

Identiv, Inc.  
Form 10-Q  
November 13, 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 September 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  
( State or other jurisdiction of  
incorporation or organization)

77-0444317  
(I.R.S. Employer  
Identification No.)

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

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 November 3, 2017, the registrant had 14,245,138 shares of common stock, \$0.001 par value per share, outstanding.

## TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2017 and 2016</u>	4
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2017 and 2016</u>	5
<u>Condensed Consolidated Statement of Equity for the Nine Months Ended September 30, 2017</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016</u>	7
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4. <u>Controls and Procedures</u>	31
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	33
Item 1A. <u>Risk Factors</u>	34
Item 6. <u>Exhibits</u>	34
<u>SIGNATURES</u>	35

## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

## IDENTIV, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except par value)

	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash	\$ 15,741	\$ 9,116
Accounts receivable, net of allowances of \$459 and \$307 as of September 30, 2017 and December 31, 2016, respectively	10,642	9,430
Inventories	13,396	11,596
Prepaid expenses and other current assets	2,492	1,510
Total current assets	42,271	31,652
Property and equipment, net	2,117	2,416
Intangible assets, net	4,728	5,820
Other assets	722	712
Total assets	\$ 49,838	\$ 40,600
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,552	\$ 6,024
Current portion - payment obligation	877	786
Current portion - financial liabilities, net of discount and debt issuance costs of \$596 and \$181, respectively	9,957	8,119
Deferred revenue	1,143	1,085
Accrued compensation and related benefits	1,639	1,520
Other accrued expenses and liabilities	2,978	5,032
Total current liabilities	24,146	22,566
Long-term payment obligation	3,281	3,987
Long-term financial liabilities, net of discount and debt issuance costs of \$1,463 and \$221, respectively	6,474	9,779
Other long-term liabilities	181	335
Total liabilities	34,082	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; 15,082 and 11,836 shares	14	11

issued and 14,234 and 11,109 shares outstanding as of September 30, 2017 and December 31, 2016, respectively		
Additional paid-in capital	415,776	400,266
Treasury stock, 848 and 727 shares as of September 30, 2017 and December 31, 2016, respectively	(7,302 )	(6,708 )
Accumulated deficit	(395,131 )	(391,509 )
Accumulated other comprehensive income	2,556	2,053
Total Identiv, Inc. stockholders' equity	15,913	4,113
Noncontrolling interest	(157 )	(180 )
Total stockholders' equity	15,756	3,933
Total liabilities and stockholders' equity	\$ 49,838	\$ 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenue	\$15,432	\$15,560	\$43,664	\$41,521
Cost of revenue	9,571	8,640	26,423	24,038
Gross profit	5,861	6,920	17,241	17,483
Operating expenses:				
Research and development	1,597	1,480	4,584	4,997
Selling and marketing	3,448	3,312	10,142	10,807
General and administrative	1,247	2,115	5,119	9,674
Restructuring and severance	(49 )	160	(49 )	3,100
Total operating expenses	6,243	7,067	19,796	28,578
Loss from operations	(382 )	(147 )	(2,555 )	(11,095 )
Non-operating income (expense):				
Interest expense, net	(643 )	(525 )	(1,995 )	(1,814 )
Gain on extinguishment of debt	—	—	977	—
Foreign currency (losses) gains, net	(51 )	35	(202 )	309
Loss before income taxes and noncontrolling interest	(1,076 )	(637 )	(3,775 )	(12,600 )
Income tax benefit	42	(105 )	161	(35 )
Loss before noncontrolling interest	(1,034 )	(742 )	(3,614 )	(12,635 )
Less: Income (loss) attributable to noncontrolling interest	2	(1 )	(8 )	4
Net loss attributable to Identiv, Inc.	\$(1,032 )	\$(743 )	\$(3,622 )	\$(12,631 )
Basic and diluted net loss per share attributable to Identiv, Inc.	\$(0.07 )	\$(0.07 )	\$(0.28 )	\$(1.16 )
Weighted average shares used to compute basic and diluted				
loss per share	14,409	11,024	12,806	10,855

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 September 30, 2017		Nine Months Ended September 30, 2016	
Net loss	\$(1,034)	\$(742)	\$(3,614)	\$(12,635)
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustment	378	(64 )	518	(285 )
Total other comprehensive income (loss), net of income				
taxes	378	(64 )	518	(285 )
Comprehensive loss	(656 )	(806)	(3,096)	(12,920)
Less: Comprehensive (income) loss attributable to				
noncontrolling interest	(16 )	11	(23 )	23
Comprehensive loss attributable to Identiv, Inc. common				
stockholders	\$(672 )	\$(795)	\$(3,119)	\$(12,897)

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

## IDENTIV, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(Unaudited, in thousands)

	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, 2016	11,109	\$ 11	\$ 400,266	\$(6,708)	\$(391,509)	\$ 2,053	\$ (180)	\$ 3,933
Net loss	—	—	—	—	(3,622)	—	8	(3,614)
Other comprehensive loss	—	—	—	—	—	503	15	518
Issuance of common stock in connection with public offering	2,845	3	12,557	—	—	—	—	12,560
Issuance of warrants	—	—	2,319	—	—	—	—	2,319
Issuance of common stock in connection with vesting of stock awards	401	—	—	—	—	—	—	—
Stock-based compensation	—	—	1,916	—	—	—	—	1,916
Shares withheld in payment of taxes in connection with net share settlement of restricted stock units	(121)	—	—	(594)	—	—	—	(594)
Cancellation of reacquired warrants from extinguishment of debt	—	—	(1,282)	—	—	—	—	(1,282)
Balances, September 30, 2017	14,234	\$ 14	\$ 415,776	\$(7,302)	\$(395,131)	\$ 2,556	\$ (157)	\$ 15,756

