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, 2022

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.)**
2201 Walnut Avenue, Suite 100 **Fremont, California** **(Address of principal executive offices)**	**94538** **(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, $0.001 par value per share	INVE	The Nasdaq Stock Market LLC

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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	☐	Smaller 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 2, 2022, the registrant had 22,513,129 shares of common stock outstanding.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

IDENTIV, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except par value)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,202	$ 28,553
Restricted cash	698	1,254
Accounts receivable, net of allowances of $2,666 and $2,745 as of September 30, 2022 and December 31, 2021, respectively	23,588	19,963
Inventories	25,060	19,924
Prepaid expenses and other current assets	3,908	3,032
Total current assets	74,456	72,726
Property and equipment, net	6,189	4,066
Operating lease right-of-use assets	3,997	2,088
Intangible assets, net	5,533	6,445
Goodwill	10,179	10,268
Other assets	1,046	1,070
Total assets	$ 101,400	$ 96,663
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,074	$ 10,502
Operating lease liabilities	941	1,269
Deferred revenue	2,072	2,153
Accrued compensation and related benefits	2,753	3,150
Other accrued expenses and liabilities	2,917	3,774
Total current liabilities	23,757	20,848
Long-term operating lease liabilities	3,185	938
Long-term deferred revenue	474	280
Other long-term liabilities	24	85
Total liabilities	27,440	22,151
Commitments and contingencies (see Note 15)		
Stockholders' equity:		
Preferred stock, $0.001 par value: 10,000 shares authorized; 5,000 shares issued and outstanding as of September 30, 2022 and December 31, 2021	5	5
Common stock, $0.001 par value: 50,000 shares authorized; 24,021 and 23,707 shares issued and 22,490 and 22,230 shares outstanding as of September 30, 2022 and December 31, 2021, respectively	24	24
Additional paid-in capital	495,222	492,657
Treasury stock, 1,531 and 1,477 shares as of September 30, 2022 and December 31, 2021, respectively	(12,030)	(11,134)
Accumulated deficit	(409,720)	(408,989)
Accumulated other comprehensive income	459	1,949
Total stockholders' equity	73,960	74,512
Total liabilities and stockholders' equity	$ 101,400	$ 96,663

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

IDENTIV, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net revenue	$ 30,996	$ 29,097	$ 83,914	$ 75,252
Cost of revenue	19,808	17,979	53,550	47,602
Gross profit	11,188	11,118	30,364	27,650
Operating expenses:				
Research and development	2,625	2,088	7,633	6,556
Selling and marketing	5,326	4,471	15,709	12,682
General and administrative	2,639	2,400	7,623	7,120
Restructuring and severance	49	99	132	761
Total operating expenses	10,639	9,058	31,097	27,119
Income (loss) from operations	549	2,060	(733)	531
Non-operating income (expense):				
Interest expense, net	(39)	(62)	(101)	(451)
Gain on forgiveness of Paycheck Protection Program note	—	—	—	2,946
Gain on investment	—	611	30	611
Foreign currency gains (losses), net	(3)	(48)	111	(2)
Income (loss) before income tax benefit (provision)	507	2,561	(693)	3,635
Income tax benefit (provision)	12	(21)	(38)	(94)
Net income (loss)	519	2,540	(731)	3,541
Other comprehensive income (loss):				
Foreign currency translation adjustment	(644)	(229)	(1,490)	(449)
Comprehensive income (loss)	$ (125)	$ 2,311	$ (2,221)	$ 3,092
Net income (loss) per common share:				
Basic	$ 0.01	$ 0.10	$ (0.07)	$ 0.13
Diluted	$ 0.01	$ 0.09	$ (0.07)	$ 0.12
Weighted average shares used in computing net income (loss) per common share:				
Basic	22,682	22,448	22,632	20,948
Diluted	23,315	29,330	22,632	21,861

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

IDENTIV, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY
(Unaudited, in thousands)

Three Months Ended September 30, 2022

	Series B Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balances, June 30, 2022	5,000	$ 5	22,444	$ 24	$ 494,370	$ (11,757)	$ (410,239)	$ 1,103	73,506
Net income	—	—	—	—	—	—	519	—	519
Unrealized loss from foreign currency translation adjustments	—	—	—	—	—	—	—	(644)	(644)
Issuance of common stock in connection with vesting of stock awards	—	—	64	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	852	—	—	—	852
Shares withheld in payment of taxes in connection with net share settlement of restricted stock units	—	—	(18)	—	—	(273)	—	—	(273)
Balances, September 30, 2022	5,000	$ 5	22,490	$ 24	$ 495,222	$ (12,030)	$ (409,720)	$ 459	$ 73,960

Nine Months Ended September 30, 2022

	Series B Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balances, December 31, 2021	5,000	$ 5	22,230	$ 24	$ 492,657	$ (11,134)	$ (408,989)	$ 1,949	74,512
Net loss	—	—	—	—	—	—	(731)	—	(731)
Unrealized loss from foreign currency translation adjustments	—	—	—	—	—	—	—	(1,490)	(1,490)
Issuance of common stock in connection with vesting of stock awards	—	—	314	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	2,565	—	—	—	2,565
Shares withheld in payment of taxes in connection with net share settlement of restricted stock units	—	—	(54)	—	—	(896)	—	—	(896)
Balances, September 30, 2022	5,000	$ 5	22,490	$ 24	$ 495,222	$ (12,030)	$ (409,720)	$ 459	$ 73,960

Three Months Ended September 30, 2021

	Series B Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balances, June 30, 2021	5,000	$ 5	22,123	$ 23	$ 491,431	$ (10,519)	$ (409,608)	$ 2,358	73,690
Net income	—	—	—	—	—	—	2,540	—	2,540
Unrealized income from foreign currency translation adjustments	—	—	—	—	—	—	—	(229)	(229)
Issuance of common stock in connection with vesting of stock awards	—	—	73	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	572	—	—	—	572
Shares withheld in payment of taxes in connection with net share settlement of restricted stock units	—	—	(20)	—	—	(334)	—	—	(334)
Proceeds from exercise of stock options	—	—	2	1	12	—	—	—	13
Balances, September 30, 2021	5,000	$ 5	22,178	$ 24	$ 492,015	$ (10,853)	$ (407,068)	$ 2,129	$ 76,252

	Nine Months Ended September 30, 2021									
	Series B Convertible Preferred Stock		Common Stock		Additional Paid-in	Treasury	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Stock	Deficit	Income	Equity
Balances, December 31, 2020	5,000	$ 5	18,055	$ 19	$ 452,129	$ (9,933)	$ (410,609)	$ 2,578	34,189
Net income	—	—	—	—	—	—	3,541	—	3,541
Unrealized loss from foreign currency translation adjustments	—	—	—	—	—	—	—	(449)	(449)
Issuance of common stock in connection with vesting of stock awards	—	—	366	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	2,027	—	—	—	2,027
Shares withheld in payment of taxes in connection with net share settlement of restricted stock units	—	—	(68)	—	—	(920)	—	—	(920)
Issuance of common stock in connection with warrant exercise	—	—	28	—	—	—	—	—	—
Issuance of common stock in connection with public offering	—	—	3,779	4	37,711	—	—	—	37,715
Proceeds from exercise of stock options	—	—	18	1	148	—	—	—	149
Balances, September 30, 2021	5,000	$ 5	22,178	$ 24	$ 492,015	$ (10,853)	$ (407,068)	$ 2,129	$ 76,252

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

IDENTIV, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2022	**2021**
Cash flows used in operating activities		
Net income (loss)	$ (731)	$ 3,541
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,673	1,460
Gain on forgiveness of Paycheck Protection Program note	—	(2,946)
Gain on investment	(30)	(611)
Accretion of interest on contractual payment obligation	—	41
Amortization of debt issuance costs	—	101
Stock-based compensation expense	2,565	2,027
Impairment of right-of-use operating lease asset	—	281
Changes in operating assets and liabilities:		
Accounts receivable	(3,695)	(346)
Inventories	(5,218)	(1,332)
Prepaid expenses and other assets	(861)	(1,123)
Accounts payable	4,487	(1,639)
Contractual payment obligation liability	—	(812)
Deferred revenue	113	243
Accrued expenses and other liabilities	(1,317)	1,120
Net cash provided by (used in) operating activities	(3,014)	5
Cash flows from investing activities:		
Capital expenditures	(3,008)	(1,923)
Proceeds from investment	30	611
Net cash used in investing activities	(2,978)	(1,312)
Cash flows from financing activities:		
Borrowings under revolving loan facility, net of issuance costs	—	3,964
Repayments under revolving loan facility	—	(18,548)
Repayments of April 21 Funds promissory notes	—	(2,800)
Proceeds from the sale of common stock, net of issuance costs	—	37,715
Taxes paid related to net share settlement of restricted stock units	(896)	(920)
Proceeds from exercise of stock options	—	149
Net cash provided by (used in) financing activities	(896)	19,560
Effect of exchange rates on cash, cash equivalents, and restricted cash	(1,019)	(444)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(7,907)	17,809
Cash, cash equivalents, and restricted cash at beginning of period	29,807	11,409
Cash, cash equivalents, and restricted cash at end of period	$ 21,900	$ 29,218
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 6	$ 329
Taxes paid, net	$ 50	$ 61

