The fair value of these awards was $2.9 million at the dates of grant. The Company currently believes that these awards are expected to be earned.

The following table details long-term compensation plan and stock-based compensation expense for the three months ended March 31, 2021 and 2020:

	March 31, 2021	March 31, 2020
in thousands		
Stock-based compensation	$ 1,342	$ 1,350
Other long-term incentive plan compensation	200	365
Total compensation	$ 1,542	$ 1,715

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

Basic earnings per share is based on the weighted average number of shares outstanding and excludes the dilutive effect of common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of common stock equivalents to the extent they are not anti-dilutive. Because the Company is in a net loss position for the three months ended March 31, 2021, diluted net loss per share for these periods excludes the effects of common stock equivalents, which are anti-dilutive. For the three months ended March 31, 2020, the anti-dilutive effect of our securities is immaterial.

The details of the earnings per share calculations for the three months ended March 31, 2021 and 2020 are as follows:

in thousands, except per share data	March 31, 2021	March 31, 2020
Net income (loss)	$ (9,151)	$ 4
Weighted average common shares outstanding:		
Basic	39,996	40,127
Incremental shares with dilutive effect:		
Restricted stock awards	—	211
Diluted	39,996	40,338
Net income (loss) per share:		
Basic	$ (0.23)	$ (0.00)
Diluted	$ (0.23)	$ (0.00)

Note 14 – Legal Proceedings and Contingencies

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

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

We include various types of indemnification clauses in our customer agreements. These indemnifications may include, but are not limited to, infringement claims related to our intellectual property, direct damages and consequential damages. The type and amount of such indemnifications vary substantially based on our assessment of risk and reward associated with each agreement. We believe the estimated fair value of these indemnification clauses is minimal, and we cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions. We have no liabilities recorded for these clauses as of March 31, 2021.

A complaint was filed on August 20, 2020 against OneSpan and certain of its officers, asserting claims for purported violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”), and SEC Rule 10b-5 promulgated thereunder, based on certain alleged material misstatements and omissions. The case is captioned Almendariz v. OneSpan Inc., et al., No. 1:20-cv-04906 (N.D. Ill.) (the “Securities Class Action”). Specifically, the plaintiff in the Securities Class Action alleges, among other things, that certain statements about OneSpan’s business were misleading because of defendants’ failure to disclose that OneSpan purportedly had inadequate internal procedures and controls over financial reporting and related disclosures; and OneSpan purportedly downplayed the negative impacts of immaterial errors in its financial statements. On April 28, 2021, the Securities Class Action was dismissed by the court without prejudice.

A complaint, related in subject matter to the Securities Class Action, was filed on October 23, 2020 against certain of OneSpan’s officers and directors, and names OneSpan as a nominal defendant. The case is captioned Klein v. Boroditzky, et al., No. 1:20-cv-06310 (N.D. Ill.) (the “Derivative Action” and, collectively with the Securities Class Action, the “Litigation”). The plaintiff asserts claims for breach of fiduciary duty, abuse of control and corporate waste, as well as a claim for contribution under Sections 10(b) and 21D of the Exchange Act, based on the same alleged wrongdoing pled in the Securities Class Action. On February 16, 2021, on the parties’ agreed motion, the court stayed the action pending a decision on the then-anticipated motion to dismiss in the Securities Class Action.

On April 2, 2021, a different purported shareholder of the Company, represented by one of the same law firms representing plaintiff in the Klein case, filed second derivative suit in the Northern District of Illinois arising out of the same events that led to the filing of the Securities Class Action. The case is captioned Herrera v. Boroditsky, et al., 1:21-cv-01789 (N.D. Ill.). The factual allegations are substantially similar to those in Klein, except that the complaint does not contain express allegations regarding the pendency of the Securities Class Action and only one cause of action, for breach of fiduciary duty, is asserted. Defendants have not yet been served or entered an appearance.

From time to time, we have been involved in litigation and claims incidental to the conduct of our business, such as compensation claims from current or former employees in Europe. We expect that to continue. Excluding matters specifically disclosed above, we are not a party to any lawsuit or proceeding that, in management’s opinion, is likely to have a material adverse effect on its business, financial condition or results of operations.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations (in thousands, except headcount, ratios, time periods and percentages)