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





## IDENTIV, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Net loss	\$(3,614 )	\$(12,635 )
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	2,081	2,492
Gain on extinguishment of debt	(977 )	—
Accretion of interest on long-term payment obligation	277	335
Amortization of debt issuance costs	617	633
Stock-based compensation expense	1,916	2,245
Loss on disposal of fixed assets	—	329
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(1,197 )	(1,166 )
Inventories	(1,785 )	2,741
Prepaid expenses and other assets	(992 )	(182 )
Accounts payable	1,531	154
Payment obligation liability	(892 )	(925 )
Deferred revenue	58	(370 )
Accrued expenses and other liabilities	(2,087 )	155
Net cash used in operating activities	(5,064 )	(6,194 )
<b>Cash flows from investing activities:</b>		
Capital expenditures	(686 )	(425 )
Net cash used in investing activities	(686 )	(425 )
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of debt, net of issuance costs	42,735	—
Repayments of debt	(42,805)	—
Sale of common stock, net of issuance costs	12,560	—
Taxes paid related to net share settlement of restricted stock units	(594 )	(180 )
Net cash provided by (used in) financing activities	11,896	(180 )
Effect of exchange rates on cash	479	(685 )
Net increase (decrease) in cash	6,625	(7,484 )
Cash at beginning of period	9,116	16,667
Cash at end of period	\$15,741	\$9,183
<b>Supplemental Disclosures of Cash Flow Information</b>		
Interest paid	\$1,379	\$1,181
Taxes paid, net	\$96	\$158
<b>Non-cash investing and financing activities:</b>		
Warrants issued as debt issuance costs in connection with debt agreements	\$2,319	\$376
Liability to be settled in common stock	\$250	\$—
Property and equipment included in accruals	\$—	\$83
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

September 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 three and nine months ended September 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 nine months ended September 30, 2017. No customer represented more than 10% of net revenue for the three months ended September 30, 2016 and one customer accounted for 10% of net revenue for the nine months ended September 30, 2016, respectively. No customer represented more than 10% of the Company’s accounts receivable balance at September 30, 2017 or December 31, 2016.

**Research and Development** — Costs to research, design, and develop the Company’s products are expensed as incurred and consist primarily of employee compensation and fees for the development of prototype products. Software development costs are capitalized beginning when a product’s technological feasibility has been established and ending when a product is available for general release to customers. Generally, the Company’s products are released soon after technological feasibility has been established. Costs incurred subsequent to achieving technological feasibility have not been significant and generally have been expensed as incurred. At September 30, 2017, the amount of capitalized software development costs totaled \$0.5 million and is included in prepaid expenses and other current assets the accompanying condensed consolidated balance sheet. No software development costs were capitalized in 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. Companies can elect a full retrospective method to recast prior-period financial statements or a modified retrospective method to recognize the cumulative effect as an adjustment to the retained earnings in the initial year. The Company plans to implement the standard in the first quarter of 2018 on a modified retrospective basis. The Company does not anticipate that this standard will have a material impact on its condensed 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 September 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 September 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, 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 September 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 September 30, 2017, the Company had \$0.3 million of liabilities measured at fair value on a nonrecurring basis which were classified as Level 1 liabilities due to the settlement provisions being a set amount of shares of the Company's common stock. There were no share settled liabilities as of December 31, 2016. The share settled liabilities is included in accrued expenses in the accompanying condensed consolidated balance sheet.

#### 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 September 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 September 30, 2017, none of the shares under the 2014 Consultant Warrant had 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. None of the shares under the EWB Warrant had been exercised. 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. None of the shares under the 2017 Consultant Warrant had been exercised.

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 had a term of four years and were 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 was 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. On August 14, 2017, the remaining 186,878 warrants expired unexercised.

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

Warrant Type	Number of Shares	Weighted	Issue Date	Expiration Date
	Issuable Upon Exercise	Average Exercise Price		
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
Total	765,000			

### 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 2007 Stock Option Plan (the “2007 Plan”) and the 2011 Incentive Compensation Plan (the “2011 Plan”), as amended.

### Stock Bonus and Incentive Plans

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 nine months ended September 30, 2017 follows:

	Number	Average Exercise Price per Share	Contractual Term (Years)	Weighted Average Remaining Average Intrinsic Value
Balance at December 31, 2016	832,941	\$ 7.11		\$—
Granted	—	—		
Cancelled or Expired	(157,456 )	10.62		
Exercised	—	—		
Balance at September 30, 2017	675,485	\$ 6.29	7.75	\$ 151,116
Vested or expected to vest at				
September 30, 2017	660,599	\$ 6.33	7.73	\$ 146,195
Exercisable at September 30, 2017	432,706	\$ 7.13	7.32	\$ 75,558

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

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Contractual Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$4.36 - \$7.20	479,810	8.47	\$ 4.48	256,300	\$ 4.58
\$7.50 - \$11.30	165,388	6.29	9.26	146,119	9.20
\$12.00 - \$19.70	17,396	4.75	13.66	17,396	13.66
\$21.70 - \$29.20	12,891	3.59	25.37	12,891	25.37
\$4.36 - \$29.20	675,485	7.75	\$ 6.29	432,706	\$ 7.13

At September 30, 2017, there was \$0.7 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 1.7 years.

## Restricted Stock and Restricted Stock Units

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

The following is a summary of restricted stock and restricted stock unit (“RSU”) activity for the nine months ended September 30, 2017:

	Number	Weighted Average
	Outstanding	Fair Value
Unvested at December 31, 2016	1,973,459	\$ 2.80
Granted	338,646	5.12
Vested	(480,764 )	3.41
Forfeited	(132,441 )	3.19
Unvested at September 30, 2017	1,698,900	\$ 3.06
Shares vested but not released	295,386	\$ 2.51

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, 2017, there was \$4.7 million of unrecognized compensation cost related to unvested RSUs granted, which is expected to be recognized over a weighted average period of 2.8 years. As of September 30, 2017, an aggregate of 1,403,514 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 nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Cost of revenue	\$ 24	\$ 26	\$ 71	\$ 72
Research and development	130	69	361	205
Selling and marketing	193	148	463	433
General and administrative	317	620	1,021	1,535
Total	\$ 664	\$ 863	\$ 1,916	\$ 2,245

## Common Stock Reserved for Future Issuance

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

Exercise of outstanding stock options and vesting of RSUs	2,374,385
ESPP	293,888
Shares of common stock available for grant under the 2011 Plan	395,330
Noncontrolling interest in Bluehill AG	10,355
Warrants to purchase common stock	765,000
Shares issuable to settle liability	53,880
Total	3,892,838

## 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, 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 3,203,620 common stock equivalents for both the three and nine months ended September 30, 2017, and 3,129,479 common stock equivalents for both the three and nine months ended September 30, 2016, respectively.

