

Identiv, Inc.  
Form 10-Q  
November 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to

COMMISSION FILE NUMBER: 000-29440

IDENTIV, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 77-0444317  
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER  
INCORPORATION OR ORGANIZATION) IDENTIFICATION NUMBER)

39300 Civic Center Drive, Suite 140

Fremont, California 94538

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES INCLUDING ZIP CODE)

(949) 250-8888

Edgar Filing: Identiv, Inc. - Form 10-Q

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

N/A

(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At November 7, 2014, 10,642,635 shares of common stock were outstanding.

---

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
Item 4. <u>Controls and Procedures</u>	44
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	45
Item 1A. <u>Risk Factors</u>	45
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
Item 3. <u>Defaults Upon Senior Securities</u>	55
Item 4. <u>Mine Safety Disclosures</u>	55
Item 5. <u>Other Information</u>	55
Item 6. <u>Exhibits</u>	55
<u>SIGNATURES</u>	56
<u>EXHIBIT INDEX</u>	57

## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

## IDENTIV, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Audited; in thousands, except par value)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash	\$41,126	\$5,095
Accounts receivable, net of allowances of \$163 and \$131 as of September 30, 2014 and December 31, 2013	11,967	13,289
Inventories	8,716	8,995
Prepaid expenses	1,040	957
Other current assets	1,457	1,766
Current assets of discontinued operations	-	2,727
Total current assets	64,306	32,829
Property and equipment, net	5,631	5,888
Goodwill	8,900	8,991
Intangible assets, net	9,094	10,184
Other assets	1,057	867
Total assets	\$88,988	\$58,759
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$6,838	\$9,353
Liability to related party	1,029	1,073
Financial liabilities	2,083	2,971
Deferred revenue	444	729
Accrued compensation and related benefits	2,703	3,383
Other accrued expenses and liabilities	5,115	5,239
Current liabilities of discontinued operations	—	1,630
Total current liabilities	18,212	24,378
Long-term liability to related party	5,287	5,648
Long-term financial liabilities	11,842	3,051
Other long-term liabilities	679	938
Total liabilities	36,020	34,015
Commitments and contingencies (see Note 14)		
Stockholders' equity:		
Identiv, Inc. stockholders' equity:		
Preferred stock, \$0.001 par value: 10,000 shares authorized; none issued and	—	—

outstanding

Common stock, \$0.001 par value: 130,000 shares authorized;  
10,667 and 7,507 shares issued and 10,605 and 7,445 outstanding as of

September 30, 2014 and December 31, 2013, respectively	11	8
Additional paid-in capital	388,295	348,912
Treasury stock, 62 shares as of September 30, 2014 and December 31, 2013	(2,777 )	(2,777 )
Accumulated deficit	(332,467)	(320,876)
Accumulated other comprehensive income	1,647	1,227
Total Identiv, Inc. stockholders' equity	54,709	26,494
Noncontrolling interest	(1,741 )	(1,750 )
Total stockholders' equity	52,968	24,744
Total liabilities and stockholders' equity	\$88,988	\$58,759

The accompanying notes are an integral part of these condensed consolidated financial statements.

## IDENTIV, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net revenue	\$22,712	\$20,909	\$61,867	\$54,745
Cost of revenue	12,840	10,945	36,463	30,019
Gross profit	9,872	9,964	25,404	24,726
Operating expenses:				
Research and development	1,813	1,643	5,046	5,206
Selling and marketing	5,078	4,527	15,844	13,972
General and administrative	3,685	3,845	9,595	11,002
Impairment of long-lived assets	—	178	—	178
Impairment of goodwill	—	10,935	—	10,935
Restructuring and severance	1,825	1,252	2,874	1,252
Total operating expenses	12,401	22,380	33,359	42,545
Loss from operations	(2,529 )	(12,416 )	(7,955 )	(17,819 )
Non-operating income (expense):				
Interest expense, net	(564 )	(387 )	(3,154 )	(1,603 )
Foreign currency (loss) gain, net	(700 )	284	(952 )	461
Loss from continuing operations before income taxes				
and noncontrolling interest	(3,793 )	(12,519 )	(12,061 )	(18,961 )
Income tax provision	(94 )	(363 )	(149 )	(256 )
Loss from continuing operations before noncontrolling				
interest	(3,887 )	(12,882 )	(12,210 )	(19,217 )
Income (loss) from discontinued operations, net of income				
taxes	2	(12,653 )	546	(14,380 )
Consolidated net loss	(3,885 )	(25,535 )	(11,664 )	(33,597 )
Less: Loss attributable to noncontrolling interest	38	1,322	73	1,708
Net loss attributable to Identiv, Inc. stockholders' equity	\$(3,847 )	\$(24,213 )	\$(11,591 )	\$(31,889 )
Basic and diluted net loss per share attributable to Identiv, Inc.				
stockholders' equity:				
Loss from continuing operations	\$(0.46 )	\$(1.69 )	\$(1.52 )	\$(2.75 )
Income (loss) from discontinued operations	0.00	(1.84 )	0.07	(2.26 )
Net loss	\$(0.46 )	\$(3.53 )	\$(1.45 )	\$(5.01 )
Weighted average shares used to compute basic and diluted loss	8,423	6,852	7,971	6,370

per share

The accompanying notes are an integral part of these condensed consolidated financial statements.

4

---

## IDENTIV, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Consolidated net loss	\$(3,885)	\$(25,535)	\$(11,664)	\$(33,597)
Other comprehensive income (loss), net of income taxes				
of nil:				
Unrealized gain on defined benefit plans	—	18	—	55
Foreign currency translation adjustment	321	(238 )	502	(697 )
Total other comprehensive income (loss), net of income taxes of nil	321	(220 )	502	(642 )
Consolidated comprehensive loss	(3,564)	(25,755)	(11,162)	(34,239)
Less: Comprehensive (loss) income attributable to noncontrolling interest	(30 )	1,312	(9 )	1,764
Comprehensive loss attributable to Identiv, Inc.				
Stockholders' equity	\$(3,594)	\$(24,443)	\$(11,171)	\$(32,475)

The accompanying notes are an integral part of these condensed consolidated financial statements.



## IDENTIV, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Nine Months Ended September 30, 2014

(In thousands)

(unaudited)

	Identiv, Inc. Stockholders' Equity				Accumulated			Total Equity
	Common Shares	Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Income	Noncontrolling Interest	
Balances, December 31, 2013	7,507	\$ 8	\$ 348,912	\$(2,777)	\$(320,876)	\$ 1,227	\$(1,750)	\$ 24,744
Net loss	—	—	—	—	(11,591)	—	(73)	(11,664)
Other comprehensive loss	—	—	—	—	—	420	82	502
Issuance of common stock in								
connection with common stock								
offerings	2,803	3	35,741	—	—	—	—	35,744
Issuance of common stock in								
connection with ESPP	7	—	35	—	—	—	—	35
Issuance of common stock in								
connection with stock bonus								
and incentive plans	42	—	428	—	—	—	—	428
Stock option grants in								
connection with stock bonus								
and incentive plans	—	—	68	—	—	—	—	68
Issuance of common stock in	303	—	859	—	—	—	—	859

connection with  
exercise of

options and warrants

Stock-based  
compensation

expense	5	—	996	—	—	—	—	996
Modification of equity awards	—	—	350	—	—	—	—	350
Issuance of warrants	—	—	906	—	—	—	—	906
Balances, September 30, 2014	10,667	\$ 11	\$ 388,295	\$(2,777)	\$(332,467)	\$ 1,647	\$(1,741)	\$ 52,968

The accompanying notes are an integral part of these condensed consolidated financial statements.

## IDENTIV, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$(11,664)	\$(33,597)
Gain on sale of discontinued operations	(459 )	—
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	—	(99 )
Depreciation and amortization	2,255	2,981
Impairment of goodwill and long-lived assets	—	22,947
Accretion of interest to related party liability	432	470
Amortization of debt issuance costs	2,050	502
Stock-based compensation expense	996	1,139
Modification of stock awards	350	—
Other	84	366
Changes in operating assets and liabilities:		
Accounts receivable	285	(702 )
Inventories	(24 )	(2,001 )
Prepaid expenses and other assets	(101 )	412
Accounts payable	(1,899 )	2,377
Liability to related party	(837 )	(799 )
Deferred revenue	(264 )	396
Accrued expenses and other liabilities	(476 )	3,511
Net cash used in operating activities	(9,272 )	(2,097 )
Cash flows from investing activities:		
Capital expenditures	(1,159 )	(1,456 )
Proceeds from sale of business	1,395	—
Net cash provided by (used in) investing activities	236	(1,456 )
Cash flows from financing activities:		
Proceeds from issuance of debt, net of issuance costs	16,000	—
Proceeds from capital raise, net of issuance costs	36,165	9,053
Proceeds from issuance of common stock under employee stock purchase plan and		
options and warrants exercise	894	132
Payments on financial liabilities	(8,919 )	(2,858 )
Other	—	(72 )
Net cash provided by (used in) financing activities	44,140	6,255
Effect of exchange rates on cash and cash equivalents	911	(539 )
Net (decrease) increase in cash and cash equivalents	36,015	2,163
Cash and cash equivalents of continuing operations, at beginning of period	5,095	6,109
Add: Cash and cash equivalents of discontinued operations, at beginning of period	16	1,269

Edgar Filing: Identiv, Inc. - Form 10-Q

Less: Cash and cash equivalents of discontinued operations, at end of period	—	2,710
Cash and cash equivalents of continuing operations, at end of period	\$41,126	\$6,831
Non-cash investing and financing activities:		
Leasehold improvements funded by lease incentives	\$—	\$508
Common stock issued in connection with stock bonus and incentive plans	\$356	\$55
Stock option grants issued in connection with stock bonus and incentive plans	\$37	\$48
Warrant issued to non-employee	\$82	\$—
Property and equipment subject to accounts payable	\$42	\$351

The accompanying notes are an integral part of these condensed consolidated financial statements.

IDENTIV, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

1. Organization and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Identiv, Inc. (“Identiv” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments, considered necessary for a fair presentation of the Company’s unaudited condensed consolidated financial statements have been included. The results of operations for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or any future period. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Risk Factors,” “Quantitative and Qualitative Disclosures About Market Risk,” and the Consolidated Financial Statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. The preparation of unaudited condensed consolidated financial statements necessarily requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the condensed consolidated balance sheet dates and the reported amounts of revenues and expenses for the periods presented. The Company may experience significant variations in demand for its products quarter to quarter and typically experiences a stronger demand cycle in the second half of its fiscal year. As a result, the quarterly results may not be indicative of the full year results.

**Reverse Stock Split** — On May 22, 2014, the shareholders approved, and the Company filed a certificate of amendment to its Amended and Restated Certificate of Incorporation with the Secretary of the State of Delaware effecting, a one-for-ten reverse split of the Company's common stock, par value \$0.001 (the “Reverse Stock Split”). The Reverse Stock Split did not change the par value of the Company’s common stock, the Company’s authorized shares of common stock or preferred stock. Upon the effectiveness of the Reverse Stock Split, the Company’s issued shares of common stock decreased from approximately 80 million to approximately 8 million shares, all with a par value of \$0.001. The Company has no outstanding shares of preferred stock. All share, per share and stock option information in the accompanying unaudited condensed consolidated financial statements and the notes thereto have been restated for all periods to reflect the Reverse Stock Split.

**Discontinued Operations** — Financial information related to certain divested businesses of the Company is reported as discontinued operations for all periods presented as discussed in Note 2, Discontinued Operations. Reclassifications of prior period amounts related to discontinued operations have been made to conform to the current period presentation.

**Correction of Prior Period Errors** — In connection with the preparation of its unaudited condensed consolidated financial statements for the quarter ended September 30, 2013, the Company identified an error related to the classification of cash paid for interest on financial liabilities in the condensed consolidated statements of cash flows. The cash paid for interest on financial liabilities was presented as cash outflows from financing activities, which should have been presented as cash outflows from operating activities in the condensed consolidated statements of cash flows in the Company’s Form 10-Q filing for the six months ended June 30, 2013. The amounts for the nine months ended September 30, 2013 have been adjusted to correct the impact of such error. Using both quantitative and qualitative measures, the Company believes that the impact of this error was immaterial, individually and in aggregate, to the

unaudited condensed consolidated financial statements for the nine months ended September 30, 2013 and therefore an amendment to the Form 10-Q for the nine months ended September 30, 2013 was not considered necessary.

#### Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-15, “Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern”, (“ASU 2014-15”), which requires management to perform interim and annual assessments on whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. The amendments in ASU 2014-15 are effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"), which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. Our adoption of ASU 2014-12 is not expected to have a material effect on our condensed consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers" ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. It is effective for annual periods beginning on or after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Early adoption is not permitted. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our condensed consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

In April 2014, the FASB issued ASU No. 2014-08 ("ASU 2014-08") "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It is effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). ASU 2013-11 provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss ("NOL") carryforward, a similar tax loss, or a tax credit carryforward exists. The updated accounting standard requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for an NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. The ASU's amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The amendments should be applied to all unrecognized tax benefits that exist as of the effective date, and may be applied retrospectively. The Company adopted this standard in the first quarter of 2014. The adoption did not result in a change to the tax provision and it did not have a significant impact to the presentation of long-term taxes payable or deferred tax assets.

## 2. Discontinued Operations

During the fourth quarter of 2013, the Company's Board of Directors (the "Board"), after reviewing strategic options, committed to a plan designed to simplify the Company's business structure and to focus on high-growth technology trends within the security market including cloud-based services and mobility. In December 2013, the Company

completed the sale of its Swiss Multicard AG subsidiary, its German payment solution AG subsidiary and its Dutch Multicard Nederland BV subsidiary to Sandpiper Assets SA, an international holding company (“Sandpiper”), pursuant to a share purchase agreement whereby the Company agreed to sell its holdings in these subsidiaries to Sandpiper for total negative cash consideration of \$0.5 million, which was paid to Sandpiper in February 2014 subsequent to the close of the transaction. The sale of Multicard AG and payment solution AG closed on December 19, 2013 and sale of Multicard Nederland BV closed on December 31, 2013. In addition, the Company completed the sale of its German Multicard GmbH subsidiary to an employee for the sum of one euro on December 30, 2013. Based on the carrying value of the assets and the liabilities attributed to these businesses on the date of sale, and the estimated costs and expenses incurred in connection with the sale, the Company recorded a gain of \$4.8 million, net of tax of nil, during the fourth quarter of fiscal 2013 in the consolidated statements of operations for the year ended December 31, 2013, which is included in the loss from discontinued operations, net of income taxes line.



Edgar Filing: Identiv, Inc. - Form 10-Q

In addition, during the fourth quarter of 2013, the Company committed to sell its Rockwest Technology Group, Inc. d/b/a/ Multicard US (“Multicard US”) subsidiary to George Levy, Matt McDaniel and Hugo Garcia (the “Buyers”), the founders and former owners of the Multicard US business. The sale of the Multicard US subsidiary was completed on February 4, 2014 and was made pursuant to a Share Purchase Agreement dated January 21, 2014 between the Company and the Buyers whereby the Company agreed to sell 80.1% of the shares of its holdings in Multicard US, to the Buyers for cash consideration of \$1.2 million. Based on the carrying value of the assets and the liabilities attributed to Multicard US on the date of sale, and the estimated costs and expenses incurred in connection with the sale, the Company recorded a gain of \$0.4 million, net of income taxes of nil, in the condensed consolidated statement of operations for the nine months ended September 30, 2014, which is included in income (loss) from discontinued operations, net of income taxes.

On June 30, 2014, the Company entered into an Asset Purchase agreement with a former employee to sell certain non-core assets consisting of inventory, some prepaid items, certain fully depreciated office equipment and certain intellectual property (“Non-Core Assets”) relating to one of its subsidiaries for cash consideration of \$0.1 million. The sale of these Non-Core Assets was completed on July 7, 2014.

In accordance with ASC Topic 205-20, Discontinued Operations (“ASC 205”), for the three and nine months ended September 30, 2014 and 2013, the results of these businesses have been presented as discontinued operations in the condensed consolidated statements of operations and all prior periods have been reclassified to conform to this presentation. The assets and liabilities of discontinued operations have been reclassified and are segregated as assets and liabilities of discontinued operations in the condensed consolidated balance sheet as of December 31, 2013.

The key components of income (loss) from discontinued operations consist of the following (in thousands):

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
Net revenues	\$-	\$5,359	\$1,276	\$16,182
Discontinued operations:				
Income (loss) from discontinued operations,				
net of income taxes of nil	\$(8)	\$(12,653)	\$87	\$(14,380)
Adjustments to amounts reported previously				
for gain on sale of discontinued operations,				
net of income taxes of nil	(3)	—	(57)	—
Gain on sale of discontinued operations, net				
of income taxes of nil	13	—	516	—
Income (loss) from discontinued operations, net				
of income taxes	\$2	\$(12,653)	\$546	\$(14,380)

The following table summarizes the assets and liabilities of discontinued operations (in thousands):

Edgar Filing: Identiv, Inc. - Form 10-Q

	September 30, 2014	December 31, 2013
<b>Assets:</b>		
Cash	\$ —	\$ 16
Accounts receivable, net	—	787
Inventories	—	574
Other current assets	—	27
Property and equipment	—	13
Goodwill	—	1,310
Total assets of discontinued operations	\$ —	\$ 2,727
<b>Liabilities:</b>		
Accounts payable	\$ —	\$ 418
Deferred revenue	—	966
Accrued Expenses and other liabilities	—	246
Total liabilities of discontinued operations	\$ —	\$ 1,630

### 3. Fair Value Measurements

The Company determines the fair values of its financial instruments based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. Under ASC Topic 820, Fair Value Measurement and Disclosures (“ASC 820”), the fair value hierarchy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 – Quoted prices (unadjusted) for identical assets and liabilities in active markets;

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly; and

Level 3 – Unobservable inputs.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of September 30, 2014 and December 31, 2013, there were no assets that are measured and recognized at fair value on a recurring basis. There were no cash equivalents as of September 30, 2014 and December 31, 2013.

The Company’s only liability measured at fair value on a recurring basis is the contingent consideration related to the acquisition of idOnDemand. The sellers of idOnDemand are eligible to receive limited earn-out payments (“Contingent Consideration”) in the form of shares of common stock subject to certain lock-up periods under the terms of the acquisition agreement. The fair value of the Contingent Consideration is based on achieving certain revenue and profit targets as defined under the acquisition agreement. These contingent payments are probability weighted and are discounted to reflect the restriction on the resale or transfer of such shares. The valuation of the Contingent Consideration is classified as a Level 3 measurement because it is based on significant unobservable inputs and involves management judgment and assumptions about achieving revenue and profit targets and discount rates. The unobservable inputs used in the measurement of Contingent Consideration are highly sensitive to fluctuations and any changes in the inputs or the probability weighting thereof could significantly change the measured value of the Contingent Consideration at each reporting period. The fair value of the Contingent Consideration is classified as a liability and is re-measured each reporting period in accordance with ASC Topic 480, Distinguishing Liabilities from Equity (“ASC 480”). As of September 30, 2014 and December 31, 2013, the maximum possible amount payable for Contingent Consideration related to the April 2011 acquisition of idOnDemand was \$5.0 million; however, the earn-out liability remains zero at September 30, 2014 and December 31, 2013 as there is no future expectation of earn-out payments and there were no significant changes in the range of outcomes for such contingent consideration.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Certain of the Company's assets, including intangible assets, goodwill, and privately-held investments, are measured at fair value on a nonrecurring basis if impairment is indicated. Purchased intangible assets are measured at fair value primarily using discounted cash flow projections.

Privately-held investments, which are normally carried at cost, are measured at fair value due to events and circumstances that the Company identified as significantly impacting the fair value of investments. The Company estimates the fair value of its privately-held investments using an analysis of the financial condition and near-term prospects of the investee, including recent financing activities and the investee's capital structure.

As of September 30, 2014 and December 31, 2013, the Company had \$0.3 million and zero, respectively, of privately-held investments measured at fair value on a nonrecurring basis and were classified as Level 3 assets due to the absence of quoted market prices and inherent lack of liquidity. The Company reviews its investments to identify and evaluate investments that have an indication of possible impairment. The Company adjusts the carrying value for its privately-held investments for any impairment if the fair value is less than the carrying value of the respective assets on an other-than-temporary basis. During the three months ended September 30, 2014, the Company

determined that no privately-held investments were impaired. The amount of privately-held investments is included in other assets in the accompanying condensed consolidated balance sheets.

