Identiv, Inc.
Form 10-Q
May 13, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

COMMISSION FILE NUMBER: 000-29440

IDENTIV, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

2201 Walnut Avenue, Suite 100

Fremont, California 94538

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES INCLUDING ZIP CODE)

(949) 250-8888

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

N/A

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

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company þ

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

At May 6, 2016, 10,746,911 shares of common stock were outstanding.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

IDENTIV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except par value)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash	$8,955	$16,667
Accounts receivable, net of allowances of $376 and $346 as of March 31, 2016 and December 31, 2015, respectively	8,494	7,915
Inventories	15,177	14,726
Prepaid expenses and other current assets	2,226	1,518
Total current assets	34,852	40,826
Property and equipment, net	3,433	4,218
Intangible assets, net	6,911	7,275
Other assets	927	1,129
Total assets	$46,123	$53,448
LIABILITIES AND STOCKHOLDERS´ EQUITY		
Current liabilities:		
Accounts payable	$5,106	$6,280
Current portion - payment obligation	703	681
Current portion - financial liabilities, net of discount of $382 and $0, respectively	9,618	—
Deferred revenue	1,371	1,515
Accrued compensation and related benefits	1,788	1,905
Other accrued expenses and liabilities	7,986	5,835
Total current liabilities	26,572	16,216
Long-term payment obligation	4,675	4,878
Long-term financial liabilities, net of discount of $0 and $196, and debt issuance costs of $120 and $448, respectively (see Note 7)	8,180	17,656
Other long-term liabilities	299	508
Total liabilities	39,726	39,258
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: 130,000 shares authorized; 11,365 and 11,365 shares issued and 10,747 and 10,747 shares outstanding	11	11

as of March 31, 2016 and December 31, 2015, respectively		
Additional paid-in capital	397,576	396,407
Treasury stock, 618 and 618 shares as of March 31, 2016 and December 31, 2015, respectively	(6,487)	(6,487)
Accumulated deficit	(386,739)	(377,814)
Accumulated other comprehensive income	2,204	2,229
Total Identiv, Inc. stockholders' equity	6,565	14,346
Noncontrolling interest	(168)	(156)
Total stockholders´ equity	6,397	14,190
Total liabilities and stockholders´equity	$46,123	$53,448

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	
	March 31,	
	2016	2015
Net revenue	$12,485	$14,934
Cost of revenue	7,191	8,850
Gross profit	5,294	6,084
Operating expenses:		
Research and development	2,085	1,992
Selling and marketing	4,216	4,995
General and administrative	4,577	3,065
Restructuring and severance	2,739	172
Total operating expenses	13,617	10,224
Loss from operations	(8,323)	(4,140)
Non-operating income (expense):		
Interest expense, net	(770)	(424)
Foreign currency gain (loss), net	229	(227)
Loss before income taxes and noncontrolling interest	(8,864)	(4,791)
Income tax provision	(59)	(19)
Loss before noncontrolling interest	(8,923)	(4,810)
Less: (Income) loss attributable to noncontrolling interest	(2)	67
Net loss attributable to Identiv, Inc.	$(8,925)	$(4,743)
Basic and diluted net loss per share attributable to Identiv, Inc.	$(0.83)	$(0.44)
Weighted average shares used to compute basic and diluted loss per share	10,747	10,694

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	
	March 31,	
	2016	2015
Net loss	$(8,923)	$(4,810)
Other comprehensive loss, net of income taxes:		
Foreign currency translation adjustment	(39)	(206)
Foreign currency translation reclassified into net loss upon acquisition of noncontrolling interest	—	(444)
Total other comprehensive loss, net of income taxes	(39)	(650)
Comprehensive loss	(8,962)	(5,460)
Less: Comprehensive income attributable to noncontrolling interest	12	72
Comprehensive loss attributable to Identiv, Inc. common stockholders	$(8,950)	$(5,388)

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

IDENTIV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Three Months Ended March 31, 2016

(Unaudited, in thousands)

