Identiv, Inc.
Form 10-Q
August 11, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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 incorporation or organization)	(I.R.S. Employer Identification No.)

2201 Walnut Avenue, Suite 100

Fremont, California	94538
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (949) 250-8888

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

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

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

As of August 4, 2017, the registrant had 14,068,272 shares of common stock, $0.001 par value per share, outstanding.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

IDENTIV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except par value)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash	$17,968	$ 9,116
Accounts receivable, net of allowances of $301 and $307 as of June 30, 2017 and December 31, 2016, respectively	10,636	9,430
Inventories	12,520	11,596
Prepaid expenses and other current assets	1,898	1,510
Total current assets	43,022	31,652
Property and equipment, net	2,005	2,416
Intangible assets, net	5,092	5,820
Other assets	725	712
Total assets	$50,844	$ 40,600
LIABILITIES AND STOCKHOLDERS´ EQUITY		
Current liabilities:		
Accounts payable	$8,500	$ 6,024
Current portion - payment obligation	844	786
Current portion - financial liabilities, net of discount and debt issuance costs of $461 and $180, respectively	8,570	8,119
Deferred revenue	1,137	1,085
Accrued compensation and related benefits	1,412	1,520
Other accrued expenses and liabilities	3,425	5,032
Total current liabilities	23,888	22,566
Long-term payment obligation	3,533	3,987
Long-term financial liabilities, net of discount and debt issuance costs of $1,792 and $221, respectively	7,047	9,779
Other long-term liabilities	196	335
Total liabilities	34,664	36,667
Commitments and contingencies (see Note 11)		
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: 50,000 shares authorized; 14,830 and 11,836 shares	14	11

issued and 14,073 and 11,109 shares outstanding as of June 30, 2017 and December 31, 2016, respectively		
Additional paid-in capital	415,105	400,266
Treasury stock, 757 and 727 shares as of June 30, 2017 and December 31, 2016, respectively	(6,862)	(6,708)
Accumulated deficit	(394,100)	(391,509)
Accumulated other comprehensive income	2,196	2,053
Total Identiv, Inc. stockholders' equity	16,353	4,113
Noncontrolling interest	(173)	(180)
Total stockholders´ equity	16,180	3,933
Total liabilities and stockholders´equity	$50,844	$ 40,600

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

IDENTIV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net revenue	$14,840	$13,476	$28,232	$25,961
Cost of revenue	9,157	8,207	16,852	15,398
Gross profit	5,683	5,269	11,380	10,563
Operating expenses:				
Research and development	1,511	1,432	2,988	3,517
Selling and marketing	3,315	3,279	6,694	7,495
General and administrative	2,085	2,982	3,872	7,559
Restructuring and severance	—	201	—	2,940
Total operating expenses	6,911	7,894	13,554	21,511
Loss from operations	(1,228)	(2,625)	(2,174)	(10,948)
Non-operating income (expense):				
Interest expense, net	(678)	(519)	(1,352)	(1,289)
Gain on extinguishment of debt	—	—	977	—
Foreign currency gains (losses), net	1	45	(151)	274
Loss before income taxes and noncontrolling interest	(1,905)	(3,099)	(2,700)	(11,963)
Income tax benefit	1	129	119	70
Loss before noncontrolling interest	(1,904)	(2,970)	(2,581)	(11,893)
Less: Income (loss) attributable to noncontrolling interest	—	7	(10)	5
Net loss attributable to Identiv, Inc.	$(1,904)	$(2,963)	$(2,591)	$(11,888)
Basic and diluted net loss per share attributable to Identiv, Inc.	$(0.15)	$(0.27)	$(0.22)	$(1.10)
Weighted average shares used to compute basic and diluted loss per share	12,657	10,790	12,008	10,770

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

IDENTIV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$(1,904)	$(2,970)	$(2,581)	$(11,893)
Other comprehensive loss, net of income taxes:				
Foreign currency translation adjustment	(43)	(182)	140	(221)
Total other comprehensive income (loss), net of income taxes	(43)	(182)	140	(221)
Comprehensive loss	(1,947)	(3,152)	(2,441)	(12,114)
Less: Comprehensive (income) loss attributable to noncontrolling interest	(1)	12	(7)	24
Comprehensive loss attributable to Identiv, Inc. common stockholders	$(1,948)	$(3,140)	$(2,448)	$(12,090)

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

IDENTIV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Six Months Ended June 30, 2017

(Unaudited, in thousands)

	Identiv, Inc. Stockholders´ Equity							
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Equity
Balances, December 31, 2016	11,109	$ 11	$ 400,266	$ (6,708)	$ (391,509)	$ 2,053	$ (180)	$ 3,933
Net loss	—	—	—	—	(2,591)	—	10	(2,581)
Other comprehensive loss	—	—	—	—	—	143	(3)	140
Issuance of common stock in connection with public offering	2,845	3	12,550	—	—	—	—	12,553
Issuance of warrants	—	—	2,319	—	—	—	—	2,319
Issuance of common stock in connection with vesting of stock awards	149	—	—	—	—	—	—	—
Stock-based compensation	—	—	1,252	—	—	—	—	1,252
Shares withheld in payment of taxes in connection with net share settlement of restricted stock units	(30)	—	—	(154)	—	—	—	(154)
Cancellation of reacquired warrants from extinguishment of debt	—	—	(1,282)	—	—	—	—	(1,282)
Balances, June 30, 2017	14,073	$ 14	$ 415,105	$ (6,862)	$ (394,100)	$ 2,196	$ (173)	$ 16,180

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

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IDENTIV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$(2,581)	$(11,893)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,376	1,640
Gain on extinguishment of debt	(977)	—
Accretion of interest on long-term payment obligation	195	207
Amortization of debt issuance costs	421	503
Stock-based compensation expense	1,252	1,382
Loss on disposal of fixed assets	—	326
Changes in operating assets and liabilities:		
Accounts receivable	(1,182)	(991)
Inventories	(911)	1,058
Prepaid expenses and other assets	(401)	(137)
Accounts payable	2,491	1,266
Payment obligation liability	(591)	(578)
Deferred revenue	52	(283)
Accrued expenses and other liabilities	(1,829)	1,279
Net cash used in operating activities	(2,685)	(6,221)
Cash flows from investing activities:		
Capital expenditures	(264)	(341)
Net cash used in investing activities	(264)	(341)
Cash flows from financing activities:		
Proceeds from issuance of debt, net of issuance costs	31,430	—
Repayments of debt	(32,118)	—
Sale of common stock, net of issuance costs	12,553	—
Taxes paid related to net share settlement of restricted stock units	(154)	(100)
Net cash provided by (used in) financing activities	11,711	(100)
Effect of exchange rates on cash	90	(603)
Net increase (decrease) in cash	8,852	(7,265)
Cash at beginning of period	9,116	16,667
Cash at end of period	$17,968	$9,402
Supplemental Disclosures of Cash Flow Information		
Interest paid	$930	$785
Taxes paid	$65	$101
Non-cash investing and financing activities:		
Warrants issued as debt issuance costs in connection with debt agreements	$2,319	$232
Property and equipment included in accruals	$—	$128
Restricted stock units issued to settle liability	$—	$387