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of applicable U.S. securities laws, including statements regarding the potential benefits, performance and functionality of our products and solutions, including future offerings; our expectations, beliefs, plans, operations and strategies relating to our business and the future of our business; our strategic plans regarding our portfolio, including acquisitions and dispositions; and our expectations regarding our financial performance in the future. Forward-looking statements may be identified by words such as "seek", "believe", "plan", "estimate", "anticipate", "expect", "intend", "continue", "outlook", "may", "will", "should", "could", or "might", and other similar expressions. These forward-looking statements involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could materially affect our business and financial results include, but are not limited to: market acceptance of our products and solutions and competitors' offerings; the potential effects of technological changes; the impact of the COVID-19 pandemic and actions taken to contain it; our ability to effectively manage acquisitions, divestitures, alliances, joint ventures and other portfolio actions; the execution of our transformative strategy on a global scale; the increasing frequency and sophistication of hacking attacks; claims that we have infringed the intellectual property rights of others; changes in customer requirements; price competitive bidding; changing laws, government regulations or policies; pressures on price levels; investments in new products or businesses that may not achieve expected returns; impairment of goodwill or amortizable intangible assets causing a significant charge to earnings; actions of activist stockholders; and exposure to increased economic and operational uncertainties from operating a global business, as well as those factors described in the "Risk Factors" section of our Annual Report on Form 10-K. Our filings with the Securities and Exchange Commission (the "SEC") and other important information can be found in the Investor Relations section of our website at *investors.onespan.com*. We do not have any intent, and disclaim any obligation, to update the forward-looking information to reflect events that occur, circumstances that exist or changes in our expectations after the date of this Form 10-Q, except as required by law.

Revision of Previously Issued Financial Statements

This information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in "Part I, Item 1" of this Quarterly Report. We have revised our prior period financial statements to reflect the correction of immaterial errors as described in this Quarterly Report in Notes to Condensed Consolidated Financial Statements, Note 1 – Description of the Company and Basis of Presentation, "Revision of Previously Issued Financial Statements".

Outlook and Financial Results

We continue to actively address the effects of the COVID-19 pandemic and its impact globally. Beginning in the Summer of 2020 and continuing through the remainder of 2020, we experienced lengthened sales cycles and reduced demand for some of our security solutions due to economic uncertainty connected to the COVID-19 pandemic. The most significant impact of the pandemic on our business has been a drop in demand for our hardware authentication products and delays in the implementation of certain software solutions.

In the current and future periods, we may experience weaker customer demand, requests for discounts or extended payment terms, customer bankruptcies, supply chain disruption, employee staffing constraints and difficulties, government restrictions or other factors that could negatively impact the Company and its business, operations and financial results.

We believe that we will emerge from these events well positioned for long-term growth, though we cannot reasonably estimate the duration and severity of the pandemic or its ultimate impact on the global economy and our business results. See Part II – Item 1A – Risk Factors of this Form 10-Q for additional information regarding the potential impact of COVID-19 on the Company.

Overview

We design, develop and market digital solutions for identity, security, and business productivity that protect and facilitate electronic transactions via mobile and connected devices. We are a global leader in providing anti-fraud and digital transaction management solutions to financial institutions and other businesses. Our solutions secure access to online accounts, data, assets, and applications for global enterprises; provide tools for application developers to easily integrate security functions into their web-based and mobile applications; and facilitate end-to-end financial agreement automation including digital identity verification, customer due diligence, electronic signature, secure storage and document management. Our core technologies, multi-factor authentication, identity verification and transaction signing, strengthen the process of preventing hacking attacks against online and mobile transactions to allow companies to transact business safely with remote customers.

We offer cloud based and on premises solutions using both open standards and proprietary technologies. Some of our proprietary technologies are patented. Our products and services are used for authentication, fraud mitigation, e-signing transactions and documents, and identity management in Business-to-Business (“B2B”), Business-to-Employee (“B2E”) and Business-to-Consumer (“B2C”) environments. Our target market is business processes using electronic interface, particularly the Internet, where there is risk of unauthorized access. Our products can increase security associated with accessing business processes, reduce losses from unauthorized access and reduce the cost of the process by automating activities previously performed manually.

Our Business Model

We offer our products through a product sales and licensing model or through our services platform, which includes our cloud-based service offering.

Our solutions are sold worldwide through our direct sales force, as well as through distributors, resellers, systems integrators, and original equipment manufacturers. Our sales force is able to offer customers a choice of an on-site implementation using our traditional on-premises model or a cloud implementation for some solutions using our services platform.

Industry Growth

We believe the markets for authentication, fraud mitigation, agreement automation, and electronic signature solutions will continue to grow driven by new government regulations, growing awareness of the impact of cyber-crime, increasing focus on the digital experience for mobile and online users, and the growth in electronic commerce. The issues driving growth are global; however, the rate of adoption in each country is a function of local culture, competitive position, economic conditions, and the use of technology may vary significantly.

Economic Conditions

Our revenue may vary significantly with changes in the economic conditions in the countries in which we currently sell products. With our current concentration of revenue in Europe and specifically in the banking and finance vertical market, significant changes in the economic outlook for the European banking market may have a significant effect on our revenue.