	Identiv, Inc. Stockholders´ Equity							
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Equity
Balances, December 31, 2015	10,747	$ 11	$ 396,407	$ (6,487)	$ (377,814)	$ 2,229	$ (156)	$ 14,190
Net (loss) income	—	—	—	—	(8,925)	—	2	(8,923)
Other comprehensive loss	—	—	—	—	—	(25)	(14)	(39)
Issuance of warrants	—	—	232	—	—	—	—	232
Stock-based compensation expense	—	—	937	—	—	—	—	937
Balances, March 31, 2016	10,747	$ 11	$ 397,576	$ (6,487)	$ (386,739)	$ 2,204	$ (168)	$ 6,397

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)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(8,923)	$(4,810)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	896	729
Accretion of interest on long-term payment obligation	105	134
Amortization of debt issuance costs	374	116
Stock-based compensation expense	937	1,242
Loss on disposal of fixed assets	326	—
Changes in operating assets and liabilities:		
Accounts receivable	(501)	3,763
Inventories	(296)	(1,060)
Prepaid expenses and other assets	(474)	(163)
Accounts payable	(1,109)	(1,451)
Payment obligation liability	(286)	(282)
Deferred revenue	(144)	(158)
Accrued expenses and other liabilities	2,068	(959)
Net cash used in operating activities	(7,027)	(2,899)
Cash flows from investing activities:		
Capital expenditures	(244)	(169)
Net cash used in investing activities	(244)	(169)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock purchase plan and options and warrants exercised	—	6
Repurchase of common stock	—	(606)
Net cash used in financing activities	-	(600)
Effect of exchange rates on cash	(441)	208
Net decrease in cash	(7,712)	(3,460)
Cash at beginning of period	16,667	36,547
Cash at end of period	$8,955	$33,087
Non-cash investing and financing activities:		
Warrants issued as debt issuance costs in connection with debt modification	$232	$—
Common stock issued to acquire share of noncontrolling interest	$—	$1,216
Property and equipment included in accounts payable	$165	$27

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

IDENTIV, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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 months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 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, 2015. 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, 2015 balance sheet was derived from the audited financial statements as of that date.

Certain reclassifications, such as the accounting for debt issuance costs consistent with Accounting Standards Update (“ASU”), Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”), have been made to the fiscal year 2015 financial statements to conform to the fiscal year 2016 presentation.

Concentration of Credit Risk — No customer represented more than 10% of net revenue for the three months ended March 31, 2016, and one customer represented 21% of net revenue for the three months ended March 31, 2015. Two customers represented more than 10% of the Company’s accounts receivable balance at March 31, 2016. No customers accounted for more than 10% of the Company’s accounts receivable balance as of December 31, 2015.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("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; however, early adoption is permitted. The Company is currently evaluating the impact of the adoption of this guidance will have on its condensed consolidated financial statements.

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 April 2015, the FASB issued 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement (“ASU 2015-05”), which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software. ASU 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of ASU 2015-05 did not have a material impact on the Company’s condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015. The Company adopted this guidance as of January 1, 2016. The new guidance has been applied on a retrospective basis, wherein the consolidated balance sheet of December 31, 2015 has been retrospectively adjusted to reflect the effects of applying the new guidance. As a result of the change to the December 31, 2015 consolidated balance sheet, deferred debt issuance costs included in other assets and long-term financial liabilities decreased by $0.4 million. After the retrospective application to December 31, 2015, subsequent amortization of the deferred debt issuance costs results in an increase to long-term debt.

In January 2015, the FASB issued ASU 2015-01, Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items (“ASU 2015-01”). Under ASU 2015-01, an entity will no longer be allowed to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is unusual in nature and occurs infrequently. ASU 2015-01 is effective for interim and annual reporting periods beginning after December 15, 2015 with early adoption permitted. Upon adoption, the Company may elect prospective or retrospective application. The adoption of ASU 2015-01 did not have a material impact on the Company’s condensed consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern, (“ASU 2014-15”), which requires management to perform interim and annual assessments on whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. The amendments in ASU 2014-15 are effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of the adoption 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 and will provide the Company additional time to evaluate the method and impact that ASU 2014-09 will have 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 March 31, 2016 and December 31, 2015, there were no assets that are measured and recognized at fair value on a recurring basis. There were no cash equivalents as of March 31, 2016 and December 31, 2015.