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Identiv, Inc. and its wholly owned subsidiaries (the "Company"). All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements of 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, consisting of 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, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022 or any future period. The unaudited condensed consolidated balance sheet as of December 31, 2021 has been derived from audited consolidated financial statements at that date, but does not include all disclosures required by U.S. GAAP for complete financial statements. 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," and the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

2. Significant Accounting Policies and Recent Accounting Pronouncements

Significant Accounting Policies

No material changes have been made to the Company's significant accounting policies disclosed in Note 2, *Significant Accounting Policies and Recent Accounting Pronouncements*, in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which requires measurement and recognition of expected credit losses for financial assets held at the reporting date based on external information, or a combination of both relating to past events, current conditions, and reasonable and supportable forecasts. ASU 2016-13 replaces the existing incurred loss impairment model with a forward-looking expected credit loss model which will result in earlier recognition of credit losses. Subsequent to the issuance of ASU 2016-13, the FASB issued ASU 2018-19, Codification Improvement to Topic 326, Financial Instruments – Credit Losses, ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, ASU 2019-05, Financial Instruments – Credit Losses (Topic 326) Targeted Transition Relief, ASU 2016-13, the FASB issued ASU 2019-10 Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), and ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments – Credit Losses. The subsequent ASUs do not change the core principle of the guidance in ASU 2016-13. Instead, these amendments are intended to clarify and improve operability of certain topics included within ASU 2016-13.

In February 2020, the FASB issued ASU 2020-02, which provides guidance regarding methodologies, documentation, and internal controls related to expected credit losses. The subsequent amendments will have the same effective date and transition requirements as ASU No. 2016-13. Early adoption is permitted. Topic 326 requires a modified retrospective approach by recording a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company adopted this standard on January 1, 2022, and it did not have a material impact on the Company's condensed consolidated financial statements.

3. Revenue

Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters into contracts that can include various combinations of its products, software licenses, and services, which are generally capable of being distinct and accounted for as separate performance obligations. For contracts with multiple performance obligations, the Company allocates the transaction price of the contract to each performance obligation, generally on a relative basis using its standalone selling price. The stated contract value is generally the transaction price to be allocated to the separate performance obligations. Revenue is recognized net of any taxes collected from customers that are subsequently remitted to governmental authorities.

Nature of Products and Services

The Company derives revenues from sales of hardware products, software licenses, subscriptions, professional services, software maintenance and support, and extended hardware warranties.

Hardware Product Revenue — The Company generally has two performance obligations in arrangements involving the sale of hardware products. The first performance obligation is to transfer the hardware product (which includes software integral to the functionality of the hardware product). The second performance obligation is to provide assurance that the product complies with its agreed-upon specifications and is free from defects in material and workmanship for a period of one to three years (i.e., assurance warranty). The entire transaction price is allocated to the hardware product and is generally recognized as revenue at the time of shipment because the customer obtains control of the product at that point in time. The Company has concluded that control generally transfers at that point in time because the customer has title to the hardware, and a present obligation to pay for the hardware. None of the transaction price is allocated to the assurance warranty component, as the Company accounts for these product warranty costs in accordance with Accounting Standards Codification (“ASC”) 460, *Guarantees* (“ASC 460”).

Software License Revenue — The Company’s license arrangements grant customers the perpetual right to access and use the licensed software products at the outset of an arrangement. Technical support and software updates are generally made available throughout the term of the support agreement, which is generally one to three years. The Company accounts for these arrangements as two performance obligations: (1) the software licenses, and (2) the related updates and technical support. The software license revenue is recognized when the license is delivered to the customer or made available for download, while the software updates and technical support revenue is recognized over the term of the support contract.

Subscription Revenue — Subscription revenue consist of fees received in consideration for providing customers access to one or more of the Company’s software-as-a-service (“SaaS”) based solutions. These SaaS arrangements include access to the Company’s licensed software and, in certain arrangements, use of various hardware devices over the contract term. These SaaS arrangements do not provide the customer the right to take possession of the software supporting the subscription service, or if applicable, any hardware devices at any time during the contract period, and as such are not considered separate performance obligations. Revenue is recognized ratably on a straight-line basis over the term of the contract beginning when the service is made available to the customer. Subscription contract terms range from month-to-month to six years in length and are billed monthly or annually.

Professional Services Revenue — Professional services revenue consists primarily of programming customization services performed relating to the integration of the Company’s software products with the customers other systems, such as human resources systems. Professional services contracts are generally billed on a time and materials basis and revenue is recognized as the services are performed.

Software Maintenance and Support Revenue — Support and maintenance contract revenue consists of the services provided to support the specialized programming applications performed by the Company’s professional services group. Support and maintenance contracts are typically billed at inception of the contract and recognized as revenue over the contract period, typically over a one-or three-year period.

Extended Hardware Warranties Revenue — Sales of the Company’s hardware products may also include optional extended hardware warranties, which typically provide assurance that the product will continue to function as initially intended. Extended hardware warranty contracts are typically billed at inception of the contract and recognized as revenue over the respective contract period, typically over one-to-two-year periods after the expiration of the original assurance warranty.

Performance Obligation	*When Performance Obligation is Typically Satisfied*	*When Payment is Typically Due*	*How Standalone Selling Price is Typically Estimated*
Hardware products	When customer obtains control of the product (point-in-time)	Within 30-60 days of shipment	Observable in transactions without multiple performance obligations
Software licenses	When license is delivered to customer or made available for download, and the applicable license period has begun (point-in-time)	Within 30-60 days of the beginning of license period	Established pricing practices for software licenses bundled with software maintenance, which are separately observable in renewal transactions
Subscriptions	Ratably over the course of the subscription term (over time)	In advance of subscription term	Contractually stated or list price
Professional services	As services are performed and/or when contract is fulfilled (point-in-time)	Within 30-60 days of delivery	Observable in transactions without multiple performance obligations
Software maintenance and support services	Ratably over the course of the support contract (over time)	Within 30-60 days of the beginning of the contract period	Observable in renewal transactions
Extended hardware warranties	Ratably over the course of the support contract (over time)	Within 30-60 days of the beginning of the contract period	Observable in renewal transactions

Significant Judgments

The Company’s contracts with customers often include promises to transfer multiple products and services to a customer. For such arrangements, the Company allocates the transaction price to each performance obligation based on its relative standalone selling price (“SSP”).

Judgment is required to determine the SSP for each distinct performance obligation in a contract. For the majority of items, the Company estimates SSP using historical transaction data. The Company uses a range of amounts to estimate SSP when it sells each of the products and services separately and needs to determine whether there is a discount to be allocated based on the relative SSP of the various products and services. In instances where SSP is not directly observable, such as when the product or service is not sold separately, the Company determines the SSP using information that may include market conditions and other observable inputs. The determination of SSP is an ongoing process and information is reviewed regularly in order to ensure SSPs reflect current information or trends.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with customers based on the timing of transfer of goods or services to customers (point-in-time or over time) and geographic region based on the shipping location of the customer. The geographic regions that are tracked are the Americas, Europe and the Middle East, and Asia-Pacific regions.

Total net revenue based on the disaggregation criteria described above is as follows (in thousands):

	Three Months Ended September 30,					
	2022			2021		
	Point-in-Time	Over Time	Total	Point-in-Time	Over Time	Total
Americas	$ 20,412	$ 539	$ 20,951	$ 18,820	$ 847	$ 19,667
Europe and the Middle East	3,544	107	3,651	3,131	92	3,223
Asia-Pacific	6,364	30	6,394	6,207	—	6,207
Total	$ 30,320	$ 676	$ 30,996	$ 28,158	$ 939	$ 29,097

	Nine Months Ended September 30,					
	2022			2021		
	Point-in-Time	Over Time	Total	Point-in-Time	Over Time	Total
Americas	$ 52,898	$ 2,582	$ 55,480	$ 46,598	$ 2,425	$ 49,023
Europe and the Middle East	11,141	332	11,473	9,026	283	9,309
Asia-Pacific	16,931	30	16,961	16,920	—	16,920
Total	$ 80,970	$ 2,944	$ 83,914	$ 72,544	$ 2,708	$ 75,252

Contract Balances

Amounts invoiced in advance of services being provided are accounted for as deferred revenue. Nearly all of the Company's deferred revenue balance is related to software maintenance contracts. Payment terms and conditions vary by contract type, although payment is typically due within 30 to 60 days of contract inception. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined its contracts do not include a significant financing component. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products and services, not to receive financing from its customers.