As of September 30, 2014 and December 31, 2013, there were no liabilities that are measured and recognized at fair value on a non-recurring basis.

#### Assets and Liabilities Not Measured at Fair Value

The carrying amounts of the Company's accounts receivable, prepaid expenses and other current assets, and accounts payable, and other accrued liabilities approximate fair value due to their short maturities.

#### 4. Stockholders' Equity of Identiv

##### Reverse Stock Split

As previously stated, on May 22, 2014, the shareholders approved, and the Company filed a certificate of amendment to its Amended and Restated Certificate of Incorporation with the Secretary of the State of Delaware effecting a Reverse Stock Split. The Reverse Stock Split did not change the par value of the Company's common stock or the Company's authorized shares of common stock and its authorized shares of preferred stock. Upon the effectiveness of the Reverse Stock Split, the Company's issued shares of common stock decreased from approximately 80 million to approximately 8 million shares, all with a par value of \$0.001. The Company has no outstanding shares of preferred stock.

##### Private Placement

On August 14, 2013, in a private placement, the Company issued 834,847 shares of its common stock at a price of \$8.50 per share and warrants to purchase an additional 834,847 share of its common stock at an exercise price of \$10.00 per share (the "2013 Private Placement Warrants") to accredited and other qualified investors (the "Investors"). Aggregate gross consideration was \$7.1 million and \$0.8 million in issuance costs were recorded in connection with the private placement. The private placement was made pursuant to definitive subscription agreements between the Company and each Investor. The sale was made to Investors in the United States and internationally in reliance upon available exemptions from the registration requirements of the U.S. Securities Act of 1933, as amended (the "Securities Act") including Section 4(a) (2) thereof and Regulation D and Regulation S thereunder, as well as comparable exemptions under applicable state and foreign securities laws. The Company engaged a placement agent in connection with private placement outside the United States. As compensation at closing, the Company paid \$0.6 million in cash and issued 100,000 shares of common stock to the placement agent on the same terms as those sold to Investors in the offering. In addition, the placement agent was issued warrants to purchase 100,000 shares of common stock at an exercise price of \$10.00 per share as bonus compensation. The securities were issued to the placement agent in reliance upon available exemptions from the registrations requirements of the Securities Act, including Regulation S thereunder. As agreed, in September 2013 the Company filed a registration statement on Form S-3 (Registration No. 333-19105076) with the SEC to register the resale of the shares of common stock and any shares of common stock issuable upon exercise of the 2013 Private Placement Warrants.

The 2013 Private Placement Warrants have a term of four years and are exercisable beginning six months following the date of issuance. Any 2013 Private Placement Warrants, or portion thereof, not exercised prior to the expiration date will become void and of no value and such warrants shall be terminated and no longer outstanding. The number of shares issuable upon exercise of the 2013 Private Placement Warrants is subject to adjustment for any stock dividends, stock splits or distributions by the Company, or upon any merger or consolidation or sale of assets of the Company, tender or exchange offer for the Company's common stock, or a reclassification of the Company's common stock. The Company calculated the fair value of the 2013 Private Placement Warrants using the Black-Scholes option pricing model using the following assumptions: estimated volatility of 91.57%, risk-free interest rate of 1.08%, no dividend yield, and an expected life of four years. The fair value of the 2013 Private Placement Warrants was determined to be \$4.0 million. The 2013 Private Placement warrants are classified as equity in accordance with ASC Topic 505, Equity ("ASC 505") as the warrants, if exercised, will be settled in shares and are within the control of the Company. During the nine months ended September 30, 2014, the Company issued 58,822 shares of its common stock upon cash exercise and 217,599 shares of common stock upon cashless exercise of 477,375, 2013 Private Placement Warrants.

##### Sale of Common Stock

On September 16, 2014, the Company entered into an underwritten public offering of 2,000,000 shares of its common stock at a public offering price of \$15.00 per share and also granted the underwriter a 30-day option to purchase up to an additional 300,000 shares of common stock to cover overallotments, if any (the “Public Offering”). The Public Offering was made pursuant to an effective shelf registration statement on Form S-3 (Registration No. 333-195702), filed with the SEC in accordance with the provisions of the Securities Act and declared effective on May 14, 2014, and the prospectus supplement thereto dated September 11, 2014. The Company received net proceeds of approximately \$31.6 million from the sale of 2,300,000 shares of common stock in the Public Offering, after deducting the underwriting discount of \$2.5 million and estimated offering expenses of \$0.4 million. The Company intends to use the net proceeds from the offering for working capital and other general corporate purposes, including the acquisition of, or investment in, companies, technologies, products or assets that complement Identiv’s business.

On April 16, 2013, the Company entered into a purchase agreement (the “Purchase Agreement”) with Lincoln Park Capital Fund, LLC (“LPC”), pursuant to which the Company was granted the right to sell to LPC up to \$20.0 million in shares of the Company’s common stock, subject to certain limitations and conditions set forth in the Purchase Agreement. As consideration for entering into the Purchase Agreement, the Company agreed to issue to LPC 25,180 shares of common stock and was required to issue up to 32,374 additional shares of common stock on a pro rata basis for any additional purchases the Company required LPC to make under the Purchase Agreement over its duration (together the “Commitment Shares”). The Company would not receive any cash proceeds from the issuance of the Commitment Shares.

Pursuant to the Purchase Agreement, upon the satisfaction of all of the conditions to the Company's right to commence sales under the Purchase Agreement, LPC initially purchased \$2.0 million in shares of common stock at \$11.40 per share on April 17, 2013. Thereafter, on any business day and as often as every other business day over the 36-month term of the Purchase Agreement, the Company had the right, from time to time, at its sole discretion and subject to certain conditions to direct LPC to purchase up to 10,000 shares of common stock, up to an aggregate amount of an additional \$18.0 million (subject to certain limitations). The purchase price of shares of common stock pursuant to the Purchase Agreement would be based on prevailing market prices of common stock at the time of sale without any fixed discount, and the Company would control the timing and amount of any sales of common stock issued to LPC, but in no event would shares be sold to LPC on a day the common stock closing price was less than \$5.00 per share, subject to adjustment. In addition, the Company could direct LPC to purchase additional amounts as accelerated purchases if on the date of a regular purchase the closing sale price of the common stock was not below \$7.50 per share. The Company used the net proceeds from this offering for working capital and other general corporate purposes.

All shares of common stock issued and sold to LPC under the Purchase Agreement were issued pursuant to the Company's effective shelf registration statement on Form S-3 (Registration No. 333-195702), filed with the SEC in accordance with the provisions of the Securities Act and declared effective on May 14, 2014, and the prospectus supplement thereto dated May 20, 2014. The Purchase Agreement contained customary representations, warranties and agreements of the Company and LPC, limitations and conditions to completing future sale transactions, indemnification rights and other obligations of the parties. There was no upper limit on the price per share that LPC could be obligated to pay for common stock under the Purchase Agreement. The Company had the right to terminate the Purchase Agreement at any time, at no cost or penalty.

On April 17, 2013, LPC initially purchased 175,438 shares of common stock at \$11.40 per share for a net consideration of \$1.5 million after recording \$0.5 million in underwriting discounts, legal fees and issuance costs. As stipulated in the Purchase Agreement, the Company issued 28,417 shares of common stock consisting of 25,180 Commitment Shares and 3,237 additional pro-rated shares of common stock as Commitment Shares. Subsequent to the initial purchase, the Company directed LPC to purchase 250,000 shares of common stock from April 17, 2013 through December 31, 2013 for a net consideration of \$1.9 million and 496,500 shares of common stock from January 1, 2014 through September 30, 2014 for a net consideration of \$4.2 million and issued a total of 9,723 additional pro-rated shares as Commitment Shares.

On September 9, 2014, the Company provided written notice of termination pursuant to the terms of the Purchase Agreement between the Company and LPC to terminate the Purchase Agreement, other than those sections which survive termination. The termination was effected on September 10, 2014, one business day following delivery of the notice of termination. The Purchase Agreement provided the Company with an option to terminate the agreement for any reason or for no reason by delivering a notice to LPC, and the Company did not incur any early termination penalties in connection with the termination of the Purchase Agreement. Following the termination, LPC will continue to be a security holder of the Company.

#### Common Stock Warrants

In connection with the Company's entry into a consulting agreement, the Company issued a consultant a warrant to purchase up to 85,000 shares of the Company's common stock at a per share exercise price of \$10.70 (the "Consultant Warrant"). One fourth of the shares under the warrant are exercisable for cash three months from the date the Consultant Warrant was entered into and quarterly thereafter. The Consultant Warrant will expire 5 years after the date of issuance, which is August 13, 2019. In the event of an acquisition of the Company, the Consultant Warrant shall terminate and no longer be exercisable as of the closing of the acquisition. As of September 30, 2014, none of the Consultant Warrants have been exercised.

In connection with the Company's entry into a credit agreement with Opus Bank ("Opus") as discussed in Note 9, Financial Liabilities, the Company issued Opus a warrant to purchase up to 100,000 shares of the Company's common stock at a per share exercise price of \$9.90 (the "Opus Warrant"). The Opus Warrant is immediately exercisable for cash or by net exercise and will expire 5 years after the date of issuance, which is March 31, 2019. The shares issuable upon exercise of the Opus Warrant are to be registered at the request of Opus pursuant to the Registration Rights Agreement, entered into on March 31, 2014 by the Company and Opus. As of September 30, 2014, none of the Opus Warrants have been exercised.

As consideration for the third amendment of the Loan and Security Agreement dated October 30, 2012 with Hercules Technology Growth Capital, Inc. ("Hercules") as discussed in Note 9, Financial Liabilities, the Company issued warrants to purchase 99,208 shares of its common stock at an exercise price of \$7.10 per share to Hercules on August 7, 2013 (the "Hercules Warrants"). The Hercules Warrants were issued in reliance upon exemptions from the registration requirements under the Securities Act in accordance with Section 4(a)(2) thereof. The term of the Hercules Warrants is five years and contains usual and customary terms. As of September 30, 2014, none of the Hercules Warrants have been exercised.

The Company issued warrants to purchase 409,763 shares of its common stock at an exercise price of \$26.50 per share in a private placement to accredited and other qualified investors in November 2010 (the "2010 Private Placement Warrants"). The 2010 Private Placement Warrants are exercisable beginning on the date of issuance and ending on the fifth anniversary of the date of



issuance. During the year ended December 31, 2011, the Company issued 40,594 shares of its common stock upon exercise of certain 2010 Private Placement Warrants.

As part of the consideration paid by the Company in connection with the acquisition of Hirsch Electronics Corporation (“Hirsch”) on April 30, 2009, the Company issued 473,543 warrants to purchase shares of the Company’s common stock at an exercise price of \$30.00, in exchange for the outstanding capital stock of Hirsch. Also, as part of the Hirsch transaction, the Company issued 16,538 warrants to purchase shares of the Company’s common stock in exchange for outstanding Hirsch warrants at exercise prices in the range between \$24.20 and \$30.30, with a weighted average exercise price of \$27.90. All warrants issued in connection with the Hirsch transaction became exercisable for a period of two years on April 30, 2012. These warrants expired unexercised on April 30, 2014.

Below is the summary of outstanding warrants issued by the Company as of September 30, 2014:

Warrant Type	Warrants Outstanding	Weighted Average Exercise Price	Issue Date	Expiration Date
Consultant Warrant	85,000	\$ 10.70	August 13, 2014	August 13, 2019
Opus Warrant	100,000	9.90	March 31, 2014	March 31, 2019
2013 Private Placement Warrant	310,540	10.00	August 14, 2013	August 14, 2017
Hercules Warrants	99,208	7.10	August 7, 2013	August 7, 2018
2010 Private Placement Warrant	369,169	26.50	November 14, 2010	November 14, 2015
Total	963,917			

#### 2011 Employee Stock Purchase Plan

In June 2011, Identiv’s stockholders approved the 2011 Employee Stock Purchase Plan (the “ESPP”). Initially, 200,000 shares of common stock were reserved for issuance over the term of the ESPP, which was ten years. In addition, on the first day of each fiscal year commencing with fiscal year 2012, the aggregate number of shares reserved for issuance under the ESPP was automatically increased by a number equal to the lower of (i) 75,000 shares, (ii) two percent of all shares outstanding at the end of the previous year, or (iii) an amount determined by the Board. Under the ESPP, eligible employees could purchase shares of common stock at 85% of the lesser of the fair market value of the Company’s common stock at the beginning of, or end of the applicable offering period and each offering period lasted for six months. The plan contained an automatic reset feature under which if the fair market value of a share of common stock on any exercise date (except the final scheduled exercise date of any offering period) was lower than the fair market value of a share of common stock on the first trading day of the offering period in progress, then the offering period in progress shall end immediately following the close of trading on such exercise date, and a new offering period shall begin on the next subsequent January 1 or July 1, as applicable, and shall extend for a 24-month period ending on December 31 or June 30, as applicable. As of January 1, 2013 and 2012, respectively, the total shares reserved for issuance under the ESPP were automatically increased by 75,000 shares each in accordance with the terms of the plan. As of September 30, 2014, there are 293,888 shares reserved for future grants under the ESPP. On December 18, 2013, the Compensation Committee of the Board suspended the ESPP effective January 1, 2014. No additional shares will be authorized and no shares will be issued under the ESPP until further notice.

Since the ESPP was suspended effective January 1, 2014, there was no stock-based compensation expense resulting from the ESPP included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2014.

#### Inducement Grant

The Company granted 50,000 restricted stock units (“RSUs”) and options to purchase 300,000 shares of the Company's common stock as an inducement grant to its Chief Executive Officer (“CEO”) in connection with entering into an employment agreement on March 13, 2014 (the “Inducement Grant”). The RSUs were scheduled to vest 25 percent after one year, with the remaining shares vesting over three years in 12 equal quarterly installments. The stock options had an exercise price equal to the closing price of the Company's common stock on The NASDAQ Stock Market on the date of grant, vest 25 percent after one year with the remaining options vesting over three years in 36 equal monthly installments, and had a term of ten years. The Inducement Grant was made outside of the Company's existing equity compensation plans in reliance upon NASDAQ Rule 5635(c)(4). The fair value of stock options and RSUs included in the Inducement Grant was calculated based upon the fair market value of the Company's stock at the date of grant.

The Company has now determined that the Inducement Grant may not have fully complied with the requirements of NASDAQ Rule 5635(c)(4). To avoid concerns about the Company's compliance with this NASDAQ rule, our CEO and the Company have agreed to cancel these awards. To effect this cancellation, the parties entered into an Equity Award Rescission Agreement on September 8, 2014.

While the Compensation Committee approved the cancellation of the Inducement Grant to avoid concerns about full compliance with the NASDAQ rule, it nevertheless believes that it is appropriate that the Company provide share-based incentives to its CEO in recognition of his past performance and to provide appropriate and reasonable incentives for future performance. Upon the cancellation of the Inducement Grant, the Compensation Committee granted to its CEO on September 8, 2014 an award of 150,000 restricted stock units under the Company's 2011 Incentive Compensation Plan. In addition, the Compensation Committee approved the grant to its CEO of an additional 150,000 RSUs under the 2011 Incentive Compensation Plan to become effective on January 1, 2015, provided that its CEO remains employed by the Company at that time. Both of these awards will vest in equal quarterly installments over periods of three years measured from their respective grant dates, subject to its CEO's continued employment.

#### Stock-Based Compensation Plans

The Company has various stock-based compensation plans to attract, motivate, retain and reward employees, directors and consultants by providing its Board or a committee of the Board the discretion to award equity incentives to these persons. The Company's stock-based compensation plans consist of the Director Option Plan, 1997 Stock Option Plan, 2000 Stock Option Plan, 2007 Stock Option Plan (the “2007 Plan”), the 2010 Bonus and Incentive Plan (the “2010 Plan”) and the 2011 Incentive Compensation Plan (the “2011 Plan”), as amended.

#### Stock Bonus and Incentive Plans

In June 2010, Identiv's stockholders approved the 2010 Plan, under which cash and equity-based awards may be granted to executive officers, including the CEO, Chief Financial Officer (“CFO”), and other key employees (the “Participants”) of the Company and its subsidiaries and members of the Company's Board, as designated from time to time by the Compensation Committee of the Board. An aggregate of 300,000 shares of the Company's common stock was reserved for issuance under the 2010 Plan as equity-based awards, including shares, nonqualified stock options, restricted stock or deferred stock awards. These awards provide the Company's executives and key employees with the opportunity to earn shares of common stock depending on the extent to which certain performance goals are met.

Since the adoption of the 2011 Plan (described below), the Company utilizes shares from the 2010 Plan only for performance-based awards to Participants and all equity awards granted under the 2010 Plan are issued pursuant to the 2011 Plan.

On June 6, 2011, Identiv's stockholders approved the 2011 Plan, which is administered by the Compensation Committee of the Board. The 2011 Plan provides that stock options, stock units, restricted shares, and stock appreciation rights may be granted to officers, directors, employees, consultants, and other persons who provide services to the Company or any related entity. The 2011 Plan serves as a successor plan to the Company's 2007 Plan. The Company reserved 400,000 shares of common stock under the 2011 Plan, plus 459,956 shares of common stock that remained available for delivery under the 2007 Plan and the 2010 Plan as of June 6, 2011. In aggregate, as of June 6, 2011, 859,956 shares were available for future grants under the 2011 Plan, including shares rolled over from 2007 Plan and 2010 Plan. In May 2014, Identiv's stockholders approved an amendment to the 2011 Plan to increase the number of shares reserved for future issuance by 1.0 million.

## Stock Option Plans

The Company's stock option plans are generally time-based and expire seven to ten years from the date of grant. Vesting varies, with some grants vesting 25% each year over four years; some vesting 25% after one year and monthly thereafter over three years; some vesting 100% on the date of grant; some vesting 1/12<sup>th</sup> per month over one year; some vesting 100% after one year; and some vesting monthly over four years. The Director Option Plan and 1997 Stock Option Plan both expired in March 2007. The 2000 Stock Option Plan expired in December 2010 and as noted above, the 2007 Plan was discontinued in June 2011 in connection with the approval of the 2011 Plan. As a result, options will no longer be granted under any of these plans except the 2011 Plan.

As of September 30, 2014, an aggregate of 17,330 options were outstanding under the Director Option Plan and 1997 Stock Option Plan, 15,742 options were outstanding under the 2000 Stock Option Plan, 81,788 options were outstanding under the 2007 Plan, and 796,201 options were outstanding under the 2011 Plan. These outstanding options remain exercisable in accordance with the terms of the original grant agreements under the respective plans.

A summary of activity for the Company's stock option plans for the nine months ended September 30, 2014 follows:

	Number Outstanding	Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Average Intrinsic Value
Balance at December 31, 2013	546,498	\$ 14.90		\$49,015
Granted	459,651	9.71		
Cancelled or Expired	(68,544 )	18.10		
Exercised	(26,544 )	10.23		
Balance at September 30, 2014	911,061	\$ 12.18	7.75	\$3,108,693
Vested or expected to vest at				
September 30, 2014	788,131	\$ 12.66	7.50	\$2,576,617
Exercisable at September 30,				
2014	303,564	\$ 18.29	4.78	\$460,964

The following table summarizes information about options outstanding as of September 30, 2014:

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$5.20 - \$8.40	192,601	8.74	\$ 6.57	50,148	\$ 7.73
\$8.41 - \$8.80	266,500	9.45	8.80	583	8.80
\$8.81 - \$12.00	254,815	8.19	11.20	97,682	11.63

Edgar Filing: Identiv, Inc. - Form 10-Q

\$12.01 - \$36.90	182,258	4.03	22.02	140,264	24.28
\$36.91 - \$43.40	14,887	2.32	41.49	14,887	41.49
\$5.20 - \$43.40	911,061	7.75	12.18	303,564	18.29

The weighted-average grant date fair value per option for options granted during the three and nine months ended September 30, 2014 was \$11.24 and \$9.71, respectively. A total of 26,544 options were exercised during the nine months ended September 30, 2014.

The weighted-average grant date fair value per option for options granted during the three and nine months ended September 30, 2013 was \$7.70 and \$9.30, respectively. A total of 18 options were exercised during the nine months ended September 30, 2013.

At September 30, 2014, there was \$2.6 million of unrecognized stock-based compensation expense, net of estimated forfeitures related to unvested options, that is expected to be recognized over a weighted-average period of 3.22 years.