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 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 March 31, 2016 and December 31, 2015, the Company had $0.3 million of privately-held investments measured at fair value on a nonrecurring basis which were classified as a Level 3 asset due to the absence of quoted market prices and inherent lack of liquidity. The Company reviews its investments to identify and evaluate investments that have an indication of possible impairment. The Company adjusts the carrying value for its privately-held investments for any impairment if the fair value is less than the carrying value of the respective assets on an other-than-temporary basis. During the three months ended March 31, 2016, the Company determined that no privately-held investments were impaired. The amount of privately-held investments is included in other assets in the condensed consolidated balance sheets.

As of March 31, 2016 and December 31, 2015, there were no liabilities that are measured and recognized at fair value on a non-recurring basis.

Assets and Liabilities Not Measured at Fair Value

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

3. Stockholders’ Equity

Common Stock Warrants

In connection with the Company’s entry into a consulting agreement in August 2014, the Company issued a consultant a warrant to purchase up to 85,000 shares of the Company’s common stock at a per share exercise price of $10.70 (the “Consultant Warrant”). One fourth of the shares under the warrant are exercisable for cash three months from the date the Consultant Warrant was issued and quarterly thereafter. The Consultant Warrant expires on August 13, 2019. In the event of an acquisition of the Company, the Consultant Warrant shall terminate and no longer be exercisable as of the closing of the acquisition. As of March 31, 2016, the Consultant Warrant has not been exercised.

In connection with the Company’s entry into a credit agreement with Opus Bank (“Opus”) as discussed in Note 7, Financial Liabilities, the Company issued Opus a warrant to purchase up to 100,000 shares of the Company’s common stock at a per share exercise price of $9.90 (the “Opus Warrant”). On March 31, 2016, the Company entered into a third amendment to its Credit Agreement increasing the number of shares of common stock underlying the warrant from 100,000 to 200,000 shares and decreased the exercise price from $9.90 to $2.19 per share subject to modification. The Company also agreed to issue new warrants to purchase 100,000 shares of common stock in the event that the outstanding principal balance of the Company’s loans with Opus exceeds specified thresholds on each date of September 30, 2016, December 31, 2016 and March 31, 2017 (“New Warrants”). The terms of the New Warrants, if issued, will be identical to those of the existing warrant, except that each new warrant issued will be exercisable for 100,000 shares and have an exercise price equal to the average closing price of the Company’s common stock for the five trading days ending on the last day of the quarter with respect to which the new warrant is issued. In addition, the existing registration rights agreement was amended to include the New Warrants and change the circumstances under which the Company must register shares underlying the warrants issued to Opus (the “Amended Rights Agreement”). The Opus Warrant is immediately exercisable for cash or by net exercise and expires on March 31, 2019. The shares issuable upon exercise of the Opus Warrant and New Warrants, if any, are to be registered at the request of Opus pursuant to the Registration Rights Agreement, dated March 31, 2014, as amended by Amendment No. 1 to

Registration Rights Agreement, dated March 31, 2016, between the Company and Opus. As of March 31, 2016, the Opus Warrant had not 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 at an exercise price of $10.00 per share (the “2013 Private Placement Warrants”) to accredited and other qualified investors (the “Investors”). The 2013 Private Placement Warrants have a term of four years and are exercisable beginning six months following the date of issuance. The number of shares issuable upon exercise of the 2013 Private Placement Warrants is subject to adjustment for any stock dividends, stock splits or distributions by the Company, or upon any merger or consolidation or sale of assets of the Company, tender or exchange offer for the Company’s common stock, or a reclassification of the Company’s common stock.