Changes in deferred revenue during the nine months ended September 30, 2022 and 2021 were as follows (in thousands):

	Nine Months Ended September 30,	
	2022	2021
Deferred revenue, beginning of period	$ 2,433	$ 2,366
Deferral of revenue billed in current period, net of recognition	2,029	1,992
Recognition of revenue deferred in prior periods	(1,916)	(1,749)
Deferred revenue, end of period	$ 2,546	$ 2,609

Unsatisfied Performance Obligations

Revenue expected to be recognized in future periods related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less, and contracts where revenue is recognized as invoiced, was approximately $0.7 million as of September 30, 2022. Since the Company typically invoices customers at contract inception, this amount is included in the deferred revenue balance. As of September 30, 2022, the Company expects to recognize 12% of the revenue related to these unsatisfied performance obligations during the remainder of 2022, 37% during 2023, and 51% thereafter.

4. Fair Value Measurements

The Company determines the fair values of its financial instruments based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. Under ASC 820, *Fair Value Measurement and Disclosures*, 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, 2022 and December 31, 2021, the only assets measured and recognized at fair value on a recurring basis were nominal cash equivalents. As of September 30, 2022 and December 31, 2021, there were no liabilities measured and recognized at fair value on a recurring basis.

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

Certain of the Company's assets, including goodwill, 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, *Goodwill and Intangible Assets*.

As of September 30, 2022 and December 31, 2021, the Company had $348,000 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, 2022 and December 31, 2021, 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, and other accrued liabilities approximate fair value due to their short maturities.

5. Goodwill and Intangible Assets

Goodwill

The following table summarizes the activity in goodwill (in thousands):

	Identity	Premises	Total
Balance as of December 31, 2021	$ 3,554	$ 6,714	$ 10,268
Currency translation adjustment	—	(89)	(89)
Balance as of September 30, 2022	$ 3,554	$ 6,625	$ 10,179
Balance as of December 31, 2020	$ 3,554	$ 6,712	$ 10,266
Currency translation adjustment	—	2	2
Balance as of December 31, 2021	$ 3,554	$ 6,714	$ 10,268

In accordance with ASC 350, *Intangibles – Goodwill and Other*, the Company tests goodwill for impairment on an annual basis, in the fourth quarter, or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The Company performs an initial assessment of qualitative factors to determine whether the existence of events and circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In performing the qualitative assessment, the Company identifies and considers the significance of relevant key factors, events, and circumstances that affect the fair value of its reporting units. These factors include external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as actual and planned financial performance. If, after assessing the totality of relevant events and circumstances, the Company determines that it is more likely than not that the fair value of the reporting unit exceeds its carrying value and there is no indication of impairment, no further testing is performed; however, if the Company concludes otherwise, then the Company will perform the quantitative impairment test which compares the estimated fair value of the reporting unit to its carrying value, including goodwill. If the carrying amount of the reporting unit is in excess of its fair value, an impairment loss would be recorded in the condensed consolidated statement of comprehensive income (loss). During the nine months ended September 30, 2022 and 2021, the Company noted no indicators of goodwill impairment and concluded no further testing was necessary.

Intangible Assets

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

	Trademarks	Developed Technology	Customer Relationships	Total
Amortization period (in years)	5	10 – 12	4 – 12	
Gross carrying amount as of September 30, 2022	$ 765	$ 9,089	$ 15,739	$ 25,593
Accumulated amortization	(653)	(6,555)	(12,852)	(20,060)
Intangible assets, net as of September 30, 2022	$ 112	$ 2,534	$ 2,887	$ 5,533
Gross carrying amount as of December 31, 2021	$ 764	$ 9,127	$ 15,774	$ 25,665
Accumulated amortization	(536)	(6,219)	(12,465)	(19,220)
Intangible assets, net as of December 31, 2021	$ 228	$ 2,908	$ 3,309	$ 6,445

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 on a straight-line basis over their useful lives as indicated in the table above. The Company performs an evaluation of its amortizable intangible assets for impairment at the end of each reporting period. The Company did not identify any impairment indicators during the nine months ended September 30, 2022 and 2021.

The following table summarizes the amortization expense included in the condensed consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	$ 112	$ 114	$ 336	$ 340
Selling and marketing	168	168	504	503
Total	$ 280	$ 282	$ 840	$ 843

The estimated annual future amortization expense for purchased intangible assets with definite lives as of September 30, 2022 was as follows (in thousands):

2022 (remaining three months)	$ 277
2023	1,030
2024	956
2025	956
2026	956
Thereafter	1,358
Total	$ 5,533

6. Balance Sheet Components

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

	September 30, 2022	December 31, 2021
Raw materials	$ 11,195	$ 7,182
Work-in-progress	31	—
Finished goods	13,834	12,742
Total	$ 25,060	$ 19,924

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

	September 30, 2022	December 31, 2021
Building and leasehold improvements	$ 583	$ 1,304
Furniture, fixtures and office equipment	1,411	1,379
Plant and machinery	16,464	13,244
Purchased software	2,307	2,281
Total	20,765	18,208
Accumulated depreciation	(14,576)	(14,142)
Property and equipment, net	$ 6,189	$ 4,066

The Company recorded depreciation expenses of $0.3 million and $0.2 million during the three months ended September 30, 2022 and 2021, respectively, and $0.8 million and $0.6 million during the nine months ended September 30, 2022 and 2021, respectively.

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

	September 30, 2022	December 31, 2021
Accrued professional fees	$ 563	$ 576
Accrued warranties	382	377
Customer deposits	224	149
Rental payments due to landlord	—	922
Accrued restructuring	31	294
Other accrued expenses	1,717	1,456
Total	$ 2,917	$ 3,774

7. Financial Liabilities

On February 8, 2017, the Company entered into a Loan and Security Agreement with East West Bank ("EWB"). Following subsequent amendments, on February 8, 2021 the Company amended and restated the Loan and Security Agreement in its entirety (the "Loan and Security Agreement"). The Loan and Security Agreement provided for a $20.0 million revolving loan facility subject to a borrowing base and a $4.0 million non-formula revolving loan facility that was not subject to a borrowing base. Advances under the revolving loan facility, as amended on April 30, 2021, bear interest at a per annum rate equal to the prime rate. The maturity date of the main revolving loan facility is February 8, 2023. The non-formula revolving loan facility terminated on February 7, 2022.

On April 14, 2022, the Company and EWB amended the Loan and Security Agreement replacing the $20.0 million revolving loan facility subject to a borrowing base with a $20.0 million non-formula revolving loan facility with no borrowing base requirement and a maturity date of February 8, 2023. In addition, the interest rate was lowered from prime to prime minus 0.25%, and certain financial covenants were amended.

The Loan and Security 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 (including dividends), merge or consolidate and dispose of assets, as well as other financial covenants. The Company's obligations under the Loan and Security Agreement are collateralized by substantially all of its assets. As of September 30, 2022, there were no amounts outstanding and the Company was in compliance with all financial covenants under the Loan and Security Agreement.

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 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 2017. However, if loss carryforwards of tax years prior to 2017 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.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (the "Act") into law. The $1.9 trillion Act includes COVID-19 relief, as well as broader stimulus, but also includes several revenue-raising and business tax provisions. The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") also includes several significant provisions for corporations, including the usage of net operating losses and payroll benefits. Several foreign (non-U.S.) jurisdictions in which the Company operates have taken similar economic stimulus measures. The Act and the CARES Act had no material impact on the Company's condensed consolidated financial statements and disclosures.

The Inflation Reduction Act (the "IRA") was signed into the law on August 16, 2022. The IRA provides for a minimum tax on certain corporations having more than $1 billion in revenue, excise taxes on share buybacks and changes to various types of tax credits. The Company believes the IRA will have little to no effect on the Company's income taxes. The Company will continue to assess as the provisions are clarified.