## Accumulated Other Comprehensive Income

Accumulated other comprehensive income ("AOCI") at September 30, 2017 and December 31, 2016 consists of foreign currency translation adjustments totaling \$2.6 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):

	September 30, 2017	December 31, 2016
Raw materials	\$ 4,081	\$ 3,346
Work-in-progress	31	285
Finished goods	9,284	7,965
Total	\$ 13,396	\$ 11,596

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

	September 30, 2017	December 31, 2016
Building and leasehold improvements	\$ 1,863	\$ 1,884
Furniture, fixtures and office equipment	1,933	2,002
Plant and machinery	9,319	8,848
Purchased software	1,923	1,717
Total	15,038	14,451
Accumulated depreciation	(12,921 )	(12,035 )
Property and equipment, net	\$ 2,117	\$ 2,416

The Company recorded depreciation expense of \$0.3 million and \$0.5 million during the three months ended September 30, 2017 and 2016, respectively, and \$1.0 million and \$1.4 million during the nine months ended September 30, 2017 and 2016, respectively.

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

	September 30, 2017	December 31, 2016
Accrued restructuring	\$ —	\$ 237
Accrued professional fees	1,203	2,371
Income taxes payable	238	334
Other accrued expenses	1,537	2,090
Total	\$ 2,978	\$ 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



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

Gross carrying amount at September 30, 2017	\$ 4,600	\$ 10,639	\$ 15,239
Accumulated amortization	(3,145 )	(7,366 )	(10,511)
Intangible Assets, net at September 30, 2017	\$ 1,455	\$ 3,273	\$ 4,728

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 nine months ended September 30, 2017.

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

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

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Cost of revenue	\$ 112	\$ 112	\$ 336	\$ 336
Selling and marketing	252	252	756	756
<b>Total</b>	<b>\$ 364</b>	<b>\$ 364</b>	<b>\$ 1,092</b>	<b>\$ 1,092</b>

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

2017 (remaining three months)	\$ 363
2018	1,455
2019	1,455
2020	1,455
Thereafter	—
<b>Total</b>	<b>\$ 4,728</b>

### 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 \$0.3 million of interest expense during the three and nine months ended September 30, 2017, respectively, and \$0.1 million and \$0.3 million of interest expense during the three and nine months ended September 30, 2016, respectively, in its condensed consolidated statements of operations for interest accreted on the long-term payment obligation.

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

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

2017 (remaining three months)	\$ 300
2018	1,237
2019	1,288
2020	1,433
2021	369
Present value discount factor	(469 )
Total	4,158
Less: Current portion - payment obligation	(877 )
Long-term payment obligation	\$3,281

## 7. Financial Liabilities

Financial liabilities consist of (in thousands):

	September 30, 2017	December 31, 2016
Secured term loan	\$ 10,000	\$ 10,000
Bank revolving loan facility	8,490	8,300
Total before discount and debt issuance costs	18,490	18,300
Less: Current portion of financial liabilities	(9,957 )	(8,119 )
Less: Current portion of unamortized discount and debt issuance costs	(596 )	(181 )
Less: Long-term portion of unamortized discount and debt issuance costs	(1,463 )	(221 )
Long-term financial liabilities	\$ 6,474	\$ 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 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 September 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 long-term financial liabilities for the next four years under the current terms of the Credit Agreement, as amended, at September 30, 2017 (in thousands):

	2018	2019	2020	2021	Total
Bank term loan	\$2,994	\$4,028	\$2,978	\$	—\$10,000

## 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 nine months ended September 30, 2017 and 2016 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>PACS:</b>				
Net revenue	\$6,434	\$7,253	\$17,622	\$17,908
Gross profit	3,412	4,334	9,556	10,244
Gross profit margin	53 %	60 %	54 %	57 %
<b>Identity:</b>				
Net revenue	3,421	3,508	10,568	8,923
Gross profit	1,229	1,359	3,666	3,324
Gross profit margin	36 %	39 %	35 %	37 %
<b>Credentials:</b>				
Net revenue	5,577	4,799	15,471	14,110
Gross profit	1,220	1,227	4,013	3,654
Gross profit margin	22 %	26 %	26 %	26 %
<b>All Other:</b>				
Net revenue	—	—	3	580
Gross profit	—	—	6	261
Gross profit margin	—	—	200 %	45 %
<b>Total:</b>				
Net revenue	15,432	15,560	43,664	41,521
Gross profit	5,861	6,920	17,241	17,483
Gross profit margin	38 %	44 %	39 %	42 %
<b>Operating expenses:</b>				
Research and development	1,597	1,480	4,584	4,997
Selling and marketing	3,448	3,312	10,142	10,807
General and administrative	1,247	2,115	5,119	9,674



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

Restructuring and severance	(49 )	160	(49 )	3,100
Total operating expenses:	6,243	7,067	19,796	28,578
Loss from operations	(382 )	(147 )	(2,555 )	(11,095)
Non-operating income (expense):				
Interest expense, net	(643 )	(525 )	(1,995 )	(1,814 )
Gain on extinguishment of debt	—	—	977	—
Foreign currency (losses) gains, net	(51 )	35	(202 )	309
Loss before income taxes and noncontrolling interest	\$(1,076 )	\$(637 )	\$(3,775 )	\$(12,600)

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Americas	\$ 10,291	\$ 9,924	\$ 28,894	\$ 27,343
Europe and the Middle East	1,771	2,834	5,767	6,654
Asia-Pacific	3,370	2,802	9,003	7,524
Total	\$ 15,432	\$ 15,560	\$ 43,664	\$ 41,521
<b>Revenues:</b>				
Americas	67	% 64	% 66	% 66
Europe and the Middle East	11	% 18	% 13	% 16
Asia-Pacific	22	% 18	% 21	% 18
Total	100	% 100	% 100	% 100

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

	September 30, 2017	December 31, 2016
<b>Property and equipment, net:</b>		
Americas	\$ 877	\$ 1,100
Europe and the Middle East	115	162
Asia-Pacific	1,125	1,154
Total property and equipment, net	\$ 2,117	\$ 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 third quarter of 2017, the Company recorded a credit resulting from actual expenditures being less than originally accrued. In the nine months ended September 30, 2016, the Company incurred restructuring and severance costs of \$3.1 million.