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

IDENTIV, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

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 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 six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 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 audited Consolidated Financial Statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. 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. The December 31, 2016 balance sheet was derived from the audited financial statements as of that date.

Concentration of Credit Risk — No customer represented more than 10% of net revenue for either of the three or six months ended June 30, 2017. One customer represented 11% and 10% of net revenue for the three and six months ended June 30, 2016, respectively. No customer represented more than 10% of the Company’s accounts receivable balance at June 30, 2017 or December 31, 2016.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”) or other standard setting bodies that the Company adopts as of the specified effective date. Unless otherwise discussed, the Company does not believe that the impact of recently issued standards that are not yet effective will have a material impact on its financial position or results of operations upon adoption.

In March 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-09, Compensation – Stock Compensation, which provides guidance to simplify several aspects of accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance is effective for reporting periods beginning after December 15, 2016. The Company adopted this guidance effective January 1, 2017. The Company's adoption of this standard did not have a significant impact on its condensed consolidated financial statements. No excess income tax benefit or tax deficiencies have been recorded as a result of the adoption and there will be no change to accumulated deficit with respect to previously unrecognized excess tax benefits. The Company is electing to continue to account for forfeitures on an estimated basis. The Company has elected to present the condensed consolidated statements of cash flows on a prospective transition method and no prior periods have been adjusted.

In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”), which amends accounting for leases. Under the new guidance, a lessee will recognize assets and liabilities but will recognize expenses similar to current lease accounting. The guidance is effective for reporting periods beginning after December 15, 2018; however early adoption is permitted. The new guidance must be adopted using a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is currently evaluating the impact of the adoption of this guidance will have on its condensed consolidated financial statements.

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. In August 2015, the FASB issued ASU 2015-14, Revenue From Contracts With Customers (Topic 606) (“ASU 2015-14”), which defers the effective date of ASU 2014-09 by one year to annual periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The new guidance is effective for the Company beginning January 1, 2018. The Company is currently evaluating the method and impact that ASU 2014-09 will have on its consolidated financial statements.

2. 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 the Accounting Standards Codification ("ASC"), ASC 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 June 30, 2017 and December 31, 2016, there were no assets that are measured and recognized at fair value on a recurring basis. There were no cash equivalents as of June 30, 2017 and December 31, 2016.

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. For additional discussion of measurement criteria used in evaluating potential impairment involving goodwill and intangible assets, refer to Note 5, Intangible Assets.

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 June 30, 2017 and December 31, 2016, the Company had $0.3 million of privately-held investments measured at fair value on a nonrecurring basis which 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. The amount of privately-held investments is included in other assets in the accompanying condensed consolidated balance sheets.

As of June 30, 2017 and December 31, 2016, 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, accounts payable, financial liabilities and other accrued liabilities approximate fair value due to their short maturities.

3. Stockholders' Equity

Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock, 40,000 of which have been designated as Series A Participating Preferred Stock, par value $0.001 per share. No shares of the Company's preferred stock, including the Series A Participating Preferred Stock, were outstanding as of June 30, 2017 and December 31, 2016. The Company's board of directors may from time to time, without further action by the Company's stockholders, direct the issuance of shares of preferred stock in series and may, at the time of issuance, determine the rights, preferences and limitations of each series, including voting rights, dividend rights and redemption and liquidation preferences. Satisfaction of any dividend preferences of outstanding shares of preferred stock would reduce the amount of funds available for the payment of dividends on shares of the Company's common stock. Holders of shares of preferred stock may be entitled to receive a preference payment in the event of any liquidation, dissolution or winding-up of the Company before any payment is made to the holders of shares of the Company's common stock. Upon the affirmative vote of the Board, without stockholder approval, the Company may issue shares of preferred stock with voting and conversion rights which could adversely affect the holders of shares of its common stock.

Sale of Common Stock

In May 2017, the Company sold an aggregate of 2,845,360 shares of its common stock at a public offering price of $4.85 per share in an underwritten public offering. The Company received net proceeds of approximately $12.6 million from the sale of the common stock in the public offering, after deducting the underwriting discount and other offering related expenses of $1.2 million. The Company intends to use the net proceeds from the offering for working capital and other general corporate purposes. The Company may also use a portion of the net proceeds from the offering to acquire or invest in complementary technologies or other assets.

Common Stock Warrants

On August 13, 2014, 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 "2014 Consultant Warrant"). One fourth of the shares under the warrant are exercisable for cash three months from the date the 2014 Consultant Warrant was issued and quarterly thereafter. The 2014 Consultant Warrant expires on August 13, 2019. In the event of an acquisition of the Company, the 2014 Consultant Warrant shall terminate and no longer be exercisable as of the closing of the acquisition. As of June 30, 2017, the 2014 Consultant Warrant has not been exercised.