9. Stockholders' Equity

Series B Convertible Preferred Stock Dividend Accretion

The following table summarizes Series B convertible preferred stock and the accretion of dividend activity for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Series B Convertible Preferred Stock:				
Balance at beginning of period	$ 24,715	$ 23,539	$ 24,117	$ 22,969
Cumulative dividends on Series B convertible preferred stock	304	289	902	859
Balance at end of period	$ 25,019	$ 23,828	$ 25,019	$ 23,828
Number of Common Shares Issuable Upon Conversion:				
Number of shares at beginning of period	6,179	5,885	6,029	5,742
Cumulative dividends on Series B convertible preferred stock	76	72	226	215
Number of shares at end of period	6,255	5,957	6,255	5,957

Based on the current conversion price, the outstanding shares, including the accretion of dividends, of Series B convertible preferred stock as of September 30, 2022 would be convertible into 6,254,793 shares of the Company's common stock. However, the conversion rate will be subject to adjustment in certain instances, such as if the Company issues shares of its common stock at a price less than $4.00 per common share, subject to a minimum conversion price of $3.27 per share. As of September 30, 2022, none of the contingent conditions to adjust the conversion rate had been met.

Each share of Series B convertible preferred stock is entitled to a cumulative annual dividend of 5% for the first six years following the issuance of such share and 3% for each year thereafter, with the Company retaining the option to settle each year's dividend after the 10th year in cash. The dividends accrue and are payable in kind upon such time as the shares convert into the Company's common stock. In general, the shares are not entitled to vote except in certain limited cases, including in change of control transactions where the expected price per share distributable to the Company's stockholders is expected to be less than $4.00 per share. The Certificate of Designation with respect to the Series B convertible preferred stock further provides that in the event of, among other things, any change of control, liquidation or dissolution of the Company, the holders of the Series B convertible preferred stock will be entitled to receive, on a pari passu basis with the holders of the common stock, the same amount and form of consideration that the holders of the Company's common stock receive (on an as-if-converted-to-common-stock basis and without regard to the Beneficial Ownership Limitation (as defined in the Certificate of Designation) applicable to the Series B convertible preferred stock).

Common Stock Warrants

On May 5, 2020, the Company entered into a Note and Warrant Purchase Agreement with 21 April Fund, LP and 21 April Fund, Ltd., (collectively, the "April 21 Funds"), pursuant to which the Company issued warrants ("April 21 Funds Warrants") to purchase 275,000 shares of common stock of the Company. The April 21 Funds Warrants have a term of three years (subject to early termination upon the closing of an acquisition). The shares of common stock issuable upon exercise of the April 21 Fund Warrants are entitled to resale registration rights pursuant to a Stockholders Agreement dated December 21, 2017.

Below is the summary of outstanding warrants as of September 30, 2022:

Warrant Type	Number of Shares Issuable Upon Exercise	Weighted Average Exercise Price	Issue Date	Expiration Date
April 21 Funds Warrants	275,000	$ 3.50	May 5, 2020	May 5, 2023

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance as of September 30, 2022 was as follows:

Exercise of outstanding stock options, vesting of restricted stock units ("RSUs"), vesting of performance stock units ("PSUs"), and issuance of RSUs vested but not released	1,301,289
Employee Stock Purchase Plan	293,888
Shares of common stock available for grant under the 2011 Plan	858,346
Warrants to purchase common stock	275,000
Shares of common stock issuable upon conversion of Series B convertible preferred stock	7,541,449
Total	10,269,972

10. Stock-Based Compensation

Stock Incentive Plan

The Company maintains a stock-based compensation plan, the 2011 Incentive Compensation Plan (the "2011 Plan"), as amended, 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.

Stock Options

A summary of stock option activity for the nine months ended September 30, 2022 is as follows:

	Number Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance as of December 31, 2021	514,693	$ 5.11	4.11	$11,850,930
Granted	—	—		
Cancelled or Expired	(8,883)	8.41		
Exercised	—	—		
Balance as of September 30, 2022	505,810	$ 5.06	3.42	$ 3,785,283
Vested or expected to vest as of September 30, 2022	505,810	$ 5.06	3.42	$ 3,785,283
Exercisable as of September 30, 2022	505,810	$ 5.06	3.42	$ 3,785,283

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company's common stock as of September 30, 2022 and the exercise price of in-the-money stock options multiplied by the number of such stock options.

The following table summarizes information about stock options outstanding as of September 30, 2022:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$4.36 - $7.20	445,960	3.68	$ 4.37	445,960	$ 4.37
$7.50 - $11.25	59,317	1.54	10.18	59,317	10.18
$11.30 - $16.95	500	1.50	11.30	500	11.30
$19.70 - $29.55	33	0.87	19.70	33	19.70
$4.36 - $29.55	505,810	3.42	$ 5.06	505,810	$ 5.06

As of September 30, 2022, there was no unrecognized stock-based compensation expense related to stock options.

Restricted Stock Units

The following is a summary of RSU activity for the nine months ended September 30, 2022:

	Number Outstanding	Weighted Average Fair Value
Unvested as of December 31, 2021	485,729	$ 9.19
Granted	275,807	17.16
Vested	(212,600)	8.75
Forfeited	(44,192)	8.92
Unvested as of September 30, 2022	504,744	$ 13.76
RSUs vested but not released	215,735	$ 6.45

The fair value of the Company's RSUs is calculated based upon the fair market value of the Company's common stock at the date of grant. As of September 30, 2022, there was $5.6 million of unrecognized compensation expense related to unvested RSUs granted, which is expected to be recognized over a weighted average period of 2.9 years. No tax benefit was realized from RSUs for the nine months ended September 30, 2022.

Performance Stock Units

The Company granted 200,000 PSUs to a certain key employee during the year ended December 31, 2020, with a grant date fair value of $6.38 per share. The PSUs are subject to the attainment of performance goals established by the Company's Compensation Committee, the periods during which performance is to be measured, and other limitations and conditions. Performance goals are based on pre-established objectives that specify the manner of determining the number of PSUs that will vest if performance goals are attained. If the employee terminates employment, the non-vested portion of the PSUs will not vest and all rights to the non-vested portion will terminate.

The following is a summary of PSU activity for the nine months ended September 30, 2022:

	Number Outstanding
Unvested as of December 31, 2021	175,000
Granted	—
Vested	(20,000)
Forfeited	(80,000)
Unvested as of September 30, 2022	75,000

As of September 30, 2022, there was $0.1 million of unrecognized compensation expense related to unvested PSUs, which is expected to be recognized over a period of 0.3 years. No tax benefit was realized from PSUs for the nine months ended September 30, 2022.

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense related to stock options, RSUs, and PSUs included in the condensed consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	$ 39	$ 49	$ 138	$ 130
Research and development	239	109	780	364
Selling and marketing	223	155	606	382
General and administrative	351	259	1,041	1,151
Total	$ 852	$ 572	$ 2,565	$ 2,027

Restricted Stock Unit Net Share Settlements

During the nine months ended September 30, 2022 and 2021, the Company repurchased 54,074 and 68,519 shares, respectively, of common stock surrendered to the Company to satisfy tax withholding obligations in connection with the vesting of RSUs issued to employees.

11. Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) available to common stockholders during the period by the weighted average number of common shares outstanding during that period. Diluted net income (loss) per common share is impacted by equity instruments considered to be potential common shares, if dilutive, computed using the treasury stock or the if-converted method of accounting.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Basic net income (loss) per common share:				
Numerator:				
Net income (loss)	$ 519	$ 2,540	$ (731)	$ 3,541
Less: accretion of Series B convertible preferred stock dividends	(304)	(289)	(902)	(859)
Net income (loss) available to common stockholders	$ 215	$ 2,251	$ (1,633)	$ 2,682
Denominator:				
Weighted average common shares outstanding - basic	22,682	22,448	22,632	20,948
Net income (loss) per common share - basic	$ 0.01	$ 0.10	$ (0.07)	$ 0.13
Diluted net income (loss) per common share:				
Numerator:				
Net income (loss) available to common stockholders	$ 215	$ 2,251	$ (1,633)	$ 2,682
Plus: accretion of Series B convertible preferred stock dividends, if dilutive	—	289	—	—
Net income (loss) available to common stockholders	$ 215	$ 2,540	$ (1,633)	$ 2,682
Denominator:				
Weighted average common shares outstanding - basic	22,682	22,448	22,632	20,948
Dilutive securities:				
Stock options, RSUs, and warrants	633	925	—	913
Convertible preferred shares	—	5,957	—	—
Weighted average common shares outstanding - diluted	23,315	29,330	22,632	21,861
Net income (loss) per common share - diluted	$ 0.01	$ 0.09	$ (0.07)	$ 0.12

The following common stock equivalents have been excluded from diluted net income (loss) per share for the three and nine months ended September 30, 2022 and 2021 because their inclusion would have been anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Shares of common stock subject to outstanding RSUs	—	—	505	—
Shares of common stock subject to outstanding PSUs	75	175	75	175
Shares of common stock subject to outstanding stock options	—	2	506	2
Shares of common stock subject to outstanding warrants	—	—	275	—
Shares of common stock issuable upon conversion of Series B convertible preferred stock	6,255	—	6,255	5,957
Total	6,330	177	7,616	6,134

12. Segment Reporting, Geographic Information, and Concentration of Credit Risk

Segment Reporting

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 Chief Executive Officer.