## Restricted Stock and Restricted Stock Units

The following is a summary of equity award activity for restricted stock and RSU activity for the nine months ended September 30, 2014:

	Number Outstanding	Weighted Average Fair Value	Weighted Average Remaining (Years)	Contractual Term	Average Intrinsic Value
Balance at December 31, 2013	—	\$ —			\$—
Granted	434,490	14.36			
Vested	(47,305 )	8.77			
Forfeited	—	—			
Balance at September 30, 2014	387,185	\$ 15.05	2.98		\$5,192,151

The fair value of the Company's restricted stock awards and RSUs is calculated based upon the fair market value of the Company's stock at the date of grant. As of September 30, 2014, there was \$4.1 million of total unrecognized compensation cost related to unvested RSUs granted, which is expected to be recognized over a weighted average period of 2.98 years. As of September 30, 2014, an aggregate of 387,185 RSUs were outstanding under the 2011 Plan.

## Stock-Based Compensation Expense

The following table illustrates all stock-based compensation expense related to the ESPP, stock options and RSUs included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Cost of revenue	\$12	\$17	\$23	\$56
Research and development	55	20	91	85
Selling and marketing	121	117	165	443
General and administrative	351	99	717	510
Restructuring	-	45	-	45
Total	\$539	\$298	\$996	\$1,139

## Common Stock Reserved for Future Issuance

Common stock reserved for future issuance as of September 30, 2014 was as follows:

Exercise of outstanding stock options and vesting of RSU's	1,298,246
ESPP	293,888
Shares of common stock available for grants under the 2011 Plan	540,842
Noncontrolling interest in Bluehill AD	126,142
Warrants to purchase common stock	963,917
Contingent consideration for idOnDemand	372,856
Total	3,595,891

#### Net Loss per Common Share Attributable to Identiv Stockholders' Equity

Basic and diluted net loss per share is based upon the weighted average number of common shares outstanding during the period. For the three and nine months ended September 30, 2014 and 2013, common stock equivalents consisting of outstanding stock options, RSUs and warrants were excluded from the calculation of diluted loss per share because these securities were anti-dilutive due to the net loss in the respective periods. The total number of common stock equivalents excluded from diluted loss per share relating to these securities was 669,349 common stock equivalents for the nine months ended September 30, 2014, and 447,175 common stock equivalents for the nine months ended September 30, 2013, respectively.

## Accumulated Other Comprehensive Income

Accumulated other comprehensive income (“AOCI”) at December 31, 2013 and September 30, 2014 consists of foreign currency translation adjustments of \$1.2 million and \$1.6 million, respectively. There were no reclassifications out of AOCI for the three and nine month period ended September 30, 2014. The reclassifications out of AOCI for the three and nine month period ended September 30, 2013 were immaterial and have been included within results of discontinued operations in the Company’s condensed consolidated statements of operations.

## 5. Inventories

The Company’s inventories are stated at the lower of cost or market. Inventories consist of (in thousands):

	September 30, 2014	December 31, 2013
Raw materials	\$ 3,316	\$ 3,464
Work-in-progress	454	261
Finished goods	4,946	5,270
Total	\$ 8,716	\$ 8,995

## 6. Property and Equipment

Property and equipment, net consists of (in thousands):

	September 30, 2014	December 31, 2013
Building and leasehold improvements	\$ 1,283	\$ 1,236
Furniture, fixtures and office equipment	4,441	4,236
Plant and machinery	6,800	6,843
Purchased software	2,541	2,094
Total	15,065	14,409
Accumulated depreciation	(9,434 )	(8,521 )
Property and equipment, net	\$ 5,631	\$ 5,888

The Company recorded depreciation expense of \$0.4 million and \$1.2 million during the three and nine months ended September 30, 2014, respectively, and \$0.4 million and \$1.2 million during the three and nine months ended September 30, 2013, respectively.



## 7. Goodwill and Intangible Assets

## Goodwill

The following table presents goodwill by operating segment as of September 30, 2014 and December 31, 2013 and changes in the carrying amount of goodwill (in thousands):

	Premises	Credentials	Identity	All Other	Total
Balance at December 31, 2013	\$ 7,783	\$ —	\$ 1,208	\$ —	\$ 8,991
Currency translation adjustment	—	—	(91 )	—	(91 )
Balance at September 30, 2014	\$ 7,783	\$ —	\$ 1,117	\$ —	\$ 8,900

In connection with the Company's 2014 organizational realignment, certain prior period amounts were reclassified to conform to the current period's operating segment presentation. Of the total goodwill, a certain amount is designated in a currency other than U. S. dollars and is adjusted each reporting period for the change in foreign exchange rates between the balance sheet dates.

In accordance with its accounting policy and ASC 350, the Company tests goodwill and intangibles with indefinite lives annually for impairment and assesses whether there are any indicators of impairment on an interim basis. The Company performs interim goodwill impairment reviews between its annual reviews if certain events and circumstances have occurred, including a deterioration in general economic conditions, an increased competitive environment, a change in management, key personnel, strategy or customers, negative or declining cash flows, or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods. The Company believes the methodology that it uses to review impairment of goodwill, which includes a significant amount of judgment and estimates, provides it with a reasonable basis to determine whether impairment has occurred. However, many of the factors employed in determining whether its goodwill is impaired are outside of its control and it is reasonably likely that assumptions and estimates will change in future periods. These changes in assumptions and estimates could result in future impairments.

Management did not identify any impairment indicators during the quarter ended September 30, 2014. The Company performed its annual impairment test for all reporting units on December 1, 2013 and concluded that there was no impairment to goodwill during the year ended December 31, 2013, other than the impairment identified in its interim assessment during the third and fourth quarters of 2013, as described below.

The Company calculates the fair value of its reporting units using a combination of market and income approaches and in doing so relies in part upon an independent third-party valuation report. Prior to its goodwill impairment test, the Company first tests its long-lived assets for impairment and adjusts the carrying value of each asset group to its fair value and records the associated impairment charge in its condensed consolidated statements of operations. The Company then performs its analysis of goodwill impairment using a two-step method as required by ASC 350. The first step of the impairment test compares the fair value of each reporting unit to its carrying value, including the goodwill related to the respective reporting units. The market approach of fair value calculation estimates the fair value of a business based on a comparison of the Company to comparable firms in similar lines of business that are publicly traded or which are part of a public or private transaction. The income approach requires estimates of expected revenue, gross margin and operating expenses in order to discount the sum of estimated future cash flows using each particular reporting unit's weighted average cost of capital. The Company's growth estimates are based on historical data and internal estimates developed as part of its long-term planning process. The Company tests the reasonableness of the inputs and outcomes of its discounted cash flow analysis by comparing these items to available market data. The second step of the impairment test compares the implied fair value of goodwill to the carrying value of goodwill. The implied fair value of goodwill value is determined, in the same manner as the amount of goodwill recognized in a business combination, to assess the level of goodwill impairment, if any. During the second step, management estimates the fair value of the Company's tangible and intangible net assets. Intangible assets are identified and valued for each reporting unit for which the second step is performed. The difference between the estimated fair value of each reporting unit and the sum of the fair value of the identified net assets results in the implied value of goodwill. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized equal to that excess. In 2013, when the impairment test was performed, the Company had six reporting units. These reporting units included Hirsch, ID Solutions, payment solution and idOnDemand, which were the four components of the Identity Management segment, and ID Infrastructure and Transponders, which were the two components of the ID Products segment. In December 2013 and February 2014, two of the four reporting units in the Identity Management segment, ID Solutions and payment solution, were sold and these two reporting units no longer exist as a result. Commencing in 2014, the Company has four reporting units and four reportable segments as discussed in Note 10, Segment Reporting, Geographic Information and Major Customers. These reporting units include the Premises segment, the Identity segment, the Credentials segment and an All Other segment.

During the third quarter of fiscal 2013, the Company began a strategic review of certain under-performing business units for potential divestiture and to simplify the Company's operations and market focus. As a consequence of the strategic review, the Company revised its forecasted revenue, gross margin and operating profit for future periods. In addition, the Company noted certain other indicators of impairment, including a change in management following the appointment of a new CEO, a sustained decline in its stock price, and continued reduced performance in certain

reporting units partially as a result of the U.S. Government budget sequester. Based on its reduced forecast and the indicators of impairment noted above, the Company performed an interim goodwill impairment analysis as part of its quarterly close as of September 30, 2013. Based on the results of step one of the goodwill impairment analysis, it was determined that the Company's net adjusted carrying value exceeded its estimated fair value for the Hirsch, ID Solutions, payment solution and idOnDemand reporting units. As a result, the Company proceeded to the second step of the goodwill impairment test for these four reporting units to determine the implied fair value of goodwill to calculate the impairment loss, if any.

Based on the results of step two of the goodwill impairment analysis, the Company concluded that the carrying value of goodwill for the Hirsch, ID Solutions, payment solution and idOnDemand reporting units was impaired and recorded an impairment charge of \$27.3 million in its consolidated statements of operations during the year ended December 31, 2013, of which \$22.6 million was recorded during the three months ended September 30, 2013 and \$4.7 million was recorded during the three months ended December 31, 2013. Of the total impairment charge of \$27.3 million, \$15.6 million was related to continuing operations and \$11.7 million was related to the divested businesses and was reflected in discontinued operations.

## Intangible Assets

The following table summarizes the gross carrying amount and accumulated amortization for intangible assets resulting from acquisitions (in thousands):

	Existing Technology	Customer Relationship	Trade Name	Total
Amortization period (in years)	11.75	4.0 – 11.75	1.0	
Cost:				
Balance at December 31, 2013	\$ 4,600	\$ 10,747	\$570	\$15,917
Currency translation adjustment	—	(31 )	—	(31 )
Balance at September 30, 2014	4,600	10,716	570	15,886
Accumulated Amortization:				
Balance at December 31, 2013	(1,466 )	(3,697 )	(570)	(5,733 )
Amortization expense	(336 )	(755 )	—	(1,091 )
Currency translation adjustment	—	32	—	32
Balance at September 30, 2014	(1,802 )	(4,420 )	(570)	(6,792 )
Intangible Assets, net at December 31, 2013	\$ 3,134	\$ 7,050	\$-	\$10,184
Intangible Assets, net at September 30, 2014	\$ 2,798	\$ 6,296	\$-	\$9,094

Of the total intangible assets, certain acquired intangible assets are designated in a currency other than U.S. dollars and are adjusted each reporting period for the change in foreign exchange rates between balance sheet dates. Each period, the Company evaluates the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. If a revision to the remaining period of amortization is warranted, amortization is prospectively adjusted over the remaining useful life of the intangible asset. Intangible assets subject to amortization are amortized over their useful lives as shown in the table above. The Company evaluates its amortizable intangible assets for impairment at the end of each reporting period. The Company did not identify any impairment indicators during the nine month period ended September 30, 2014. The Company identified impairment in its interim assessment during the third quarter of 2013, as mentioned below.

As noted above, the Company began a strategic review of certain under-performing business units for potential divestiture during the third quarter of fiscal 2013. As a consequence, the Company performed an impairment analysis of intangible assets in accordance with its accounting policy for reviewing long-lived assets for impairment. As a result of this analysis, the Company identified that backlog was impaired and recorded an impairment charge in its consolidated statements of operations of \$0.2 million during the year ended December 31, 2013. This impairment charge was related to divested businesses and was included within the results of discontinued operations. The Company expects to recover the remaining balance of identified intangible assets of \$9.1 million as of September 30, 2014.

The following table illustrates the amortization expense included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 (in thousands):

Three Months Ended	Nine Months Ended September 30,

Edgar Filing: Identiv, Inc. - Form 10-Q

	September 30,			
	2014	2013	2014	2013
Cost of revenue	\$112	\$76	\$336	\$230
Selling and marketing	252	197	755	874
Total	\$364	\$273	\$1,091	\$1,104

The estimated annual future amortization expense for purchased intangible assets with definite lives over the next five years is as follows (in thousands):

2014 (remaining three months)	\$364
2015	1,455
2016	1,455
2017	1,455
2018	1,455
Thereafter	2,910
Total	\$9,094

## 8. Related-Party Transactions

Hirsch Acquisition – Secure Keyboards and Secure Networks. Prior to the 2009 acquisition of Hirsch by the Company, effective November 1994, Hirsch had entered into a settlement agreement (the “1994 Settlement Agreement”) with two limited partnerships, Secure Keyboards, Ltd. (“Secure Keyboards”) and Secure Networks, Ltd. (“Secure Networks”). Secure Keyboards and Secure Networks were related to Hirsch through certain common shareholders and limited partners, including Hirsch’s then President Lawrence Midland, who resigned as President of the Company effective July 31, 2014. Immediately following the acquisition, Mr. Midland owned 30% of Secure Keyboards and 9% of Secure Networks. Secure Networks dissolved in 2012 and Mr. Midland owned 24.5% of Secure Keyboards upon his resignation effective July 31, 2014.

On April 8, 2009, Secure Keyboards, Secure Networks and Hirsch amended and restated the 1994 Settlement Agreement to replace the royalty-based payment arrangement under the 1994 Settlement Agreement with a new, definitive installment payment schedule with contractual payments to be made in future periods through 2020 (the “2009 Settlement Agreement”). Prior to the acquisition of Hirsch by the Company, the Company was not a party to the 2009 Settlement Agreement. The Company has, however, provided Secure Keyboards and Secure Networks with a limited guarantee of Hirsch’s payment obligations under the 2009 Settlement Agreement (the “Guarantee”). The 2009 Settlement Agreement and the Guarantee became effective upon the acquisition of Hirsch on April 30, 2009. Hirsch’s annual payment to Secure Keyboards and Secure Networks in any given year under the 2009 Settlement Agreement is subject to an increase based on the percentage increase in the Consumer Price Index during the prior calendar year.

The final payment to Secure Networks was made on January 30, 2012 and the final payment to Secure Keyboards is due on January 30, 2021. Hirsch’s payment obligations under the 2009 Settlement Agreement will continue through the calendar year period ending December 31, 2020, unless Hirsch elects at any time on or after January 1, 2012 to earlier satisfy its obligations by making a lump-sum payment to Secure Keyboards. The Company does not intend to make a lump-sum payment and therefore a portion of the amount is classified as a long-term liability.

The Company included \$0.1 million and \$0.4 million of interest expense during the three and nine months ended September 30, 2014, respectively, and \$0.2 million and \$0.5 million of interest expense during the three and nine months ended September 30, 2013, respectively, in its condensed consolidated statements of operations for interest accreted on the discounted liability amount.

The ongoing payment obligations for the liability to a former related party in connection with the Hirsch acquisition as of September 30, 2014 are as follows (in thousands):

2014 (remaining three months)	\$281
2015	1,159
2016	1,205
2017	1,253
2018	1,304
Thereafter	3,248
Present value discount factor	(2,134)
Total	\$6,316

Payment solution Acquisition – Unsecured Loan. In connection with its acquisition of payment solution in January 2012, through its majority-owned subsidiary Bluehill ID AG, the Company assumed an unsecured loan payable to Mountain Partners AG, a significant shareholder of the Company. As discussed in Note 2, Discontinued Operations, the Company sold payment solution in December 2013 and the loan liability was transferred upon sale of the subsidiary effective December 19, 2013. Interest expense related to this loan was included within the results of discontinued operations in the Company’s condensed consolidated statements of operations.

## 9. Financial Liabilities

Financial liabilities consist of (in thousands):

	September 30, 2014	December 31, 2013
Secured term loan	\$ 10,000	\$ -
Secured note	—	6,660
Bank revolving loan facility	4,300	—

Edgar Filing: Identiv, Inc. - Form 10-Q

Less: Unamortized discount	(375 )	(638 )
Total debt, net	13,925	6,022
Less: Current portion of financial liabilities	2,083	2,971
Long-term financial liabilities	\$11,842	\$3,051

Bank Term Loan and Revolving Loan Facility

On March 31, 2014, the Company entered into a credit agreement (the “Credit Agreement”) with Opus. The Credit Agreement provides for a term loan in aggregate principal amount of \$10.0 million (“Term Loan”) which was drawn down on March 31, 2014, and an additional \$10.0 million revolving loan facility (“Revolving Loan Facility”), of which \$4.0 million was drawn down on March 31, 2014 and an additional \$2.0 million was drawn down during the three months ended June 30, 2014. On August 8, 2014, the Company repaid \$1.7 million on the Revolving Loan Facility. In connection with the closing of the Credit Agreement, the Company repaid all outstanding amounts under its Loan and Security Agreement, dated as of October 30, 2012, as amended from time to time (the “Secured Debt Facility”) with Hercules. The proceeds of the Term Loan and the initial proceeds under the Revolving Loan Facility, after payment of fees and expenses and all outstanding amounts under the Secured Debt Facility, were approximately \$7.8 million. The obligations of the Company under the Credit Agreement are secured by substantially all assets of the Company. Certain of the Company’s material domestic subsidiaries have guaranteed the credit facilities and have granted Opus security interests in substantially all of their respective assets. Under the existing terms of the Credit Agreement at September 30, 2014, both the Term Loan and the Revolving Loan Facility mature and become due and payable on March 31, 2017 (the “Maturity Date”). At September 30, 2014, both the principal amount of the Term Loan and the principal amount outstanding under the Revolving Loan Facility bear interest at a floating rate equal to the greater of (i) the prime rate plus 2.75% and (ii) 6.00%. Interest is payable monthly beginning on May 1, 2014. Also, under the existing terms of the Credit Agreement at September 30, 2014, the principal balance of the Term Loan is payable in 24 equal monthly installments beginning on May 1, 2015. The Company may voluntarily prepay the Term Loan and outstanding amounts under the Revolving Loan Facility, without prepayment charges, and is required to make prepayments of the Term Loan in certain circumstances using the proceeds of asset sales or insurance or condemnation events. On November 10, 2014, the Company entered into an amendment to its Credit Agreement which changes a number of terms of the Credit Agreement including interest charged, the monthly installment payment schedule, the maximum amount available under the revolving loan facility and the maturity date as well as certain other terms and conditions. For additional information concerning the amendment of the Credit Agreement, see Note 14 Subsequent Events.

In connection with the Company’s entry into the Credit Agreement, the Company paid \$170,000 in customary lender fees and expenses, including facility fees. As discussed in Note 4, Stockholders’ Equity of Identiv, the Company issued the Opus Warrant to purchase up to 100,000 shares of the Company’s common stock at a per share exercise price of \$9.90. The Opus Warrant is immediately exercisable for cash or by net exercise and will expire on March 31, 2019. The shares issuable upon exercise of the Opus Warrant are to be registered at the request of Opus pursuant to the Registration Rights Agreement, entered into on March 31, 2014 by the Company and Opus. The Registration Rights Agreement provides for standard S-3 and piggyback registration rights. The Company calculated the fair value of the Opus Warrant using the Black-Scholes option pricing model using the following assumptions: estimated volatility of 92.09%, risk-free interest rate of 1.73%, no dividend yield, and an expected life of five years. The fair value of the Opus Warrant was determined to be \$0.8 million. The Opus Warrant is classified as equity in accordance with ASC 505 as the settlement of the warrants will be in shares and is within the control of the Company. The Company allocated both the cash and warrant (equity) consideration to Opus between Term Loan and Revolving Loan Facility using the relative value of these loans. The Company recognized \$0.9 million in issuance costs, both cash and equity, related to the Term Loan and Revolving Loan Facility. The cost consideration of \$0.5 million allocated for the Term Loan is recorded as a discount on the Term Loan and is reported in the balance sheet as an adjustment to the carrying amount of the Term Loan. The remaining \$0.4 million in issuance costs has been allocated to the Revolving Loan Facility as a deferred charge, pursuant to ASC Topic 835-30, Imputation of Interest (“ASC 835-30”). The issuance costs



and discounts on the Term Loan are amortized as interest expense in accordance with ASC 835-30 over the term of the Credit Agreement.

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants, including, limits or restrictions on the Company's ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate and dispose of assets. The Credit Agreement also provides for customary financial covenants, including a minimum tangible net worth covenant, a maximum senior leverage ratio and a minimum asset coverage ratio. In addition, it contains customary events of default that entitle Opus to cause any or all of the Company's indebtedness under the Credit Agreement to become immediately due and payable. Events of default (some of which are subject to applicable grace or cure periods), include, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. Upon the occurrence and during the continuance of an event of default, Opus may terminate its lending commitments and/or declare all or any part of the unpaid principal of all loans, all interest accrued and unpaid thereon and all other amounts payable under the Credit Agreement to be immediately due and payable. As of September 30, 2014, the Company was in compliance with all covenants.