On February 8, 2017, the Company entered into Loan and Security Agreements with each of East West Bank ("EWB") and Venture Lending & Leasing VII, Inc. and Venture Lending & Leasing VIII, Inc. (collectively referred to as "VLL7 and VLL8") as discussed in Note 7, Financial Liabilities. In connection with the Company's Revolving Loan Facility and Term Loan, the Company issued to EWB a warrant (the "EWB Warrant") to purchase up to 40,000 shares of the Company's common stock at a per share exercise price of $3.64, and issued to each of VLL7 and VLL8 a warrant to purchase 290,000 shares of the Company's common stock at a per share exercise price of $2.00 (the "VLL7 Warrant" and the "VLL8 Warrant," respectively). The Company calculated the fair value of the EWB Warrant, the VLL7 Warrant and the VLL8 Warrant using the Black-Scholes pricing model using the following assumptions: estimated volatility of 78.8%, risk-free interest rate of 1.94%, no dividend yield, and an expected life of five years. In accordance with ASC 505-50, Equity-Based Payments to Non-Employees, the fair values of the EWB Warrant, the VLL7 Warrant and the VLL8 Warrant of $125,000, $1,037,500 and $1,037,500, respectively, were classified as equity as the settlement of the warrants will be in shares and is within the control of the Company. Each of the EWB Warrant, the VLL7 Warrant and the VLL8 Warrant is immediately exercisable for cash or by net exercise and will expire five years after its issuance, or on February 8, 2022. In connection with entering into Loan and Security Agreements with EWB and VLL7 and VLL8, warrants to purchase an aggregate of 400,000 shares of common stock issued to the Company's previous lender, Opus Bank ("Opus") were cancelled.

In connection with securing of the new credit facility and cancelling of all the warrants previously issued to Opus, the Company issued a warrant to a consultant to purchase 60,000 shares of its common stock at an exercise price of $4.60 per share (the "2017 Consultant Warrant"). The Company calculated the fair value of the 2017 Consultant Warrant using the Black-Scholes pricing model using the following assumptions: estimated volatility of 78.8%, risk-free interest rate of 1.22%, no dividend yield, and an expected life of two years. The fair value of the 2017 Consultant

Warrant of $119,000 was classified as equity as the settlement of the warrant will be in shares and is within the control of the Company. The 2017 Consultant Warrant is immediately exercisable for cash or by net exercise and will expire two years after its issuance, or on February 8, 2019.

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 shares of its common stock with an exercise price of $10.00 per share (the “2013 Private Placement Warrants”) to accredited and other qualified investors (the “Investors”). The 2013 Private Placement Warrants have a term of four years and are exercisable beginning six months following the date of issuance. 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 compensation. Subsequent to issuance, warrants to purchase an aggregate of 747,969 shares were exercised. 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. As of June 30, 2017, 186,878 of the warrants had not been exercised.

Below is the summary of outstanding warrants issued by the Company as of June 30, 2017:

Warrant Type	Number of Shares Issuable Upon Exercise	Weighted Average Exercise Price	Issue Date	Expiration Date
2014 Consultant Warrant	85,000	$ 10.70	August 13, 2014	August 13, 2019
East West Bank Warrant	40,000	3.64	February 8, 2017	February 8, 2022
VLL7 and VLL8 Warrants	580,000	2.00	February 8, 2017	February 8, 2022
2017 Consultant Warrant	60,000	4.60	February 8, 2017	February 8, 2019
2013 Private Placement Warrants	186,878	10.00	August 14, 2013	August 14, 2017
Total	951,878			

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, the 1997 Stock Option Plan, the 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, the Company's stockholders approved the 2010 Plan which granted cash and equity-based awards to executive officers, directors, and other key employees as designated 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 executive officers, directors, 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, the Company'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 executive officers, directors, consultants, and other key employees. 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. Subsequent to June 6, 2011 through December 31, 2015, the number of shares of common stock authorized for issuance under the 2011 Plan had been increased by 1.0 million shares. On May 12, 2016, the Company's stockholders approved an amendment and restatement of the 2011 Plan to, among other things, increase the number of shares of common stock authorized for issuance by 2.0 million shares and extend the term of the 2011 Plan.

Stock Option Plans

A summary of activity for the Company’s stock option plans for the six months ended June 30, 2017 follows:

	Number Outstanding	Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Average Intrinsic Value
Balance at December 31, 2016	832,941	$ 7.11		$—
Granted	—	—		
Cancelled or Expired	(142,629)	10.50		
Exercised	—	—		
Balance at June 30, 2017	690,312	$ 6.41	7.85	$396,594
Vested or expected to vest at June 30, 2017	671,191	$ 6.46	7.83	$380,325
Exercisable at June 30, 2017	410,132	$ 7.44	7.27	$173,958

The following table summarizes information about options outstanding as of June 30, 2017:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$4.36 - $7.20	480,810	8.70	$ 4.49	228,243	$ 4.62
$7.50 - $11.30	169,221	6.50	9.24	141,608	9.16
$12.00 - $19.70	27,390	3.21	13.66	27,390	13.66
$21.70 - $29.20	12,891	3.86	25.37	12,891	25.37
$4.36 - $29.20	690,312	7.85	$ 6.41	410,132	$ 7.44

At June 30, 2017, there was $0.8 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 1.9 years.

Restricted Stock and Restricted Stock Units

The following is a summary of restricted stock and restricted stock unit ("RSU") activity for the six months ended June 30, 2017:

	Number Outstanding	Weighted Average Fair Value
Unvested at December 31, 2016	1,973,459	$ 2.80
Granted	120,180	5.46
Vested	(212,519)	4.51
Forfeited	(127,282)	3.21
Unvesteed at June 30, 2017	1,753,838	$ 2.74
Shares vested but not released	278,552	$ 2.35

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 June 30, 2017, there was $4.2 million of unrecognized compensation cost related to unvested RSUs granted, which is expected to be recognized over a weighted average period of 2.9 years. As of June 30, 2017, an aggregate of 1,475,286 RSUs were outstanding under the 2011 Plan.

Stock-Based Compensation Expense

The following table illustrates all employee stock-based compensation expense related to stock options and RSUs included in the condensed consolidated statements of operations for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue	$23	$23	$47	$46
Research and development	116	52	231	136
Selling and marketing	110	78	270	285
General and administrative	412	292	704	915
Total	$661	$445	$1,252	$1,382

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance as of June 30, 2017 was as follows:

Exercise of outstanding stock options and vesting of RSUs	2,722,701
ESPP	293,888
Shares of common stock available for grant under the 2011 Plan	503,346
Noncontrolling interest in Bluehill AG	10,355
Warrants to purchase common stock	951,878
Total	4,482,168

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 six months ended June 30, 2017 and 2016, common stock equivalents consisting of outstanding stock options, RSUs and warrants were excluded from the calculation of diluted net 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 net loss per share relating to these securities was 3,406,382 common stock equivalents for both the three and six months ended June 30, 2017, and 2,130,423 common stock equivalents for both the three and six months ended June 30, 2016, respectively.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income ("AOCI") at June 30, 2017 and December 31, 2016 consists of foreign currency translation adjustments totaling $2.2 million and $2.1 million, respectively.