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

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

	Nine Months Ended September 30,	
	2017	2016
Balance at beginning of period	\$237	\$633
Restructuring expense incurred for the period	(49 )	3,100
Payments and non-cash item adjustment during the period	(188)	(3,246)
Balance at end of period	\$—	\$487

## 11. Commitments and Contingencies

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

	Operating Leases	Purchase Commitments	Other Contractual Commitments	Total
2017 (remaining three months)	\$ 318	\$ 8,706	\$ 42	\$9,066
2018	1,195	1,048	—	2,243
2019	1,089	—	—	1,089
2020	893	—	—	893
2021	636	—	—	636
Thereafter	450	—	—	450
Total	\$ 4,581	\$ 9,754	\$ 42	\$14,377

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.

## 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):

	Nine Months Ended September 30,			
	2017		2016	
Americas	\$28,894		\$27,343	
Europe and the Middle East	5,767		6,654	
Asia-Pacific	9,003		7,524	
Total	\$43,664		\$41,521	
Revenues:				
Americas	66	%	66	%
Europe and the Middle East	13	%	16	%
Asia-Pacific	21	%	18	%
Total	100	%	100	%

## Net Revenue Trends

Net revenue in the nine months ended September 30, 2017 increased 5% compared with the first nine months of 2016. Approximately 40% of our net revenue in the nine months ended September 30, 2017 came from our PACS segment. Net revenue in the PACS segment was \$17.6 million and \$17.9 million for the nine months ended September 30, 2017 and 2016, respectively. Net revenue in the Identity segment, which represented approximately 24% of total net revenue, was \$10.6 million in the nine months ended September 30, 2017 compared to \$8.9 million in the prior year period. Net revenue in our Credentials segment represented approximately 35% of our net revenue. Net revenue in the Credentials segment was \$15.5 million in the nine months ended September 30, 2017 compared to \$14.1 million in the comparable period in 2016.

## Net Revenue in the Americas

Net revenue in the Americas was approximately \$28.9 million in the nine months ended September 30, 2017, accounting for 66% of total net revenue, and was up 6% compared to \$27.3 million in the nine 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 represented approximately 55% of our net revenue in the Americas region.

Net revenue in our PACS segment for the nine months ended September 30, 2017 was comparable to the prior year period primarily due to higher of software products sales, higher sales through our channel partners, and an increase in professional services engagements, offset by lower sales of physical access control solutions attributable to the timing of orders received from federal government customers late or after the end of the third quarter of 2017. Net revenue in our Identity segment decreased in the nine months ended September 30, 2017 compared to the comparable period of the previous year primarily due to lower smart card reader sales. Net revenue in our Credentials segment increased 22% in the nine months ended September 30, 2017 compared with the same period of the prior year primarily due to higher transponder and access card 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 \$14.8 million in the nine months ended September 30, 2017, accounting for 34% of total net revenue and was up 4% compared to \$14.2 million in the first nine months of 2016 primarily as a result of increased sales in our Asia-Pacific region, partially offset by lower sales in our Europe and the Middle East region. 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 in the nine months ended September 30, 2017 from the prior year period due to lower sales of physical access control solutions primarily in the Europe and the Middle East region. Net revenue from our Identity products increased by approximately 40% in the nine months ended September 30, 2017 compared with the same period of the prior year, primarily due to higher sales of smart card readers in the Asia-Pacific region. Identity readers comprised approximately 50% of the net revenue in both the Europe and the Middle East and the Asia-Pacific regions in the first nine months of 2017. Net revenue from our Credentials products, which comprised approximately 37% of sales in both the Europe and the Middle East and the Asia-Pacific regions in the first nine months of 2017, decreased 8% compared with the same period of the prior year primarily as a result of lower transponder and access card product sales in the Asia-Pacific region, partially offset by higher transponder product sales in the Europe and the Middle East 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 22% in the first nine months of 2017 compared with the same period of 2016. Research and development spending decreased by 8% in the first nine months of 2017 compared with the same period of 2016 resulting from restructuring initiatives undertaken in the first quarter of 2016 and additional headcount reductions in 2017. Selling and marketing spending in the first nine months of 2017 decreased by 6% compared with the same period of 2016, due to cost savings initiatives taken in the sales and marketing organization reducing marketing program spending. General and administrative spending in the first nine months of 2017 decreased 47% from the same period in the prior year primarily due to lower legal and professional fees, reimbursements received from an insurance provider for legal fees incurred related to legal proceedings, and credits received from service providers for legal fees invoiced in prior periods.

## 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			Nine Months Ended		
	September 30,		% Change	September 30,		% Change
	2017	2016		2017	2016	
<b>PACS:</b>						
Net revenue	\$6,434	\$7,253	(11 %)	\$17,622	\$17,908	(2 %)
Gross profit	3,412	4,334	(21 %)	9,556	10,244	(7 %)
Gross profit margin	53 %	60 %		54 %	57 %	
<b>Identity:</b>						
Net revenue	3,421	3,508	(2 %)	10,568	8,923	18 %
Gross profit	1,229	1,359	(10 %)	3,666	3,324	10 %
Gross profit margin	36 %	39 %		35 %	37 %	
<b>Credentials:</b>						
Net revenue	5,577	4,799	16 %	15,471	14,110	10 %
Gross profit	1,220	1,227	(1 %)	4,013	3,654	10 %
Gross profit margin	22 %	26 %		26 %	26 %	
<b>All Other:</b>						
Net revenue	—	—	0 %	3	580	(99 %)
Gross profit	—	—	0 %	6	261	(98 %)
Gross profit margin	—	—		200 %	45 %	
<b>Total:</b>						
Net revenue	15,432	15,560	(1 %)	43,664	41,521	5 %
Gross profit	5,861	6,920	(15 %)	17,241	17,483	(1 %)
Gross profit margin	38 %	44 %		39 %	42 %	
<b>Operating expenses:</b>						
Research and development	1,597	1,480	8 %	4,584	4,997	(8 %)
Selling and marketing	3,448	3,312	4 %	10,142	10,807	(6 %)
General and administrative	1,247	2,115	(41 %)	5,119	9,674	(47 %)
Restructuring and severance	(49 )	160	(131 %)	(49 )	3,100	(102 %)
Total operating expenses:	6,243	7,067	(12 %)	19,796	28,578	(31 %)
Loss from operations	(382 )	(147 )	160 %	(2,555 )	(11,095 )	(77 %)
<b>Non-operating income (expense):</b>						
Interest expense, net	(643 )	(525 )	22 %	(1,995 )	(1,814 )	10 %
Gain on extinguishment of debt	—	—	0 %	977	—	0 %
Foreign currency gains (losses), net	(51 )	35	(246 %)	(202 )	309	(165 %)
Loss before income taxes and noncontrolling interest	\$(1,076 )	\$(637 )	69 %	\$(3,775 )	\$(12,600 )	(70 %)