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 Company does not report total assets, capital expenditures or operating expenses by operating segment as such information is not used by the CODM 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, 2022 and 2021 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Identity:				
Net revenue	$ 19,150	$ 18,745	$ 50,647	$ 47,199
Gross profit	4,319	5,211	11,459	12,133
Gross profit margin	23%	28%	23%	26%
Premises:				
Net revenue	11,846	10,352	33,267	28,053
Gross profit	6,869	5,907	18,905	15,517
Gross profit margin	58%	57%	57%	55%
Total:				
Net revenue	30,996	29,097	83,914	75,252
Gross profit	11,188	11,118	30,364	27,650
Gross profit margin	36%	38%	36%	37%
Operating expenses:				
Research and development	2,625	2,088	7,633	6,556
Selling and marketing	5,326	4,471	15,709	12,682
General and administrative	2,639	2,400	7,623	7,120
Restructuring and severance	49	99	132	761
Total operating expenses:	10,639	9,058	31,097	27,119
Income (loss) from operations	549	2,060	(733)	531
Non-operating income (expense):				
Interest expense, net	(39)	(62)	(101)	(451)
Gain on forgiveness of Paycheck Protection Program note	—	—	—	2,946
Gain on investment	—	611	30	611
Foreign currency gains (losses), net	(3)	(48)	111	(2)
Income (loss) before income tax benefit (provision)	$ 507	$ 2,561	$ (693)	$ 3,635

Geographic Information

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, 2022 and 2021 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Americas	$ 20,951	$ 19,667	$ 55,480	$ 49,023
Europe and the Middle East	3,651	3,223	11,473	9,309
Asia-Pacific	6,394	6,207	16,961	16,920
Total	$ 30,996	$ 29,097	$ 83,914	$ 75,252
As percentage of net revenue:				
Americas	68%	68%	66%	65%
Europe and the Middle East	11%	11%	14%	12%
Asia-Pacific	21%	21%	20%	23%
Total	100%	100%	100%	100%

Concentration of Credit Risk

No customer accounted for 10% or more of net revenue for either of the three or nine months ended September 30, 2022 or 2021. No customer accounted for 10% or more of net accounts receivable as of September 30, 2022 or December 31, 2021.

Long-lived assets by geographic location as of September 30, 2022 and December 31, 2021 are as follows (in thousands):

	September 30, 2022	December 31, 2021
Property and equipment, net:		
Americas	$ 476	$ 545
Europe and the Middle East	301	334
Asia-Pacific	5,412	3,187
Total property and equipment, net	$ 6,189	$ 4,066
Operating lease ROU assets:		
Americas	$ 3,666	$ 1,344
Europe and the Middle East	88	135
Asia-Pacific	243	609
Total operating lease right-of-use assets	$ 3,997	$ 2,088

13. Restructuring and Severance

During the three and nine months ended September 30, 2022, restructuring expenses consisted of severance related costs of $49,000 and $283,000, respectively. In the first quarter of 2022, the Company entered into a settlement agreement associated with outstanding rental payments due the landlord on leased office space in San Francisco, California. As a result of the settlement, the Company recorded a net credit of $151,000 representing the difference between amounts accrued and the settlement amount.

Restructuring expenses incurred during the three and nine months ended September 30, 2021 of $99,000 and $761,000, respectively, consists of facility rental related costs of $67,000 and $523,000, respectively, and severance related costs of $32,000 and $238,000, respectively. Facility rental related costs during the nine months ended September 30, 2021 included a charge of $281,000 resulting from the impairment of a right-of-use operating lease asset for office space the Company vacated in the first quarter of 2021.

14. Leases

The Company's leases consist primarily of operating leases for administrative office space, research and development facilities, a manufacturing facility, and sales offices in various countries around the world. The Company determines if an arrangement is a lease at inception. Some lease agreements contain lease and non-lease components, which are accounted for as a single lease component. Total rent expense was $0.4 million and $1.0 million for the three and nine months ended September 30, 2022, respectively, and $0.3 million and $1.0 million for the three and nine months ended September 30, 2021, respectively.

Initial lease terms are determined at commencement and may include options to extend or terminate the lease when it is reasonably certain the Company will exercise the option. Remaining lease terms range from one to five years, some of which include options to extend for up to five years. Leases with an initial term of 12 months or less are not recorded on the condensed consolidated balance sheets. As the Company's leases do not provide an implicit rate, the present value of future lease payments is determined using the Company's incremental borrowing rate based on information available at the lease commencement date.

The table below reconciles the undiscounted cash flows for the first five years and the total of the remaining years to the operating lease liabilities recorded on the condensed consolidated balance sheet as of September 30, 2022 (in thousands):

	September 30, 2022
2022 (remaining three months)	$ 315
2023	1,064
2024	911
2025	907
2026	743
Thereafter	722
Total minimum lease payments	4,662
Less: amount of lease payments representing interest	(536)
Present value of future minimum lease payments	4,126
Less: current liabilities under operating leases	(941)
Long-term operating lease liabilities	$ 3,185

As of September 30, 2022, the weighted average remaining lease term for the Company's operating leases was 3.0 years, and the weighted average discount rate used to determine the present value of the Company's operating leases was 6.3%.

Cash paid for amounts included in the measurement of operating lease liabilities was $0.3 million and $1.0 million for the three and nine months ended September 30, 2022, respectively.

15. Commitments and Contingencies

The following table summarizes the Company's principal contractual commitments, excluding operating leases, as of September 30, 2022 (in thousands):

	Purchase Commitments	Other Contractual Commitments	Total
2022 (remaining three months)	$ 48,161	$ 224	$ 48,385
2023	17,304	8	17,312
2024	3,405	—	3,405
2025	4,005	—	4,005
2026	5	—	5
Total	$ 72,880	$ 232	$ 73,112

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 following table summarizes the Company's warranty accrual account activity during the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance at beginning of period	$ 393	$ 352	$ 377	$ 321
Accruals for warranties charged to expense	—	—	21	33
Cost of warranty claims	(11)	—	(16)	(2)
Balance at end of period	$ 382	$ 352	$ 382	$ 352

The Company provides warranties on certain product sales for periods ranging from 12 to 36 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 reflect current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "will," "believe," "could," "should," "would," "may," "anticipate," "intend," "plan," "estimate," "expect," "project" or the negative of these 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 Report and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 under the heading "Risk Factors," The following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2021. 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," "us" and "our" as used herein refers collectively to Identiv, Inc. and its wholly-owned subsidiaries, unless otherwise stated.

Overview

Identiv is a global provider of secure identification and physical security.

We are leveraging our Radio Frequency Identification ("RFID") based physical device-management expertise as well as our physical access, video and analytics solutions to provide leading solutions as our customers, and our customers' customers, embracing the Internet of Things ("IoT"). Customers in the technology and mobility, consumer, government, healthcare, education and other sectors rely on Identiv's identification and access solutions. Identiv's platform encompasses RFID and Near-Field Communication ("NFC"), cybersecurity, and the full spectrum of physical access, video, and audio security. We are bringing the benefits of the IoT to a wide range of physical, connected items.

Identiv's mission is to digitally enable every physical thing and every physical place on the planet. Our full continuum of security solutions is delivered through our platform of RFID enabled devices, mobile, client/server, cloud, web, dedicated hardware and software defined architectures. In doing so, we believe that we will create smart physical security and a smarter physical world.

Segments

We have organized our operations into two reportable business segments, principally by solution families: Identity and Premises. Our *Identity* segment includes products and solutions enabling secure access to information serving the logical access and cyber-security market, and protecting connected objects and information using RFID embedded security. Our *Premises* segment includes our solutions to address the premises security market for government and enterprise, including access control, video surveillance, analytics, audio, access readers and identities.

Factors Affecting Our Performance

Market Adoption

Our financial performance depends on the pace, scope and depth of end-user adoption of our RFID products in multiple industries. Such pace, scope and depth accelerated during 2020, causing large fluctuations in our operating results. During 2021, we believe RFID deployments occurred at a much faster pace of growth than historically. We believe significant improvement in chip capabilities at lower costs, combined with the incorporation of the full NFC Data Exchange Format ("NDEF") protocol by Apple Inc. in its iPhone 12 and iOS 14, has accelerated the opportunities for product engineers to integrate RFID into their products to create new and more engaging customer experiences, product reliability and performance. As the market hit this pivot point, we expanded both our capacity and technical leadership. We track growth indicators including design wins, customer launches and technology launches. We have made investments in our technology, world class quality and automation, and we believe that our competitive advantages will continue to drive growth.