4. Balance Sheet Components

The Company's inventories are stated at the lower of cost or net realizable value. Inventories consist of (in thousands):

	June 30, 2017	December 31, 2016
Raw materials	$3,797	$ 3,346
Work-in-progress	635	285
Finished goods	8,088	7,965
Total	$12,520	$ 11,596

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

	June 30, 2017	December 31, 2016
Building and leasehold improvements	$1,828	$ 1,884
Furniture, fixtures and office equipment	2,119	2,002
Plant and machinery	8,944	8,848
Purchased software	1,878	1,717
Total	14,769	14,451
Accumulated depreciation	(12,764)	(12,035)
Property and equipment, net	$2,005	$ 2,416

The Company recorded depreciation expense of $0.4 million and $0.4 million during the three months ended June 30, 2017 and 2016, respectively, and $0.6 million and $0.9 million during the six months ended June 30, 2017 and 2016, respectively.

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

	June 30, 2017	December 31, 2016
Accrued restructuring	$ 64	$ 237
Accrued professional fees	1,532	2,371
Income taxes payable	282	334
Other accrued expenses	1,547	2,090
Total	$ 3,425	$ 5,032

5. 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	Total
Amortization period (in years)	11.75	4.0 – 11.75	
Gross carrying amount at December 31, 2016	$ 4,600	$ 10,639	$ 15,239
Accumulated amortization	(2,809)	(6,610)	(9,419)
Intangible Assets, net at December 31, 2016	$ 1,791	$ 4,029	$ 5,820
Gross carrying amount at June 30, 2017	$ 4,600	$ 10,639	$ 15,239
Accumulated amortization	(3,033)	(7,114)	(10,147)
Intangible Assets, net at June 30, 2017	$ 1,567	$ 3,525	$ 5,092

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 three and six months ended June 30, 2017.

The following table illustrates the amortization expense included in the condensed consolidated statements of operations for the three and six months ended June 30, 2017 and 2016, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue	$112	$112	$224	$224
Selling and marketing	252	252	504	504
Total	$364	$364	$728	$728

The estimated annual future amortization expense for purchased intangible assets with definite lives over the next five years as of June 30, 2017 is as follows (in thousands):

2017 (remaining six months)	$727
2018	1,455
2019	1,455
2020	1,455
Thereafter	—
Total	$5,092

6. Long-Term Payment Obligation

Hirsch Acquisition – Secure Keyboards and Secure Networks. Prior to the 2009 acquisition of Hirsch Electronics Corporation ("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"). At the time, 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 was dissolved in 2012 and Mr. Midland owned 24.5% of Secure Keyboards upon his resignation from the Company 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"). The Company was not an original party to the 2009 Settlement Agreement as the acquisition of Hirsch occurred subsequent to the 2009 Settlement Agreement being entered into. 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. The Company'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 previous calendar year.

The final payment to Secure Networks was made on January 30, 2012. The Company's payment obligations under the 2009 Settlement Agreement to Secure Keyboards will continue through the calendar year ending December 31, 2020, with the final payment due on January 30, 2021, unless the Company elects at any time to 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 payment obligation amount is classified as a long-term liability in the condensed consolidated balance sheets.

The Company included \$0.1 million and \$0.2 million of interest expense during the three and six months ended June 30, 2017, respectively, and \$0.1 million and \$0.2 million of interest expense during the three and six months ended June 30, 2016, respectively, in its condensed consolidated statements of operations for interest accreted on the long-term payment obligation.

The ongoing payment obligation in connection with the Hirsch acquisition as of June 30, 2017 is as follows (in thousands):

2017 (remaining six months)	$600
2018	1,237
2019	1,286
2020	1,433

2021	369
Present value discount factor	(548)
Total	4,377
Less: Current portion - payment obligation	(844)
Long-term payment obligation	3,533

7. Financial Liabilities

Financial liabilities consist of (in thousands):

	June 30, 2017	December 31, 2016
Secured term loan	$10,000	$ 10,000
Bank revolving loan facility	7,870	8,300
Total before discount and debt issuance costs	17,870	18,300
Less: Current portion of financial liabilities	(9,031)	(8,300)
Less: Long-term portion of unamortized discount and debt issuance costs	(1,792)	(221)
Long-term financial liabilities	$7,047	$ 9,779

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 provided for a term loan in aggregate principal amount of $10.0 million (“Term Loan”) and an additional $10.0 million revolving loan facility (“Revolving Loan Facility”). On February 8, 2017, the Company entered into new Loan and Security Agreements. In connection with the closing of such agreements, the Company repaid all outstanding amounts under its Credit Agreement, as amended, with Opus. In evaluating the transaction, the Company compared the net present value cash flows under the existing Credit Agreement and the new Loan and Security Agreements to determine whether the terms of the new debt facility and the existing facility were "substantially different." As the net present value of cash flows varied by more than 10%, the Company concluded that the transaction should be accounted for as a debt extinguishment. As a result, the Company recorded a gain on extinguishment of debt totaling $977,000, representing the difference between the reacquisition price of the previous debt facility, net of cancelled warrants previously issued to Opus, and its net carrying amount.

On February 8, 2017, the Company entered into Loan and Security Agreements with each of EWB and VLL7 and VLL8. The Loan and Security Agreement with EWB provides for a $10.0 million revolving loan facility ("Revolving Loan Facility"), and the Loan Security Agreement with VLL7 and VLL8 provides for a term loan in aggregate principal amount of $10.0 million (the "Term Loan"). The obligations of the Company under each of the Revolving Loan Facility and the Term Loan and Security Agreements are secured by substantially all assets of the Company.

The Revolving Loan Facility bears interest at prime rate plus 2.0% and matures and becomes due and payable on February 8, 2019. Interest is payable monthly beginning on March 1, 2017. The Company may voluntarily prepay amounts outstanding under the Revolving Loan Facility, without prepayment charges. In the event the Revolving Loan Facility is terminated prior to its maturity, the Company would be required to pay an early termination fee in the amount of 1.0% of the revolving line, and an additional cash early termination fee of 1.0% if terminated prior to February 8, 2018. Additional borrowing requests under the Revolving Loan Facility are subject to various customary conditions precedent, including satisfaction of a borrowing base test as more fully described in the Revolving Loan Facility.