## Secured Debt Facility

On October 30, 2012, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) with Hercules. The Loan Agreement provided for a term loan in aggregate principal amount of up to \$10.0 million (“Maximum Term Loan Amount”) and an additional \$10.0 million in loan advances, provided certain financial and other requirements were met as set forth in the Loan Agreement. The initial drawdown of \$7.5 million was secured by a Secured Term Promissory Note dated October 30, 2012 (the “Secured Note”). The Company received net proceeds of \$6.9 million after incurring \$0.6 million in issuance costs related to the Secured Note. The issuance costs were being amortized and included in interest expense in accordance with ASC 835-30 over the term of the loan agreement. The initial term of the Secured Note matured on November 1, 2015 and incurred interest at the greater of (i) the prime rate plus 7.75% and (ii) 11.00%. Interest on the Secured Note was payable monthly beginning on November 1, 2012, and the principal balance was payable in 30 equal monthly installments beginning on May 1, 2013.

In connection with the initial advance, the Company paid a \$150,000 facility charge to Hercules, of which 50% would have been credited to the Company if all advances under the Loan Agreement were repaid on but not before maturity. The Company was permitted to prepay outstanding amounts under the Secured Note, subject to certain prepayment charges as set out in the Secured Note. The Company was also required to pay additional fees, consisting of end of term charge and success fees to Hercules in the aggregate of \$1,000,000, payable in three equal annual installments beginning on October 30, 2013. The entire amount of these fees would become immediately due and payable if the Company prepaid all of its obligations under the Loan Agreement or if Hercules declared all obligations due and payable after an event of default thereunder. The Company recorded interest expense in its condensed consolidated statements of operations on the Secured Note of zero and \$0.4 million during the three and nine months ended September 30, 2014, respectively, and \$0.2 million and \$1.1 million during the three and nine months ended September 30, 2013, respectively.

The Company and Hercules entered into amendments to the Loan Agreement on March 5, 2013, on April 22, 2013 and on August 7, 2013 and paid fees and issued warrants to purchase 99,208 shares of its common stock at an exercise price of \$7.10 per share. The Hercules Warrants include a term of five years and contain usual and customary terms. The fair value of the Hercules Warrants was determined to be \$0.5 million. The Hercules warrants were classified as equity in accordance with ASC 505 as the warrants, if exercised, will be settled in shares and are within the control of the Company.

All cash and equity consideration exchanged with Hercules for the amendments to the Loan Agreement discussed above were recorded as discounts and reported in the balance sheet as an adjustment to the carrying amount of the secured debt liability. The Loan Agreement amendment fees were amortized as interest expense pursuant to ASC 835-30 over the remaining term of the Loan Agreement. As discussed above, the Company repaid all outstanding amounts under its Loan Agreement with Hercules in connection with entering into the Credit Agreement with Opus on March 31, 2014 and recorded \$1.6 million in additional interest expense during the three months ended March 31, 2014 in its condensed consolidated statement of operations. The total amount of \$1.6 million in interest expense included \$0.9 million related to a write-off of deferred costs, \$0.6 million related to a write-off of discounts on the secured note and \$0.1 million related to prepayment fees as stipulated in the Loan Agreement and the forfeiture of a facility charge paid at the inception of the Loan Agreement.

## Other Obligations

In connection with its acquisition of payment solution in January 2012, through its majority-owned subsidiary Bluehill ID AG, the Company assumed obligations for certain equipment financing liabilities, a bank loan and a revolving line of credit payable to a bank. As disclosed in Note 2, Discontinued Operations, the Company sold payment solution in December 2013 and all financial liabilities were transferred upon sale of the subsidiary, effective December 19, 2013. Interest expense related to these financial obligations has been included within discontinued operations in the Company’s condensed consolidated statements of operations for all periods ending in 2013.

In connection with its acquisition of Bluehill ID AG, the Company had assumed an obligation for a mortgage loan and a related revolving line of credit payable to a bank. The mortgage loan and the revolving line of credit were related to Multicard Nederland BV, one of the 100%-owned subsidiaries of Bluehill ID AG, and were secured by the land and building to which they relate as well as total inventory, machinery, stock, products and raw materials of the subsidiary. As disclosed above in Note 2, Discontinued Operations, the Company sold Multicard Nederland BV on December 30, 2013 and all loan liabilities were transferred upon sale of the subsidiary. Interest expense related to this mortgage loan and revolving line of credit has been included within discontinued operations in the Company's condensed consolidated statements of operations for all periods ending in 2013.

The following table summarizes the timing of repayment obligations for the Company's financial liabilities for the next five years under the current terms of the Credit Agreement as of September 30, 2014 (in thousands):

	2014	2015	2016	2017	Total
Bank term loan and revolving loan facility	\$	—\$3,333	\$5,000	\$5,967	\$14,300

## 10. Segment Reporting, Geographic Information and Major Customers

ASC Topic 280, Segment Reporting (“ASC 280”) establishes standards for the reporting by public business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method for determining what information to report is based on the way management organizes the operating segments within the Company for making operating decisions and assessing financial performance. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenue and incur expenses and about which separate financial information is available to its chief operating decision makers (“CODM”). The Company’s CODM are considered to be its CEO and CFO.

Identiv’s trust solutions allow people to trust their premises, information systems, and even everyday items. To deliver these solutions, the Company reorganized its operations into four reportable business segments in the first quarter of 2014 principally by product families: Premises, Identity, Credentials and All Other. As a result of the change, product families and services were organized within the four segments. To provide improved visibility and comparability, the Company reclassified segment operating results for 2013 to conform to the 2014 organizational realignments. In the Premises segment, Identiv’s Trust for Premises solution secures buildings via an integrated access control system. Identiv’s uTrust premises product offerings include MX controllers, Velocity management software, TS door readers, and third party products. In the Identity segment, Identiv delivers a solution to secure enterprise information including PCs, networks, email encryption, login, and printers via delivery of smart card reader products and identity management via our idOnDemand service. In the Credentials segment, the Company offers standards-driven hardware products using near field communication (“NFC”), radio frequency identification (“RFID”) and smart card technologies, including inlays, tags, readers and other products. In the All Other segment, the Company offers products, including Chipdrive and Media readers. The products included in the All Other segment do not meet the quantitative thresholds for determining reportable segments in accordance with ASC 280 and therefore have been combined for reporting purposes.

The CODM reviews financial information and business performance for each operating segment. The Company evaluates the performance of its operating segments at the revenue and gross profit levels. The CODM does not review operating expenses or asset information by operating segment for purposes of assessing performance or allocating resources.

Edgar Filing: Identiv, Inc. - Form 10-Q

Net revenue and gross profit information by segment for the nine months ended September 30, 2014 and 2013 is as follows (in thousands):

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
<b>Premises:</b>								
Net revenue	\$4,939		\$6,234		\$13,026		\$15,469	
Gross profit	3,047		3,946		8,030		9,875	
Gross profit margin	62	%	63	%	62	%	64	%
<b>Identity:</b>								
Net revenue	3,770		5,010		12,558		14,498	
Gross profit	1,943		2,153		6,027		6,291	
Gross profit margin	52	%	43	%	48	%	43	%
<b>Credentials:</b>								
Net revenue	12,834		8,591		33,166		21,746	
Gross profit	4,317		3,156		9,719		7,307	
Gross profit margin	34	%	37	%	29	%	34	%
<b>All Other:</b>								
Net revenue	1,169		1,074		3,117		3,032	
Gross profit	565		709		1,628		1,253	
Gross profit margin	48	%	66	%	52	%	41	%
<b>Total:</b>								
Net revenue	22,712		20,909		61,867		54,745	
Gross profit	9,872		9,964		25,404		24,726	
Gross profit margin	43	%	48	%	41	%	45	%
<b>Operating expenses:</b>								
Research and development	1,813		1,643		5,046		5,206	
Selling and marketing	5,078		4,527		15,844		13,972	
General and administrative	3,685		3,845		9,595		11,002	
Impairment of long-lived assets	—		178		—		178	
Impairment of goodwill	—		10,935		—		10,935	
Restructuring and severance	1,825		1,252		2,874		1,252	
Total operating expenses:	12,401		22,380		33,359		42,545	
Loss from operations	(2,529 )		(12,416 )		(7,955 )		(17,819 )	
<b>Non-operating income (expense):</b>								
Interest expense, net	(564 )		(387 )		(3,154 )		(1,603 )	
Foreign currency loss (gain), net	(700 )		284		(952 )		461	
<b>Loss from continuing operations before income</b>								
taxes and noncontrolling interest	\$(3,793 )		\$(12,519 )		\$(12,061 )		\$(18,961 )	

Geographic revenue is based on customer's ship-to location. Information regarding revenue by geographic region is as follows (in thousands):

Edgar Filing: Identiv, Inc. - Form 10-Q

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,		September 30,	
	2014	2013	2014	2013
Americas	\$15,655	\$12,561	\$38,933	\$29,835
Europe and the Middle East	3,930	5,036	12,722	15,594
Asia-Pacific	3,127	3,312	10,212	9,316
Total	\$22,712	\$20,909	\$61,867	\$54,745
<b>Revenues</b>				
Americas	69	% 60	% 63	% 55
Europe and the Middle East	17	% 24	% 21	% 28
Asia-Pacific	14	% 16	% 16	% 17
Total	100	% 100	% 100	% 100

25

---

One customer represented 27% of total revenue for the three and nine months ended September 30, 2014. No customer exceeded 10% or more of total revenue for the three and nine months ended September 30, 2013. No customer represented 10% of the Company's accounts receivable balance at September 30, 2014 or December 31, 2013.

The Company tracks assets by physical location. Long-lived assets by geographic location as of September 30, 2014 and December 31, 2013 are as follows (in thousands):

	September 30, 2014	December 31, 2013
Property and equipment, net:		
Americas		
United States	\$ 2,127	\$ 1,693
Other	—	1
Total Americas	2,127	1,694
Europe and the Middle East		
Germany	1,419	1,839
Total Europe and the Middle East	1,419	1,839
Asia-Pacific		
Singapore	2,014	2,258
Other	71	97
Total Asia-Pacific	2,085	2,355
Total property and equipment, net	\$ 5,631	\$ 5,888

## 11. Restructuring and Severance

During the third and fourth quarters of 2013, there was a change of the Company's CEO and CFO, and as part of management's efforts to simplify business operations, certain non-core functions were eliminated. As a result, the Company recorded \$1.8 million in restructuring and severance costs in its consolidated statements of operations for the year ended December 31, 2013, primarily related to severance paid or accrued for our former CEO and CFO as well as other employees.

During the nine months ended September 30, 2014, certain employees were terminated as part of management's efforts to simplify business operations and facilities were closed or are scheduled to close. As a result, the Company recorded \$1.8 million and \$2.9 million in restructuring and severance costs, lease termination costs, stock award modification charges and other closure related costs in its condensed consolidated statements of operations for the three and nine months ended September 30, 2014, respectively. In addition, the Company recorded an additional \$0.3 million in severance costs during the three and nine months ended September 30, 2014 in general and administrative expenses related to executive position resignations and eliminations in conjunction with recent corporate restructuring and cost

reduction activities.

26

---



## Edgar Filing: Identiv, Inc. - Form 10-Q

All unpaid restructuring and severance accruals are included in other accrued expenses and liabilities within current liabilities in the condensed consolidated balance sheet at September 30, 2014. Restructuring and severance activities during the nine months ended September 30, 2014 were as follows (in thousands):

	Restructuring and Severance
Balance at December 31, 2013	\$ 1,149
Restructuring expense incurred and changes in estimates for the nine months ended September 30, 2014	2,874
Other cost reduction activities for the nine months ended September 30, 2014	309
Payments and non-cash item adjustment for the nine months ended	
September 30, 2014	(2,465 )
Balance at September 30, 2014	\$ 1,867

### 12. Other Accrued Expenses and Liabilities

Other accrued expenses and liabilities consist of (in thousands):

	September 30, 2014	December 31, 2013
Accrued restructuring	\$ 1,867	\$ 909
Accrued professional fees	930	973
Income taxes payable	169	532
Other accrued expenses	2,149	2,825
Total	\$ 5,115	\$ 5,239

### 13. Commitments and Contingencies

The Company leases its facilities, certain equipment, and automobiles under non-cancelable operating lease agreements. Those lease agreements existing as of September 30, 2014 expire at various dates during the next five years.

The Company recognized rent expense of \$0.4 million and \$1.3 million for the three and nine months ended September 30, 2014, respectively, and \$0.5 million and \$1.5 million for the three and nine months ended September 30, 2013, respectively, in its condensed consolidated statements of operations.

Purchases for inventories are highly dependent upon forecasts of customer demand. Due to the uncertainty in demand from its customers, the Company may have to change, reschedule, or cancel purchases or purchase orders from its

suppliers. These changes may lead to vendor cancellation charges on these purchases or contractual commitments.

The following table summarizes the Company's principal contractual commitments as of September 30, 2014 (in thousands):

	Operating Lease	Purchase Commitments	Other Contractual Commitments	Total
2014 (remaining three months)	\$ 411	\$ 4,606	\$ 185	\$5,202
2015	1,510	686	36	2,232
2016	1,214	—	1	1,215
2017	965	—	1	966
2018	164	—	—	164
Thereafter	—	—	—	—
	\$ 4,264	\$ 5,292	\$ 223	\$9,779

The Company provides warranties on certain product sales for periods ranging from 12 to 24 months, and allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires the Company to make estimates of product return rates and expected costs to repair or to replace the products under warranty. The Company currently establishes warranty reserves based on historical warranty costs for each product line combined with liability estimates based on the prior 12 months' sales activities. If actual return rates and/or repair and replacement costs differ significantly from the Company's estimates, adjustments to recognize additional cost of sales may be required in future periods. Historically the warranty accrual and the expense amounts have been immaterial.

#### 14. Subsequent Events

On October 9, 2014, the Company's Board authorized a program to repurchase shares of Identiv's common stock. The Board approved the repurchase of up to \$5.0 million of shares over a period of one year. This program is to be conducted in the open market or in privately negotiated transactions. The repurchase of shares will be made using our cash resources. The repurchase program may be suspended or discontinued at any time without prior notice.

Also, on November 10, 2014, the Company entered into an amendment to its Credit Agreement dated March 31, 2014, with Opus. Under the amended Credit Agreement, the revolving loan facility has been increased from \$10.0 million to \$30.0 million and the revolving loan maturity date has been extended to November 10, 2017. In addition, the Company will no longer be required to make the scheduled monthly installment payments of principal under the Term Loan. Rather, the entire principal balance of the Term Loan will be due on March 31, 2017. Both the principal amount of the Term Loan and the principal amount outstanding under the Revolving Loan Facility bear interest at a floating rate equal to: (a) if the Company holds more than \$30.0 million in cash with the lender, the greater of (i) the prime rate plus 1.50% and (ii) 4.75%; (b) if the Company holds \$30.0 million or less but more than \$20.0 million in cash with the lender, the greater of (i) the prime rate plus 2.25% and (ii) 5.50%; or (c) if the Company holds \$20.0 million or less in cash with the lender, the greater of (i) the prime rate plus 2.75% and (ii) 6.00%. Interest on both facilities continues to be payable monthly.

Additionally, the amendment (i) modifies certain loan covenants applicable to the Company's stock repurchase plan (see above), (ii) removes from the loan collateral shares of the Company's capital stock repurchased by the Company and (iii) extends the current tangible net worth covenant by one year. The Company is obligated to pay .333% of the revolving loan facility as a lender fee in the aggregate amount of \$100,000 upon the closing of the amendment.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and other parts of this Quarterly Report on Form 10-Q ("Quarterly Report") contain forward-looking statements, within the meaning of the safe harbor provisions under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "will," "believe," "could," "should," "would," "may," "anticipate," "intend," "plan," "estimate," "expect," "project" or the negative terms or other similar expressions. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A of this Quarterly Report under the heading "Risk Factors," which are incorporated herein by reference. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Part II, Item 8 in our Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 31, 2014. All information presented herein is based on Identiv Inc.'s fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to our fiscal years ended in December and the associated quarters, months and periods of those fiscal years. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Each of the terms the "Company," "Identiv," "we" and "us" as used herein refers collectively to Identiv, Inc. and its wholly-owned subsidiaries, unless otherwise stated.

### Overview

Identiv is a global security technology company that establishes trust in the connected world, including premises, information and everyday items. Our motto is "Trust Your World." Global organizations in the government, education, retail, transportation, healthcare and other markets rely upon our trust solutions to do exactly that by reducing risk, achieving compliance and protecting brand identity.

At the beginning of September 2013, as more fully discussed in the "Recent Developments in our Business" section below, we undertook a strategic review of our business and initiated a series of actions to simplify our business structure and streamline our operations. As a result of these changes, we have put in place a new organizational structure, enhanced and broadened our management team, and are now doing business as "Identiv." We obtained stockholder approval to amend our certificate of incorporation and officially change the name of the Company at our 2014 annual meeting on May 22, 2014. Our common stock is listed on the NASDAQ Capital Market in the U.S. under the symbol "INVE."

At the end of fiscal year 2013, we operated in two segments, "Identity Management Solutions & Services" (Identity Management) and "Identification Products & Components" (ID Products). Following the changes in our organizational structure, we changed our operating segments to focus on our trust solutions:

- Trust for Premises solution secures buildings via an integrated access control system.
- Trust for Information solution secures enterprise information including PCs, networks, email encryption, login, and printers via delivery of smart card reader products and Identity Management via our idondemand service.
- Trust for everyday items solution provides trust for everyday connected items, including electronic toys and other internet of things applications

The foundation of our trust solutions is a single, universal identity credential that can be used to trust any resource — premises, information, or everyday item — delivered securely and easily from our idOnDemand service. Because this solution is offered through the cloud, customers can access the service at any time from a secure web portal to issue, manage or revoke credentials, without the complexity and cost of internal deployments.

To deliver these solutions, the Company reorganized its operations into four reportable business segments in the first quarter of 2014 principally by product families: Premises, Identity, Credentials and All Other. As a result of the change, product families and services are organized within four segments – Premises, Identity, Credentials and All Other which are discussed below.

#### Premises

Our uTrust premises products offerings include MX controllers, Velocity management software, TS door readers, and 3<sup>rd</sup> party products. Our modular uTrust MX controllers are designed to be scalable, allowing customers to start with a small system and expand over time. uTrust MX controllers can operate autonomously, whether as a single controller or as part of a networked system with Velocity software. The uTrust Velocity software platform enables centralized management of access and security operations across an organization, including control of doors, gates, turnstiles, elevators and other building equipment, monitoring users as they move around a facility, preventing unwanted access, maintaining compliance and providing a robust audit trail. uTrust door readers provide unique features to support a number of security environments and standards. For example, uTrust Scramblepad readers employ numerical scrambling on the keypad to protect access codes from being stolen as they are entered. uTrust TS readers support the majority of legacy card credentials with a robust next-generation platform that can help companies migrate to more secure credentials and technologies, including smart cards, near field communication (“NFC”) and government-issued credentials.

#### Identity

Our Identity products include uTrust readers - a broad range of contact, contactless, portable and mobile smart card readers, tokens and terminals that are utilized around the world to enable logical (i.e., PC, network or data) access and security and identification applications, such as national ID, payment, e-Health and e-Government.

The Identity products also include our idOnDemand service. idOnDemand can be used to provision (i.e., create and issue) and manage identity credentials through a cloud based service. Customers can access the service at any time from a secure web portal to issue, manage or revoke credentials, without the complexity and cost of internal deployments.

#### Credentials

The fastest-growing products in our portfolio are credentials: NFC and radio frequency identification (“RFID”) products — including inlays and inlay-based cards — labels, tags and stickers, as well as other radio frequency (“RF”) and IC components. These products are manufactured in our state-of-the-art facility in Singapore and are used in a diverse range of identity-based applications, including electronic entertainment, loyalty schemes, mobile payment, transit and event ticketing. In addition Identiv provides a comprehensive range of user credentials under the uTrust brand, used for Premises and information solutions access.

Leveraging our expertise in RFID and NFC technology, identity management, mobility and cloud services, we are developing new products to provide trust for everyday connected items, also known as the “Internet of Things.”

#### All Other

The All Other segment includes products, including Chipdrive and Media readers. The products included in the All Other segment do not meet the quantitative thresholds for determining reportable segments and therefore have been combined for reporting purposes.