We believe the underlying, long-term trend is continued RFID adoption by multiple verticals. We also believe that expanding use cases fosters adoption across verticals and into other markets. In addition, we do not have any significant concentration of customers so we believe that our demand will continue to be resilient to the loss of any individual customer or application.

If RFID market adoption, and adoption of our products specifically, does not meet our expectations then our growth prospects and operating results will be adversely affected. If we are unable to meet end-user or customer volume or performance expectations, then our business prospects may be adversely affected. In contrast, if our RFID sales exceed expectations, then our revenue and profitability may be positively affected.

Given the uncertainties of the specific timing of our new customer deployments, we cannot assure you that we have appropriate inventory and capacity levels or that we will not experience inventory shortfalls or overages in the future or acquire inventory at costs to maintain gross margins. We attempt to mitigate those risks by being deeply embedded in our customers' design cycles, working with our chip partners on long lead time components, managing our limited capital equipment needs within a short cycle and future proofing our facilities to accommodate several scenarios for growth potential.

If end users with sizable projects change or delay them, we may experience significant fluctuation in revenue on a quarterly or annual basis, and we anticipate that uncertainty to continue to characterize our business for the foreseeable future.

Seasonality and Other Factors

In our business overall, we experience 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 physical access control solutions and related products to U.S. Government agencies are subject to annual government budget cycles and generally are highest in the third quarter of each year. Sales of our Identity readers, many of which are sold to government agencies worldwide, are impacted by project schedules of government agencies, as well as roll-out schedules for application deployments. 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 the 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 depend on the relative strength of project completions and sales mix between our U.S. customer base and our international customer base.

Purchasing of our Products and Services for U.S. Federal Government Security Programs

In addition to the general seasonality of demand, overall U.S. Federal Government expenditure patterns have a significant effect on demand for our products due to the significant portion of revenue that is typically sourced from U.S. Federal Government agencies. Drivers of growth included our technology strength and proven security solutions, work-from-home mandates, and continued strength in investments for security across a number of different agencies. We believe that the success and growth of our business will continue through the U.S. Federal Government focus on security and our successful procurement of government business. If there are changes in government purchasing policies or budgetary constraints, there could be implications for our growth prospects and operating results. If we are unable to meet end-user or customer volume or performance expectations, then our business prospects and operating results may be adversely affected.

Impacts of Macroeconomic Conditions and Other Factors on our Business

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic. The rapid spread of the pandemic and the continuously evolving responses to combat it have had an increasingly negative impact on the global economy, including industry-wide global supply chain challenges, such as manufacturing, transportation and logistics. We purchase certain products and key components from a limited number of sources that depend on the supply chain, including freight, to receive components, transport finished goods and deliver our products across the world. In view of the rapidly changing business environment, we have experienced delays and reductions in customer orders, shifting supply chain availability, component shortages, and other production-related challenges. We are currently unable to determine if there will be any continued disruption and the extent to which this may have future impact on our business. We continue to monitor the global supply chain challenges and its effect on our financial position, results of operations, and cash flows.

More recently, we have also been impacted by other adverse macroeconomic conditions, including but not limited to, inflation, foreign currency fluctuations, and the slowdown of economic activity around the globe. These conditions have also impacted our suppliers, contract manufacturers, logistics providers, and distributors, causing increases in cost of materials and higher shipping and transportation rates, which then impacted the pricing of our products. Price increases may not successfully offset cost increases or may cause us to lose market share and, in turn, may adversely impact our financial position, results of operations, and cash flows.

Results of Operations

The following table includes net revenue and net profit information by business segment and reconciles gross profit to income (loss) before income tax benefit (provision) (in thousands).

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	**2021**	**% Change**	**2022**	**2021**	**% Change**
Identity:						
Net revenue	$ 19,150	$ 18,745	2%	$ 50,647	$ 47,199	7%
Gross profit	4,319	5,211	(17%)	11,459	12,133	(6%)
Gross profit margin	23%	28%		23%	26%	
Premises:						
Net revenue	11,846	10,352	14%	33,267	28,053	19%
Gross profit	6,869	5,907	16%	18,905	15,517	22%
Gross profit margin	58%	57%		57%	55%	
Total:						
Net revenue	30,996	29,097	7%	83,914	75,252	12%
Gross profit	11,188	11,118	1%	30,364	27,650	10%
Gross profit margin	36%	38%		36%	37%	
Operating expenses:						
Research and development	2,625	2,088	26%	7,633	6,556	16%
Selling and marketing	5,326	4,471	19%	15,709	12,682	24%
General and administrative	2,639	2,400	10%	7,623	7,120	7%
Restructuring and severance	49	99	(51%)	132	761	(83%)
Total operating expenses:	10,639	9,058	17%	31,097	27,119	15%
Income (loss) from operations	549	2,060	(73%)	(733)	531	(238%)
Non-operating income (expense):						
Interest expense, net	(39)	(62)	(37%)	(101)	(451)	(78%)
Gain on forgiveness of Paycheck Protection Program note	—	—	100%	—	2,946	(100%)
Gain on investment	—	611	(100%)	30	611	(95%)
Foreign currency gains (losses), net	(3)	(48)	(94%)	111	(2)	n/m
Income (loss) before income tax benefit (provision)	$ 507	$ 2,561	(80%)	$ (693)	$ 3,635	(119%)

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Americas	$ 20,951	$ 19,667	7%	$ 55,480	$ 49,023	13%
Europe and the Middle East	3,651	3,223	13%	11,473	9,309	23%
Asia-Pacific	6,394	6,207	3%	16,961	16,920	0%
Total	$ 30,996	$ 29,097		$ 83,914	$ 75,252	
Percentage of net revenue:						
Americas	68%	68%		66%	65%	
Europe and the Middle East	11%	11%		14%	12%	
Asia-Pacific	21%	21%		20%	23%	
Total	100%	100%		100%	100%	

Net Revenue

Net revenue for the three months ended September 30, 2022 was $31.0 million, an increase of 7% compared with $29.1 million for the comparable period of 2021. Net revenue in the Americas was $21.0 million for the three months ended September 30, 2022, an increase of 7% compared to $19.7 million for the comparable period of 2021. Net revenue in Europe, the Middle East, and the Asia-Pacific was approximately $10.0 million for the three months ended September 30, 2022, an increase of 7% compared with the comparable period of 2021.

Net revenue for the nine months ended September 30, 2022 was $83.9 million, an increase of 12% compared with $75.3 million for the comparable period of 2021. Net revenue in the Americas was $55.5 million for the nine months ended September 30, 2022, an increase of 13% compared to $49.0 million for the comparable period of 2021. Net revenue in Europe, the Middle East, and the Asia-Pacific was approximately $28.4 million for the nine months ended September 30, 2022, an increase of 8% compared with the comparable period of 2021.

Identity Segment

Net revenue in our Identity segment was $19.2 million for the three months ended September 30, 2022, an increase of 2% compared with $18.7 million for the comparable period of 2021. For the nine months ended September 30, 2022, net revenue in this segment was $50.6 million, an increase of 7% compared with $47.2 million for the comparable period of 2021. Net revenue in this segment for the three and nine months ended September 30, 2022 represented 62% and 60%, respectively, of our net revenue, compared to 64% and 63% in the comparable periods of the prior year.

Net revenue in this segment in the Americas for the three months ended September 30, 2022 were comparable to the three months ended September 31, 2021, while for the nine months ended September 30, 2022, net revenue increased 6% compared with the comparable period of 2021. The increase was primarily due to higher sales of RFID transponder products to consumer products contract manufacturers and higher sales of access cards, offset by lower sales of our legacy smart card readers resulting from critical component supply-chain constraints.

Net revenue in this segment in Europe, the Middle East, and the Asia-Pacific for the three and nine months ended September 30, 2022, increased 7% and 8%, respectively, compared with the comparable periods of 2021. These increases were primarily due to higher sales of RFID transponder products to existing customers in the medical device and library markets.

Premises Segment

Net revenue in our Premises segment was $11.8 million for the three months ended September 30, 2022, an increase of 14% compared with $10.4 million for the comparable period of 2021. For the nine months ended September 30, 2022, net revenue in this segment was $33.3 million, an increase of 19% compared with $28.1 million for the comparable period of 2021. Net revenue in our Premises segment for the three and nine months ended September 30, 2022 represented 38% and 40%, respectively, of our net revenue, compared to 36% and 37% in the comparable periods of the prior year.