The Term Loan matures on August 8, 2020. Payments under the Term Loan are interest-only for the first twelve months at a per annum rate of 12.5%, followed by principal and interest payments amortized over the remaining term of the Term Loan. If the Company elects to prepay the Term Loan before its maturity, all accrued and unpaid interest outstanding at the prepayment date will be due and payable, together with all the scheduled interest that would have accrued and been payable through the stated maturity of the Term Loan, provided that at any time after the Company has made at least twelve scheduled amortization payments of principal and interest on the Term Loan the Company shall only be required to pay 80% of the scheduled interest that would have accrued and been payable through the stated maturity of the Term Loan,

The Company is obligated to pay customary fees and expenses, including customary facility fees for credit facilities of this size and type, in the aggregate amount of approximately $120,000, in connection with the closing of the two facilities. An additional facility fee of $40,000 will be payable in connection with the Revolving Loan Facility on the February 8, 2018.

Each of the Revolving Loan Facility and the Term Loan contain 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 Revolving Loan Facility also contains various financial covenants as set forth in the Revolving Loan Facility, including but not limited to a liquidity covenant requiring the Company to maintain at least $4.0 million of cash. In addition, each of the Revolving Loan Facility and the Term Loan contains customary events of default that entitle the EWB or VLL7 and VLL8, as appropriate, to cause any or all of the Company's indebtedness under the Revolving Loan Facility or the Term Loan, respectively, to become immediately due and payable. The 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, EWB and VLL7 and VLL8 may terminate their 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 Loan and Security Agreements to be immediately due and payable.

As of June 30, 2017, the Company was in compliance with all financial covenants under the Revolving Loan Facility and the Term Loan.

The proceeds of the Term Loan and the initial draw under Revolving Loan Facility, after payment of fees and expenses, were used to repay all outstanding amounts under the Credit Agreement with Opus. In connection with the repayment, warrants to purchase an aggregate of 400,000 shares of common stock issued to Opus were cancelled. The proceeds of any additional draws under the Revolving Loan Facility will be used for working capital and other general corporate purposes.

The following table summarizes the timing of repayment obligations for the Company's financial liabilities for the next four years under the current terms of the Credit Agreement, as amended, at June 30, 2017 (in thousands):

	2018	2019	2020	2021	Total
Bank term loan and revolving loan facility	$10,864	$4,028	$2,978	$ —	$17,870

8. Income Taxes

The Company conducts business globally and, as a result, files federal, state and foreign tax returns. The Company strives to resolve open matters with each tax authority at the examination level and could reach agreement with a tax authority at any time. While the Company has accrued for amounts it believes are the probable outcomes, the final outcome with a tax authority may result in a tax liability that is more or less than that reflected in the condensed consolidated financial statements. Furthermore, the Company may later decide to challenge any assessments, if made, and may exercise its right to appeal.

The Company has no present intention of remitting undistributed retained earnings of any of its foreign subsidiaries. Accordingly, the Company has not established a deferred tax liability with respect to undistributed earnings of its foreign subsidiaries.

The Company applies the provisions of, and accounted for uncertain tax positions in accordance with ASC 740, Income Taxes ("ASC 740"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company generally is no longer subject to tax examinations for years prior to 2012. However, if loss carryforwards of tax years prior to 2011 are utilized in the U.S., these tax years may become subject to investigation by the tax authorities. While timing of the resolution and/or finalization of tax audits is uncertain, the Company does not believe that its unrecognized tax benefits would materially change in the next 12 months.

9. Segment Reporting and Geographic Information

ASC 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 is its CEO.

The Company is organized into four reportable operating segments: Physical Access Control Systems ("PACS"), previously referred to as Premises, Identity, Credentials and All Other.

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.

Net revenue and gross profit information by segment for the three and six months ended June 30, 2017 and 2016 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
PACS:				
Net revenue	$5,824	$5,542	$11,188	$10,655
Gross profit	3,045	3,035	6,144	5,910
Gross profit margin	52 %	55 %	55 %	55 %
Identity:				
Net revenue	4,058	2,909	7,147	5,415
Gross profit	1,313	1,014	2,437	1,965
Gross profit margin	32 %	35 %	34 %	36 %
Credentials:				
Net revenue	4,959	4,875	9,894	9,311
Gross profit	1,323	1,213	2,793	2,427
Gross profit margin	27 %	25 %	28 %	26 %
All Other:				
Net revenue	(1)	150	3	580
Gross profit	2	7	6	261
Gross profit margin	-200 %	5 %	200 %	45 %
Total:				
Net revenue	14,840	13,476	28,232	25,961
Gross profit	5,683	5,269	11,380	10,563
Gross profit margin	38 %	39 %	40 %	41 %
Operating expenses:				
Research and development	1,511	1,432	2,988	3,517
Selling and marketing	3,315	3,279	6,694	7,495
General and administrative	2,085	2,982	3,872	7,559
Restructuring and severance	—	201	—	2,940
Total operating expenses:	6,911	7,894	13,554	21,511
Loss from operations	(1,228)	(2,625)	(2,174)	(10,948)
Non-operating income (expense):				
Interest expense, net	(678)	(519)	(1,352)	(1,289)
Gain on extinguishment of debt	—	—	977	—
Foreign currency gains (losses), net	1	45	(151)	274
Loss before income taxes and noncontrolling interest	$(1,905)	$(3,099)	$(2,700)	$(11,963)

Geographic net revenue is based on the customer's ship-to location. Information regarding net revenue by geographic region for the three and six months ended June 30, 2017 and 2016 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016

Americas	$9,495	$9,198	$18,603	$17,419
Europe and the Middle East	2,117	1,752	3,996	3,820
Asia-Pacific	3,228	2,526	5,633	4,722
Total	$14,840	$13,476	$28,232	$25,961
Revenues:				
Americas	64 %	68 %	66 %	67 %
Europe and the Middle East	14 %	13 %	14 %	15 %
Asia-Pacific	22 %	19 %	20 %	18 %
Total	100 %	100 %	100 %	100 %

Long-lived assets by geographic location as of June 30, 2017 and December 31, 2016 are as follows (in thousands):

	June 30, 2017	December 31, 2016
Property and equipment, net:		
Americas	$ 935	$ 1,100
Europe and the Middle East	144	162
Asia-Pacific	926	1,154
Total property and equipment, net	$ 2,005	$ 2,416

10. Restructuring and Severance

In the first quarter of 2016, the Company implemented a worldwide restructuring plan designed to refocus the Company's resources on its core business segments, including physical access and transponders, and to consolidate its operations in several worldwide locations. The restructuring plan included reducing the Company's non-manufacturing employee base, reallocating overhead roles into direct business activities and eliminating certain management and executive roles. In the first six months of 2016, the Company incurred severance and facilities related costs of $2.9 million in connection with this restructuring plan. No restructuring costs were incurred in 2017.