We primarily conduct our own sales and marketing activities in each of the markets in which we compete, utilizing our own sales and marketing organization to solicit prospective channel partners and customers, provide technical

advice and support with respect to products, systems and services, and manage relationships with customers, distributors and/or original equipment manufacturers (“OEMs”). We utilize indirect sales channels that may include OEMs, dealers, systems integrators, value added resellers, resellers or Internet sales, although we also sell directly to end users. In support of our sales efforts, we participate in industry events and conduct sales training courses, targeted marketing programs, and ongoing customer, channel partner and third-party communications programs.

Our corporate headquarters are located in Fremont, California. We maintain research and development facilities in Santa Ana, California, Fremont, California, Chennai, India and Australia and local operations and sales facilities in Australia, Germany, Hong Kong, Japan, Singapore and the U.S. We were founded in 1990 in Munich, Germany and incorporated in 1996 under the laws of the State of Delaware.

## Recent Developments in our Business

In September 2013, our Board of Directors appointed Jason Hart as our chief executive officer (“CEO”). Mr. Hart is a 20-year veteran of the security industry and the founder and former CEO of our idOnDemand subsidiary. Following Mr. Hart’s appointment, we undertook a strategic review of our business and initiated a series of actions to simplify our business structure and streamline our operations.

### Organizational Restructuring

The first of these actions was to realign our organizational structure to operate as a single, unified company rather than as a group of individual businesses. This change in our structure enhances our ability to coordinate and focus our strategic and operational activities. To signal this change, we implemented a new corporate identity using the word mark and logo “Identiv” in place of “Identive Group.” We also reorganized our management team and our operational activities by function (e.g., engineering, sales, marketing, customer service and information technology), allowing centralized management of key activities on a global basis. With the reorganization of and changes to our management team, we moved our executive headquarters to Fremont, California and began the process of moving our operational and certain administrative activities from Ismaning, Germany to our facility in Santa Ana, California.

Another important action was the divestiture of businesses that were determined to be non-core to our ongoing strategy. In December 2013 we completed the sale of our Multicard and payment solution subsidiaries in Europe, in February 2014 we completed the sale of our Multicard subsidiary in the U.S. and in July 2014, we sold certain non-core assets related to one of our subsidiaries. We believe these divestitures enhance our ability to focus our resources and investments on higher-growth and more profitable opportunities in the security technology market. We have accounted for these divested businesses as discontinued operations, and the statements of operations for all periods presented reflect the discontinuance of these businesses. For more information, see Note 2 Discontinued Operations in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report.

Beginning in 2014, we have operated in new segments that align to our current market strategy. We reported our financial results under these segments beginning with our Quarterly Report on Form 10-Q for the first quarter of 2014.

### Our Strategy

Our corporate priority in 2014 is to complete the process begun in late 2013 to simplify our business and drive revenue growth by focusing our resources and activities to deliver trust solutions to customers globally. Our trust solutions leverage core expertise from our existing product portfolio with a focus on cloud and mobile technologies, as well as our significant experience addressing customers’ security challenges across multiple markets, including the U.S. Government, transportation, healthcare, education, banking, critical infrastructure, foreign governments and others.

### Trends in Our Business

Geographic revenue, based on each customer’s ship-to location is as follows (in thousands):

	Nine Months Ended September 30,	
	2014	2013
Americas	\$38,933	\$29,835



Edgar Filing: Identiv, Inc. - Form 10-Q

Europe and the Middle East	12,722		15,594	
Asia-Pacific	10,212		9,316	
Total	\$61,867		\$54,745	
<b>Revenues</b>				
Americas	63	%	55	%
Europe and the Middle East	21	%	28	%
Asia-Pacific	16	%	17	%
Total	100	%	100	%

Revenue Trends

Sales in the first nine months of 2014 were \$61.9 million, up 13% compared with \$54.7 million in the first nine months of 2013. Approximately 54% of our revenue came from our Credentials segment, which grew 53% in 2014, primarily as a result of large orders

for tags and inlays to support electronic gaming, transit ticketing and other “Internet of Things” applications. The revenue growth in the Credentials segment has been partially offset by a 13% decline in revenues in our Identity segment and a 16% decline in revenues in our Premises segment. The revenue declines in our Premises and Identity segments reflect higher revenues in the three months ended September 30, 2013 primarily to U.S. Government entities where a significant number of projects were completed prior to the Government shutdown in 2013. The 2014 revenue decline in the Premises segment was also the result of weak first quarter demand from U.S. Government customers for physical access control solutions. Identity products accounted for 20% of our business in the nine months ended September 30, 2014 and our Premises products accounted for 21% of our revenues.

**Revenues in the Americas.** Revenues in the Americas were \$38.9 million in the first nine months of 2014, accounting for 63% of total revenue and up 30% compared with \$29.8 million in the first nine months of 2013. Revenues from physical access control solutions for security programs within various U.S. government agencies, as well as RFID and NFC products, inlays and tags comprise a significant proportion of our revenues in the Americas region.

Revenues from our Premises and Identity segments in the Americas decreased by approximately 17% and 54%, respectively in the first nine months of 2014 compared with the same period of the previous year. Premises revenue decreases were primarily due to weak first and third quarter 2014 demand for physical access control solutions from federal and state agency customers. The Identity segment experienced strong second and third quarter 2013 sales from U.S. government project completions just prior to the federal government shutdown in October 2013. These sales levels in the Identity segment were not achieved during the 2014 period.

As a general trend, U.S. Federal agencies continue to be subject to security improvement mandates under programs such as Homeland Security Presidential Directive-12 (“HSPD-12”) and reiterated in memoranda from the Office of Management and Budget (“OMB M-11-11”). We believe that our solution for Trusted Premises access remains among the most attractive offerings in the market to help agencies move towards compliance with federal directives and mandates. To expand our sales opportunities in the United States in general and with our U.S. Government customer in particular, we have strengthened our U.S. sales organization and reopened a sales presence in Washington D.C.

Americas region revenues in our Credentials segment in the first nine months of 2014 increased 168% over the first nine months of 2013, primarily due to increased order quantities for electronic game toy pieces, transit ticketing, and other Internet of Things applications. Sales of Premises and Identity products decreased in the Americas region, due both to significant project completions in the prior year period as well as delays in completing significant orders for U.S. Government entities in the second and third quarters of 2014.

**Revenues in Europe, the Middle East, Asia, and Australia.** Revenues in Europe, the Middle East, Asia, and Australia were \$22.9 million in the first nine months of 2014, accounting for 37% of total revenue and down 8% compared with \$24.9 million in the first nine months of 2013. Sales of Identity readers and RFID & NFC products and tags comprise a significant proportion of our revenues in the region.

Revenues from our Identity products increased by approximately 17% in the first nine months of 2014 compared with the same period of the previous year, primarily due to stronger sales of reader terminals and reader products in Europe and Asia-Pacific. Identity readers comprise approximately 42% of the revenues throughout this region in the first nine months of 2014. Revenues from our Credentials products, which comprise approximately 42% of the sales in this region, declined by approximately 26% in the first nine months of 2014 compared with the same period of the previous year, including a decline in Access card sales in the first nine months of 2014. Revenues from our Premises products declined by 5% in the first nine months of 2014 compared with the same period of the previous year, primarily driven by a weaker demand for Controllers used in physical access control solutions.

**Seasonality and Other Factors.** In our business overall, we may experience significant variations in demand for our offerings from quarter to quarter, and typically experience a stronger demand cycle in the second half of our fiscal year. Sales of our premises solutions to U.S. Government agencies are subject to annual government budget cycles

and generally are highest in the third quarter of each year. However, the usual seasonal trend can be negatively impacted by actions such as government shutdowns and the passing of continuing resolutions which can act to delay the completion of certain projects. Sales of our identity reader chips, many of which are sold to government agencies worldwide, are impacted by testing and compliance schedules of government bodies as well as roll-out schedules for application deployments, both of which contribute to variability in demand from quarter to quarter. Further, this business is typically subject to seasonality based on commercial and government budget cycles, with lower sales expected in the first half, and in particular the first quarter of the year, with higher sales typically in the second half of each year.

In addition to the general seasonality of demand, overall U.S. Government expenditure patterns have a significant impact on demand for our products due to the significant portion of revenues that are typically sourced from U.S. Government agencies. Therefore, any significant reduction in U.S. Government spending could adversely impact our financial results and could cause our operating results to fall below any guidance we provide to the market or below the expectations of investors or security analysts.

## Operating Expense Trends

### Base Operating Expenses

Our base operating expenses (i.e., research and development, selling and marketing, and general and administrative spending) increased 1% in the first nine months of 2014 compared with the same period of 2013. Research and development spending was reduced by 3% in the first nine months of 2014 compared with the same period of 2013, mainly due to streamlining of activities, leading to lower payroll costs, travel expenses, as well as lower costs for external services and contractors. Selling and marketing spending in the first nine months of 2014 increased by \$1.9 million, or 13% compared with the first nine months of 2013, due to increased investment in a more robust sales organization and the implementation of a global marketing organization to oversee product management and deliver new marketing programs and resources to support sales. This included the global rebranding of our business to “Identiv” and a related global training initiative for our sales force. General and administrative spending in the first nine months of 2014 fell \$1.4 million or 13% from the same period in the previous year, primarily as a consequence of actions initiated in the fourth quarter of 2013 and the first nine months of 2014 to simplify our business structure and streamline our operations. These actions are further discussed under “Simplification and Streamlining of our Business” below.

### Impairment of Long-lived Assets and Goodwill

In the two years ended December 31, 2013, developments in our business prompted us to perform an interim impairment assessment of our goodwill and long-lived assets, as required under accounting principles generally accepted in the United States of America (“U.S. GAAP”) to determine if a potential impairment exists. The resulting impairment charges negatively affected our net assets and results of operations for the periods in which they are recorded; however, the recording of impairment charges has no impact on our day-to-day operations or liquidity and does not result in any outlay of cash expenditures. There were no indicators of impairment to our goodwill and long-lived assets in the nine months ended September 30, 2014.

### Simplification and Streamlining of our Business

Following the appointment of Mr. Hart as our CEO, we undertook a strategic review of our business and initiated a series of actions to simplify our business structure and streamline our operations. As a consequence of our strategic review in late 2013 and early 2014, we disposed of non-core or under-performing businesses, including our Multicard AG, payment solution AG, Multicard Nederland BV and Multicard U.S. subsidiaries. Additionally, we ceased any additional investment in the Tagtrail mobile services platform. We believe that these divestitures enhance our ability to focus our resources and investments on higher-growth and more profitable global opportunities in the security market. To further simplify our business and streamline our operations, we have restructured our organization to operate as a single, unified company rather than as a group of individual businesses. This restructuring has included the realignment of our management team and our operational activities by function (for example engineering, sales, marketing, customer service and information technology), which allows us to manage key activities on a global basis. With the centralization of various functions, we have also eliminated several redundant positions. Additionally, we completed the process of transferring various functions, such as corporate financial accounting and reporting from Germany to the U.S., in the third quarter of 2014. We will continue to evaluate opportunities to further reduce overhead costs and make more efficient use of our operational resources.

To streamline production and operations in our credentials business, we initiated the closure of our German production plant for RFID and NFC inlays, tags, and labels in Sauerlach to consolidate production in our facility in Singapore. The closure of our Sauerlach location was completed in the second quarter of 2014. We have in the past expanded production capacity with the addition of production and assembly lines at our existing facility in California and via partnerships with external manufacturers, and we are planning to further invest in our card production capabilities. Additionally, we continue to invest in enhancements to our data center infrastructure to support the

expected growth of our cloud service offerings.

33

---

## Restructuring and Severance

During the nine months ended September 30, 2014, certain employees related to non-core functions were terminated and a manufacturing facility was closed with activities consolidated within existing facilities as part of management's efforts to simplify business operations following our strategic review in 2013. As a result, the Company recorded \$2.9 million in restructuring, severance and other closure related costs during the nine months ended September 30, 2014. In addition, the Company recorded an additional \$0.3 million in severance costs during the three and nine months ended September 30, 2014 in general and administrative expenses related to executive position resignations and eliminations in conjunction with recent corporate restructuring and cost reduction activities.

During the third and fourth quarters of 2013, there was a change of the Company's CEO and chief financial officer ("CFO") and certain non-core functions were eliminated, as part of management's efforts to simplify business operations. As a result, the Company recorded \$1.8 million in restructuring and severance costs in its consolidated statements of operations for the year ended December 31, 2013, primarily related to severance paid or accrued for our former CEO, CFO and certain other employees.

## Results of Operations

The amounts for 2013 have been adjusted for divested businesses as discussed in Note 2 Discontinued Operations, in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report. The following table includes segment net revenues and segment net profit information for our Premises, Identity, Credentials and All Other segments and reconciles gross profit to results of continuing operations before income taxes and noncontrolling interest:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
<b>Premises:</b>						
Net revenue	\$4,939	\$6,234	(21 %)	\$13,026	\$15,469	(16 %)
Gross profit	3,047	3,946	(23 %)	8,030	9,875	(19 %)
Gross profit margin	62 %	63 %		62 %	64 %	
<b>Identity:</b>						
Net revenue	3,770	5,010	(25 %)	12,558	14,498	(13 %)
Gross profit	1,943	2,153	(10 %)	6,027	6,291	(4 %)
Gross profit margin	52 %	43 %		48 %	43 %	
<b>Credentials:</b>						
Net revenue	12,834	8,591	49 %	33,166	21,746	53 %
Gross profit	4,317	3,156	37 %	9,719	7,307	33 %
Gross profit margin	34 %	37 %		29 %	34 %	
<b>All Other:</b>						
Net revenue	1,169	1,074	9 %	3,117	3,032	3 %
Gross profit	565	709	(20 %)	1,628	1,253	30 %
Gross profit margin	48 %	66 %		52 %	41 %	
<b>Total:</b>						
Net revenue	22,712	20,909	9 %	61,867	54,745	13 %
Gross profit	9,872	9,964	(1 %)	25,404	24,726	3 %
Gross profit margin	43 %	48 %		41 %	45 %	
<b>Operating expenses:</b>						
Research and development	1,813	1,643	10 %	5,046	5,206	(3 %)
Selling and marketing	5,078	4,527	12 %	15,844	13,972	13 %
General and administrative	3,685	3,845	(4 %)	9,595	11,002	(13 %)
Impairment of long-lived assets	—	178	(100 %)	—	178	(100 %)
Impairment of goodwill	—	10,935	(100 %)	—	10,935	(100 %)
Restructuring and severance	1,825	1,252	46 %	2,874	1,252	130 %
Total operating expenses:	12,401	22,380	(45 %)	33,359	42,545	(22 %)
Loss from operations	(2,529 )	(12,416 )	(80 %)	(7,955 )	(17,819 )	(55 %)
<b>Non-operating income (expense):</b>						
Interest expense, net	(564 )	(387 )	46 %	(3,154 )	(1,603 )	97 %
Foreign currency loss (gain), net	(700 )	284	(346 %)	(952 )	461	(307 %)
Loss from continuing operations						
before income taxes and						
noncontrolling interest	\$(3,793 )	\$(12,519 )	(70 %)	\$(12,061 )	\$(18,961 )	(36 %)

## Revenue

Total revenues in the third quarter of 2014 were \$22.7 million, up 9% compared with \$20.9 million in the third quarter of 2013. For the nine months ended September 30, 2014, total revenues were \$61.9 million, up 13% compared with \$54.7 million for the comparable period for 2013. Total revenues were higher in both periods of 2014 primarily reflecting higher sales in our Credentials segment partially offset by lower sales in our Premises and Identity segments. A more detailed discussion of revenues by segment follows below.

We sell our products to customers in the government, enterprise and commercial markets to address vertical market segments including public services administration, military and defense, law enforcement, healthcare, education, banking, industrial, retail and critical infrastructure.



In our Premises segment, we provide solutions and services that enable the issuance, management and use of secure identity credentials in diverse markets. Our Premises segment includes products to secure buildings via an integrated access control system, and includes MX controllers, Velocity management software and TS door readers. Our modular uTrust MX controllers are designed to be scalable, allowing customers to start with a small system and expand over time. uTrust MX controllers can operate autonomously, whether as a single controller or as part of a networked system with Velocity software. The uTrust Velocity software platform enables centralized management of access and security operations across an organization, including control of doors, gates, turnstiles, elevators and other building equipment, monitoring users as they move around a facility, preventing unwanted access, maintaining compliance and providing a robust audit trail. uTrust door readers provide unique features to support a number of security environments and standards. For example, uTrust Scramblepad readers employ numerical scrambling on the keypad to protect access codes from being stolen as they are entered. uTrust TS readers support the majority of legacy card credentials with a robust next-generation platform that can help companies migrate to more secure credentials and technologies, including smart cards, NFC and government-issued credentials. Because of the complex nature of the problems we address for our Premises solutions customers, pricing pressure is not prevalent in this segment.

Revenues in our Premises segment were \$4.9 million in the third quarter of 2014, a decrease of 21% from \$6.2 million in the third quarter of 2013. In the nine months ended September 30, 2014, revenues in our Premises segment were \$13.0 million, a decrease of 16% from \$15.5 million in the nine months ended September 30, 2013. The decrease in both the three and nine months ended September 30, 2014 primarily was due to lower sales of physical access control solutions in the U.S., resulting from lower overall demand from U.S. Government customers compared to the prior year periods.

In our Identity segment, we offer products to secure enterprise information, including PCs, networks, email encryption, login, and printers via delivery of smart card reader products and identity management via our idOnDemand service. Identiv offers smart card readers - a broad range of contact, contactless and mobile smart card readers, tokens and terminals - to enable logical (i.e., PC, network or data) access and security and identification applications, such as national ID, payment, e-Health and e-Government. Our idOnDemand service can be used to provision (i.e., create and issue) and manage identity credentials.

Revenues in our Identity segment were \$3.8 million in the third quarter of 2014, a decrease of 25% from \$5.0 million in the third quarter of 2013. In the nine months ended September 30, 2014, revenues in our Identity segment were \$12.6 million, a decrease of 13% from \$14.5 million in the nine months ended September 30, 2013. This decrease in Identity segment revenues in both periods in 2014 is primarily the result of strong second and third quarter 2013 sales from U.S. government project completions just prior to the federal government shutdown in October 2013. These sales levels in the Identity segment were not achieved during the 2014 period.

In our Credentials segment, we offer access cards and RFID and NFC products, including cards, inlays, labels, tags and stickers, as well as other RF components. These products are manufactured in our state-of-the-art facility in Singapore and are used in a diverse range of identity-based applications, including electronic entertainment, loyalty schemes, mobile payment, transit and event ticketing. In our RFID and NFC product business, there is a trend towards a higher overall average selling price as we sell a higher proportion of finished tickets and tags in addition to our inlays. The margins for access cards are relatively stable.

Revenues in our Credentials segment were \$12.8 million in the third quarter of 2014, up 49% from \$8.6 million in the third quarter of 2013. In the nine months ended September 30, 2014, revenues in our Credentials segment were \$33.2 million, an increase of 53% from \$21.7 million in the nine months ended September 30, 2013. This growth primarily resulted from higher sales of RFID and NFC products in the U.S. during all quarters of 2014 compared with the previous year, mainly as a result of large orders for electronic game toys.

The All Other segment includes sales of our Chipdrive brand and Digital Media reader products.

Revenues in our All Other segment were \$1.2 million in the third quarter of 2014, up 9% from \$1.1 million in the third quarter of 2013. In the nine months ended September 30, 2014, revenues in our All Other segment were \$3.1 million, relatively flat compared to the nine months ended September 30, 2013.

## Gross Profit

Gross profit for the third quarter of 2014 was \$9.9 million, or 43% of revenues, compared with \$10.0 million or 48% of revenues in the third quarter of 2013. In the nine months ended September 30, 2014, gross profit was \$25.4 million, or 41% of revenues, compared with \$24.7 million, or 45% of revenues in the nine months ended September 30, 2013. Gross profit represents revenues less direct cost of product sales, manufacturing overhead, other costs directly related to preparing the product for sale including freight, scrap, inventory adjustments and amortization, where applicable. Gross profit margins were down in both periods in 2014 primarily related to product mix with significantly higher sales in our lower-margin Credentials segment.

In our Premises segment, gross profit on sales of physical access control solutions, including panels, controllers, and access readers was \$3.0 million and \$3.9 million in the three months ended September 30, 2014 and 2013, respectively, and \$8.0 million and \$9.9 million in the nine months ended September 30, 2014 and 2013, respectively. Gross profit was higher in the nine months ended September 30, 2013 as a direct result of higher sales in the Premises segment during the period. Gross profit margins in the Premises segment were relatively stable in the above periods ranging from 62% to 63% in the three months ended September 30, 2014 and 2013, respectively and 62% to 64% in the nine months ended September 30, 2014 and 2013, respectively.