## Net Revenue

Total net revenue in the third quarter of 2017 was \$15.4 million, down 1% compared with \$15.6 million in the third quarter of 2016. For the nine months ended September 30, 2017, total net revenue was \$43.7 million, up 5% compared with \$41.5 million for the comparable period for 2016. Total net revenue was higher in the first nine

months of 2017, mainly driven by higher sales in our Identity and Credentials segments. A more detailed discussion of net revenue by segment follows below.

Net revenue in our PACS segment was \$6.4 million in the third quarter of 2017, a decrease of 11% from \$7.3 million in the third quarter of 2016. The decrease was primarily due to lower sales of physical access control solutions attributable to the timing of orders received from federal government customers late or after the quarter ended, partially offset by an increase in professional services engagements and higher sales through our channel partners. Net revenue in the nine months ended September 30, 2017 of \$17.6 million was comparable to \$17.9 million in the nine months ended September 30, 2016.

Net revenue in our Identity segment of \$3.4 million in the third quarter of 2017 decreased 2% from \$3.5 million in the third quarter of 2016 as a result of higher smart card reader sales in the Asia-Pacific region, offset by lower smart card reader sales in the Americas region. In the nine months ended September 30, 2017, net revenue in our Identity segment was \$10.6 million, an increase of

18% from \$8.9 million in the nine months ended September 30, 2016. The increase was primarily due to higher smart card reader sales in the Asia-Pacific region, partially offset by lower smart card reader sales in the Americas region.

Net revenue in our Credentials segment was \$5.6 million in the third quarter of 2017, an increase of 16% from \$4.8 million in the third quarter of 2016. The increase was primarily a result of higher transponder and access card product sales in the Americas region, partially offset by lower transponder product sales in the Europe and the Middle East region. In the nine months ended September 30, 2017, net revenue in our Credentials segment was \$15.5 million, an increase of 10% from \$14.1 million in the nine months ended September 30, 2016. The increase was primarily a result of higher transponder and access card product sales in the Americas and the Europe and the Middle East regions, partially offset by lower transponder and access card product sales in the Asia-Pacific region.

No net revenue was recognized in our All Other segment in the third quarter of 2017 and 2016, respectively. Net revenue in our All Other segment recognized in the nine months ended September 30, 2017 was negligible compared to \$0.6 million in the comparable period in the prior year. The decrease is due to the phasing out of our digital media product lines and the discontinuation of our Chipdrive product line in the fourth quarter of 2016.

### Gross Profit

Gross profit for the third quarter of 2017 was \$5.9 million, or 38% of net revenue, compared with \$6.9 million or 44% of net revenue in the third quarter of 2016. In the nine months ended September 30, 2017, gross profit was \$17.2 million, or 39% of net revenue, compared with \$17.5 million, or 42% of net revenue in the nine months ended September 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.

In our PACS segment, gross profit on sales of physical access control solutions, including panels, controllers, and access readers was \$3.4 million in the third quarter of 2017 and \$4.3 million in the third quarter of 2016, and \$9.6 million and \$10.2 million in the nine months ended September 30, 2017 and 2016, respectively. Gross profit was lower in the nine months ended September 30, 2017 as a direct result of lower segment sales and higher sales of lower margin products in the PACS segment during the period. Gross profit margins in the PACS segment of 53% were lower in the third quarter of 2017 compared to 60% in the comparable period of 2016 primarily attributable to the impact of a higher proportion of 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 \$1.2 million in the third quarter of 2017 compared to \$1.4 million in the third quarter of 2016, and \$3.7 million and \$3.3 million in the nine months ended September 30, 2017 and 2016, respectively. Gross profit was lower in the nine months ended September 30, 2017 as a direct result of higher sales of lower margin products in the Identity segment during the period. Gross profit margins in the Identity segment of 36% were lower in the third quarter of 2017 compared to 39% in the comparable period of 2016 primarily attributable to the delivery of orders to international customers with lower margins.

In our Credentials segment, gross profit on sales of physical access credentials and authenticity and tracking applications was \$1.2 million in the third quarter of 2017 compared to \$1.2 million in the third quarter of 2016, and \$4.0 million and \$3.7 million in the nine months ended September 30, 2017 and 2016, respectively. Gross profit margins in the Credentials segment were lower in the third quarter of 2017 at 22% compared to 26% in the third quarter of 2016 primarily due to the impact of higher a proportion of lower margin sales.

We expect there will be 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.

26

---



## Operating Expenses

Information about our operating expenses for the three and nine months ended September 30, 2017 and 2016 is set forth below (dollars in thousands).

## Research and Development

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Research and development	\$1,597	\$1,480	8 %	\$4,584	\$4,997	(8 %)
as a % of net revenue	10 %	10 %		10 %	12 %	

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 third quarter of 2017 increased compared to the comparable prior year period primarily due to the higher product certification costs. Research and development expenses decreased in the nine months ended September 30, 2017 compared to the prior year period as a result of the restructuring initiatives undertaken in the first quarter of 2016 and additional headcount reductions in 2017, partially offset by higher product certification costs.

## Selling and Marketing

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Selling and marketing	\$3,448	\$3,312	4 %	\$10,142	\$10,807	(6 %)
as a % of net revenue	22 %	21 %		23 %	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.