The COVID-19 pandemic and the various governments’ response have caused significant and widespread uncertainty, volatility and disruptions in the U.S. and global economies, including in the regions in which we operate.

Cybersecurity Risks

Our use of technology is increasing and is critical in three primary areas of our business:

1. Software and information systems that we use to help us run our business more efficiently and cost effectively;
2. The products we have traditionally sold and continue to sell to our customers for integration into their software applications contain technology that incorporates the use of secret numbers and encryption technology; and
3. New products and services that we introduced to the market are focused on processing information through our servers or in the cloud.

We believe that the risks and consequences of potential incidents in each of the above areas are different.

In the case of the information systems we use to help us run our business, we believe that an incident could disrupt our ability to take orders or deliver product to our customers, but such a delay in these activities would not have a material impact on our overall results. To minimize this risk, we actively use various forms of security and monitor the use of our systems regularly to detect potential incidents as soon as possible.

In the case of products that we have traditionally sold, we believe that the risk of a potential cyber incident is minimal. We offer our customers the ability to either create the secret numbers themselves or have us create the numbers on their behalf. When asked to create the numbers, we do so in a secure environment with limited physical access and store the numbers on a system that is not connected to any other network, including other OneSpan networks, and similarly, is not connected to the Internet.

In the case of our cloud-based solutions, which involve the processing of customer information, we believe a cyber incident could have a material impact on our business. While our revenue from cloud-based solutions comprises a minority of our revenue today, we believe that these solutions will provide substantial future growth. A cyber incident involving these solutions in the future could substantially impair our ability to grow the business and we could suffer significant monetary and other losses and significant reputational harm.

To minimize the risk, we review our product security and procedures on a regular basis. Our reviews include the processes and software code we are currently using as well as the hosting platforms and procedures that we employ. We mitigate the risk of cyber incidents through a series of reviews, tests, tools and training. Certain insurance coverages may apply to certain cyber incidents. Overall, we expect the cost of securing our networks will increase in future periods, whether through increased staff, systems or insurance coverage.

While we did not experience any cyber incidents in the first three months of 2021 that had a significant impact on our business, it is possible that we could experience an incident in 2021 or future years, which could result in unanticipated costs.

Currency Fluctuation

During the three months ended March 31, 2021, approximately 86% of our revenue was generated outside of the United States. While the majority of our revenues are generated outside of the United States, a significant amount of our revenue earned during the three months ended March 31, 2021 was denominated in U.S. Dollars. During the three months ended March 31, 2021, we estimate that approximately 48% of our revenue was denominated in U.S. Dollars.

In addition, during the three months ended March 31, 2021, approximately 70% of our operating expenses were incurred outside of the United States. 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 revenue and expenses.

In general, to minimize the net impact of currency fluctuations on operating income, we attempt to denominate an amount of billings in a currency such that it would provide a hedge against the operating expenses incurred in that currency. We expect that changes in currency rates may also impact our future results if we are unable to match amounts of revenue with our operating expenses in the same currency. If the amount of our revenue in Europe denominated in Euros continues as it is now or declines, we 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 period. Translation adjustments arising from differences in exchange rates generated other comprehensive loss of $0.9 million for the three months ended March 31, 2021 and $4.3 million for the three months ended March 31, 2020. These amounts are included as a separate component of stockholders' equity. 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 consolidated statements of operations in other income (expense), net. Foreign exchange transaction losses aggregated $0.7 million for the three months ended March 31, 2021, compared to $0.5 million of foreign exchange transaction losses aggregated for the three months ended March 31, 2020.

Components of Operating Results

Revenue

We generate revenue from the sale of our hardware products, software licenses, subscriptions, maintenance and support, and professional services. 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 hardware products and software licenses, which can be provided on a perpetual or term basis.
- *Service and other revenue*. Service and other revenue includes subscription solutions (which is our definition of software-as-a-service solutions), 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.
- *Cost of service and other revenue*. Cost of service and other revenue primarily consists of costs related to subscription solutions, including personnel and equipment costs, and personnel costs of employees providing professional services and maintenance and support.

Gross Profit

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

Operating Expenses

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

Generally, the most significant factor driving our operating expenses is headcount. Direct compensation and benefit plan expenses generally represent between 55% and 65% of our operating expenses, respectively. In addition, a number of other expense categories are directly related to headcount. We attempt to manage our headcount within the context of the economic environments in which we operate and the investments we believe we need to make for our infrastructure to support future growth and for our products to remain competitive.