All unpaid restructuring and severance accruals are included in other accrued expenses and liabilities within current liabilities in the condensed consolidated balance sheets at June 30, 2017 and December 31, 2016. Restructuring and severance activities during the six months ended June 30, 2017 and 2016 were as follows (in thousands):

	Six Months Ended June 30,	
	2017	2016
Balance at beginning of period	$237	$633
Restructuring expense incurred for the period	—	2,940
Payments and non-cash item adjustment during the period	(173)	(2,487)
Balance at end of period	$64	$1,086

11. Commitments and Contingencies

The following table summarizes the Company's principal contractual commitments as of June 30, 2017 (in thousands):

Operating Leases	Purchase Commitments	Other Contractual	Total

			Commitments	
2017	$ 636	$ 11,492	$ 35	$12,163
2018	974	—	—	974
2019	864	—	—	864
2020	672	—	—	672
2021	417	—	—	417
Thereafter	35	—	—	35
Total	$ 3,598	$ 11,492	$ 35	$15,125

Purchase commitments 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 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.

12. Subsequent Events

On August 7, 2017, the Company received notification that its insurance provider agreed to reimburse the Company for certain legal fees incurred in connection with matters related to a complaint by a former employee alleging, among other things, certain expense reimbursement issues with respect to certain executive officers and certain other employees of the Company, related investigations, the class and derivative litigation and all related proceedings. The Company expects to recognize a credit to operating expenses of $400,000 in its condensed consolidated statement of operations in the third quarter of 2017.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Item 2, "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 neg 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, 2016. 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 secures and manages access to physical places, things and information. Global organizations in government, education, retail, transportation, healthcare and other markets rely upon our solutions. We empower them to create secure and convenient experiences in schools, government offices, factories, critical infrastructure, transportation, hospitals and virtually every type of facility and for a wide range of products.

Our operating segments focus on the following solutions:

- Physical access solutions, securing buildings via an integrated access control system, included in our Premises ("PACS") segment.
-

- Information security solutions, securing enterprise information access across PCs, networks, email, login, and printers via delivery of smart card reader products, included in our Identity segment.
- Radio frequency identification ("RFID") based solutions for use in a wide range of applications from asset tracking to product authenticity, product ease-of-use (e.g. pairing), transportation access and other applications sometimes included in the Internet of Things. The RFID devices are embedded into access cards, transponders and other credentials that enable frictionless access to and interaction with the physical world.

The foundation of our business is our expertise in RFID, smart card technology, and access control, our close customer relationships that allow us to develop customer-relevant products, and our core value of quality.

To deliver these solutions, we have organized our operations into four reportable business segments, principally by product families: PACS, Identity, Credentials, and All Other.

PACS

The foundation of our physical access platform is the Hirsch line of controllers including the advanced MX line, Hirsch's Velocity management software and a wide range of integrations that provide Velocity/MX's unique flexibility across a wide range of industries and implementations. We have further extended our physical access platform with our Identiv Connected Physical Access

Manager (“ICPAM”) software, derived from Cisco’s Physical Access Manager (“CPAM”) system and available in partnership with Cisco. Both of these platforms are available with our MX multi-door controllers as well as our edge controllers, which are targeted as one to two door installations and leverage existing Ethernet infrastructure (“Power-over-Ethernet”). Additionally, we sell either individual components or complete bundled solutions which can include any or all among software, edge controllers, multi-door panels, access readers, access cards and other components.

Our modular Hirsch MX controllers are designed to be scalable, allowing customers to start with a small system and expand over time. Hirsch MX controllers can operate autonomously, whether as a single controller or as part of a networked system with Velocity software. The Hirsch 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.

To our price/performance/quality-leading commercial offerings, we have added what we believe to be the highest performance, lowest per-door cost access control system for the U.S. federal government security mandate known as the Federal Identity, Credential and Access Management (“FICAM”) architecture. This brings all of the advantages above into the next generation of physical security for the U.S. government departments and agencies to achieve FIPS 201 compliance.

Our TouchSecure (“TS”) door readers provide unique features to support a wide range of security standards. We 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 including CAC, PIV, PIV-I and others. Additionally, our Scramblepad readers employ numerical scrambling on the keypad to protect access codes from being stolen as they are entered, and providing both secure two-factor authentication and convenient alternative-factor access.

In addition to our core products, we have a range of product initiatives to leverage leading technology advances across mobile, biometric, machine-learning and other areas, to provide convenient, frictionless, low-cost yet highly secure physical access. We invest independently and in partnership with other leading technology companies in these emerging aspects of access enabling platforms.

Identity

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

With over 20 years of smart card reader, application and token experience, we are known for our expertise in this complex ecosystem. We combine our deep technical expertise with an optimized supply chain, to provide what we believe to be the most optimal, cost-effective and high-quality smart card-based products. Whether Identiv branded products, original equipment manufacturers (“OEM”) branded, or embedded chips or modules, our position is as the trusted business solution provider for all users and issuers of smart cards and embedded-chip applications.

Credentials

Our Credentials segment include NFC and RFID products, including inlays and inlay−based and other cards, labels, tags and stickers, as well as other radio frequency (“RF”) and integrated circuits (“IC”) components and are generally grouped into access cards and transponders. Our TS Cards product line, we believe, is the first complete solution to allow customers to pay only for the most basic low-frequency proximity access technology while having the ability to evolve to the higher-security, high-frequency and highest-security PKI-based access credentials. This product line exemplifies our values: we place no burden on our customers, instead providing the most cost-effective solution to their basic needs; and then delivering within this platform the ability for them to move to higher-level needs and capabilities, when they want, when they are ready and when they will realize economic and experience benefits.