Selling and marketing expenses in the third quarter of 2017 were comparable to the prior year quarter. Selling and marketing expenses in the nine months ended September 30, 2017 decreased primarily due to a reduction in marketing program spending compared to the same period in the prior year.

## General and Administrative

	Three Months Ended September 30,	Nine Months Ended September 30,
--	-------------------------------------	------------------------------------

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

	2017	2016	% Change	2017	2016	% Change
General and administrative	\$1,247	\$2,115	(41 %)	\$5,119	\$9,674	(47 %)
as a % of net revenue	8 %	14 %		12 %	23 %	

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 professional services.

General and administrative expenses decreased primarily due to lower professional and legal fees, including reimbursements of \$0.8 million and \$1.0 million in the three and nine months ended September 30, 2017, respectively, from our insurance provider for legal fees incurred in connection with matters related to a complaint by a former employee, related investigations, the class and derivative litigation and all related proceedings.

## Restructuring and Severance Charges

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Restructuring and severance	\$(49)	\$160	(131 %)	\$(49)	\$3,100	(102 %)

In the first quarter of 2016, we implemented a worldwide restructuring plan designed to refocus our resources on our core business segments, including physical access and transponders, and to consolidate our operations in several worldwide locations. The restructuring plan included reducing our non-manufacturing employee base, reallocating overhead roles into direct business activities and eliminating certain management and executive roles. In the third quarter of 2017, we recorded a credit resulting from actual expenditures being less than originally accrued. In the nine months ended September 30, 2016, we incurred restructuring and severance costs of \$3.1 million.

See Note 10, Restructuring and Severance, in the accompanying notes to our unaudited condensed consolidated financial statements for more information.

## Interest Expense, Net and Gain on Extinguishment of Debt

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Interest expense, net	\$(643)	\$(525)	22 %	\$(1,995)	\$(1,814)	10 %
Gain on extinguishment of debt	\$—	\$—	— %	\$977	\$—	— %

Interest expense, net consists of interest on financial liabilities and interest accretion expense for a liability to a long-term payment obligation arising from our acquisition of Hirsch Electronics Corporation. The higher net interest expense in the third quarter of 2017 and the nine months ended September 30, 2017 is attributable to higher interest costs related to our debt facility, partially offset by lower debt levels compared to the comparable periods in the prior year.

The gain on extinguishment of debt represents the difference between the reacquisition price of the existing debt facility and its net carrying amount. See Note 7, Financial Liabilities, in the accompanying notes to our unaudited condensed consolidated financial statements for more information.

## Foreign Currency Gains (Losses), Net

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Foreign currency (losses) gains, net	\$(51)	\$35	(246 %)	\$(202)	\$309	(165 %)

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

Changes in currency valuation in the periods mainly were the result of exchange rate movements between the U.S. dollar and the Euro. 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			Nine Months Ended		
	September 30,		% Change	September 30,		% Change
	2017	2016		2017	2016	
Income tax benefit	\$42	\$(105)	(140 %)	\$161	\$(35)	(560 %)
Effective tax rate	4 %	(16 %)		(4 %)	0 %	

As of September 30, 2017, our deferred tax assets are fully offset by a valuation allowance. 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 all of our net U.S. and 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.

We recorded an income tax benefit during the three and nine months ended September 30, 2017. The effective tax rates for the nine months ended September 30, 2017 and 2016 differ from the federal statutory rate of 34% primarily due to a change in valuation allowance, a true-up of prior taxes, changes to uncertain tax positions, and the provision or benefit in certain foreign jurisdictions, which are subject to lower tax rates.

#### Liquidity and Capital Resources

As of September 30, 2017, our working capital, which we define as current assets less current liabilities, was \$18.1 million, an increase of \$9.0 million compared to \$9.1 million as of December 31, 2016. As of September 30, 2017, our cash balance was \$15.7 million.

The following summarizes our cash flows for the nine months ended September 30, 2017 and 2016 (in thousands):

	Nine Months Ended September 30,	
	2017	2016
Net cash used in operating activities	\$(5,064 )	\$(6,194 )
Net cash used in investing activities	(686 )	(425 )
Net cash provided by (used in) financing activities	11,896	(180 )
Effect of exchange rates on cash	479	(685 )
Net increase (decrease) in cash	6,625	(7,484 )
Cash, beginning of period	9,116	16,667
Cash, end of period	\$15,741	\$9,183

Significant commitments that will require the use of cash in future periods include obligations under operating leases, a long-term payment obligation, secured note and revolver, purchase commitments and other obligations. Gross committed operating lease obligations were \$4.6 million, the long-term gross payment obligation was \$4.6 million, the bank term loan, revolving loan facility and interest related obligation were \$20.7 million, and purchase commitments and other obligations were \$9.8 million at September 30, 2017. Total commitments due within one year were \$22.0 million and due thereafter were \$17.7 million at September 30, 2017. These commitment levels as of September 30, 2017 are based on existing terms of our operating leases, obligations with suppliers, a liability to a former related party and an existing credit agreement.

Cash used in operating activities for the nine months ended September 30, 2017 was primarily due to the net loss of \$3.6 million and by decreases in cash from net changes in operating assets and liabilities of \$5.4 million, partially offset by adjustments for certain non-cash items of \$3.9 million, consisting primarily of a gain on extinguishment of debt, depreciation, amortization, amortization of debt issuance costs, and stock-based compensation. For the nine months ended September 30, 2016, cash used in operating activities was primarily due to the net loss of \$12.6 million, partially offset by an increase in cash from net changes in operating assets and liabilities of \$0.4 million and by adjustments for certain non-cash items of \$6.0 million.

Cash used in investing activities for the nine months ended September 30, 2017 and 2016 was \$0.7 million and \$0.4 million, respectively, and related to capital expenditures.

Cash provided by financing activities during the nine months ended September 30, 2017 related to borrowings of debt, net of issuance costs, of \$42.7 million, and proceeds from the sale of our common stock, net of issuance costs of \$12.6 million, offset by repayments of debt of \$42.8 million and taxes paid related to net share settlement of restricted stock units of \$0.6 million. Cash used in financing activities during the nine months ended September 30, 2016 was attributable to taxes paid related to net share settlement of restricted stock units of \$0.2 million.