Historically, operating expenses have been impacted by changes in foreign exchange rates. We estimate the change in currency rates in the first three months of 2021 compared to the same period in 2020 resulted in an increase in operating expenses of approximately $1.4 million.

The comparison of operating expenses can also be impacted significantly by costs related to our stock-based and long-term incentive plans. Operating expenses for the three months ended March 31, 2021 included $1.3 million and $0.2 million, respectively of expenses related to stock-based and long-term incentive plan costs compared to $1.3 million and $0.4 million of stock-based and long-term incentive plan cost for the three months ended March 31, 2020, respectively.

- *Sales and marketing*. Sales and marketing expenses consist primarily of personnel costs, commissions and bonuses, trade shows, marketing programs and other marketing activities, travel, outside consulting costs, and long-term incentive compensation. We expect sales and marketing expenses to increase in absolute dollars as we continue to invest in sales resources in key focus areas, although our sales and marketing expenses may fluctuate as a percentage of total revenue.
- *Research and development*. Research and development expenses consist primarily of personnel costs and long-term incentive compensation. We expect research and development expenses to increase in absolute dollars as we continue to invest in our future solutions, although 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 and other professional fees, and long term incentive compensation. We expect general and administrative expenses to increase in absolute dollars 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.

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 Income (Expense), Net

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

Income Taxes

Our effective tax rate reflects our global structure related to the ownership of our intellectual property ("IP"). All our IP in our traditional authentication business is owned by two subsidiaries, one in the U.S. and one in Switzerland. These two subsidiaries have entered into agreements with most of the other OneSpan entities under which those other entities provide services to our U.S. and Swiss subsidiaries on either a percentage of revenue or on a cost plus basis or both. Under this structure, the earnings of our service provider subsidiaries are relatively constant. These service provider companies tend to be in jurisdictions with higher effective tax rates. Fluctuations in earnings tend to flow to the U.S. company and Swiss company. In 2021, earnings flowing to the U.S. company are expected to be taxed at a rate of 21% to 25%, while earnings flowing to the Swiss company are expected to be taxed at a rate ranging from 11% to 12%, plus Swiss withholding tax of an additional 5%. A Canadian and UK subsidiary currently sell to and service global customers directly. In addition, many of our OneSpan entities operate as distributors for all of our OneSpan products.

As the majority of our revenues are generated outside of the U.S., our consolidated effective tax rate is strongly influenced by the effective tax rate of our foreign operations. Changes in the effective rate related to foreign operations reflect changes in the geographic mix of earnings and the tax rates in each of the countries in which it is earned. The statutory tax rate for the primary foreign tax jurisdictions ranges from 12% to 35%.

The geographic mix of earnings of our foreign subsidiaries primarily depends on the level of pretax income of our service provider subsidiaries and the benefit realized in Switzerland through the sales of product. The level of pretax income in our service provider subsidiaries is expected to vary based on:

1. the staff, programs and services offered on a yearly basis by the various subsidiaries as determined by management, or

2. the changes in exchange rates related to the currencies in the service provider subsidiaries, or

3. the amount of revenues that the service provider subsidiaries generate.

For items 1 and 2 above, there is a direct impact in the opposite direction on earnings of the U.S. and Swiss entities. Any change from item 3 is generally expected to result in a larger change in income in the U.S. and Swiss entities in the direction of the change (increased revenues expected to result in increased margins/pretax profits and conversely decreased revenues expected to result in decreased margins/pretax profits).

In addition to the provision of services, the intercompany agreements transfer the majority of the business risk to our U.S. and Swiss subsidiaries. As a result, the contracting subsidiaries' pretax income is reasonably assured while the pretax income of the U.S. and Swiss subsidiaries varies directly with our overall success in the market.

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

In May 2018, we acquired Dealflo Limited ("Dealflo"), a foreign company with substantial IP and net operating losses. The tax benefit of the loss carryforwards will be reserved to the extent they exceed the deferred tax liabilities recognized upon acquisition as realization has not been deemed more likely than not.

Results of Operations

Revenue

Revenue by Product: We generate revenue from the sale of our hardware products, software licenses, subscriptions, professional services, and maintenance and support. Product and license revenue includes hardware products and software licenses. Service and other revenue includes subscription solutions (which is our definition of software-as-a-service solutions), maintenance and support, and professional services.