Below is the summary of outstanding warrants issued by the Company as of March 31, 2016:

Warrant Type	Number of Shares Issuable Upon Exercise	Weighted Average Exercise Price	Issue Date	Expiration Date
Consultant Warrant	85,000	$ 10.70	August 13, 2014	August 13, 2019
Opus Warrant	200,000	2.19	March 31, 2014	March 31, 2019
2013 Private Placement Warrants	186,878	10.00	August 14, 2013	August 14, 2017
Total	471,878			

2011 Employee Stock Purchase Plan

In June 2011, the Company's stockholders approved the 2011 Employee Stock Purchase Plan (the "ESPP"). On December 18, 2013, the Compensation Committee of the Board suspended the ESPP effective January 1, 2014. No additional shares will be authorized and no shares will be issued under the ESPP until further notice. As of March 31, 2016, there were 293,888 shares reserved for future purchase under the ESPP. Since the ESPP was suspended effective January 1, 2014, there was no stock-based compensation expense resulting from the ESPP included in the condensed consolidated statements of operations for the three months ended March 31, 2016 and March 31, 2015.

Stock-Based Compensation Plans

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

Stock Bonus and Incentive Plans

In June 2010, the Company's stockholders approved the 2010 Plan which granted cash and equity-based awards to executive officers, directors and other key employees as designated by the Compensation Committee of the Board. An aggregate of 300,000 shares of the Company's common stock was reserved for issuance under the 2010 Plan as equity-based awards, including shares, nonqualified stock options, restricted stock or deferred stock awards. These awards provide the Company´s executives, directors and other key employees the opportunity to earn shares of common stock depending on the extent to which certain performance goals are met. Since the adoption of the 2011 Plan (described below), the Company utilizes shares from the 2010 Plan only for performance-based awards and all equity awards granted under the 2010 Plan are issued pursuant to the 2011 Plan.

On June 6, 2011, the Company's stockholders approved the 2011 Plan, which is administered by the Compensation Committee of the Board. The 2011 Plan provides that stock options, stock units, restricted shares, and stock appreciation rights may be granted to executive officers, directors, consultants, and other key employees. The Company reserved 400,000 shares of common stock under the 2011 Plan, plus 459,956 shares of common stock that remained available for delivery under the 2007 Plan and the 2010 Plan as of June 6, 2011. In aggregate, as of June 6, 2011, 859,956 shares were available for future grants under the 2011 Plan, including shares rolled over from the 2007 Plan and 2010 Plan.

Stock Option Plans

A summary of activity for the Company's stock option plans for the three months ended March 31, 2016 follows:

	Number Outstanding	Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Average Intrinsic Value
Balance at December 31, 2015	781,804	$ 11.48		$ -
Granted	—	—		
Cancelled or Expired	(21,890)	9.75		
Exercised	—	—		
Balance at March 31, 2016	759,914	$ 11.53	6.31	$ -
Vested or expected to vest at March 31, 2016	730,854	$ 11.62	6.24	$ -
Exercisable at March 31, 2016	515,291	$ 12.70	5.52	$ -

The following table summarizes information about options outstanding as of March 31, 2016:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$5.20 - $8.40	156,411	7.39	$ 6.41	107,477	$ 6.63
$8.41 - $8.80	213,146	7.68	8.80	110,146	8.80
$8.81 - $11.30	170,076	8.13	10.86	79,355	10.77
$11.31 - $24.00	161,319	3.32	14.21	159,351	14.21
$24.01 - $43.40	58,962	1.45	29.57	58,962	29.57
$5.20 - $43.40	759,914	6.31	$ 11.53	515,291	$ 12.70

At March 31, 2016, there was $1.3 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 1.97 years.

Restricted Stock and Restricted Stock Units

The following is a summary of restricted stock and restricted stock unit ("RSU") activity for the three months ended March 31, 2016:

	Number Outstanding	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Years)	Average Intrinsic Value
Balance at December 31, 2015	721,918	$ 13.32		$1,436,619
Granted	-	-		
Vested	-	-		
Forfeited	(1,248)	13.70		
Balance at March 31, 2016	720,670	$ 13.32	1.23	$1,556,647

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 March 31, 2016, there was $4.8 million of unrecognized compensation cost related to unvested RSUs granted, which is expected to be recognized over a weighted average period of 2.27 years. As of March 31, 2016, an aggregate of 720,670 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 months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,	
	2016	2015
Cost of revenue	$23	$29
Research and development	84	69
Selling and marketing	207	239
General and administrative	623	869
Total	$937	$1,206