Net revenue in this segment in the Americas for the three and nine months ended September 30, 2022 increased 15% and 20%, respectively, compared with the comparable periods of 2021 due to higher sales of Hirsch Velocity hardware, software, support services, and video product offerings across both federal government and commercial businesses.

Net revenue in this segment across Europe, the Middle East, and the Asia-Pacific for the three and nine months ended September 30, 2022 increased 4% and 9%, respectively, compared with the comparable periods of 2021. Net revenue in these regions is primarily project driven and can vary period to period.

As a general trend, U.S. Federal agencies continue to be subject to security improvement mandates under programs such as Homeland Security Presidential Directive-12 ("HSPD-12") and reiterated in memoranda from the Office of Management and Budget ("OMB M-11-11"). We believe that our solutions for trusted physical access is an attractive offering to help federal agency customers move towards compliance with federal directives and mandates. To address sales opportunities in the United States in general and with our U.S. Government customers in particular, we focus on a strong U.S. sales organization and our sales presence in Washington D.C.

Gross Profit and Gross Margin

Gross profit for the three months ended September 30, 2022 was $11.2 million, or 36% of net revenue, compared with $11.1 million, or 38% of net revenue in the comparable period of 2021. Gross profit for the nine months ended September 30, 2022 was $30.4 million, or 36% of net revenue, compared with $27.7 million, or 37% of net revenue in the comparable period of 2021. 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.

Identity Segment

In our Identity segment, gross profit in the three and nine months ended September 30, 2022 was $4.3 million and $11.5 million, respectively, compared with $5.2 million and $12.1 million, respectively, in the comparable periods of 2021. Gross profit margins in the Identity segment for the three and nine months ended September 30, 2022 decreased to 23% and 23%, respectively, from 28% and 26%, respectively, in the comparable periods of 2021. These decreases in gross profit margins were primarily attributable to continued investments in technology, manufacturing processes and equipment, and changes in product mix, with lower sales of higher margin legacy smart card readers and higher sales of lower margin RFID transponder products.

Premises Segment

In our Premises segment, gross profit in the three and nine months ended September 30, 2022 was $6.9 million and $18.9 million, respectively, compared with $5.9 million and $15.5 million, respectively, in the comparable periods of 2021. Gross profit margins in the three and nine months ended September 30, 2022 increased to 58% and 57%, respectively, from 57% and 55%, respectively, compared to the same periods in 2021. These increases were primarily due to product mix as well as the impact resulting from our continued focus on production and logistical efficiencies.

We expect there will be variation in our total gross profit from period to period, as our gross profit has been and will continue to be affected primarily by varying mix among our products. Within each product category, gross margins have tended to be consistent, but over time may be affected by a variety of factors, including, without limitation, competition, product pricing, the volume of sales in any given quarter, manufacturing volumes, product configuration and mix, the availability of new products, product enhancements, software and services, risk of inventory write-downs and the cost and availability of components.

Operating Expenses

Information about our operating expenses for the three and nine months ended September 30, 2022 and 2021 is set forth below (dollars in thousands).

Research and Development

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	**2021**	**% Change**	**2022**	**2021**	**% Change**
Research and development	$ 2,625	$ 2,088	26%	$ 7,633	$ 6,556	16%
as a % of net revenue	8%	7%		9%	9%	

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 for the three and nine months ended September 30, 2022 increased compared to the comparable prior year periods primarily due to higher headcount and related costs as well as higher stock-based compensation costs associated with PSUs.

Selling and Marketing

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Selling and marketing	$ 5,326	$ 4,471	19%	$ 15,709	$ 12,682	24%
as a % of net revenue	17%	15%		19%	17%	

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 for the three months ended September 30, 2022 increased compared to the three months ended September 30, 2021 primarily due to higher headcount and related costs. Selling and marketing expenses for the nine months ended September 30, 2022 increased compared to the comparable period of 2021 primarily due to higher headcount and related costs, higher external contractor costs as well as higher travel related costs.

General and Administrative

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
General and administrative	$ 2,639	$ 2,400	10%	$ 7,623	$ 7,120	7%
as a % of net revenue	9%	8%		9%	9%	

General and administrative expenses consist primarily of compensation expenses for employees performing administrative functions, and professional fees incurred for legal, auditing and other consulting services.

General and administrative expense for the three and nine months ended September 30, 2022 increased compared to the prior year periods primarily due to higher headcount and related costs, partially offset by lower merchant card fees in 2022 compared to 2021.

Restructuring and Severance Charges

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Restructuring and severance	$ 49	$ 99	(51%)	$ 132	$ 761	(83%)

Restructuring expense for the three and nine months ended September 30, 2022, consisted of severance related costs of $49,000 and $283,000, respectively. In the first quarter of 2022, we entered into a settlement agreement associated with outstanding rental payments due the landlord on leased office space in San Francisco, California. As a result of the settlement, we recorded a net credit of $151,000 representing the difference between amounts accrued and the settlement amount.

Non-operating Income (Expense)

Information about our non-operating income (expense) for the three and nine months ended September 30, 2022 and 2021 is set forth below (dollars in thousands).

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Interest expense, net	$ (39)	$ (62)	(37%)	$ (101)	$ (451)	(78%)
Gain on forgiveness of Paycheck Protection Program note	$ —	$ —	—	$ —	$ 2,946	(100%)
Gain on investment	$ —	$ 611	(100%)	$ 30	$ 611	(95%)
Foreign currency gains (losses), net	$ (3)	$ (48)	(94%)	$ 111	$ (2)	n/m

Interest expense, net consists of interest on financial liabilities, amortization of debt issuance costs, and interest accretion expense for a liability on a contractual payment obligation arising from our acquisition of Hirsch Electronics Corporation. The decrease in interest expense for the three and nine months ended September 30, 2022 compared to the comparable period of 2021 was attributable to lower borrowings outstanding under our revolving loan facility with our lender (which was fully paid down in August 2021), and lower amounts outstanding under our contractual payment obligations (all amounts outstanding had been paid as of December 31, 2021).

Changes in currency valuation in the periods mainly were the result of exchange rate movements between the U.S. Dollar, the Indian Rupee, the Canadian Dollar, and the Euro. 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 Tax Benefit (Provision)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	**2021**	**% Change**	**2022**	**2021**	**% Change**
Income tax benefit (provision)	$ 12	$ (21)	(157%)	$ (38)	$ (94)	(60%)
Effective tax rate	(2%)	1%		(5%)	3%	

As of September 30, 2022, our deferred tax assets are fully offset by a valuation allowance. Accounting Standards Codification ("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 (provision) during the three and nine months ended September 30, 2022. The effective tax rates for the three and nine months ended September 30, 2022 and 2021 differ from the federal statutory rate of 21% primarily due to a change in valuation allowance, and the provision or benefit in certain foreign jurisdictions, which are subject to higher tax rates.

Liquidity and Capital Resources

As of September 30, 2022, our working capital, defined as current assets less current liabilities, was $50.7 million, a decrease of $1.2 million compared to $51.9 million as of December 31, 2021. As of September 30, 2022, our cash and cash equivalents balance was $21.2 million.

On February 8, 2017, we entered into a Loan and Security Agreement with East West Bank ("EWB"). Following subsequent amendments, on February 8, 2021, we amended and restated the Loan and Security Agreement in its entirety (the "Loan and Security Agreement"). The Loan and Security Agreement provided for a $20.0 million revolving loan facility subject to a borrowing base and a $4.0 million non-formula revolving loan facility that was not subject to a borrowing base. Advances under the revolving loan facility, as amended on April 30, 2021, bear interest at a per annum rate equal to the prime rate. The maturity date of the main revolving loan facility is February 8, 2023. The non-formula revolving loan facility terminated on February 7, 2022.

On April 14, 2022, we amended the Loan and Security Agreement, replacing the $20.0 million revolving loan facility subject to a borrowing base with a $20.0 million non-formula revolving loan facility with no borrowing base requirement and a maturity date of February 8, 2023. In addition, the interest rate was lowered from prime to prime minus 0.25%, and certain financial covenants were amended. As of September 30, 2022, there were no amounts outstanding and we were in compliance with all financial covenants under the Loan and Security Agreement.

As our previously unremitted earnings have been subjected to U.S. federal income tax, we expect any repatriation of these earnings to the U.S. would not incur significant additional taxes related to such amounts. However, our estimates are provisional and subject to further analysis. Generally, most of our foreign subsidiaries have accumulated deficits and cash and cash equivalents that are held outside the United States are typically not cash generated from earnings that would be subject to tax upon repatriation if transferred to the United States. 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, 2022, the amount of cash included at such subsidiaries was $4.4 million. We have not, nor do we anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

We have historically incurred operating losses and negative cash flows from operating activities, and we may continue to incur losses in the future. As of September 30, 2022, we had an accumulated deficit of $409.7 million. During the nine months ended September 30, 2022, we had a net loss of $0.7 million.