	Three months ended March 31,		Change	
	2021	2020	$	%
	(in thousands)			
Hardware products	$ 17,668	$ 19,738	$ (2,070)	(10)%
Software licenses	10,777	18,522	(7,745)	(42)%
Subscription	8,405	5,707	2,698	47%
Professional services	1,402	1,421	(19)	(1)%
Maintenance, support and other	12,523	10,982	1,541	14%
Total Revenue	$ 50,775	$ 56,370	$ (5,595)	(10)%

Total revenue decreased $5.6 million or 10%, during the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The overall decrease in revenue was comprised of a $6.5 million decrease in perpetual software license revenue, and a $2.1 million decrease in hardware revenue, partially offset by an increase in recurring revenue. Recurring revenue, comprised of subscription, term-based software license, and maintenance, support and other revenue, increased $3.0 million or 12% during the three months ended March 31, 2021, compared to the three months ended March 31, 2020.

Product and license revenue decreased $9.8 million or 26% during the three months ended March 31, 2021 compared to the three months ended March 31, 2020, which was driven by a decrease in both hardware and software sales. The decrease in software sales is due to pre-pandemic demand during the three months ended March 31, 2020. Lower hardware revenue is reflective of an overall decrease in demand for hardware products, as customers shift to electronic solutions.

Services and other revenue increased by $4.2 million, or 23% during the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The increase was driven by higher subscription and maintenance revenue.

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. As a result of the volatility in our business, we believe that the overall strength of our business is best evaluated over a longer term where the impact of transactions in any given period is not as significant as in a quarter-over-quarter comparison.

Revenue by Geographic Regions: We classify our sales by customer location in three geographic regions: 1) EMEA, which includes Europe, Middle East and Africa; 2) the Americas, which includes sales in North, Central, and

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

	Three months ended March 31,			
	2021	2020	$ Change	% Change
	(in thousands)			
Revenue				
EMEA	$ 26,989	$ 33,604	($ 6,615)	(20)%
Americas	16,528	12,333	4,195	34%
APAC	7,258	10,433	(3,175)	(30)%
Total revenue	$ 50,775	$ 56,370	($ 5,595)	(10)%
% of Total Revenue				
EMEA	53%	59%		
Americas	33%	22%		
APAC	14%	19%		

Revenue generated in EMEA during the three months ended March 31, 2021 was $6.6 million, or 20% lower than the three months ended March 31, 2020, driven by lower hardware sales, partially offset by higher software license revenue and higher maintenance revenue.

Revenue generated in the Americas during the three months ended March 31, 2021 was $4.2 million, or 34% higher than the three months ended March 31, 2020, driven by an increase in subscription revenue.

Revenue generated in the Asia Pacific region during the three months ended March 31, 2021 was $3.2 million, or 30% lower than the three months ended March 31, 2020, driven by lower revenue from software licenses, hardware and maintenance.

Cost of Goods Sold and Gross Margin

	Three months ended March 31,			
	2021	2020	$	% Change
		(in thousands)		
Cost of goods sold				
Product and license	$ 9,541	$ 10,738	($ 1,197)	(11)%
Services and other	5,781	5,332	449	8%
Total cost of goods sold	$ 15,322	$ 16,070	($ 748)	(5)%
Gross profit	$ 35,453	$ 40,300	(4,847)	(12)%
Gross margin				
Product and license	66%	72%		
Services and other	74%	71%		
Total gross margin	70%	71%		

The cost of product and license goods sold decreased $0.7 million or 5% during the three months ended March 31, 2021 compared to the three months ended March 31, 2020. During the three months ended March 31, 2021, the cost of product and license goods sold decreased $1.2 million or 11% compared to the three months ended March 31, 2020. The decrease in cost of product and license was primarily driven by lower hardware sales.

The cost of services and other revenue increased by $0.5 million, or 8% during the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The increase in cost of services is reflective of higher subscription revenue, which has increased cloud-based infrastructure costs.

Gross profit decreased $4.8 million, or 12% during the three months ended March 31, 2021 compared to the three months ended March 31, 2020. Gross profit margin was 70% for the three months ended March 31, 2021, compared to 71% for the three months ended March 31, 2020. The overall decrease in profit margins for the three months ended March 31, 2021 was driven by lower product and license margins, largely attributable to product mix.

The majority of our inventory purchases are denominated in U.S. Dollars. Our sales are denominated in various currencies including the Euro. The impact of changes in currency rates are estimated to have increased revenue by approximately $2.2 million for the three months ended March 31, 2021. Had currency rates in 2021 been equal to rates in 2020, the gross profit margins would have been approximately 4.3 percentage points lower for the three months ended March 31, 2021.

Operating Expenses

	Three months ended March 31,			
	2021	2020	$	% Change
	(in thousands)			
Operating costs				
Sales and marketing	$ 18,379	$ 14,859	$ 3,520	24%
Research and development	12,244	9,994	2,250	23%
General and administrative	12,551	12,268	283	2%
Amortization of intangible assets	1,573	2,354	(781)	(33)%
Total operating costs	$ 44,747	$ 39,475	$ 5,272	13%

Sales and Marketing Expenses

Sales and marketing expenses for the three months ended March 31, 2021 were $18.4 million, an increase of $3.5 million or 24%, from the three months ended March 31, 2020. The increase in expense for the three months ended March 31, 2021 was primarily driven by higher personnel costs due to higher headcount, as well as increased marketing spend, partially offset by lower travel costs.