In our Identity segment, gross profit on sales of information readers and modules as well as cloud-based credential provisioning and management services was \$1.9 million and \$2.2 million in the three months ended September 30, 2014 and 2013, respectively, and \$6.0 million and \$6.3 million in the nine months ended September 30, 2014 and 2013. Gross profit was lower in the three and nine months ended September 30, 2014 as a direct result of lower sales in the Identity segment during the period. Gross profit margins in the Identity segment were higher in the three and nine months ended September 30, 2014, 52% and 48%, respectively, compared to the three and nine months ended September 30, 2013 of 43%, due to product mix with lower volume projects being completed in 2014 with higher margins.

In our Credentials segment, gross profit on sales of RFID & NFC inlays and tags used in electronic entertainment applications was \$4.3 million and \$3.2 million in the three months ended September 30, 2014 and 2013, respectively, and \$9.7 million and \$7.3 million in the nine months ended September 30, 2014 and 2013, respectively. Gross profit was higher in the three and nine months ended September 30, 2014 as a direct result of higher sales of transponders in the Credentials segment during the period. Except for the nine month period ended September 30, 2014, gross profit margins in the Credentials segment were relatively stable in the above periods ranging from 34% to 37%. The margins in the Credentials segment were negatively impacted in the three months ended March 31, 2014 by underutilization of production overhead which reduced margins in the nine months ended September 30, 2014 to 29%.

We expect there will be some variation in our gross profit from period to period, as our gross profit has been and will continue to be affected by a variety of factors, including, without limitation, competition, product pricing, the volume of sales in any given quarter, manufacturing volumes, product configuration and mix, the availability of new products, product enhancements, software and services, risk of inventory write-downs and the cost and availability of components.

## Operating Expenses

Information about our operating expenses for the three and nine months ended September 30, 2014 and 2013 is set forth below.

## Research and Development

Edgar Filing: Identiv, Inc. - Form 10-Q

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Research and development	\$1,813	\$1,643	10 %	\$5,046	\$5,206	(3 %)
as a % of net revenue	8 %	8 %		8 %	10 %	

Research and development expenses consist primarily of employee compensation and fees for the development of hardware, software and firmware products. We focus the bulk of our research and development activities on the continued development of existing products and the development of new offerings for emerging market opportunities.

Edgar Filing: Identiv, Inc. - Form 10-Q

Research and development expenses were \$1.8 million in the third quarter of 2014, representing 8% of revenue, which increased 10% from \$1.6 million, or 8% of revenue from the third quarter of 2013. In the nine months ended September 30, 2014, research and development expenses were \$5.0 million, representing 8% of revenue which was down 3% from \$5.2 million, or 10% of revenue in the nine months ended September 30, 2013. Higher research and development expenses in the third quarter of 2014 resulted mainly from higher external service costs and higher stock award compensation in the period from new stock award grants. Lower research and development expenses in the first nine months of 2014 resulted mainly from the streamlining of activities resulting in lower headcount, movement of employees to other functional areas as well as lower material costs resulting from a consolidation of the number of research and development projects. Key investment areas during the first nine months of 2014 were trust solutions for premises and information, including continued development of our uTrust TS readers, our cloud-based credential provisioning and management services and the extension of our physical access control offering to meet the requirements of U.S. government FICAM standards. We expect these projects to continue during the next several quarters.

Selling and Marketing

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Selling and marketing	\$5,078	\$4,527	12 %	\$15,844	\$13,972	13 %
as a % of net revenue	22 %	22 %		26 %	26 %	

Selling and marketing expenses consist primarily of employee compensation as well as amortization expense of certain intangible assets, customer lead generation activities, tradeshow participation, advertising and other marketing and selling costs. We focus a significant proportion of our sales and marketing activities on traditional as well as new and emerging market opportunities.

Selling and marketing expenses were \$5.1 million in third quarter of 2014, comprising 22% of revenue, an increase of 12% from \$4.5 million, or 22% of revenue in the third quarter of 2013. In the nine months ended September 30, 2014, selling and marketing expenses were \$15.8 million, representing 26% of revenue which was up 13% from \$14.0 million, or 26% of revenue in the nine months ended September 30, 2013. The increase represents the hiring of new sales management and additional sales and marketing personnel in late 2013 and nine months of 2014 as well as the movement of employees to sales and marketing from other functional areas during 2014 to strengthen our sales and marketing capabilities in the U.S.

General and Administrative

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
General and administrative	\$3,685	\$3,845	(4 %)	\$9,595	\$11,002	(13 %)
as a % of net revenue	16 %	18 %		16 %	20 %	

General and administrative expenses consist primarily of compensation expense for employees performing administrative functions as well as professional fees arising from legal, auditing and other consulting services.

General and administrative expenses in third quarter of 2014 were \$3.7 million, or 16% of revenue, compared with \$3.8 million, or 18% of revenue in third quarter of 2013, a decrease of 4%. In the nine months ended September 30, 2014, general and administrative expenses were \$9.6 million, representing 16% of revenue which was down 13% from \$11.0 million, or 20% of revenue in the nine months ended September 30, 2013. This decrease primarily resulted from savings achieved through our actions initiated in the third quarter of 2013 to streamline operations and refocus the company.

Restructuring and Severance Charges

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2014	2013	% Change	2014	2013	% Change	
Restructuring and severance	\$1,825	\$1,252	46	% \$2,874	\$1,252	130	%

During the first nine months of 2014, certain employees related to non-core functions were terminated, the process of transferring corporate financial accounting and reporting from Germany to the U.S. was completed and certain manufacturing facilities were closed with activities consolidated within existing facilities as part of management's efforts to simplify business operations following our strategic review in 2013. As a result, we recorded restructuring and severance charges of \$1.8 million and \$2.9 million primarily related to restructuring, severance and other closure related costs during the three and nine months ended September 30, 2014, respectively. During the three and nine months ended September 30, 2013, there was a change of CEO and, as part of management's efforts to simplify business operations, certain non-core functions were eliminated resulting in restructuring costs of \$1.3 million, primarily related to severance paid or accrued for our former CEO and certain other employees.

See Note 12 Restructuring and Severance, of the accompanying Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report for more information.

#### Interest Expense, Net

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2014	2013	% Change	2014	2013	% Change	
	Interest expense, net	\$564	\$387	46	% \$3,154	\$1,603	97

Interest expense, net consists of interest on financial liabilities and interest accretion expense for a liability to a former related party arising from our acquisition of Hirsch, offset by interest earned on invested cash. We recorded net interest expense of \$0.6 million and \$0.4 million in the three months ended September 30, 2014 and 2013, respectively, and \$3.2 million and \$1.6 million in the nine months ended September 30, 2014 and 2013, respectively, in our condensed consolidated statements of operations. Higher net interest expense in the nine months ended September 30, 2014 is due to our entry into a bank term loan and revolving loan facility on March 31, 2014 with Opus Bank ("Opus") and repayment of all outstanding amounts under the secured debt facility with Hercules. In connection with the repayment of our secured debt facility with Hercules Technology Growth Capital, Inc. ("Hercules"), we recorded a \$1.6 million charge to interest expense during the nine months ended September 30, 2014 in our condensed consolidated statement of operations. The \$1.6 million charge to interest expense included \$0.9 million related to write-off of deferred costs, \$0.6 million related to write-off of discounts on the secured note and \$0.1 million related to prepayment fees as stipulated in the Hercules agreement and forfeiture of facility charge paid at the inception of the agreement.

See Note 8 Related-Party Transactions, in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements, and Note 9 Financial Liabilities, in the Notes to Unaudited Condensed Consolidated Financial Statements of this Quarterly Report for more detailed information.

#### Foreign Currency Loss, Net

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2014	2013	% Change	2014	2013	% Change	
	Foreign currency loss (gain),	\$700	\$(284)	(346	%) \$952	\$(461)	(307

net

We recorded net foreign currency losses of \$0.7 million and \$1.0 million during the three and nine months ended September 30, 2014, respectively. We recorded net foreign currency gains of \$0.3 million and \$0.5 million during the three and nine months ended September 30, 2013, respectively. Changes in currency valuation in the periods mainly were the result of exchange rate movements between the U.S. dollar and the euro and the British pound and their impact on the valuation of intercompany transaction balances. Accordingly, they are predominantly non-cash items. Our foreign currency gains and losses primarily result from the valuation of current assets and liabilities denominated in a currency other than the functional currency of the respective entity in the local financial statements.

## Income Taxes

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Income tax provision	\$94	\$363	(74 %)	\$149	\$256	(42 %)
Effective tax rate	(2 %)	(3 %)		(1 %)	(1 %)	

39



As of September 30, 2014, our deferred tax assets are fully offset by a valuation allowance except in those jurisdictions where it is determined that a valuation allowance is not required. ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which includes historical operating performance, reported cumulative net losses since inception and difficulty in accurately forecasting our future results, we provided a full valuation allowance against our net U.S. deferred tax assets and a partial valuation allowance against our foreign deferred tax assets. We reassess the need for our valuation allowance on a quarterly basis. If it is later determined that a portion or all of the valuation allowance is not required, it generally will be a benefit to the income tax provision in the period such determination is made. The Company does not anticipate a material change in the total amount or composition of its unrecognized tax benefits within 12 months of September 30, 2014.

We recorded an income tax provision of \$0.1 million during the three and nine months ended September 30, 2014 and an income tax provision of \$0.4 million and \$0.3 million during the three and nine months ended September 30, 2013.

The effective tax rates for the nine month periods ended September 30, 2014 and September 30, 2013 differ from the federal statutory rate of 34% primarily due to a change in valuation allowance and, the benefit of taxable earnings in certain foreign jurisdictions, which are subject to lower tax rates.

#### Discontinued Operations

In November 2013, we committed to a plan to sell our Multicard U.S. business and completed the sale of this business on February 4, 2014. In December 2013, we completed the sale of our Multicard AG business in Switzerland, our payment solution AG business in Germany and our Multicard Nederland BV business in Netherland. In December 2013, we completed the sale of our German Multicard GmbH subsidiary to an employee. Additionally, we entered into an asset purchase agreement to sell certain non-core assets related to one of our subsidiaries to a former employee in June 2014 and completed the sale of these non-core assets in July 2014. All of these businesses (collectively, our “divested businesses”) have been accounted for as discontinued operations in our condensed consolidated statements of operations. As a result, all periods presented in the accompanying condensed consolidated statements of operations have been reclassified to conform to the current period presentation.

Revenue for the divested businesses was \$0.0 million and \$1.3 million during the three and nine month periods ended September 30, 2014, respectively and \$5.4 million and \$16.2 million during the three and nine month periods ended September 30, 2013, respectively. Income from discontinued operations before income taxes was \$0.0 million and \$0.5 million during the three and nine months ended September 30, 2014 and loss from discontinued operations before income taxes was \$12.7 million and \$14.4 million during the three and nine months ended September 30, 2013, primarily as a result of an impairment of goodwill in the period related to discontinued businesses.

See Note 2 Discontinued Operations, in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report for more information.

#### Liquidity and Capital Resources

As of September 30, 2014, our working capital, which we have defined as current assets less current liabilities, was \$46.1 million, an increase of \$37.6 million compared to \$8.5 million as of December 31, 2014. The increase in working capital reflects a \$14.3 million net draw on our Credit Agreement with Opus Bank less lender fees of approximately \$0.2 million which was partially offset by the repayment of principal owed and lender fees on our Secured Debt Facility with Hercules of approximately \$6.6 million. Additional sources of working capital during the nine months ended September 30, 2014 included \$32.0 million in net proceeds from our public offering completed during the period, \$4.2 million from the sale of common shares to Lincoln Park Capital Fund, LLC (“LPC”) and \$1.4

million in net proceeds from the sale of non-core entities. The sources of working capital in the period were partially offset by \$1.2 million in expenditures on property and equipment as well as a reduction in net assets within opening working capital of \$1.0 million related to the sale of non-core entities. As of September 30, 2014, our cash balance was \$41.1 million.

Edgar Filing: Identiv, Inc. - Form 10-Q

The following summarizes our cash flows for the nine months ended September 30, 2014 and 2013 (in thousands):

	Nine Months Ended September 30,	
	2014	2013
Net cash used in operating activities	\$(9,272 )	\$(2,097)
Net cash provided by (used in) in investing activities	236	(1,456)
Net cash provided by (used in) financing activities	44,140	6,255
Effect of exchange rates on cash	911	(539 )
Net decrease in cash	36,015	2,163
Cash of continuing operations, at beginning of period	5,095	6,109
Add: Cash of discontinued operations, at beginning of period	16	1,269
Less: Cash of discontinued operations, at end of period	—	2,710
Cash of continuing operations, at end of period	\$41,126	\$6,831

Significant commitments that will require the use of cash in future periods include obligations under operating leases, liability to a related party, secured note and revolver, purchase commitments and other obligations. Gross committed operating lease obligations are \$4.3 million, liability to a former related party is \$8.4 million, the bank term loan, revolving loan facility and interest related obligation is \$15.9 million, and purchase commitments and other obligations are \$5.5 million at September 30, 2014. Total commitments due within one year are \$10.9 million and due thereafter are \$23.2 million at September 30, 2014. These commitment levels are based on existing terms of our operating leases, obligations with suppliers, a liability to a former related party and an existing credit agreement with Opus as of September 30, 2014. The payment terms and interest obligations under our existing credit agreement with Opus have changed subsequent to September 30, 2014 and are discussed more fully below.

Cash provided by investing activities primarily reflects \$1.4 million in cash proceeds from the sale of discontinued operations, partially offset by \$1.2 in capital expenditures.

Cash provided by financing activities primarily reflects \$14.3 million net cash proceeds from borrowings of debt, less repayments with Opus Bank in the nine months ended September 30, 2014 and \$36.2 million net cash proceeds from a capital raise and public offering, partially offset by cash payments of \$7.2 million for financial liabilities related to a debt facility repaid in full on March 31, 2014.

We consider the undistributed earnings of our foreign subsidiaries, if any, as of September 30, 2014, to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. Generally most of our foreign subsidiaries have accumulated deficits and cash positions held outside the U.S. are typically not cash generated from earnings that would be subject to tax upon repatriation if transferred to the U.S. We have access to the cash held outside the United States to fund domestic operations and obligations without any material income tax consequences. As of September 30, 2014, the amount of cash held at such subsidiaries was \$1.9 million. We have not, nor do we anticipate the need to, repatriate funds to the U.S. to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

On October 30, 2012, we entered into a Loan and Security Agreement (the “Loan Agreement”) with Hercules. The Loan Agreement provided for a term loan in aggregate principal amount of up to \$10.0 million with an initial drawdown of \$7.5 million. The initial drawdown of \$7.5 million was secured by a Secured Term Promissory Note dated October 30, 2012 (the “Secured Note”). As discussed below, the Company repaid all outstanding amounts under its Loan Agreement with Hercules in connection with the closing of the Credit Agreement with Opus. See Note 9

Financial Liabilities in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report for more information.

On April 16, 2013, we entered into a purchase agreement (the “Purchase Agreement”) with LPC, pursuant to which we have the right to sell to LPC up to \$20 million in shares of our common stock, subject to certain limitations and conditions set forth in the Purchase Agreement. Pursuant to the Purchase Agreement, LPC initially purchased 175,438 shares (split adjusted) of common stock for a net consideration of \$1.5 million on April 17, 2013. Thereafter, on any business day and as often as every other business day over the 36-month term of the Purchase Agreement, and up to an aggregate amount of an additional \$18 million (subject to certain limitations) in shares of common stock, we had the right, from time to time, at our sole discretion and subject to certain conditions to direct LPC to purchase up to 10,000 shares (split adjusted) of common stock. Subsequent to the initial purchase, we directed LPC to purchase 250,000 shares of common stock from April 17, 2013 through December 31, 2013 for a net consideration of \$1.9 million and 496,500 shares of common stock from January 1, 2014 through September 30, 2014 for a net consideration of \$4.2 million. See Note 4 Stockholders’ Equity of Identiv, in the accompanying Notes to Unaudited Consolidated Financial Statements in this Quarterly Report for more information.

On August 14, 2013, we issued 834,847 shares (split adjusted) of our common stock, in a private placement, at a price of \$8.50 per share (split adjusted) and warrants to purchase an additional 834,847 shares (split adjusted) of common stock at an exercise price of \$10.00 per share (split adjusted) to accredited and other qualified investors (the “Investors”), for aggregate gross consideration of \$7.1 million. The private placement was made pursuant to definitive subscription agreements between the Company and each Investor. We engaged a placement agent in connection with private placement outside the U.S. See Note 4 Stockholders’ Equity of Identiv, in the accompanying Notes to Unaudited Consolidated Financial Statements in this Quarterly Report for more information.

On March 31, 2014, we entered into a Credit Agreement (the “Credit Agreement”) with Opus. The Credit Agreement provides for a term loan in aggregate principal amount of \$10.0 million (“Term Loan”) which was drawn down on March 31, 2014, and an additional \$10.0 million revolving loan facility (“Revolving Loan Facility”), of which \$4.0 million was drawn down on March 31, 2014 and an additional \$2.0 million was drawn down during the three months ended June 30, 2014. In connection with the closing of the Credit Agreement, the Company prepaid all outstanding amounts under its Loan Agreement, as amended from time to time with Hercules. The proceeds of the Term Loan and the initial loans under the Revolving Loan Facility, after payment of fees to Opus and expenses and all outstanding amounts under the Loan Agreement with Hercules, were approximately \$7.8 million. The obligations of the Company under the Credit Agreement are secured by substantially all assets of the Company. See Note 9 Financial Liabilities, in the accompanying Notes to Unaudited Consolidated Financial Statements in this Quarterly Report for more information. On November 10, 2014, the Company entered into an amendment to its Credit Agreement with Opus which changes a number of terms of the Credit Agreement including interest charged, the monthly installment payment schedule, the maximum amount available under the revolving loan facility and the maturity date as well as certain other terms and conditions. For additional information concerning the amendment of the Credit Agreement, see Note 14 Subsequent Events, in the accompanying Notes to Unaudited Consolidated Financial Statements in this Quarterly Report

On September 16, 2014, the Company entered into an underwritten public offering of 2,000,000 shares of its common stock at a public offering price of \$15.00 per share and also granted the underwriter a 30-day option to purchase up to an additional 300,000 shares of common stock to cover overallocments, if any (the “Public Offering”). The Public Offering was made pursuant to an effective shelf registration statement on Form S-3 (Registration No. 333-195702), filed with the SEC in accordance with the provisions of the Securities Act of 1933, as amended, and declared effective on May 14, 2014, and the prospectus supplement thereto dated September 11, 2014. The Company received net proceeds of approximately \$31.6 million from the sale of 2,300,000 shares of common stock in the Public Offering, after deducting the underwriting discount and estimated offering expenses payable by us. See Note 4 Stockholders’ Equity of Identiv, in the accompanying Notes to Unaudited Consolidated Financial Statements in this Quarterly Report for more information.

We have historically incurred operating losses and negative cash flows from operating activities, and we expect to continue to incur losses for the foreseeable future. As of September 30, 2014, we have a total accumulated deficit of \$332.5 million. During the nine months ended September 30, 2014, we sustained a consolidated net loss of \$11.6 million. The loss for the period included income from discontinued operations of \$0.5 million. We expect to use a significant amount of cash in our operations over the next twelve months for our operating activities and servicing of financial liabilities, including increased investment in marketing and sales capabilities to drive revenue growth, and continued investment in our cloud-based services, physical access control solutions, smart card reader products and RFID and NFC products.

Our consolidated financial statements have been prepared assuming that we will continue as a going concern. This assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Our continuation as a going concern is contingent upon our ability to generate revenues and cash flows to meet our obligations on a timely basis and our ability to raise financing or dispose of certain noncore assets as required. Our plans may be adversely impacted if we fail to realize our assumed levels of revenues and expenses or savings from our cost reduction activities. If events, such as reductions or delays in spending under various federal budget programs,

cause a significant adverse impact on our revenues, expenses or savings from our cost reduction activities, we may need to delay, reduce the scope of, or eliminate one or more of our development programs or obtain funds through collaborative arrangements with others that may require us to relinquish rights to certain of our technologies, or programs that we would otherwise seek to develop or commercialize ourselves, and to reduce personnel related costs. We believe our recent raising of funds through public and private offerings of equity securities and the increase in our line of credit and change in terms in our amendment to our Credit Agreement with Opus provides sufficient working capital to fund operations and continue as a going concern for the next 12 months.