We believe our existing cash and cash equivalents, together with cash generated from operations and available credit under our Loan and Security Agreement will be sufficient to satisfy our working capital needs to fund operations for the next 12 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 choose to finance our business through public or private equity offerings, debt financings or other arrangements. However, there can be no assurance that additional capital 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. Debt or 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 loans could impose significant restrictions on our operations. The incurrence of additional indebtedness or the issuance of certain debt or 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 Agreement imposes restrictions on our operations, increases our fixed payment obligations and has 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.

The following summarizes our cash flows for the nine months ended September 30, 2022 and 2021 (in thousands):

	Nine Months Ended September 30,	
	2022	**2021**
Net cash provided by (used in) operating activities	$ (3,014)	$ 5
Net cash used in investing activities	(2,978)	(1,312)
Net cash provided by (used in) financing activities	(896)	19,560
Effect of exchange rates on cash, cash equivalents, and restricted cash	(1,019)	(444)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(7,907)	17,809
Cash, cash equivalents, and restricted cash at beginning of period	29,807	11,409
Cash, cash equivalents, and restricted cash at end of period	$ 21,900	$ 29,218

Cash flows from operating activities

Cash used in operating activities for the nine months ended September 30, 2022 of $3.0 million, was primarily due to net loss of $0.7 million, a decrease in cash from net changes in operating assets and liabilities of $6.5 million, which included $5.2 million in strategic inventory purchases, partially offset by adjustments for certain non-cash items of $4.2 million, consisting primarily of depreciation, amortization and stock-based compensation.

Cash provided by operating activities for the nine months ended September 30, 2021 of less than $0.1 million was primarily due to net income of $3.5 million, and adjustments for certain non-cash items of $0.4 million, consisting primarily of depreciation, amortization, stock-based compensation, gain on forgiveness of the Paycheck Protection Program note and impairment of a right-of-use operating lease asset, offset by a decrease in cash from net changes in operating assets and liabilities of $3.9 million.

Cash flows from investing activities

Cash used in investing activities for the nine months ended September 30, 2022 was $3.0 million, which related to capital expenditures in our manufacturing facility in Singapore and our research and development facility in Germany.

Cash used in investing activities for the nine months ended September 30, 2021 was $1.3 million, which related to capital expenditures in our manufacturing facility in Singapore and our research and development facility in Germany, partially offset by $0.6 million related to proceeds received from an investment in connection with the acquisition of a private company that we had invested in, which had been fully impaired and had no carrying value.

Cash flows from financing activities

Cash used in financing activities during the nine months ended September 30, 2022 was $0.9 million, which related to net share settlements of restricted stock units. Cash provided by financing activities during the nine months ended September 30, 2021 was primarily due to net proceeds of $37.7 million received from the sale of common stock in our underwritten public offering, partially offset by net repayments under our revolving loan facility of $14.6 million, repayments of April 21 Funds promissory notes of $2.8 million and taxes paid related to net share settlements of restricted stock units of $0.9 million.

Off-Balance Sheet Arrangements

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

Climate Change

We believe that neither climate change, nor governmental regulations related to climate change, have had a material effect on our business, financial condition or results of operations.

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 condensed consolidated 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, 2022, 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, 2021.

Recent Accounting Pronouncements

See Note 2, S*ignificant Accounting Policies and Recent Accounting Pronouncements,* 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.

10b5-1 Trading Plans

From time to time, our executive officers and directors have, and we expect they will in the future, enter into written trading plans pursuant to Rule 10b5-1 of the Securities and Exchange Act of 1934.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are primarily exposed to changes in currency exchange rates as certain of our operations are conducted in foreign currencies such as the Indian Rupee, the Canadian Dollar, and the Euro.

Economic Exposure

We transact business in various foreign currencies and have significant international revenues, as well as costs denominated in foreign currencies. This exposes us to the risk of fluctuations in foreign currency exchange rates. Our objective is to identify material foreign currency exposures and to manage these exposures to minimize the potential effects of currency fluctuations on our condensed consolidated financial statements.

Transaction Exposure

Our exposure to foreign currency transaction gains and losses is the result of assets and liabilities, (including inter-company transactions) that are denominated in currencies other than the relevant entity's functional currency. In certain circumstances, changes in the functional currency value of these assets and liabilities create fluctuations in our condensed consolidated financial statements. We have performed sensitivity analyses as of September 30, 2022 and December 31, 2021 using a modeling technique that evaluated the hypothetical impact of a 10% movement in the value of the U.S. Dollar compared to the functional currency of the foreign subsidiary, with all other variables held constant, to determine the incremental transaction gains or losses that would have been incurred. The foreign exchange rates used were based on market rates in effect at each of September 30, 2022 and December 31, 2021. The results of these sensitivity analyses indicated that the impact on a hypothetical 10% movement in foreign currency exchange rates would result in increased foreign currency gains or losses of $0.8 million as of September 30, 2022 and $0.4 million as of December 31, 2021.

Translation Exposure

We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. Dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. Dollars results in a gain or loss which is recorded as a component of accumulated other comprehensive income (loss) in our condensed consolidated statements of stockholders' equity.

With respect to our international operations, we have re-measured accounts which are denominated in the non-functional currencies into the functional currency of the subsidiary and recorded the resulting gains (losses) within foreign currency gains (losses), net in our condensed consolidated statements of comprehensive income (loss). We re-measure all monetary assets and liabilities at the current exchange rate at the end of the period, non-monetary assets and liabilities at historical exchange rates, and revenue and expenses at average exchange rates in effect during the periods.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls over Financial Reporting

We have made no changes to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the three months ended September 30, 2022, 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

We are and from time to time, may become subject to various legal proceedings and claims arising in the ordinary course of business or could be named a defendant in other lawsuits. Legal proceedings could result in material costs, occupy significant management resources and entail penalties, even if we prevail. 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. You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 under the heading "Risk Factors." Other than as discussed below, there have been no material changes from the risk factors disclosed in our 2021 Annual Report on Form 10-K. The risks, uncertainties and other factors described in the 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.

Adverse global and regional economic conditions may materially adversely affect our business, results of operations and financial condition.

We conduct operations internationally with sales in the Americas, Europe and the Middle East, and Asia-Pacific regions. Our manufacturing operations and third-party contract manufacturers are located in China and Singapore/Southeast Asia. We also purchase certain products and key components from a limited number of sources that depend on the supply chain, including freight, to receive components, transport finished goods and deliver our products across the world. As a result, adverse global and regional economic conditions may materially adversely affect our business, results of operations and financial condition.

Such conditions, including but not limited to inflation, slower growth or recession, higher interest rates and currency fluctuations, and other conditions that may impact consumer confidence and spending may adversely affect demand for our products. During the third quarter of 2022, we were impacted by adverse macroeconomic conditions including but not limited to inflation, foreign currency fluctuations, and the slowdown of economic activity around the globe. For example, in the third quarter of 2022, we experienced delays and reductions in customer orders, shifting supply chain availability and component shortages. We also continue to be affected by supply chain challenges. Global economic conditions have also impacted our suppliers, contract manufacturers, logistics providers, and distributors, causing increases in cost of materials and higher shipping and transportation rates, which then impacted the pricing of our products. Price increases may not successfully offset cost increases or may cause us to lose market share and, in turn, may adversely impact our operations.

All these and other global economic factors may materially adversely affect our business, results of operations and financial condition.

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

During the three months ended September 30, 2022, we repurchased 19,963 shares of our common stock. The table below sets forth information regarding the Company's purchases of its common stock during the three months ended September 30, 2022:

	Issuer Purchases of Equity Securities			
Period	Total number of shares purchased[1]	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
July 1, 2022 – July 31, 2022	3,994	$ 11.64	—	—
August 1, 2022 – August 31, 2022	4,122	13.73	—	—
September 1, 2022 – September 30, 2022	11,847	14.34	—	—
Total	19,963	$ —	—	

[1] Consists of shares surrendered to the Company to satisfy tax withholding obligations in connection with the vesting of restricted stock units issued to employees.

Item 6. Exhibits

Exhibit Number	Description
31.1^	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2^	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32[#]	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL 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.

^ Filed herewith.

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 8, 2022

By: **/s/ Steven Humphreys**
Steven Humphreys
Chief Executive Officer
(Principal Executive Officer)

November 8, 2022

By: **/s/ Justin Scarpulla**
Justin Scarpulla
Chief Financial Officer
(Principal Financial and Accounting Officer)