Average full-time sales, marketing, support, and operating employee headcount for the three months ended March 31, 2021 was 385 compared to 326 for the three months ended March 31, 2020. Headcount was 18% higher for the three months ended March 31, 2021 compared to the same period in 2020.

Research and Development Expenses

Research and development expenses for the three months ended March 31, 2021, were $12.2 million, an increase of $2.3 million, or 23%, from the three months ended March 31, 2020, driven primarily by higher personnel due to higher headcount, partially offset by lower travel costs.

Average full-time research and development employee headcount for the three months ended March 31, 2021 was 349 compared to 311 for the three months ended March 31, 2020. Average headcount was approximately 12% higher for the three months ended March 31, 2021, when compared to the same period in 2020.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2021, were $12.6 million, an increase of $0.3 million or 2%, from the three months ended March 31, 2020. The increase in general and administrative expenses for the three months ended March 31, 2021, compared to the same period in 2020 was driven by higher personnel costs, partially offset by lower outside professional services spend and lower travel costs.

Average full-time general and administrative employee headcount for the three months ended March 31, 2021 was 134 compared to 114 for the three months ended March 31, 2020. Average headcount was approximately 18% higher for the three months ended March 31, 2021when compared to the same period in 2020.

Amortization of Intangible Assets

Amortization of intangible assets for the three months ended March 31, 2021 was $1.6 million. There was a decrease of $0.8 million or 33% for the three months ended March 31, 2021 compared to the same period in the prior year. The decrease was driven by certain acquired intangible assets becoming fully amortized during the year ended December 31, 2020.

Interest Income, net

	Three months ended March 31,			
	2021	2020	$ Change	% Change
	(in thousands)			
Interest income, net	$ 4	$ 207	($ 203)	(98)%

Interest income, net was less than $0.1 million for the three months ended March 31, 2021, as compared to $0.2 million for the same period in 2020. The decrease in interest income, net for the three months ended March 31, 2021 compared to the same period in 2020 reflects a decrease in interest rates.

Other expense, net

	Three months ended March 31,			
	2021	2020	$ Change	% Change
	(in thousands)			
Other expense, net	($ 362)	($ 338)	($ 24)	7%

Other 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 expense, net for the three months ended March 31, 2021 was $0.4 million compared to $0.3 million for the comparable period of 2020. Higher expense was driven by losses resulting from foreign currency translation.

Provision for Income Taxes

	Three months ended March 31,			
	2021	2020	$	% Change
	(in thousands)			
Provision (benefit) for income taxes	($ 501)	$ 690	($ 1,191)	**NM**

The Company recorded an income tax benefit of $0.5 million for the three months ended March 31, 2021 compared to income tax expense of $0.7 million for the three months ended March 31, 2020. The benefit recorded for the three months ended March 31, 2021 was attributable to a net loss in the period excluding losses at entities where we cannot record a tax benefit.

Liquidity and Capital Resources

At March 31, 2021, we had net cash balances (total cash and cash equivalents) of $70.8 million and short-term investments of $44.4 million. Short term investments consist of U.S. treasury bills and notes, government agency notes, corporate notes and bonds, and high quality commercial paper with maturities at acquisition of more than three months and less than twelve months.

At December 31, 2020, we had net cash balances of $88.4 million and short-term investments of $26.9 million.

We are in lease agreements that require letters of credit to secure the obligations. The restricted cash related to these letters of credit is recorded in other non-current assets on the Condensed Consolidated Balance Sheet in the amounts of $0.9 million and $0.8 million at March 31, 2021 and December 31, 2020, respectively.

Our working capital at March 31, 2021 was $122.2 million compared to $131.9 million at December 31, 2020.

As of March 31, 2021, we held $61.2 million of cash and cash equivalents in subsidiaries outside of the United States. Of that amount, $60.6 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:

	Three months ended March 31,	
	2021	**2020**
	(in thousands)	
Cash provided by (used in):		
Operating activities	$ 3,583	($ 2,352)
Investing activities	(18,440)	(1,671)
Financing activities	(2,139)	(293)
Effect of foreign exchange rate changes on cash and cash equivalents	(558)	(342)

Operating Activities

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

For the three months ended March 31, 2021, net cash provided by operating activities was $3.6 million, compared to net cash used in operating activities of $2.4 million during the three months ended March 31, 2020. The fluctuation is primarily driven by a lower accounts receivable balance, lower contract assets, and higher accrued expenses.