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance as of March 31, 2016 was as follows:

Exercise of outstanding stock options and vesting of RSUs	1,480,584
ESPP	293,888
Shares of common stock available for grant under the 2011 Plan	240,882
Noncontrolling interest in Bluehill AG	10,355
Warrants to purchase common stock	471,878
Total	2,497,587

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 months ended March 31, 2016 and 2015, common stock equivalents consisting of outstanding stock options, RSUs and warrants were excluded from the calculation of diluted loss per share because these securities were anti-dilutive due to the net loss in the respective periods. The total number of common stock equivalents excluded from diluted loss per share relating to these securities was 1,952,462 common stock equivalents for the three months ended March 31, 2016, and 2,689,291 common stock equivalents for the three months ended March 31, 2015, respectively.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income (“AOCI”) at March 31, 2016 and December 31, 2015 consists of foreign currency translation adjustments totaling $2.2 million and $2.2 million, respectively. As a result of the acquisition of the noncontrolling interest in a subsidiary company, $0.5 million was reclassified out of AOCI into net loss during the three months ended March 31, 2015.

4. Balance Sheet Components

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

	March 31, 2016	December 31, 2015
Raw materials	$5,313	$ 5,033
Work-in-progress	452	12
Finished goods	9,412	9,681
Total	$15,177	$ 14,726

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

	March 31, 2016	December 31, 2015
Building and leasehold improvements	$2,397	$2,670
Furniture, fixtures and office equipment	2,157	2,242
Plant and machinery	8,898	8,858
Purchased software	2,436	2,510
Total	15,888	16,280
Accumulated depreciation	(12,455)	(12,062)
Property and equipment, net	$3,433	$4,218

The Company recorded depreciation expense of $0.5 million and $0.4 million during the three months ended March 31, 2016 and 2015, respectively.

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

	March 31, 2016	December 31, 2015
Accrued restructuring	$1,495	$ 633
Accrued professional fees	3,925	1,731
Income taxes payable	291	282
Other accrued expenses	2,275	3,189
Total	$7,986	$ 5,835

5. Intangible Assets

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, 2015	$ 4,600	$ 10,639	$15,239
Accumulated amortization	(2,361)	(5,603)	(7,964)
Intangible Assets, net at December 31, 2015	$ 2,239	$ 5,036	$7,275

Gross carrying amount at March 31, 2016	$ 4,600	$ 10,639	$ 15,239
Accumulated amortization	(2,473)	(5,855)	(8,328)
Intangible Assets, net at March 31, 2016	$ 2,127	$ 4,784	$ 6,911

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 months ended March 31, 2016.

The following table illustrates the amortization expense included in the condensed consolidated statements of operations for the three months ended March 31, 2016 and 2015, respectively (in thousands):

	Three Months Ended March 31,	
	2016	2015
Cost of revenue	$112	$112
Selling and marketing	252	252
Total	$364	$364

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

2016 (remaining nine months)	$1,091
2017	1,455
2018	1,455
2019	1,455
2020	1,455
Total	$6,911

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 on or after January 1, 2012 to earlier satisfy its obligations by making a lump-sum payment to Secure Keyboards. The Company does not intend to make a lump-sum payment and therefore a portion of the payment obligation amount is classified as a long-term liability in the condensed consolidated balance sheets.

The Company included $0.1 million of interest expense during the three months ended March 31, 2016 and 2015 in its condensed consolidated statements of operations for interest accreted on the long-term payment obligation.