#### Off-Balance Sheet Arrangements

We have not entered into off-balance sheet arrangements, or issued guarantees to third parties.

## Contractual Obligations

The following summarizes expected cash requirements for contractual obligations as of September 30, 2014 (in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	\$4,264	\$ 1,544	\$2,315	\$405	\$—
Liability to related party	8,450	1,148	2,435	2,633	2,234
Bank term loan and revolving loan facility	15,893	2,921	12,972	—	—
Purchase commitments and other obligations	5,515	5,332	183	—	—
Total obligations	\$34,122	\$ 10,945	\$ 17,905	\$3,038	\$2,234

Our liability to related party was acquired in connection with our acquisitions of Hirsch. See Note 8 Related-Party Transactions, in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report for more information about this liability listed in the table above.

The bank term loan and revolving loan facility relates to the existing terms at September 30, 2014 of a credit agreement we entered into with Opus Bank on March 31, 2014. The amounts above include payments to be made for principal and interest in accordance with the existing terms as of September 30, 2014. See Note 9 Financial Liabilities, in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report for more information about the financing liabilities listed in the table above and Note 14 Subsequent Events for additional information on an amendment of the Credit Agreement entered into subsequent to September 30, 2014.

The Company leases its facilities, certain equipment, and automobiles under non-cancelable operating lease agreements. Purchases for inventories are highly dependent upon forecasts of customer demand. Due to the uncertainty in demand from our customers, we may have to change, reschedule, or cancel purchases or purchase orders from our suppliers. These changes may lead to vendor cancellation charges on these orders or contractual commitments. See Note 14 Commitments and Contingencies, in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report for more information about operating leases, purchase commitments and other obligations listed in the table above.

The Company's other long-term liabilities include gross unrecognized tax benefits, and related interest and penalties. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years in connection with these tax liabilities. Accordingly, such amounts are not included in the contractual obligation table above.

## Critical Accounting Policies and Estimates

Our condensed consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to establish accounting policies that contain estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. These policies relate to revenue recognition, inventory, income taxes, goodwill, intangible and long-lived assets and stock-based compensation. We have other important accounting policies and practices; however, once adopted, these other policies either generally do not require us to make significant estimates or assumptions or otherwise only require implementation of the adopted policy and not a judgment as to the policy itself. Management bases its estimates and judgments on historical experience and on various other factors that we believe to be reasonable under

the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Despite our intention to establish accurate estimates and assumptions, actual results may differ from these estimates under different assumptions or conditions.

During the nine months ended September 30, 2014, management believes there have been no significant changes to the items that we disclosed within our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2013.

#### Recent Accounting Pronouncements

See Note 1 in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report for a full description of recent accounting pronouncements, which is incorporated herein by reference.



### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in our exposure to market risk during the nine months ended September 30, 2014. For discussion of the Company's exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Attached as exhibits to this report are certifications by our principal executive officer and principal financial officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This "Controls and Procedures" section includes information concerning the controls and related evaluations referred to in the certifications and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

As of the end of the period covered in this report, we carried out an evaluation, as required in Rule 13a-15(b) under the Exchange Act, under the supervision and with the participation of members of our senior management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act.

Based on that evaluation, our principal executive officer and principal financial officer concluded that, due to the material weakness in our control over financial reporting as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, our internal disclosure controls and procedures were not effective as of the end of the period covered by this report.

Based on additional analysis and other post-closing procedures designed to ensure that our unaudited condensed consolidated financial statements will be presented in accordance with U.S. GAAP, management believes, notwithstanding the material weakness, that the unaudited condensed consolidated financial statements included in this report fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

#### Remediation of Material Weakness

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, our management identified a material weakness in our internal control over financial reporting as of December 31, 2013, namely that we had an insufficient review and oversight of the recording of complex and non-routine transactions due to an insufficient number of accounting personnel with appropriate knowledge, experience or training in U.S. GAAP.

Management has developed and implemented a remediation plan to address this material weakness during 2014. Remediation efforts currently in process or implemented during 2014 include the following:

- Hiring additional accounting personnel at the corporate level with experience in U.S. GAAP accounting;
- Consolidation of corporate finance and operations functions in the Santa Ana, Orange County office; and
- Revising, as appropriate, the Company's internal Sarbanes-Oxley resources, testing programs and schedule.

Management has developed a timetable for the implementation of the foregoing remediation efforts and will monitor the implementation. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of the Company's internal control environment, as well as to policies and

procedures to improve the overall effectiveness of internal control over financial reporting. Management believes the foregoing efforts will effectively remediate the material weakness. However, the material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively, which we expect to occur within the current fiscal year.

#### Changes in Internal Controls over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except for the ongoing remediation efforts management commenced in the first quarter of 2014 related to the above described material weakness.

A control system, no matter how well designed and operated, can only provide reasonable assurances that the objectives of the control system are met. Because there are inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or will be detected.

## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we could be subject to claims arising in the ordinary course of business or be a defendant in lawsuits. While the outcome of such claims or other proceedings cannot be predicted with certainty, our management expects that any such liabilities, to the extent not provided for by insurance or otherwise, will not have a material effect on our financial condition, results of operations or cash flows.

### Item 1A. Risk Factors

Our business and results of operations are subject to numerous risks, uncertainties and other factors that you should be aware of, some of which are described below. The risks, uncertainties and other factors described in these risk factors are not the only ones facing our company. Additional risks, uncertainties and other factors not presently known to us or that we currently deem immaterial may also impair our business operations. Any of the risks, uncertainties and other factors could have a materially adverse effect on our business, financial condition, results of operations, cash flows or product market share and could cause the trading price of our common stock to decline substantially.

Our revenues and operating results are subject to significant fluctuations and such fluctuations may lead to a reduced market price for our stock.

Our revenues and operating results have varied in the past and will likely continue to fluctuate in the future. We believe that period-to-period comparisons of our operating results are not necessarily meaningful, but securities analysts and investors often rely upon these comparisons as indicators of future performance. If our operating results in any future period fall below the expectations of securities analysts and investors, or the guidance that we provide, the market price of our securities would likely decline.

Factors that have caused our results to fluctuate in the past and which are likely to affect us in the future include the following:

- business and economic conditions overall and in our markets;
- the timing and size of customer orders that may be tied to annual or other budgetary cycles, seasonal demand, product plans or program roll-out schedules;
- the effects of the U.S. Government sequester and other changes in budget allocation or availability that create uncertainty for customers in certain parts of our business;
- the absence of significant backlog in our business;
- cancellations or delays of customer orders or the loss of a significant customer;
- the length of sales cycles associated with our product or service offerings;
- variations in the mix of products and services we sell;
- reductions in the average selling prices that we are able to charge due to competition or other factors;
- our ability to obtain an adequate supply of quality components and to deliver our products on a timely basis;
- our inventory levels and the inventory levels of our customers and indirect sales channels;
- the extent to which we invest in development, sales and marketing, and other expense categories;
- strategic acquisitions, dispositions or organizational restructuring;
- fluctuations in the value of foreign currencies against the U.S. dollar;
- the cost or impact of litigation; and

·the write-off of investments or goodwill.

45

---

Estimating the amount and mix of future revenues is difficult, and our failure to do so accurately could affect our ability to be profitable or reduce the market price for our stock.

Accurately estimating future revenues is difficult because the purchasing patterns of our customers vary depending upon a number of factors. We sell our smart card readers primarily through a channel of distributors who place orders on an ongoing basis depending on their customers' requirements. As a result, the size and timing of these orders can vary from quarter to quarter. The increasing market demand for RFID and NFC technology is resulting in larger program deployments of these products and components, as well as increasing competition for these solutions. Across our business, the timing of closing larger orders increases the risk of quarter-to-quarter fluctuation in revenues. If orders forecasted for a specific group of customers for a particular quarter are not realized or revenues are not otherwise recognized in that quarter, our operating results for that quarter could be materially adversely affected. In addition, from time to time, we may experience an unexpected increase or decrease in demand for our products resulting from fluctuations in our customers' budgets, purchasing patterns or deployment schedules. These occurrences are not always predictable and can have a significant impact on our results in the period in which they occur.

Failure to accurately forecast customer demand may result in excess or obsolete inventory, which if written down might adversely impact our cost of revenues and financial condition.

In addition, our expense levels are based, in significant part, upon our expectations as to future revenues and are largely fixed in the short term. We may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenues. Any significant shortfall in revenues in relation to our expectations could have an immediate and significant effect on our ability to achieve profitability for that quarter and may lead to a reduced market price for our stock.

Our loan covenants may affect our liquidity or limit our ability to incur debt, make investments, sell assets, merge or complete other significant transactions.

In March 2014, we entered into a Senior Secured Credit Facility Agreement with Opus Bank. The loan agreement includes provisions that place limitations on a number of our activities, including our ability to incur additional debt, create liens on our assets or make guarantees, make certain investments or loans, pay dividends or dispose of or sell assets or enter into a merger or similar transaction. The loan agreement also contains financial covenants that require the Company to achieve certain levels of financial performance as measured periodically in terms of our tangible net worth, EBITDA, and specific asset levels as they relate to outstanding debt. If an event of default in such covenants occurs and is continuing, the lender may, among other things, accelerate the loan and seize collateral or take other actions of a secured creditor. If the loan is accelerated, we could face a substantial liquidity problem and may be forced to dispose of material assets or operations, seek to obtain equity capital, or restructure or refinance our indebtedness. Such alternative measures may not be available or successful. Also, our loan covenants may limit our ability to dispose of material assets or operations or to restructure or refinance our indebtedness. Even if we are able to restructure or refinance our indebtedness, the economic terms may not be favorable to us. All of the foregoing could have serious consequences to our financial condition and results of operations. Our ability to generate cash to meet scheduled payments with respect to our debt depends on our financial and operating performance, which in turn, is subject to prevailing economic and competitive conditions and the other factors discussed in this Risk Factors section. If our cash flow and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and may be forced to dispose of material assets or operations, seek to obtain equity capital, or restructure or refinance our indebtedness as noted above. Such alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

If we are not able to secure additional financing when needed, our business could be adversely affected.

We may seek or need to raise additional funds for general corporate and commercial purposes or for acquisitions. Our ability to obtain financing depends on our historical and expected future operating and financial performance, and is

also subject to prevailing economic conditions and to financial, business and other factors beyond our control. If we are unable to secure additional financing when desired, our ability to make capital expenditures, pursue additional expansion or acquisition opportunities, or make other discretionary uses of cash could be limited, and this could adversely impact our financial results. There can be no assurance that additional capital will be available to us on favorable terms or at all. The sale of additional debt or equity securities may cause dilution to existing stockholders.

Acquisitions and strategic investments expose us to significant risks.

From time to time we may seek to acquire or make investments in companies, products or technologies that we believe complement or augment our existing business, product offerings or technology portfolio. Acquiring and integrating acquired assets into our business exposes us to certain risks.

Executing acquisition or investment transactions and assimilating personnel and operations from an acquired business may require significant attention and resources, which may divert the attention of our management and employees from day-to-day operations and disrupt our business. This may adversely impact our results of operations.

The costs associated with acquisitions may be significant, whether or not the acquisition transaction is successfully concluded. As a result, acquisition activities may reduce the amount of capital available to fund our business. To purchase another company, we may issue additional equity securities, which could dilute the value of our stockholders' shares. Acquisitions may result in the assumption of additional liabilities or debt, including unanticipated liabilities, or charges to earnings for such items as amortization of purchased intangibles or in-process research and development expenses. Such liabilities, indebtedness or charges could result in material and adverse impact with respect to our financial condition and results of operations. Acquisitions and strategic investments may also lead to substantial increases in non-current assets, including goodwill. Write-downs of these assets due to unforeseen business developments may materially and adversely impact our financial condition and results of operations.

Additionally, we have in the past acquired companies that we have since divested. In January 2010, we acquired Bluehill ID which had Swiss Multicard AG, Dutch Multicard Nederland BV and German Multicard GmbH as its 100% subsidiaries at the time of acquisition. These businesses were divested in December 2013. In April 2010, we acquired RockWest Technology Group LLC, a privately held U.S. Company that provides ID management solutions and services to the education, government, corporate, casino and healthcare markets in the U.S. This business was divested in February 2014. In July 2011, we acquired polyright SA, a privately-held provider of identity management platforms and open-ended rights and services management solutions for higher education, healthcare and industry, based in Switzerland. Effective January 2013, polyright was merged with its parent company Multicard AG. This business was divested as part of our sale of Multicard AG in December 2013. In January 2012, we acquired payment solution AG, a privately-held German company that provides cashless payment solutions for stadiums, arenas and other event venues. This business was divested in December 2013. We may in the future be required to divest other parts of our business. Divestment of businesses in this fashion could result in the loss of operational capacity and goodwill, which could materially and adversely impact our financial condition and results of operations.

Despite our best efforts, we may fail to realize the anticipated benefits of acquisitions or investments we make, which could have a material adverse effect on our financial condition and results of operations.

We may not fully realize the anticipated positive impacts to future financial results from our restructuring efforts.

We have recently realigned our organizational structure to operate as a single, unified company rather than as a group of individual businesses and have reorganized our management team and our operational activities by function (e.g., engineering, sales, marketing, customer service and information technology). These restructuring efforts were undertaken to streamline operations and reduce operating expenses. Our ability to achieve the anticipated cost savings and other benefits from our restructuring efforts within expected time frames is subject to many estimates and assumptions, and may vary materially based on factors such as market conditions and the effect of our restructuring efforts on our work force. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. There can be no assurance that we will fully realize the anticipated positive impacts to future financial results from our current or future restructuring efforts. If our estimates and assumptions are incorrect or if other unforeseen events occur, we may not achieve the cost savings expected from such restructurings, and our business and results of operations could be adversely affected.

Our business and reputation may be impacted by information technology system failures or network disruptions.

We may be subject to information technology system failures and network disruptions. These may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or other events or disruptions. System redundancy may be ineffective or inadequate, and our disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions

could compromise company or customer data, and result in delayed or cancelled orders. System failures and disruptions could also impede the manufacturing and shipping of products, delivery of online services, transactions processing and financial reporting.

Our success depends largely on the continued service and availability of key personnel.

Much of our future success depends on the continued availability and service of key personnel, including our chief executive officer, executive team and other highly skilled employees. Experienced personnel in the technology industry are in high demand and competition for their talents is intense, especially in Silicon Valley, where most of our key personnel are located.



Our business could be adversely affected by reductions or delays in the purchase of our products or services for government security programs in the United States and other countries.

We derive a substantial portion of our revenues from indirect sales to U.S. federal, state and local governments and government agencies, as well as from subcontracts under federal government prime contracts. Large government programs are an important market for our business, as high-security systems employing physical access, smart card, RFID or other access control technologies are increasingly used to enable applications ranging from authorizing building and network access for federal employees to paying taxes online, to citizen identification, to receiving health care. We believe that the success and growth of our business will continue to be influenced by our successful procurement of government business either directly or through our indirect sales channels. Accordingly, changes in government purchasing policies or government budgetary constraints could directly affect our financial performance. Sales to government agencies and customers primarily serving the U.S. Government, including further sales pursuant to existing contracts, may be adversely affected by factors outside our control, such as the sequester, the October 2013 federal government shutdown or other Congressional actions to reduce federal spending, and by adverse economic, political or market conditions. A reduction in current or future anticipated sales to the U.S. Government sector could harm our results of operations.

Additionally, we anticipate that an increasingly significant portion of our future revenues will come from government programs outside the U.S., such as electronic national identity, eGovernment and eHealth. We currently supply smart card readers, RFID products and cloud-based credential provisioning and management solutions for various government programs in Europe, Asia and Australia and are actively targeting additional programs in these and other areas. However, the allocation and availability of budgets for such programs are often impacted by economic or political factors over which we have no control, and which may cause delays in program implementation, which could negatively impact our sales and results of operations.

Our revenues may decline if we cannot compete successfully in an intensely competitive market.

We target our products at the rapidly evolving market for security technologies. Many of our current and potential competitors have significantly greater financial, technical, marketing, purchasing and other resources than we do. As a result, our competitors may be able to respond more quickly to new or emerging technologies or standards and to changes in customer requirements. Our competitors may also be able to devote greater resources to the development, promotion and sale of products or solutions and may be able to deliver competitive products or solutions at a lower end user price.

We also experience indirect competition from certain of our customers who currently offer alternative products or solutions or are expected to introduce competitive offerings in the future. For example, in our physical access control business, many of our dealer channel partners act as system integrators, providing installation and service, and therefore carry competitive lines of products and systems. This is a common practice within the industry as the integrators need access to multiple lines in order to support all potential service and user requirements. Depending on the technical competence of their sales forces, comfort level of their technical staff with our systems and price pressure from customers, these integrators may choose to offer a competitive system. There is also business pressure to provide some level of sales to all vendors to maintain access to a range of products and systems.

We believe that the principal competitive factors affecting the markets for our products and solutions include:

- the extent to which products and systems must support evolving industry standards and provide interoperability;
- the extent to which products are differentiated based on technical features, quality and reliability, ease of use, strength of distribution channels and price;
- the ability to quickly develop new products and solutions to satisfy new market and customer requirements; and
- the total cost of ownership including installation, maintenance and expansion capability of systems.

Increased competition and increased market volatility in our industry could result in lower prices, reduced margins or the failure of our products and services to achieve or maintain market acceptance, any of which could have a serious adverse effect on our business, financial condition and results of operations.

Our business will not be successful if we do not keep up with the rapid changes in our industry.

The market for security products and related services is characterized by rapid technological developments, frequent new product introductions and evolving industry standards. To be competitive, we have to continually improve the performance, features and reliability of our products and services, particularly in response to competitive offerings, and quickly demonstrate the value of new products and services or enhancements to existing products and services. Our failure to develop and introduce new products and services successfully on a timely basis and to achieve market acceptance for such products and services could have a significant adverse effect on our business, financial condition and results of operations.

Our increasing focus on cloud-based services presents execution and competitive risks.

An important component of our growth strategy involves the sale of our idOnDemand cloud-based services to deliver identity credential provisioning and management solutions. The market for cloud-based credentialing solutions is at an early stage of development. Customer knowledge of, and trust in the cloud-based delivery of credentialing solutions greatly depends upon suppliers' ability to demonstrate the value, security and reliability of their offerings compared both to competitive services and to traditional models of managing identity credentials. We believe our expertise in cloud-based service delivery, our broad experience with relevant security standards and technologies and our investments in infrastructure provide us with a strong foundation to compete. However, if we are not able to demonstrate sufficient security and reliability, as well as differentiated value of our cloud-based solutions to potential customers, our revenue and gross profit margins could fail to grow.

Currently, our idOnDemand cloud-based services contribute a small but growing component of our overall revenue. As this component of our business grows, we will recognize an increasing portion of our revenues over the period of service subscription, rather than at the time of sale. To accelerate growth, we have made, and expect to continue to make significant investments to develop, sell and deploy our cloud-based service capabilities. These investments are focused on software development, on expanding and maintaining the secure infrastructure to support our cloud computing services, and on developing sales and distribution channels for our idOnDemand offering. If our investments outpace our revenue growth in cloud services, our operating results will be adversely affected.

Security breaches, whether or not due to our products, could result in the disclosure of sensitive government information or private personal information that could result in the loss of clients and negative publicity.

Many of the systems we sell manage private personal information or protect sensitive information related to our customers in the government or commercial markets. A well-publicized actual or perceived breach of network or computer security in one of these systems, regardless of whether such a breach is attributable to our products, could adversely affect the market's perception of us and our products, and could result in the loss of customers, have adverse effect on our reputation and reduce demand for our products.

As part of our technical support services, we agree, from time to time, to possess all or a portion of the security system database of our customers. This service is subject to a number of risks. For example, despite our security measures our systems may be vulnerable to cyber attacks by hackers, physical break-ins and service disruptions that could lead to interruptions, delays or loss of data. If any such compromise of our security were to occur, it could be very expensive to correct, could damage our reputation and could discourage potential customers from using our services. Although we have not experienced attempted cyber or physical attacks, we may experience such attempts in the future. Our systems also may be affected by outages, delays and other difficulties. Our insurance coverage may be insufficient to cover losses and liabilities that may result from such events.

Sales of our products could decline and we could be subject to legal claims for damages if our products are found to have defects.