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 continued growth of our business as well to continue to invest in our infrastructure and activity in connection with acquisitions.

For the three months ended March 31, 2021, net cash used in investing activities was $18.4 million, compared to net cash used in investing activities of $1.7 million for the three months ended March 31, 2020. The fluctuation is related to the timing of the purchases and maturities of our short term investments.

Financing Activities

Cash used in financing activities is comprised of tax payments for restricted stock issuances.

For the three months ended March 31, 2021, net cash used in financing activities was $2.1 million, compared to net cash used in financing activities of $0.3 million for the three months ended March 31, 2020. The increase is due to a higher volume of vested shares during the three months ended March 31, 2021, compared to the comparable period in 2020.

Critical Accounting Policy

Our accounting policies are fully described in Note 1 - Summary of Significant Accounting Policies, to our Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2020 and Note 2 – Summary of Significant Accounting Policies to our Interim Unaudited Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021. We believe our most critical accounting policies include revenue recognition, purchase accounting and related fair value measurements 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 March 31, 2021. For additional information, refer to "Item 7A. Quantitative and Qualitative Disclosures about Market Risk", included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Item 4 - Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, who, respectively, are our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure (i) the information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls

There were no changes in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting

Inherent Limitations on the Effectiveness of Controls

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

PART II. OTHER INFORMATION

Item 1 - Legal Proceedings

We are a party to or have intellectual property subject to litigation and other proceedings that arise in the ordinary course of our business. These types of matters could result in fines, penalties, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of each of these matters, including the legal proceedings described below, will have a material adverse effect on the corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our financial results in any particular interim reporting period.

We cannot predict the outcome of legal or other proceedings with certainty, including the legal proceedings which are summarized in "Note 14 – Legal Proceedings and Contingencies" included in our Notes to Condensed Consolidated Financial Statements, incorporated herein by reference, and "Note 15 – Commitments and Contingencies" in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the U.S. Securities and Exchange Commission. Any reasonably possible material loss or range of loss associated with any individual legal proceeding that can be estimated, is provided in Note 14 to the Condensed Consolidated Financial Statements contained herein.

Item 1A – Risk Factors

The following risk factor is provided to update the risk factors previously disclosed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

While we believe the coronavirus has had, and could continue to have, a negative impact on our financial results, the impact is difficult to assess at this time.

The effects of the COVID-19 pandemic have materially affected how we and our customers are operating our businesses, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

In December 2019, a novel coronavirus disease ("COVID-19") was reported and in January 2020, the World Health Organization ("WHO") declared it a Public Health Emergency of International Concern. On February 28, 2020, the WHO raised its assessment of the COVID-19 threat from high to very high at a global level due to the continued increase in the number of cases and affected countries, and on March 11, 2020, the WHO characterized COVID-19 as a pandemic. A significant outbreak of epidemic, pandemic, or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the broader economies, financial markets and overall demand environment for our products.

As a result of the COVID-19 pandemic, we temporarily closed our offices in March 2020 (including our corporate headquarters) in many countries except where we have been able to accommodate limited essential employees such as for the shipping of our hardware authentication tokens under revised procedures. We re-opened a limited number of our offices during 2020 with limited capacity under revised procedures. Subsequently, certain geographies have experienced progress and regression in addressing the pandemic, including the distribution of vaccines, and therefore progress has been uneven and difficult to predict. We are unable to predict further re-openings or whether the initial re-openings will be successful or remain in place. We implemented certain travel restrictions, remote work arrangements and other measures and while our experience with this new situation has been mostly satisfactory to date, it has disrupted how we normally operate our business and may in the longer term impact our productivity, innovation and effectiveness such that our results are adversely affected. We have shifted customer events to virtual-only experiences and we may deem it advisable to similarly alter, postpone or cancel entirely additional customer, employee or industry events in the future. Because we operate in multiple international locations, we expect there to be variability and additional complications from differing conditions and inconsistent guidance from numerous public health agencies.

In our hardware business, we are exposed to specific risks related to manufacturing, supply chain, shipping and distribution- all of which have been impacted by the COVID-19 pandemic. As a result of COVID-19, we experienced some delays and increased costs related to fulfilling our hardware orders. Such issues have been primarily resolved however we may be unable to satisfy certain customer orders for our products in the future if orders substantially increase and/or further supply chain problems emerge. In addition, the global economic uncertainty associated with the COVID-19 pandemic has affected many of our customers and we believe those effects include decreased orders of hardware authentication tokens, mobile authentication software and delays in implementing certain security software projects. We are not able to predict at this time whether and to what extent such orders may return or in what specific quantities. This risk is in addition to the other risks associated with our business as stated elsewhere in “Risk Factors.”