The ongoing payment obligation in connection with the Hirsch acquisition as of March 31, 2016 is as follows (in thousands):

2016 (remaining nine months)	$874
2017	1,200
2018	1,248
2019	1,298
2020	1,444
Thereafter	372
Present value discount factor	(1,058)
Total	$5,378

7. Financial Liabilities

Financial liabilities consist of (in thousands):

	March 31, 2016	December 31, 2015
Secured term loan	$10,000	$ 10,000
Bank revolving loan facility	8,300	8,300
Total before discount and debt issuance costs	18,300	18,300
Less: Current portion of financial liabilities	(10,000)	-
Less: Long-term portion of unamortized discount and debt issuance costs	(120)	(644)
Long-term financial liabilities	$8,180	$ 17,656

Bank Term Loan and Revolving Loan Facility

On March 31, 2014, the Company entered into a credit agreement (the “Credit Agreement”) with Opus. The Credit Agreement provides for a term loan in aggregate principal amount of $10.0 million (“Term Loan”) and an additional $10.0 million revolving loan facility (“Revolving Loan Facility”). The obligations of the Company under the Credit Agreement are secured by substantially all assets of the Company. Certain of the Company’s domestic subsidiaries have guaranteed the credit facilities and have granted Opus security interests in substantially all of their respective assets. The Company may voluntarily prepay the Term Loan and outstanding amounts under the Revolving Loan Facility, without prepayment charges, and is required to make prepayments of the Term Loan in certain circumstances or condemnation events using the proceeds of asset sales or insurance.

In connection with the Company’s entry into the Credit Agreement, the Company paid customary lender fees and expenses, including facility fees. In addition, as discussed in Note 3, Stockholders’ Equity, the Company issued a warrant to Opus (the “Opus Warrant”) to purchase up to 100,000 shares of the Company’s common stock at a per share exercise price of $9.90. The Company calculated the fair value of the Opus Warrant using the Black-Scholes pricing model using the following assumptions: estimated volatility of 92.09%, risk-free interest rate of 1.73%, no dividend yield, and an expected life of five years. In accordance with ASC 505-50, Equity-Based Payments to Non-Employees the fair value of the Opus Warrant of $0.8 million was classified as equity as the settlement of the warrant will be in shares and is within the control of the Company. The Company recognized $0.9 million in costs, both cash and equity, related to the Term Loan and Revolving Loan Facility. In accordance with ASC 835-30, Interest – Imputation of Interest amended by ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, the costs are recorded as a direct deduction from the carrying amount of the Term Loan the Revolving Loan Facility and amortized as interest expense over the term of the Credit Agreement.

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

Company holds $20.0 million or less in cash with Opus, the greater of (i) the prime rate plus 2.75% and (ii) 6.00%. Interest on both facilities continues to be payable monthly. Additionally, the Amended Credit Agreement (i) modifies certain loan covenants applicable to the Company’s stock repurchase plan, (ii) removes from the loan collateral shares of the Company’s common stock repurchased by the Company and (iii) extends the current tangible net worth covenant by one year. The Company paid customary lender fees and third party fees related to the debt modification. In accordance with ASC 470-50, Debt – Modifications and Extinguishments, the amendment has been treated as a debt modification, and costs related to the amendment are recorded as a direct deduction from the carrying amount of the Term Loan and Revolving Loan Facility and amortized as interest expense over the remaining term of the Amended Credit Agreement.

The Amended Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants, including, limits or restrictions on the Company’s ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate and dispose of assets. The Amended Credit Agreement also provides for customary financial covenants, including a minimum tangible net worth covenant, a maximum senior leverage ratio and a minimum asset coverage ratio. In addition, it contains customary events of default that entitle Opus to cause any or all of the Company’s indebtedness under the Amended Credit Agreement to become immediately due and payable. Events of default, include, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. Upon the occurrence and during the continuance of an event of default, Opus may terminate its lending commitments and/or declare all or any part of the unpaid principal of all indebtedness, all interest accrued and unpaid thereon and all other amounts payable under the Amended Credit Agreement to be immediately due and payable. The Company has considered the components of the material adverse change clause of the Amended Credit Agreement and determined the likelihood of default under the existing terms is remote. The Term Loan, net of discount and debt issuance costs, outstanding under the Amended Credit Agreement is classified as short-term and the Revolving Loan Facility, net of discount and debt issuance costs, is classified as long-term in the accompanying condensed consolidated balance sheets.

On December 4, 2015, the Company entered into an additional amendment (the “Second Amendment”) to its Credit Agreement with Opus. The Second Amendment amended the financial covenants and restricts the Company from permitting its consolidated tangible net worth, plus amounts payable to Secure Keyboards (see Note 6), to be less than $8,000,000 plus, 50% of any proceeds from debt or equity issued after December 1, 2015.