We consider the undistributed earnings of our foreign subsidiaries, if any, as of September 30, 2017, 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 that are held outside the U.S. and 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, 2017, the amount of cash held at such subsidiaries was \$0.9 million. We have not, nor do we currently 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 February 8, 2017, we entered into Loan and Security Agreements with East West Bank, and Venture Lending & Leasing VII, Inc., or VLL7, and Venture Lending & Leasing VIII, Inc., or VLL8. The Loan and Security Agreement with East West Bank provides for a \$10.0 million revolving loan facility, and the Loan and Security Agreement with VLL7 and VLL8 provides for a term loan in aggregate principal amount of \$10.0 million. In connection with the closing of both Loan and Security Agreements, we repaid all outstanding amounts under our Credit Agreement with Opus Bank. See Note 7, Financial Liabilities, in the accompanying notes to our condensed consolidated financial statements for more information.

We have historically incurred operating losses and negative cash flows from operating activities. As of September 30, 2017, we have a total accumulated deficit of \$395.1 million. During the nine months ended September 30, 2017, we had a consolidated net loss of \$3.6 million. Although we have, and expect to continue, to realize benefits of our restructuring initiatives implemented in 2016, we may continue to incur losses in the future.

We believe our existing cash balance, together with cash generated from operations and available credit under our Loan and Security Agreements, will be sufficient to satisfy our working capital needs to fund operations for the next twelve months. We may also use cash to acquire or invest in complementary businesses, technologies, services or products that would change our cash requirements. We may also finance our cash requirements through public or private equity offerings, debt financings or other arrangements. However, there can be no assurance that additional capital, if required, will be available to us or that such capital will be available to us on acceptable terms. If we raise funds by issuing equity securities, dilution to stockholders could result. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. The terms of debt securities issued or borrowings could impose significant restrictions on our operations. The incurrence of additional indebtedness or the issuance of certain equity securities could result in increased fixed payment obligations and could also result in restrictive covenants, such as limitations on our ability to incur additional debt or issue additional equity, limitations on our ability to acquire or license intellectual property rights and other operating restrictions that could adversely affect our ability to conduct our business. Our Loan and Security Agreements impose restrictions on our operations, increases our fixed payment obligations and have restrictive covenants. In addition, the issuance of additional equity securities by us, or the possibility of such issuance, may cause the market price of our common stock to decline. If we are not able to secure additional funding when needed, we may have to curtail or reduce the scope of our business or forgo potential business opportunities.

#### Off-Balance Sheet Arrangements

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

#### Critical Accounting Policies and Estimates

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“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 three months ended September 30, 2017, 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, 2016.



## Recent Accounting Pronouncements

See Note 1, Organization and Summary of Significant Accounting Policies, in the accompanying notes to our unaudited condensed consolidated financial statements in Item 1 of Part I of this Quarterly Report for a 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 three months ended September 30, 2017. For discussion of our 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, 2016.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

As of the end of the three months ended September 30, 2017, as required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation under the supervision and with the participation of members of our senior management, including our CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Disclosure controls and procedures are those controls and other procedures that are designed to provide reasonable assurance that the information required to be disclosed in our SEC reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Based on our evaluation, our management, including our CEO and CFO, concluded that as of September 30, 2017, our disclosure controls and procedures were effective at the reasonable assurance level.

### Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. GAAP. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and or directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the interim or annual consolidated financial statements.

A control system, no matter how well designed and operated, can only provide reasonable assurance 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.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

In connection with the audit of the Company's financial statements as of and for the year ended December 31, 2015, management identified a material weakness in internal control over financial reporting during 2015, and the material weakness was ongoing. Management determined that the design and operating effectiveness of the Company's controls over the financial statement close process related to the application of our accounting policies and the presentation of disclosures in the financial statements had been inadequate. Specifically, this material weakness arose from insufficient review and oversight of the recording of complex and non-routine transactions, including revenue transactions, due to an insufficient number of accounting personnel with appropriate knowledge, experience or training in U.S. GAAP.

31

---

A number of remediation actions and organizational changes were enacted to address specific control weaknesses identified in our revenue and expenditure cycles. During the course of 2016, as part of our restructuring initiatives announced in the first quarter of 2016, we streamlined our global operations, transitioned to a single accounting system across substantially all our businesses, and strengthened our global accounting and finance function in Orange County, California. In 2017, we implemented procedures and controls over the financial statement close process, reallocated worldwide accounting resources, and continued to strengthen our accounting and finance team by hiring additional personnel with U.S. GAAP experience. We believe these initiatives allow for the necessary review and oversight of the recording complex and non-routine transactions. Management has determined that with the remediation measures undertaken in 2016 and through June 30, 2017, the material weakness has been fully remediated as of June 30, 2017. Our conclusion has not been reviewed by our independent registered public accounting firm.

Our management, including our CEO and CFO, assessed our internal control over financial reporting as of September 30, 2017. In making the assessment of internal control over financial reporting, our management based its assessment on the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in “Internal Control — Integrated Framework of 2013.” Our management’s assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed by our internal accounting and finance organization, but has not been reviewed by our independent registered public accounting firm.

Based on management’s assessment, management has concluded that the Company’s internal control over financial reporting was effective as of September 30, 2017.

#### Changes in Internal Controls over Financial Reporting

Other than, the items noted above, we have made no changes to our internal control over financial reporting during the three months ended September 30, 2017 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## PART II: OTHER INFORMATION