Our transponder products span the full range of high frequency (“HF”) and ultra-high frequency (“UHF”) technologies. Our differentiation is analogous to application-specific integrated circuits (“ASICS”) in the semiconductor market. We leverage our flexible platform, our deep technical expertise and our infrastructure and supply chain to deliver solutions optimized for our customers’ business goals. We believe we are more responsive, more flexible, more experienced in business-optimized solutions and have a better track record of sustained delivery of solution-specific, high-quality RFID devices than our competitors. These products are manufactured in our state-of-the-art facility in Singapore and are used in a diverse range of physical applications, including electronic entertainment such as virtual reality (“VR”), games, loyalty cards, mobile payment systems, transit and event ticketing, brand authenticity from pharmaceuticals to consumer goods, hospital resource management, cold-chain management and many others.

Leveraging our expertise in RFID, physical access and physical authentication, we are developing new solutions to extend our platforms across a wide variety of physical use cases. The next major opportunity in our connected world is the Internet of Things, which fundamentally is about physical things. We believe our core strength in physical access and physical instrumentation (RFID) markets, our well-established platforms and our deep knowledge of the relevant technologies, position us well in this growth market.

All Other

The All Other segment includes legacy product lines, such as Chipdrive and Digital 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. No revenues are expected to be generated in 2017.

We primarily conduct 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 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 California, Chennai, India, and Munich, Germany, and local operations and sales facilities in Germany, the United Kingdom, Hong Kong, Singapore, India and the United States. We were founded in 1990 in Munich, Germany and incorporated in 1996 under the laws of the State of Delaware.

For a discussion of our net revenue by segment and geographic location, see Note 9, Segment Reporting and Geographic Information in the accompanying notes to our unaudited condensed consolidated financial statements.

Trends in Our Business

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

	Six Months Ended June 30,	
	2017	2016
Americas	$18,603	$17,419
Europe and the Middle East	3,996	3,820
Asia-Pacific	5,633	4,722
Total	$28,232	$25,961
Revenues:		
Americas	66 %	67 %
Europe and the Middle East	14 %	15 %
Asia-Pacific	20 %	18 %
Total	100 %	100 %

Net Revenue Trends

Net revenue in the six months ended June 30, 2017 increased 9% compared with the first six months of 2016. Approximately 40% of our net revenue in the six months ended June 30, 2017 came from our PACS segment. Net revenue in the PACS segment was $11.2 million and $10.7 million for the six months ended June 30, 2017 and 2016, respectively. Net revenue in our Credentials segment represented approximately 35% of our net revenue. Net revenue in the Credentials segment was $9.9 million in the six months ended June 30, 2017 compared to $9.3 million in the comparable period in 2016. Net revenue in the Identity segment, which represented approximately 25% of total net revenue, was $7.1 million as compared to the prior year period of $5.4 million.

Net Revenue in the Americas

Net revenue in the Americas was approximately $18.6 million in the first six months of 2017, accounting for 66% of total net revenue, and was up 7% compared to $17.4 million in the first six months of 2016. Net revenue from our PACS solution 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 net revenue in the Americas region.

Net revenue in our PACS and Credential segments in the Americas increased by approximately 10% and 9%, respectively, in the first six months of 2017 compared with the same period of the previous year. PACS net revenue increases were primarily due to an increase in orders for physical access control solutions from federal government customers, and higher sales through our channel partners. Credentials segment net revenue increases were primarily due to higher transponder sales. Net revenue in our Identity segment decreased in the six months ended June 30, 2017 compared to the comparable period of the previous year due primarily to lower reader sales.

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 physical access is an attractive offering to help federal agency customers 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 customers in particular, we have strengthened our U.S. sales organization and our sales presence in Washington D.C.

Net Revenue in Europe, the Middle East, and Asia-Pacific

Net revenue in Europe, the Middle East, and Asia-Pacific was approximately $9.6 million in the first six months of 2017, accounting for 34% of total net revenue and was up 13% compared to $8.5 million in the first six months of 2016 primarily as a result of increased sales in each of our Europe and the Middle East and Asia-Pacific regions. Net revenue in these regions are very dependent on the completion of large projects and the timing of orders placed by some of our larger customers. Sales of Identity readers and RFID and NFC products and tags comprise a significant proportion of our net revenue in these regions.

Net revenue from our PACS products decreased from the prior year period due to lower sales of physical access control solutions in both the Europe and the Middle East region and the Asia-Pacific region. Net revenue from our Identity products increased by approximately 61% in the first six months of 2017 compared with the same period of the previous year, primarily due to higher sales of smart card readers in the Asia-Pacific region. Identity readers comprised approximately 53% of the net revenue throughout these regions in the first six months of 2017. Net revenue from our Credentials products, which comprised approximately 36% of sales in this region, in the first six months of 2017 was comparable with the same period of the previous year primarily as a result of higher transponder product sales in the Europe and the Middle East regions offset by lower transponder and access card product sales in the Asia-Pacific region.

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 PACS 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 differing commercial and global government budget cycles. Lower sales are expected in the U.S. 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 Asia-Pacific, with fiscal year-ends in March and June, order demand can be higher in the first quarter as customers attempt to complete projects before the end of the fiscal year. Accordingly, our net revenue levels in the first quarter each year often depends on the relative strength of project completions and sales mix between our U.S. customer base and our international customer base.

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) decreased 27% in the first six of months of 2017 compared with the same period of 2016. Research and development spending decreased by 15% in the first six months of 2017 compared with the same period of 2016 as the benefit of restructuring initiatives realized during the first six months of 2016. Selling and marketing spending in the first six months of 2017 was down by 11% compared with the first six months of 2016, due to cost saving initiatives taken in the sales and marketing organization reducing both headcount and marketing program spending. General and administrative spending in the first six months of 2017 decreased 49% from the same period in the previous year primarily due to lower legal and professional fees and the benefits of restructuring initiatives implemented in the beginning of 2016.