On March 30, 2016, the Company entered into an additional amendment (the “Third Amendment”) to its Credit Agreement with Opus. Under the Third Amendment, the Revolving Loan Facility was reduced from $30.0 million to $10.0 million and certain financial covenants were amended and added, including covenants with respect to tangible net worth, maximum senior leverage ratio, minimum asset coverage ratio, minimum EBITDA and minimum cash of at least $7.5 million. In addition, as discussed in Note 3, Stockholders’ Equity the Company amended the existing Opus Warrant (“Amended Opus Warrant”). The Company calculated the fair value of the Amended Opus Warrant using the Black-Scholes pricing model using the following assumptions: estimated volatility of 83.92%, risk free interest rate of 0.90%, no dividend yield, and an expected life of three years. The fair value of the Amended Opus Warrants of $0.2 million is recorded as a direct deduction from the carrying amount of the Term Loan and is being amortized as interest expense over the remaining term of the Credit Agreement .

As of March 31, 2016, the Company was in compliance with all financial covenants under the Credit Agreement, as amended.

The following table summarizes the timing of repayment obligations for the Company’s financial liabilities for the next four years under the current terms of the Credit Agreement, as amended, at March 31, 2016 (in thousands):

	2017	2018	2019	2020	Total

Bank term loan and revolving loan facility	$18,300	$ —	$ —	$ —	$18,300

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 2011. 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 months ended March 31, 2016 and March 31, 2015 is as follows (in thousands):

	Three Months Ended March 31, 2016	2015
PACS:		
Net revenue	$5,113	$4,672
Gross profit	2,875	2,699
Gross profit margin	56 %	58 %
Identity:		
Net revenue	2,506	2,594
Gross profit	951	1,003
Gross profit margin	38 %	39 %
Credentials:		
Net revenue	4,436	7,157
Gross profit	1,214	2,042
Gross profit margin	27 %	29 %
All Other:		
Net revenue	430	511
Gross profit	254	340
Gross profit margin	59 %	67 %
Total:		
Net revenue	12,485	14,934
Gross profit	5,294	6,084
Gross profit margin	42 %	41 %
Operating expenses:		
Research and development	2,085	1,992
Selling and marketing	4,216	4,995
General and administrative	4,577	3,065
Restructuring and severance	2,739	172
Total operating expenses:	13,617	10,224
Loss from operations	(8,323)	(4,140)
Non-operating income (expense):		
Interest expense, net	(770)	(424)
Foreign currency gain (loss), net	229	(227)
Loss before income taxes and noncontrolling interest	$(8,864)	$(4,791)

Geographic net revenue is based on customer's ship-to location. Information regarding net revenue by geographic region for the three months ended March 31, 2016 and March 31, 2015 is as follows (in thousands):

	Three Months Ended March 31, 2016	2015
Americas	$8,221	$9,958

Europe and the Middle East	2,068		2,842	
Asia-Pacific	2,196		2,134	
Total	$12,485		$14,934	
Revenues:				
Americas	66	%	67	%
Europe and the Middle East	16	%	19	%
Asia-Pacific	18	%	14	%
Total	100	%	100	%

Long-lived assets by geographic location as of March 31, 2016 and December 31, 2015 are as follows (in thousands):

	March 31, 2016	December 31, 2015
Property and equipment, net:		
Americas	$1,526	$ 2,096
Europe and the Middle East	269	295
Asia-Pacific	1,638	1,827
Total property and equipment, net	$3,433	$ 4,218

10. Restructuring and Severance

During the three months ended March 31, 2015, severance costs were incurred for certain employees terminated as part of management's continuing efforts to simplify business operations. As a result, the Company recorded $0.2 million in restructuring and severance costs and other closure related costs and an additional $0.1 million in severance costs recorded in general and administrative expenses related to the elimination of certain executive positions in conjunction with the corporate restructuring and cost reduction activities.

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. As a result, the Company recorded $2.7 million in restructuring