In our software business, we experienced some increased sales for products used in remote employee access and electronic signature in 2020 that we attribute in part to the COVID-19 pandemic. This increase may have been temporary, and we are unable to predict whether it will continue or decline. Moreover, the conditions caused by the COVID-19 pandemic can affect the rate of IT spending, the decision to start new IT projects, the timing of existing projects and the priority our customers place on various projects. While these factors may be positive for some of our software solutions such as electronic signature, these factors may be negative for our other software solutions. The COVID-19 pandemic could adversely affect our customers’ ability or willingness to attend our events or to purchase our offerings, delay prospective customers’ purchasing decisions, adversely impact our ability to provide on-site sales meetings or professional services to our customers, delay the provisioning of our offerings, lengthen payment terms, reduce the value or duration of their contracts, or affect attrition rates, all of which could adversely affect our future sales, operating results and overall financial performance. During the Summer of 2020, we began to experience some of the aforementioned scenarios, and this continued through the remainder of 2020, due in part to, we believe, global economic uncertainty connected with the continued seriousness of the COVID-19 pandemic. While we hope that the negative consequences on our business associated with the COVID-19 pandemic will subside in 2021, we cannot predict the impact with certainty.

If the restrictions on our employees, customers and others in the world continue or increase in order to limit the spread of COVID-19, the potential effects could continue and could be exacerbated, and our results of operations and overall financial performance may be harmed. The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity, new strains and transmission rate of the virus, the extent and effectiveness of containment actions and vaccines, and the impact of these and other factors on our employees, customers, partners and vendors. If we are not able to respond to and manage the impact of such events effectively, our business will be harmed.

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

The following table provides information about purchases by the Company of its shares of common stock during the first quarter of 2021:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
January 1, 2021 through January 31, 2021	22,236	$ 22.36	—	44,969,863
February 1, 2021 through February 28, 2021	3,872	$ 23.37	—	44,969,863
March 1, 2021 through March 31, 2021	2,101	$ 25.89	—	44,969,863

(1.) All transactions represent surrender of vested shares in satisfaction of tax withholdings by grantees under the 2020 Omnibus Incentive Plan.

(2.) On June 10, 2020, the Board of Directors authorized a share repurchase program (“program”), pursuant to which the Company can repurchase up to $50.0 million of issued and outstanding common stock. Share purchases under the program will take place in open market transactions or in privately negotiated transactions and may be made from time to time depending on market conditions, share price, trading volume, and other factors. The timing of the repurchases and the amount of stock repurchased in each transaction is subject to OneSpan’s sole discretion and will depend upon market and business conditions, applicable legal and credit requirements and other corporate considerations. The authorization is effective until June 10, 2022 unless the total amount has been used or authorization has been cancelled. There were no shares repurchased during the three months ended March 31, 2021.

Item 6 - Exhibits

Exhibit 31.1 – Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 6, 2021.

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 May 6, 2021.

Exhibit 32.1 – Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 6, 2021.

Exhibit 32.2 – Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 6, 2021.

Exhibit 101.INS – 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 – XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL – XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.LAB – XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE – XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 101.DEF – XBRL Taxonomy Extension Definition Linkbase Document

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

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***Certain exhibits, schedules and annexes have been omitted pursuant to Item 601(b)(2) of Regulation S-K. OneSpan undertakes to furnish copies of any such omitted items upon request by the Securities and Exchange Commission.**

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 May 4, 2021.

OneSpan Inc.

/s/ Scott Clements
Scott Clements
Chief Executive Officer
(Principal Executive Officer)

/s/ Mark S. Hoyt
Mark S. Hoyt
Chief Financial Officer
(Principal Financial Officer)

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

EXHIBIT 31.1

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

I, Scott Clements, 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: May 4, 2021

/s/ Scott Clements
Scott Clements
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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

I, Mark S. Hoyt, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: May 4, 2021

/s/ Mark S. Hoyt
Mark S. Hoyt
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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

I, Scott Clements, certify, based upon a review of the Quarterly Report on Form 10-Q for OneSpan Inc. for the first quarter ended March 31, 2021, 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/ Scott Clements
Scott Clements
Chief Executive Officer

May 4, 2021

EXHIBIT 32.2

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

I, Mark S. Hoyt, certify, based upon a review of the Quarterly Report on Form 10-Q for OneSpan Inc. for the first quarter ended on March 31, 2021, 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/ Mark S. Hoyt
Mark S. Hoyt
Chief Financial Officer

May 4, 2021