## Item 1. Legal Proceedings

On December 16, 2015, we and certain of our present and former officers and directors were named as defendants in a putative class action lawsuit filed in the United States District Court for the Northern District of California, entitled *Rok v. Identiv, Inc., et al.*, Case No. 15-cv-05775, alleging violations of Section 10(b) of the Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act of 1934. On May 3, 2016, the court-appointed lead plaintiff Thomas Cunningham in the Rok lawsuit filed an amended complaint and a notice of dismissal without prejudice of all current or former officers and directors other than Jason Hart and Brian Nelson. On June 6, 2016, each of us, Jason Hart, and Brian Nelson filed a motion to dismiss for failure to state a claim upon which relief can be granted in the Rok lawsuit; on August 5, 2016, the court granted those motions with leave for the lead plaintiff to file a second amended complaint. On September 12, 2016, the lead plaintiff in the Rok lawsuit filed a second amended complaint. On October 10, 2016, each of us, Jason Hart, and Brian Nelson filed a motion to dismiss that second amended complaint for failure to state a claim upon which relief can be granted in the Rok lawsuit; on January 4, 2017, the court granted those motions with prejudice and entered judgment for us and the other defendants and against the lead plaintiff. On February 6, 2017, the lead plaintiff initiated an appeal of the court's decision in the Ninth Circuit Court of Appeals. Following the lead plaintiff's routine request to extend filing deadlines, which the Court of Appeals approved, the lead plaintiff's opening appellate brief was filed on June 14, 2017. Following Jason Hart's routine request to extend filing deadlines, which the Court of Appeals approved, the answering briefs of the Company and the other defendants were filed on August 14, 2017. Following the lead plaintiff's routine request to extend filing deadlines, which the Court of Appeals approved, the lead plaintiff's optional reply brief was filed on October 5, 2017. The Ninth Circuit Court of Appeals has not yet scheduled oral argument or entered a ruling on the lead plaintiff's appeal. In addition, three shareholder derivative actions were filed between January and February 2016. On January 1, 2016, certain of our present and former officers and directors were named as defendants, and we were named as nominal defendant, in a shareholder derivative lawsuit filed in the United States District Court for the Northern District of California, entitled *Oswald v. Humphreys, et al.*, Case No. 16-cv-00241-CRB, alleging breach of fiduciary duty and waste claims. On January 25, 2016, certain of our present and former officers and directors were named as defendants, and we were named as nominal defendant, in a shareholder derivative lawsuit filed in the Superior Court of the State of California, County of Alameda, entitled *Chopra v. Hart, et al.*, Case No. RG16801379, alleging breach of fiduciary duty claims. On February 9, 2016, certain of our present and former officers and directors were named as defendants, and we were named as nominal defendant, in a shareholder derivative lawsuit filed in the Superior Court of the State of California, County of Alameda, entitled *Wollnik v. Wenzel, et al.*, Case No. HG16803342, alleging breach of fiduciary duty, corporate waste, gross mismanagement, and unjust enrichment claims. These lawsuits generally allege that we made false and/or misleading statements and/or failed to disclose information in certain public filings and disclosures between 2013 and 2015. Each of the lawsuits seeks one or more of the following remedies: unspecified compensatory damages, unspecified exemplary or punitive damages, restitution, declaratory relief, equitable and injunctive relief, and reasonable costs and attorneys' fees. On May 2, 2016, the court in the Chopra lawsuit entered an order staying proceedings in the Chopra lawsuit in favor of the Oswald lawsuit, based on a stipulation to that effect filed by the parties in the Chopra lawsuit on April 28, 2016. Similarly, on June 28, 2016, the court in the Wollnik lawsuit entered a stipulated order staying proceedings in the Wollnik lawsuit in favor of the Oswald lawsuit. On June 17, 2016, the plaintiff in the Oswald lawsuit filed an amended complaint. On August 1, 2016, we filed a motion to dismiss for failure by plaintiff to make a pre-lawsuit demand on our board of directors, which motion was heard on October 14, 2016. The judge in the Oswald lawsuit issued an order on November 7, 2016 granting our motion to dismiss, without prejudice. In addition, the court stayed the case so that plaintiff could exercise whatever rights he had under Section 220 of the Delaware General Corporation Law. On or around November 30, 2016, the plaintiff purported to serve a books and records demand under Section 220 of the Delaware General Corporation Law. We have responded to that demand. On March 21, 2017, we and the plaintiff in the Oswald lawsuit filed a stipulation and proposed order lifting the stay of the case, granting the plaintiff leave to amend, and setting a briefing schedule. That stipulation proposed that the judge's stay of the case entered November 7, 2016 be lifted, that a stay of proceedings as to the individual defendants that the judge previously

entered remain in place, that the plaintiff may file a second amended complaint on or before April 10, 2017, that we may file a motion to dismiss that second amended complaint on or before May 12, 2017, that the plaintiff's opposition to such a motion to dismiss shall be filed on or before June 12, 2017, that our reply in support of such a motion shall be filed on or before June 30, 2017, and that the hearing on such a motion to dismiss shall be held on August 11, 2017 or such other date as the court may order. On March 22, 2017, the court entered an order approving that stipulation. The plaintiff in the Oswald lawsuit filed his second amended complaint on April 10, 2017. We then filed a motion to dismiss that second amended complaint on May 12, 2017, the plaintiff filed an opposition to that motion to dismiss on June 12, 2017, and we filed a reply in support of the motion on June 30, 2017. The hearing on that motion to dismiss was rescheduled by stipulation of the parties to September 22, 2017 and then further rescheduled by the court to October 6, 2017. The hearing on that motion to dismiss was held on October 6, 2017, and that day the court entered a minute entry indicating the motion is denied and the court will issue an order to that effect. The court has not yet issued that order. On October 18, 2017, the court in the Wollnik lawsuit conducted a case management conference, at the conclusion of which the court scheduled a complex determination hearing for November 28, 2017 and, if the complex determination is denied, a further case management conference in July 2018. We intend to vigorously defend against these lawsuits. We cannot currently predict the impact or resolution of each of these lawsuits or reasonably estimate a range of possible loss, if any, which could be material, and the resolution of these lawsuits may harm our business and have a material adverse impact on our financial condition.

From time to time, we could become subject to claims arising in the ordinary course of business or could be named a defendant in additional lawsuits. The outcome of such claims or other proceedings cannot be predicted with certainty and may 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. 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.

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors previously disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 6. Exhibits

Exhibit Number	Description
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u>
32*	<u>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.</u>
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

\*Furnished herewith and not “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933 or the Exchange Act, except to the extent that the registrant specifically incorporates them by reference.



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 9, 2017 By: /S/ Steven Humphreys  
Steven Humphreys  
Chief Executive Officer  
(Principal Executive Officer)

November 9, 2017 By: /S/ Sandra Wallach  
Sandra Wallach  
Chief Financial Officer and Secretary  
(Principal Financial and Accounting Officer)