Results of Operations

The following table includes segment net revenue and segment net profit information for our PACS, Identity, Credentials and All Other segments and reconciles gross profit to results of continuing operations before income taxes and noncontrolling interest (dollars in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
PACS:						
Net revenue	$5,824	$5,542	5 %	$11,188	$10,655	5 %
Gross profit	3,045	3,035	0 %	6,144	5,910	4 %
Gross profit margin	52 %	55 %		55 %	55 %	
Identity:						
Net revenue	4,058	2,909	39 %	7,147	5,415	32 %
Gross profit	1,313	1,014	29 %	2,437	1,965	24 %
Gross profit margin	32 %	35 %		34 %	36 %	
Credentials:						
Net revenue	4,959	4,875	2 %	9,894	9,311	6 %
Gross profit	1,323	1,213	9 %	2,793	2,427	15 %
Gross profit margin	27 %	25 %		28 %	26 %	
All Other:						
Net revenue	(1)	150	(101 %)	3	580	(99 %)
Gross profit	2	7	(71 %)	6	261	(98 %)
Gross profit margin	(200 %)	5 %		200 %	45 %	
Total:						
Net revenue	14,840	13,476	10 %	28,232	25,961	9 %
Gross profit	5,683	5,269	8 %	11,380	10,563	8 %
Gross profit margin	38 %	39 %		40 %	41 %	
Operating expenses:						
Research and development	1,511	1,432	6 %	2,988	3,517	(15 %)
Selling and marketing	3,315	3,279	1 %	6,694	7,495	(11 %)
General and administrative	2,085	2,982	(30 %)	3,872	7,559	(49 %)
Restructuring and severance	—	201	(100 %)	-	2,940	(100 %)
Total operating expenses:	6,911	7,894	(12 %)	13,554	21,511	(37 %)
Loss from operations	(1,228)	(2,625)	(53 %)	(2,174)	(10,948)	(80 %)
Non-operating income (expense):						
Interest expense, net	(678)	(519)	31 %	(1,352)	(1,289)	5 %
Gain on extinguishment of debt	—	—	0 %	977	—	0 %
Foreign currency gains (losses), net	1	45	(98 %)	(151)	274	(155 %)
Loss before income taxes and noncontrolling interest	$(1,905)	$(3,099)	(39 %)	$(2,700)	$(11,963)	(77 %)

Net Revenue

Total net revenue in the second quarter of 2017 was $14.8 million, up 10% compared with $13.5 million in the second quarter of 2016. For the six months ended June 30, 2017, total net revenue was $28.2 million, up 9% compared with $26.0 million for the comparable period for 2016. Total net revenue was higher in the first six months of 2017, mainly driven by higher sales in our PACS, Identity and Credentials segments. A more detailed discussion of net revenue by segment follows below.

Net revenue in our PACS segment was $5.8 million in the second quarter of 2017, an increase of 5% from $5.5 million in the second quarter of 2016. In the six months ended June 30, 2017, net revenue in our PACS segment was $11.2 million, an increase of 5% from $10.7 million in the six months ended June 30, 2016. The increase in the six months ended June 30, 2017 primarily was due to higher sales of physical access control solutions, including an increase in professional services engagements, attributable to greater demand from federal government customers and higher sales through our channel partners compared to the comparable period of the prior year.

Net revenue in our Identity segment of $4.1 million in the second quarter of 2017 increased 39% from $2.9 million in the second quarter of 2016. In the six months ended June 30, 2017, net revenue in our Identity segment was $7.1 million, an increase of 32% from $5.4 million in the six months ended June 30, 2016. The increase in our Identity segment net revenue was primarily due to higher smart card reader sales in the Asia-Pacific region.

Net revenue in our Credentials segment was $5.0 million in the second quarter of 2017, an increase of 2% from $4.9 million in the second quarter of 2016. In the six months ended June 30, 2017, net revenue in our Credentials segment was $9.9 million, an increase 6% from $9.3 million in the six months ended June 30, 2016. The increase was primarily a result of higher transponder product sales in the Europe and the Middle East region offset by lower transponder and access card product sales in the Asia-Pacific region.

Net revenue in our All Other segment was negligible in the second quarter of 2017 and in the six months ended June 30, 2017 compared to $0.2 million in the second quarter of 2016 and $0.6 million in the six months ended June 30, 2016. The decrease is due to the phasing out of our digital media product lines and the discontinuation of our Chipdrive product line.

Gross Profit

Gross profit for the second quarter of 2017 was $5.7 million, or 38% of net revenue, compared with $5.3 million or 39% of net revenue in the second quarter of 2016. In the six months ended June 30, 2017, gross profit was $11.4 million, or 40% of net revenue, compared with $10.6 million, or 41% of net revenue in the six months ended June 30, 2016. Gross profit represents net revenue 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. The increase in gross profit margins in 2017 was primarily attributable to the change in product mix, with a higher proportion of sales of lower margin physical access control system products and transponders.

In our PACS segment, gross profit on sales of physical access control solutions, including panels, controllers, and access readers was $3.0 million in the second quarter of 2017 and $3.0 million in the second quarter of 2016, and $6.1 million and $5.9 million in the six months ended June 30, 2017 and 2016, respectively. Gross profit was higher in the six months ended June 30, 2017 as a direct result of higher sales in the PACS segment during the period. Gross profit margins in the PACS segment of 52% were lower in the second quarter of 2017 compared to 55% in the comparable period of 2016 primarily attributable to the impact of a higher proportion of certain lower margin sales within the segment.

In our Identity segment, gross profit on sales of information readers and modules as well as cloud-based credential provisioning and management services was $1.3 million in the second quarter of 2017 compared to $1.0 million in the second quarter of 2016, and $2.4 million and $2.0 million in the six months ended June 30, 2017 and 2016, respectively. Gross profit was higher in the six months ended June 30, 2017 as a direct result of higher sales in the Identity segment during the period. Gross profit margins in the Identity segment were lower in the six months ended June 30, 2017, at 34%, compared to the six months ended June 30, 2016 of 36%, due to product mix and to the delivery of an order to an international government agency with lower margins.

In our Credentials segment, gross profit on sales of physical access credentials and authenticity and tracking applications was $1.3 million in the second quarter of 2017 compared to $1.2 million in the second quarter of 2016, and $2.8 million and $2.4 million in the six months ended June 30, 2017 and 2016, respectively. Gross profit margins in the Credentials segment were higher in the second quarter of 2017 at 27% compared to 25% in the second quarter of 2016 due to manufacturing efficiencies attributable to higher transponder production volumes during the second quarter of 2017.

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 six months ended June 30, 2017 and June 30, 2016 is set forth below (dollars in thousands).

Research and Development

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Research and development	$1,511	$1,432	6 %	$2,988	$3,517	(15 %)
as a % of net revenue	10 %	11 %		11 %	14 %	

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.

Research and development expenses in the three and six months ended June 30, 2017 decreased primarily due to the benefit of restructuring initiatives implemented in the first quarter of 2016.

Selling and Marketing

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Selling and marketing	$3,315	$3,279	1 %	$6,694	$7,495	(11 %)
as a % of net revenue	22 %	24 %				