Despite our testing efforts, our products may contain defects that are not detected until after the products have been shipped. The discovery of defects or potential defects may result in damage to our reputation, delays in market acceptance of our products and additional expenditures to resolve issues related to the products' implementation. If we are unable to provide a solution to actual or potential product defects that is acceptable to our customers, we may be required to incur substantial costs for product recall, repair and replacement, or costs related to legal or warranty claims made against us.

The global nature of our business exposes us to operational and financial risks and our results could be adversely affected if we are unable to manage them effectively.

We market and sell our products and solutions to customers in many countries around the world. To support our global sales, customer base and product development activities, we maintain company offices and/or business operations in several locations around the world, including Australia, Germany, Hong Kong, India, Japan, Singapore and the U.S. We also maintain manufacturing facilities in Singapore and California and manage contract manufacturers in multiple countries outside the U.S. Managing our global development, sales, administrative and manufacturing operations places a significant burden on our management resources and our financial processes and exposes us to various risks, including:

- longer accounts receivable collection cycles;
- changes in foreign currency exchange rates;
- unexpected changes in foreign laws and regulatory requirements;
- changes in political or economic conditions and stability, particularly in emerging markets;
- difficulties managing widespread sales and manufacturing operations;

49

---

- export controls;
- less effective protection of our intellectual property; and
- potentially adverse tax consequences.

Any failure to effectively mitigate these risks and effectively manage our global operations could have a material adverse effect on our business, financial condition or operating results.

A significant portion of our sales is made through an indirect sales channel, and the loss of dealers, systems integrators, resellers, or other channel partners could result in decreased revenue.

We currently use an indirect sales channel that includes dealers, systems integrators, value added resellers and resellers to sell a significant portion of our products and solutions, primarily into markets or customers where the channel partner may have closer relationships or greater access than we do. Some of these channel partners also sell our competitors' products, and if they favor our competitors' products for any reason, they may fail to market our products as effectively or to devote resources necessary to provide effective sales, which would cause our sales to suffer. Indirect selling arrangements are intended to benefit both us and the channel partner, and may be long- or short-term relationships, depending on market conditions, competition in the marketplace and other factors. If we are unable to maintain effective indirect sales channels, there could be a reduction in the amount of product we are able to sell, and our revenues could decrease.

We depend upon third-party manufacturers and a limited number of suppliers, and if we experience disruptions in our supply chain or manufacturing, our business may suffer.

We rely upon a limited number of suppliers for some key components of our products, and this exposes us to various risks, including whether or not our suppliers will provide adequate quantities with sufficient quality on a timely basis, and the risk that supplier pricing may be higher than anticipated. In addition, some of the basic components used in some of our products, such as semiconductors, may at any time be in great demand. This could result in components not being available to us in a timely manner or at all, particularly if larger companies have ordered more significant volumes of those components, or in higher prices being charged for components. Disruption or termination of the supply of components or software used in our products could delay shipments of our products, which could have a material adverse effect on our business and operating results and could also damage relationships with current and prospective customers.

Many of our products are manufactured outside the U.S. by contract manufacturers. Our reliance on foreign manufacturing poses a number of risks, including lack of control over the manufacturing process and ultimately over the quality and timing of delivery of our products. If any of our contract manufacturers cannot meet our production requirements, we may be required to rely on other contract manufacturing sources or identify and qualify new contract manufacturers, and we may not be able to do this in a timely manner or on reasonable terms. Additionally, we may be subject to currency fluctuations, potentially adverse tax consequences, unexpected changes in regulatory requirements, tariffs and other trade barriers, export controls, or political and economic instability. Any significant delay in our ability to obtain adequate supplies of our products from our current or alternative manufacturers would materially and adversely affect our business and operating results. In addition, if we are not successful at managing the contract manufacturing process, the quality of our products could be jeopardized or inventories could be too low or too high, which could result in damage to our reputation with our customers and in the marketplace, as well as possible write-offs of excess inventory.

Our U.S. Government business depends upon the continuance of regulations that require federal agencies to implement security systems such as ours, and upon our ability to receive certain government approvals or certifications and demonstrate compliance in government audits or investigations.

While we are not able to quantify the amount of sales made to end customers in the U.S. Government market due to the indirect nature of our selling process, we believe that orders for U.S. Government agencies represent a significant

portion of our revenues. The U.S. Government, suppliers to the U.S. Government and certain industries in the public sector currently fall, or may in the future fall, under particular regulations that require federal agencies to implement security systems that utilize physical and logical access control products and solutions such as ours. These regulations include, but are not limited to, Homeland Security Presidential Directive (HSPD) 12 and Federal Information Processing Standards (FIPS) 201 produced by National Institute of Standards and Technology (NIST). Discontinuance of, changes in, or lack of adoption of laws or regulations pertaining to security could adversely affect our sales.

Our U.S. Government business also is dependent upon receipt of certain governmental approvals or certifications, and failure to receive such approvals or certifications could have a material adverse effect on our sales in those market segments for which such approvals or certifications are customary or required. Government agencies in the U.S. and other countries may audit our business as part of their routine audits and investigations of government orders. Based on the outcome of any such audit, if any of our costs are found to be improperly allocated to a specific order, those costs may not be reimbursed and any costs already reimbursed for such order may have to be refunded. If a government agency audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions. A negative audit could materially affect our competitive position and result in a material adverse impact to our financial results or statements of operations.

Fluctuations in the foreign exchange rates between the U.S. dollar and other major currencies in which we do business may adversely affect our business, financial condition and results of operations.

A significant portion of our business is conducted in foreign currencies, principally the euro. Fluctuations in the value of foreign currencies relative to the U.S. dollar will continue to cause currency exchange gains and losses in our reported results. If a significant portion of operating expenses are incurred in a foreign currency such as the euro, and revenues are generated in U.S. dollars, exchange rate fluctuations might have a positive or negative net financial impact on these transactions, depending on whether the U.S. dollar devalues or revalues compared to the euro. In addition, the valuation of current assets and liabilities that are denominated in a currency other than the functional currency can result in currency exchange gains and losses. For example, when one of our subsidiaries uses the euro as the functional currency, and this subsidiary has a receivable in U.S. dollars, a devaluation of the U.S. dollar against the euro of 10% would result in a foreign exchange loss of the reporting entity of 10% of the value of the underlying U.S. dollar receivable. We cannot predict the effect of exchange rate fluctuations upon future quarterly and annual operating results. The effect of currency exchange rate changes may increase or decrease our costs and/or revenues in any given quarter, and we may experience currency losses in the future. To date, we have not adopted a hedging program to protect against risks associated with foreign currency fluctuations.

We may not be able to protect our intellectual property rights, which could make us less competitive and cause us to lose market share.

Our future success will depend, in part, upon our intellectual property rights and our ability to protect these rights. We rely on a combination of patent, copyright, trademark and trade secret laws, nondisclosure agreements and other contractual provisions to establish, maintain and protect our proprietary rights. From time to time we may be required to use litigation to protect our proprietary technology. This may result in our incurring substantial costs and we may not be successful in any such litigation. Despite our efforts to protect our proprietary rights, unauthorized third parties may copy aspects of our products, obtain and use information that we regard as proprietary, or infringe upon our patents. In addition, the laws of some foreign countries do not protect proprietary and intellectual property rights to the same extent as do the laws of the U.S. Because many of our products are sold and a significant portion of our business is conducted outside the U.S., our exposure to intellectual property risks may be higher. Our means of protecting our proprietary and intellectual property rights may not be adequate. Additionally, there is a risk that our competitors will independently develop similar technology or duplicate our products or design around patents or other intellectual property rights. If we are unsuccessful in protecting our intellectual property or our products or technologies are duplicated by others, our competitive position could be harmed and we could lose market share.

We face risks from future claims of third parties and litigation, which could have an adverse effect on our results of operations.

From time to time, we may be subject to claims of third parties, possibly resulting in litigation, which could include, among other things, claims regarding infringement of the intellectual property rights of third parties, product defects, employment-related claims, and claims related to acquisitions, dispositions or restructurings. Addressing any such claims or litigation may be time-consuming and costly, divert management resources, cause product shipment delays,

require us to redesign our products, require us to accept returns of products and to write-off inventory, or have other adverse effects on our business. Any of the foregoing could have a material adverse effect on our results of operations and could require us to pay significant monetary damages.



We expect the likelihood of intellectual property infringement and misappropriation claims may increase as the number of products and competitors in the security market grows and as we increasingly incorporate third-party technology into our products. As a result of infringement claims, we could be required to license intellectual property from a third party or redesign our products. Licenses may not be offered when we need them or on acceptable terms. If we do obtain licenses from third parties, we may be required to pay license fees or royalty payments or we may be required to license some of our intellectual property to others in return for such licenses. If we are unable to obtain a license that is necessary for us or our third-party manufacturers to manufacture our allegedly infringing products, we could be required to suspend the manufacture of products or stop our suppliers from using processes that may infringe the rights of third parties. We may also be unsuccessful in redesigning our products. Our suppliers and customers may be subject to infringement claims based on intellectual property included in our products. We have historically agreed to indemnify our suppliers and customers for patent infringement claims relating to our products. The scope of this indemnity varies, but may, in some instances, include indemnification for damages and expenses, including attorney's fees. We may periodically engage in litigation as a result of these indemnification obligations. Our insurance policies exclude coverage for third-party claims for patent infringement.

A material impairment in the carrying value of goodwill, intangible assets or other long-lived assets could negatively affect our consolidated operating results and net worth.

A portion of our assets consists of goodwill, intangible assets and other long-lived assets. We review goodwill, intangible assets and other long-lived assets on an annual basis and whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the asset is considered impaired, it is reduced to its fair value, resulting in a non-cash charge to earnings during the period in which any impairment is determined. In 2013, the carrying value of goodwill and long-lived assets was determined to be impaired and we recorded impairment charges of \$15.8 million to goodwill and long-lived assets, excluding the impairment charge of \$11.8 million related to discontinued operations. In 2012, the carrying value of goodwill and long-lived assets was determined to be impaired and we recorded impairment charges of \$30.4 million to goodwill and long-lived assets, excluding the impairment charge of \$21.5 million related to discontinued operations. These impairment charges resulted in material charges to our operating results and reductions to stockholders' equity.

Our stock price has been and is likely to remain volatile.

Over the past few years, the NASDAQ Stock Market has experienced significant price and volume fluctuations that have particularly affected the market prices of the stocks of technology companies. Volatility in our stock price may result from a number of factors, including, among others:

- low volumes of trading activity in our stock;
- technical trading patterns of our stock;
- variations in our or our competitors' financial and/or operational results;
- the fluctuation in market value of comparable companies in any of our markets;
- expected or announced news about partner relationships, customer wins or losses, product announcements or organizational changes ;
- comments and forecasts by securities analysts;
- the inclusion or removal of our stock from market indices, such as groups of technology stocks or other indices;
- our recent 1-for 10 Reverse Stock Split;
- litigation developments; and
- general market downturns.

In the past, companies that have experienced volatility in the market price of their stock have been the object of securities class action litigation. If we were the object of securities class action litigation, it could result in substantial costs and a diversion of our management's attention and resources.



If we fail to comply with the listing requirements of The NASDAQ Capital Market, the price of our common stock and our ability to access the capital markets could be negatively impacted.

Our common stock currently is listed on The NASDAQ Capital Market. There are a number of continuing requirements that must be met in order for our common stock to remain listed on The NASDAQ Capital Market, and the failure to meet these listing standards could result in the delisting of our common stock from NASDAQ. On June 11, 2013, we received notification from NASDAQ that the Company no longer met the requirement for continued listing under NASDAQ's listing rules because the minimum bid price of our common stock was below \$1.00 over a period of 30 consecutive trading days. The 180-day compliance period allowed to us in which to regain compliance with the minimum bid requirement ended December 9, 2013, but we were granted a 180-day extension, or until June 9, 2014, in which to regain compliance. On May 22, 2014, our shareholders' approved a proposal authorizing the Company's Board of Directors to effect a reverse stock split within a specified range. Following the Annual Meeting, the Board of Directors approved the reverse stock split with a ratio of 1-for-10. While the Reverse Stock Split enabled us to regain compliance with The NASDAQ Capital Market's minimum bid price listing requirement, it may also result in certain adverse impacts to our Company and the trading of our common stock. Additionally, the liquidity of our common stock could be adversely affected by the reduced number of shares resulting from the reverse stock split, which, in turn, could result in greater volatility in the price per share of our common stock. As a result and notwithstanding our reverse stock split and our regained compliance with the NASDAQ Capital Market's minimum bid price listing requirement, we may not be able to maintain a price per share of our common stock in excess of \$1.00 per share or the additional criteria for continued listing of our common stock set forth by The NASDAQ Capital Market. The occurrence of any future non-compliance with the NASDAQ Capital Market's minimum bid price or other listing requirements may have a material adverse effect on our stock price, our business and our prospects.

You may experience dilution of your ownership interests due to the future issuance of additional shares of our stock, and future sales of shares of our common stock could have an adverse effect on our stock price.

We have issued a significant number of shares of our common stock, together with warrants to purchase shares of our common stock, in connection with a number of financing transactions and acquisitions in recent years. In November 2010, in a private placement, we issued 409,763 shares of common stock and warrants to purchase an additional 409,763 shares of common stock. In May 2011, in a public offering, we issued 780,000 shares of common stock. In April 2013 we initially issued 203,855 shares of common stock in a private transaction with Lincoln Park Capital Fund, LLC ("LPC"), and entered into an agreement with LPC that enabled us to sell up to \$18 million of additional shares of common stock in the future. Subsequent to the initial purchase, we issued additional 756,223 shares of common stock to LPC through September 30, 2014. In August 2013, in a private placement, we issued 934,847 shares of common stock and warrants to purchase an additional 934,847 shares of common stock. In August 2013, we issued warrants to purchase 99,208 shares of common stock in connection with the third amendment to the Loan Agreement with Hercules. Additionally, as of March 31, 2014, we issued warrants to purchase 100,000 shares of common stock in connection with entering into the Credit Agreement with Opus. On September 16, 2014, the Company entered into an underwritten public offering of 2,000,000 shares of its common stock at a public offering price of \$15.00 per share and also granted the underwriter a 30-day option to purchase up to an additional 300,000 shares of common stock to cover overallocments. The Company received net proceeds of approximately \$31.6 million from the sale of 2,300,000 shares of common stock in the underwritten public offering, after deducting the underwriting discount and estimated offering expenses payable by us. In the future, from time to time we also may issue additional previously authorized and unissued securities, resulting in the dilution of the ownership interests of our current stockholders.

In addition, we have reserved shares of common stock for various incentive plans under which equity may be issued, acquisitions made in the past and capital raise. As of September 30, 2014, 2.1 million shares of common stock are reserved for future grants and outstanding equity awards under our various equity incentive plans and an additional 1.5 million shares of common stock are reserved for future issuance in connection with other commitments, including the potential sale of shares to LPC and issuance of shares for contingent consideration. We may issue additional shares of common stock or other securities that are convertible into or exercisable for shares of common stock in connection

with the hiring of personnel, future acquisitions, future private placements, or future public offerings of our securities for capital raising or for other business purposes. If we issue additional securities, the aggregate percentage ownership of our existing stockholders will be reduced. In addition, any new securities that we issue may have rights senior to those of our common stock.

The issuance of additional shares of common stock or preferred stock or other securities, or the perception that such issuances could occur, may create downward pressure on the trading price of our common stock.

One of our directors indirectly holds significant amounts of our common stock and could have significant influence over the outcome of corporate actions requiring board and stockholder approval.

As of August 1, 2014, Mountain Partners AG, together with its affiliates (collectively “Mountain Partners”), had the right to vote 8% of the outstanding shares of our common stock. Daniel Wenzel, a director of our Company, is a co-founder of Mountain Partners. As of August 1, 2014, the directors and officers of Identiv collectively held 3% of our common stock. Accordingly, our directors and officers could have influence over the outcome of corporate actions requiring Board and stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction.

If current or future export laws limit or otherwise restrict our business, we could be prohibited from shipping our products to certain countries, which could cause our business, financial condition and results of operations to suffer.

Some of our products are subject to export controls or other laws restricting the sale of our products under the laws of the United States, the European Union (EU) and other governments. The export regimes and the governing policies applicable to our business are subject to changes. We cannot be certain that such export authorizations will be available to us or for our products in the future. In some cases, we rely upon the compliance activities of our prime contractors, and we cannot be certain they have taken or will take all measures necessary to comply with applicable export laws. If we or our prime contractor partners cannot obtain required government approvals under applicable regulations, we may not be able to sell our products in certain international jurisdictions.

Changes in tax laws or the interpretation thereof, adverse tax audits and other tax matters may adversely affect our future results.

A number of factors may impact our tax position, including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes; and
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes.

Any of these factors could make it more difficult for us to project or achieve expected tax results. An increase or decrease in our tax liabilities due to these or other factors could adversely affect our financial results in future periods.

If we fail to maintain adequate internal controls over financial reporting, our business could be materially and adversely affected.

Under the Sarbanes-Oxley Act, our management must establish, maintain and make certain assessments and certifications regarding our disclosure controls and internal controls over financial reporting. We have dedicated significant resources to comply with these requirements, including significant actions to develop, evaluate, and test our internal controls. A failure to maintain adequate internal controls could result in inaccurate or late reporting of our financial results, an investigation by regulatory authorities, a loss of investor confidence, a decrease in the trading price of our common stock and exposure to costly litigation or regulatory proceedings.

As described in Controls and Procedures in Part I, Item 4 of this report, in connection with the audit of our financial statements as of and for the years ended December 31, 2013, we identified a material weakness in internal control over financial reporting, arising from an insufficient number of accounting personnel with appropriate knowledge, experience or training in U.S. GAAP. While we expect to complete the implementation of remediation measures and remediate our existing material weakness during the current fiscal year, there can be no assurance that such remediation efforts will be successful or that our internal control over financial reporting will be effective as a result

of these efforts. In addition, we may in the future identify additional internal control deficiencies that could rise to the level of a material weakness or uncover errors in financial reporting.

The effects of new regulations relating to conflict minerals may adversely affect our business.

The SEC has adopted disclosure and reporting rules intended to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (“DRC”) and adjoining countries. These rules require us to determine the origin of certain materials used in our products and to disclose whether we use any materials containing conflict minerals originating from the DRC and adjoining countries. The implementation of these new requirements could adversely affect the sourcing, availability and pricing of conflict minerals used in the manufacture of our products. In addition, we may incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals used in our products. Since our supply chain is complex, the due diligence procedures that we implement may not enable us to ascertain the origins for these minerals or determine that these minerals are DRC conflict free, which may harm our reputation. We may also face difficulties in satisfying customers who may require that our products be certified as DRC conflict free, which could harm our relationships with these customers and lead to a loss of revenue. These new requirements also could have the effect of limiting the pool of suppliers from which we source these minerals, and we may be unable to obtain conflict-free minerals at competitive prices, which could increase our costs and adversely affect our manufacturing operations and our profitability.

Provisions in our charter documents and Delaware law may delay or prevent our acquisition by another company, which could decrease the value of your shares.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us or enter into a material transaction with us without the consent of our Board. These provisions include a classified Board and limitations on actions by our stockholders by written consent. Delaware law imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. In addition, our Board has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer. These provisions will apply even if the offer were to be considered adequate by some of our stockholders. Because these provisions may be deemed to discourage a change of control, they may delay or prevent the acquisition of our Company, which could decrease the value of our common stock.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

## Item 3. Defaults upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

Item 6. Exhibits

Exhibits are listed on the Exhibit Index at the end of this Quarterly Report. The exhibits required by Item 601 of Regulation S-K, listed on such Index in response to this Item, are incorporated herein by reference.

55

---



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.

IDENTIV, INC.

November 14, 2014 By: /S/ JASON HART  
Jason Hart  
Chief Executive Officer  
(Principal Executive Officer and Director)

November 14, 2014 By: /S/ BRIAN NELSON  
Brian Nelson  
Chief Financial Officer and Secretary  
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	DESCRIPTION OF DOCUMENT
1.1	Underwriting Agreement dated September 11, 2014 between Identiv, Inc. and Cowen and Company, LLC. (Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed on September 11, 2014.)
10.1	First Amendment to Credit Agreement and Ratification between Identiv, Inc. and Opus Bank dated November 10, 2014. (Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed on November 12, 2014.)
31.1**	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2**	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Compensation Plan or Agreement.

\*\* Furnished herewith and not "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended.