IDENTIVE GROUP, INC.
Form 10-Q
May 15, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014

OR

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

COMMISSION FILE NUMBER: 000-29440

IDENTIVE GROUP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

39300 Civic Center Drive, Suite 160

Fremont, California 94538

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES INCLUDING ZIP CODE)

(949) 250-8888

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

1900 Carnegie Avenue, Building B

Santa Ana, California 92705

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

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

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

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

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

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

At May 9, 2014, 79,185,054 shares of common stock were outstanding, excluding 618,400 shares held in treasury.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

IDENTIVE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	March 31, 2014 (unaudited)	December 31, 2013 (A)
ASSETS		
Current assets:		
Cash	$12,030	$5,095
Accounts receivable, net of allowances of $87 and $131 as of March 31, 2014 and December 31, 2013, respectively	12,940	13,289
Inventories	10,347	9,098
Prepaid expenses	1,031	957
Other current assets	1,672	1,766
Current assets of discontinued operations	—	2,624
Total current assets	38,020	32,829
Property and equipment, net	5,696	5,888
Goodwill	8,994	8,991
Intangible assets, net	9,821	10,184
Other assets	1,305	867
Total assets	$63,836	$58,759
LIABILITIES AND STOCKHOLDERS´ EQUITY		
Current liabilities:		
Accounts payable	$11,173	$9,353
Liability to related party	1,056	1,073
Financial liabilities	—	2,971
Deferred revenue	504	729
Accrued compensation and related benefits	3,054	3,383
Other accrued expenses and liabilities	4,724	5,239
Current liabilities of discontinued operations	—	1,630
Total current liabilities	20,511	24,378
Long-term liability to related party	5,537	5,648
Long-term financial liabilities	13,503	3,051
Other long-term liabilities	885	938
Total liabilities	40,436	34,015
Commitments and contingencies (see Note 14)		

Stockholders´ equity:		
Identive Group, Inc. stockholders' equity:		
Preferred stock, $0.001 par value: 10,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.001 par value: 130,000 shares authorized; 78,411 and 75,079 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	78	75
Additional paid-in capital	352,558	348,845
Treasury stock, 618 shares as of March 31, 2014 and December 31, 2013	(2,777)	(2,777)
Accumulated deficit	(326,004)	(320,876)
Accumulated other comprehensive income	1,334	1,227
Total Identive Group, Inc. stockholders' equity	25,189	26,494
Noncontrolling interest	(1,789)	(1,750)
Total stockholders´ equity	23,400	24,744
Total liabilities and stockholders´equity	$63,836	$58,759

(A) The condensed consolidated balance sheet has been derived from the audited consolidated financial statements at December 31, 2013 but does not include all the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

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

IDENTIVE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended March, 31	
	2014	2013
Net revenue	$17,160	$15,955
Cost of revenue	10,520	9,202
Gross profit	6,640	6,753
Operating expenses:		
Research and development	1,502	1,693
Selling and marketing	5,049	4,697
General and administrative	3,054	3,887
Restructuring and severance	437	—
Total operating expenses	10,042	10,277
Loss from operations	(3,402)	(3,524)
Interest expense, net	(2,084)	(592)
Foreign currency loss, net	(93)	(178)
Loss from continuing operations before income taxes and noncontrolling interest	(5,579)	(4,294)
Income tax (provision) benefit	(64)	114
Loss from continuing operations before noncontrolling interest	(5,643)	(4,180)
Income (loss) from discontinued operations, net of income taxes	474	(776)
Consolidated net loss	(5,169)	(4,956)
Less: Loss attributable to noncontrolling interest	41	175
Net loss attributable to Identive Group, Inc. stockholders´ equity	$(5,128)	$(4,781)
Basic and diluted net loss per share attributable to Identive Group, Inc. stockholders´ equity:		
Loss from continuing operations	$(0.08)	$(0.07)
Income (loss) from discontinued operations	0.01	(0.01)
Net loss	$(0.07)	$(0.08)
Weighted average shares used to compute basic and diluted loss per share	75,688	60,233

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

IDENTIVE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(unaudited)

	Three Months Ended March 31,	
	2014	2013
Consolidated net loss	$(5,169)	$(4,956)
Other comprehensive income (loss), net of income taxes of nil:		
Unrealized gain on defined benefit plans	—	19
Foreign currency translation adjustment	109	(183)
Total other comprehensive income (loss), net of income taxes of nil	$109	$(164)
Consolidated comprehensive loss	(5,060)	(5,120)
Less: Comprehensive loss attributable to noncontrolling interest	39	238
Comprehensive loss attributable to Identive Group, Inc. Stockholders´ equity	$(5,021)	$(4,882)

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

IDENTIVE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Three Months Ended March 31, 2014

(In thousands)

(unaudited)

	Identive Group, Inc. Stockholders´ Equity							
	Common Shares	Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Equity
Balances, December 31, 2013	75,079	75	348,845	(2,777)	(320,876)	1,227	(1,750)	24,744
Net loss	—	—	—	—	(5,128)	—	(41)	(5,169)
Other comprehensive loss	—	—	—	—	—	107	2	109
Issuance of common stock in connection with capital raise	3,169	3	2,598	—	—	—	—	2,601
Issuance of common stock in connection with ESPP	72	—	35	—	—	—	—	35
Issuance of common stock in connection with stock bonus and incentive plans	61	—	54	—	—	—	—	54
Issuance of common stock in connection with exercise of options	3	—	2	—	—	—	—	2
Stock-based compensation expense	27	—	200	—	—	—	—	200
Issuance of warrants in connection with secured debt facility	—	—	824	—	—	—	—	824
Balances, March 31, 2014	78,411	$ 78	$ 352,558	$ (2,777)	$ (326,004)	$ 1,334	$ (1,789)	$ 23,400

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

IDENTIVE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	$ (5,169)	$ (4,956)
Gain on sale of discontinued operations	(452)	-
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	-	(117)
Depreciation and amortization	752	995
Accretion of interest on related party liability	146	171
Amortization of debt issuance costs	1,734	139
Stock-based compensation expense	200	475
Pension charges	-	105
Changes in operating assets and liabilities:		
Accounts receivable	(408)	1,833
Inventories	(1,241)	(1,761)
Prepaid expenses and other assets	(321)	171
Accounts payable	2,600	792
Liability to related party	(274)	(272)
Deferred revenue	(204)	367
Accrued expenses and other liabilities	(1,364)	1,212
Net cash used in operating activities	(4,001)	(846)
Cash flows from investing activities:		
Capital expenditures	(262)	(568)
Proceeds from sale of business	1,286	-
Net cash provided by (used in) investing activities	1,024	(568)
Cash flows from financing activities:		
Proceeds from issuance of debt	14,000	-
Proceeds from capital raise	2,601	-
Proceeds from issuance of common stock under ESPP and options exercised	37	56
Payments on financial liabilities and debt issuance costs	(6,824)	(643)
Net cash provided by (used in) financing activities	9,814	(587)
Effect of exchange rates on cash	82	108
Net increase (decrease) in cash	6,919	(1,893)
Cash of continuing operations, at beginning of period	5,095	6,109
Add: Cash of discontinued operations, at beginning of period	16	1,269
Less: Cash of discontinued operations, at end of period	-	1,437
Cash of continuing operations, at end of period	$ 12,030	$ 4,048
Non-cash investing and financing activities:		

Leasehold improvements funded by lease incentives	$ -	$ 500
Common stock issued in connection with stock bonus and incentive plans	$ 54	$ -
Property and equipment subject to accounts payable	$ 96	$ 285

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

IDENTIVE GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

1. Organization and Summary of Significant Accounting Policies

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

Discontinued Operations — The financial information related to some of the subsidiaries of the Company is reported as discontinued operations for all periods presented as discussed in Note 2, Discontinued Operations. Reclassifications of prior period amounts related to discontinued operations have been made to conform to the current period presentation.

Going Concern — The accompanying unaudited condensed consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has historically incurred operating losses and has a total accumulated deficit of $326 million as of March 31, 2014. This factor, among others, including the ongoing effects of the U.S. Government sequester and related budget uncertainty on certain parts of its business, have raised significant doubt about the Company’s ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

The ability to continue as a going concern is contingent upon the Company’s ability to generate revenue and cash flow to meet its obligations on a timely basis and its ability to raise financing or dispose of certain noncore assets as required. The Company’s plans may be adversely impacted if it fails to realize its assumed levels of revenues and expenses or savings from its cost reduction activities. If events, such as reductions in spending under the federal budget sequester, cause a significant adverse impact on its revenues or expenses, the Company may need to delay, reduce the scope of, or eliminate one or more of its development programs or obtain funds through collaborative arrangements with others that may require the Company to relinquish rights to certain of its technologies, or programs

that the Company would otherwise seek to develop or commercialize itself, and to reduce personnel related costs. The Company may resort to contingency plans to make needed cost reductions upon determination that funds will not be available in a timely matter. These contingency plans include consolidating certain functions or disposing of non-core or underperforming assets. As stated in Note 2, Discontinued Operations, the Company has sold certain non-core or underperforming businesses and will do so in the future, if needed. The Company may also need to raise additional funds through public or private offerings of additional debt or equity securities from time to time as it may deem appropriate, which might cause dilution to existing stockholders. However, there can be no assurance that the Company will be able to raise such funds if and when they are required. Failure to obtain future funding when needed or on acceptable terms would adversely affect the Company's ability to fund operations.

Correction of Prior Period Errors — In connection with the preparation of its consolidated financial statements for the quarter ended September 30, 2013, the Company identified an error related to the classification of cash paid for the interest on financial liabilities in the consolidated statements of cash flows. The cash paid for the interest on financial liabilities was presented as cash outflows from financing activities, which should have been presented as cash outflows from operating activities in the condensed consolidated statements of cash flows in the Company's Form 10-Q filing for the quarter ended March 31, 2013. As a result, cash used in operating activities was understated and cash used in financing activities was overstated for the quarter ended March 31, 2013 by $0.4 million. The amounts for the quarter ended March 31, 2013 have been adjusted to correct the impact of such error. Using both quantitative and qualitative measures, the Company believes that the impact of this error is immaterial, individually and in aggregate, to the condensed consolidated financial statements for the quarter ended March 31, 2013 and therefore an amendment to the Form 10-Q for the quarter ended March 31, 2013 is not considered necessary.

Recent Accounting Pronouncements

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

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

2. Discontinued Operations

During the fourth quarter of 2013, the Company's Board of Directors (the "Board"), after reviewing strategic options, committed to a plan designed to simplify the Company's business structure and to focus on high-growth technology trends within the security market including cloud-based services and mobility. In December 2013, the Company completed the sale of its Swiss Multicard AG subsidiary, its German payment solution AG subsidiary and its Dutch Multicard Nederland BV subsidiary to Sandpiper Assets SA, an international holding company ("Sandpiper"), pursuant to a share purchase agreement whereby the Company has agreed to sell its holdings in these subsidiaries to Sandpiper for a total negative cash consideration of $0.5 million, which was paid to Sandpiper in February 2014 subsequent to the close of the transaction. The sale of Multicard AG and payment solution AG closed on December 19, 2013 and sale of Multicard Nederland BV closed on December 31, 2013. In addition, the Company completed the sale of its

German Multicard GmbH subsidiary to an employee for the sum of one euro on December 30, 2013. Based on the carrying value of the assets and the liabilities attributed to these businesses on the date of sale, and the estimated costs and expenses incurred in connection with the sale, the Company recorded a gain of $4.8 million, net of tax of nil, during the fourth quarter of fiscal 2013 in the consolidated statements of operations for the year ended December 31, 2013, which is included in the loss from discontinued operations, net of income taxes line.

In addition, during the fourth quarter of 2013, the Company committed to sell its Rockwest Technology Group, Inc. d/b/a/ Multicard US (“Multicard US”) subsidiary to George Levy, Matt McDaniel and Hugo Garcia (the “Buyers”), the founders and former owners of the Multicard US business. The sale of the Multicard US subsidiary was completed on February 4, 2014 and was made pursuant to a Share Purchase Agreement dated January 21, 2014 between the Company and the Buyers whereby the Company agreed to sell its holdings, consisting of 80.1% of the shares of Multicard US, to the Buyers for a cash consideration of $1.2 million. Based on the carrying value of the assets and the liabilities attributed to Multicard US on the date of sale, and the estimated costs and expenses incurred in connection with the sale, the Company recorded a gain of $0.5 million, net of income taxes of nil, in the condensed consolidated statements of operations for the three months ended March 31, 2014, which is included in the income (loss) from discontinued operations, net of income taxes line.

In accordance with ASC Topic 205-20, Discontinued Operations ("ASC 205"), for the three months ended March 31, 2014 and 2013, the results of these businesses have been presented as discontinued operations in the condensed consolidated statements of operations and all prior periods have been reclassified to conform to this presentation. The assets and liabilities of discontinued operations have been reclassified and are segregated as assets and liabilities of discontinued operations in the condensed consolidated balance sheet as of December 31, 2013. Prior to the sale, these businesses were part of the Identity Management segment.

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

	Three Months Ended March 31,	
	2014	2013
Net revenues	$529	$5,109
Discontinued operations:		
Income (loss) from discontinued operations, net of income taxes of nil	22	(776)
Adjustments to amounts reported previously for gain on sale of discontinued operations, net of income taxes of nil	(51)	—
Gain on sale of discontinued operations, net of income taxes of nil	503	—
Income (loss) from discontinued operations, net of income taxes	$474	$(776)

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

	December 31, 2013
Assets:	
Cash and cash equivalents	$ 16
Accounts receivable, net	787
Inventories	471
Other current assets	27
Property and equipment	13
Goodwill	1,310
Total assets of discontinued operations	$ 2,624
Liabilities:	
Accounts payable	418
Deferred revenue	966
Accrued expenses and other liabilities	246

Total liabilities of discontinued operations	$	1,630

3. Fair Value Measurements

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

Level 1 – Quoted prices (unadjusted) for identical assets and liabilities in active markets;
Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly; and
Level 3 – Unobservable inputs.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

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

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

Privately-held investments, which are normally carried at cost, are measured at fair value due to events and circumstances that the Company identified as significantly impacting the fair value of investments. The Company estimates the fair value of its privately-held investments using an analysis of the financial condition and near-term prospects of the investee, including recent financing activities and the investee's capital structure. Purchased intangible assets are measured at fair value primarily using discounted cash flow projections. As of March 31, 2014 and December 31, 2013, the Company had $0.3 million and zero, respectively, of privately-held investments measured at fair value on a nonrecurring basis and were classified as Level 3 assets due to the absence of quoted market prices and inherent lack of liquidity. The amount of privately-held investments is included in other assets in the condensed consolidated balance sheets.

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

Assets and Liabilities Not Measured at Fair Value

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

4. Stockholders' Equity of Identive Group, Inc.

Private Placement

On August 14, 2013, in a private placement, the Company issued 8,348,471 shares of its common stock at a price of $0.85 per share and warrants to purchase an additional 8,348,471 share of its common stock at an exercise price of $1.00 per share to accredited and other qualified investors (the “Investors” or “Warrant holders”). Aggregate gross consideration was $7.1 million and $0.8 million in issuance costs were recorded in connection with the private placement. The private placement was made pursuant to definitive subscription agreements between the Company and each Investor. The sale was made to accredited and other qualified investors in the United States and internationally in reliance upon available exemptions from the registration requirements of the U.S. Securities Act of 1933, as amended (the “Securities Act”) including Section 4(a) (2) thereof and Regulation D and Regulation S thereunder, as well as comparable exemptions under applicable state and foreign securities laws. The Company engaged a placement agent in connection with private placement outside the United States. As compensation at closing, the Company paid $0.6 million in cash and issued 1.0 million shares of common stock to the placement agent on the same terms as those sold to Investors in the offering. In addition, the placement agent was issued warrants to purchase 1.0 million shares of common stock at an exercise price of $1.00 per share as bonus compensation. The securities were issued to the placement agent in reliance upon available exemptions from the registrations requirements of the Securities Act, including Regulation S thereunder. As agreed, in September 2013 the Company filed a registration statement on Form S-3 (Registration No. 333-19105076) with the Securities and Exchange Commission to register the resale of the shares and shares of common stock issuable upon exercise of the warrants.

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

Sale of Common Stock

On April 16, 2013, the Company entered into a purchase agreement (the "Purchase Agreement") with Lincoln Park Capital Fund, LLC ("LPC"), pursuant to which the Company has the right to sell to LPC up to $20.0 million in shares of the Company's common stock, subject to certain limitations and conditions set forth in the Purchase Agreement. As consideration for entering into the Purchase Agreement, the Company agreed to issue to LPC 251,799 shares of common stock and is required to issue up to 323,741 additional shares of common stock on a pro rata basis for any additional purchases the Company requires LPC to make under the Purchase Agreement over its duration (the "Commitment Shares"). The Company will not receive any cash proceeds from the issuance of the Commitment Shares.

Pursuant to the Purchase Agreement, upon the satisfaction of all of the conditions to the Company's right to commence sales under the Purchase Agreement, LPC initially purchased $2.0 million in shares of common stock at $1.14 per share on April 17, 2013. Thereafter, on any business day and as often as every other business day over the 36-month term of the Purchase Agreement, the Company has the right, from time to time, at its sole discretion and subject to certain conditions to direct LPC to purchase up to 100,000 shares of common stock, up to an aggregate amount of an additional $18.0 million (subject to certain limitations). The purchase price of shares of common stock pursuant to the Purchase Agreement will be based on prevailing market prices of common stock at the time of sales without any fixed discount, and the Company will control the timing and amount of any sales of common stock to LPC, but in no event will shares be sold to LPC on a day the common stock closing price is less than $0.50 per share, subject to adjustment. In addition, the Company may direct LPC to purchase additional amounts as accelerated purchases if on the date of a regular purchase the closing sale price of the common stock is not below $0.75 per share. The Company used the net proceeds from this offering for working capital and other general corporate purposes.

All shares of common stock to be issued and sold to LPC under the Purchase Agreement will be issued pursuant to the Company's effective shelf registration statement on Form S-3 (Registration No. 333-173576), filed with the Securities and Exchange Commission in accordance with the provisions of the Securities Act of 1933, as amended, and declared effective on May 3, 2011, and the prospectus supplement thereto dated April 16, 2013. The Purchase Agreement contains customary representations, warranties and agreements of the Company and LPC, limitations and conditions to completing future sale transactions, indemnification rights and other obligations of the parties. There is no upper limit on the price per share that LPC could be obligated to pay for common stock under the Purchase Agreement. The Company has the right to terminate the Purchase Agreement at any time, at no cost or penalty. Actual sales of shares of common stock to LPC under the Purchase Agreement will depend on a variety of factors to be determined by the Company from time to time, including (among others) market conditions, the trading price of the common stock and determinations by the Company as to available and appropriate sources of funding for the Company and its operations.

On April 17, 2013, LPC initially purchased 1,754,386 shares of common stock for a net consideration of $1.5 million after recording $0.5 million in underwriting discounts, legal fees and issuance costs. As stipulated in the Purchase

Agreement, the Company issued 284,173 shares of common stock consisting of 251,799 as Commitment Shares and 32,374 additional pro-rated shares of common stock as Commitment Shares. Subsequent to the initial purchase, the Company directed LPC to purchase 2.5 million shares of common stock from April 17, 2013 through December 31, 2013 for a net consideration of $1.9 million and 3.2 million shares of common stock from January 1, 2014 through March 31, 2014 for a net consideration of $2.6 million and issued total of 72,087 additional pro-rated shares as Commitment Shares.

Common Stock Warrants (“Warrants”)

In connection with the Company’s entry into the Credit Agreement with Opus Bank (“Opus”) as discussed in Note 9, Financial Liabilities, the Company issued to Opus a warrant to purchase up to 1.0 million shares of the Company’s common stock at a per share exercise price of $0.99. The Warrant is immediately exercisable for cash or by net exercise and will expire 5 years after the date of issuance, which is March 31, 2019. The shares issuable upon exercise of the Warrant were registered in May 2014 at the request of Opus pursuant to the Registration Rights Agreement, entered into on March 31, 2014 by the Company and Opus.

As consideration for the third amendment of the Loan Agreement with Hercules Technology Growth Capital, Inc. ("Hercules") as discussed in Note 9, Financial Liabilities, the Company issued warrants to purchase 1.0 million shares of its common stock at an exercise price of $0.71 per share to Hercules on August 7, 2013. The warrants were issued in reliance upon the exemptions from the registration requirements under the Securities Act of 1933, as amended, in accordance with Section 4(a)(2) thereof. The term of the warrants is five years and contains usual and customary terms.

The Company issued warrants to purchase 4.1 million shares of its common stock at an exercise price of $2.65 per share in a private placement to accredited and other qualified investors (the "Investors" or "Warrant Holders") in November 2010. The warrants are exercisable beginning on the date of issuance and ending on the fifth anniversary of the date of issuance. During the year ended December 31, 2011, the Company issued 0.4 million shares of its common stock to the Warrant Holders upon exercise of the warrants.

As part of the consideration paid by the Company in connection with the acquisition of Hirsch on April 30, 2009, the Company issued 4.7 million warrants to purchase shares of the Company's common stock at an exercise price of $3.00, in exchange for the outstanding capital stock of Hirsch. Also, as part of the Hirsch transaction, the Company issued 0.2 million warrants to purchase shares of the Company's common stock in exchange for outstanding Hirsch warrants at exercise prices in the range between $2.42 and $3.03, with a weighted average exercise price of $2.79. All warrants issued in connection with the Hirsch transaction became exercisable for a period of two years on April 30, 2012. These warrants expired on April 30, 2014.

Below is the summary of outstanding warrants issued by the Company as of March 31, 2014:

Warrants Type	Warrants Outstanding	Weighted Average Exercise Price	Issue Date	Expiration Date
Opus loan	1,000,000	$ 0.99	March 31, 2014	March 31, 2019
2013 private placement	9,348,471	1.00	August 14, 2013	August 14, 2017
Hercules loan	992,084	0.71	August 7, 2013	August 7, 2018
2010 private placement	3,691,685	2.65	November 14, 2010	November 14, 2015
Hirsch acquisition	4,735,427	3.00	April 30, 2009	April 30, 2014
Hirsch acquisition variable	165,380	2.79	April 30, 2009	April 30, 2014
Total	19,933,047			

2011 Employee Stock Purchase Plan ("ESPP")

In June 2011, Identiv's stockholders approved the 2011 Employee Stock Purchase Plan (the "ESPP"). Initially, 2.0 million shares of common stock are reserved for issuance over the term of the ESPP, which is ten years. In addition, on the first day of each fiscal year commencing with fiscal year 2012, the aggregate number of shares reserved for issuance under the ESPP is automatically increased by a number equal to the lowest of (i) 750,000 shares, (ii) two percent of all shares outstanding at the end of the previous year, or (iii) an amount determined by the Board. Under the ESPP, eligible employees may purchase shares of common stock at 85% of the lesser of the fair market value of the Company's common stock at the beginning of or end of the applicable offering period and each offering period lasts for six months. The plan contains an automatic reset feature under which if the fair market value of a share of common stock on any exercise date (except the final scheduled exercise date of any offering period) is lower than the fair market value of a share of common stock on the first trading day of the offering period in progress, then the offering period in progress shall end immediately following the close of trading on such exercise date, and a new

offering period shall begin on the next subsequent January 1 or July 1, as applicable, and shall extend for a 24-month period ending on December 31 or June 30, as applicable. As of January 1, 2013 and 2012, respectively, the total shares reserved for issuance under the ESPP were automatically increased by 750,000 shares each in accordance with the terms of the plan. As of March 31, 2014, there are 2,938,007 shares reserved for future grants under the ESPP. On December 18, 2013, the Compensation Committee of the Board suspended the ESPP effective January 1, 2014 and no shares will be issued under ESPP until further notice.

The following table illustrates the stock-based compensation expense resulting from the ESPP included in the condensed consolidated statements of operations for the quarter ended March 31, 2013 (in thousands):

	Three Months Ended March 31, 2013
Cost of revenue	$ 16
Research and development	12
Selling and marketing	19
General and administrative	17
Total	$ 64

Inducement Grant

The Company granted 500,000 Restricted Stock Units and options to purchase 3,000,000 shares of the Company's common stock as an inducement grant to its Chief Executive Officer ("CEO") in connection with entering into an employment agreement on March 13, 2014. The Restricted Stock Units will vest 25 percent after one year, with remaining shares vesting over three years in 12 equal quarterly installments. The stock options will have an exercise price equal to the closing price of the Company's common stock on The NASDAQ Stock Market on the date of grant, vest 25 percent after one year with the remaining options vesting over three years in 36 equal monthly installments, and have a term of ten years. The stock options and Restricted Stock Units granted to the CEO were made outside of the Company's existing equity compensation plans in reliance upon NASDAQ Rule 5635(c)(4). The Company will subsequently file a Registration Statement on Form S-8 to register the shares underlying the grants. The fair value of stock options issued to the CEO was calculated using a weighted average risk-free interest rate of 1.53%, weighted average expected volatility of 90%, dividend yield of 0% and the weighted average expected term of 4.9 years. The fair value of the Company's restricted stock units is calculated based upon the fair market value of the Company's stock at the date of grant. As of March 31, 2014, there was $0.4 million of total unrecognized compensation cost related to unvested restricted stock units granted and $1.8 million of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted average period of 4 years.

Stock-Based Compensation Plans

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

Stock Bonus and Incentive Plans

In June 2010, Identiv's stockholders approved the 2010 Plan, under which cash and equity-based awards may be granted to executive officers, including the CEO and CFO, and other key employees ("Participants") of the Company and its subsidiaries and members of the Company's Board, as designated from time to time by the Compensation Committee of the Board. An aggregate of 3.0 million shares of the Company's common stock was reserved for

issuance under the 2010 Plan as equity-based awards, including shares, nonqualified stock options, restricted stock or deferred stock awards. These awards provide the Company´s executives and key employees with the opportunity to earn shares of common stock depending on the extent to which certain performance goals are met. For services rendered, Company executives are eligible to receive an incentive bonus in cash and shares of the Company's common stock with certain lock-up periods. In addition, the Company´s executives and key employees are eligible to receive a grant of non-qualified stock options in an amount equal to 20% of the number of U.S. dollars in the participant's base salary. The Compensation Committee may make incentive awards based on such terms, conditions and criteria as it considers appropriate, including awards that are subject to the achievement of certain performance criteria. Stock awards are generally fully vested at the time of grant, but subject to a 24-month lock-up from the date of grant. Because the award of share-based payments described above represents an obligation to issue a variable number of the Company's shares determined on the basis of a monetary value derived solely on variations in an operating performance measure (and not on the basis of variations in the fair value of the entity's equity shares), the award is considered a share-based liability in accordance with ASC 480 and is remeasured to fair value each reporting period. Since the adoption of the 2011 Plan (described below), the Company utilizes shares from the 2010 Plan only for performance-based awards to Participants and all equity awards granted under the 2010 Plan are issued pursuant to the 2011 Plan.

On June 6, 2011, Identiv's stockholders approved the 2011 Plan, which is administered by the Compensation Committee of the Board. The 2011 Plan provides that stock options, stock units, restricted shares, and stock appreciation rights may be granted to officers, directors, employees, consultants, and other persons who provide services to the Company or any related entity. The 2011 Plan serves as a successor plan to the Company's 2007 Plan. The Company reserved 4.0 million shares of common stock under the 2011 Plan, plus 4.6 million shares common stock that remained available for delivery under the 2007 Plan and the 2010 Plan as of June 6, 2011. In aggregate, as of June 6, 2011, 8.6 million shares were available for future grants under the 2011 Plan, including shares rolled over from 2007 Plan and 2010 Plan. From June 6, 2011 through March 31, 2014, a total of 7.4 million options and a total of 1.2 million shares have been granted pursuant to the 2011 Plan.

Stock Option Plans

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

As of March 31, 2014, an aggregate of 0.2 million options were outstanding under the Director Option Plan and 1997 Stock Option Plan, 0.2 million options were outstanding under the 2000 Stock Option Plan, 0.9 million options were outstanding under the 2007 Plan, and 6.5 million options were outstanding under the 2011 Plan. These outstanding options remain exercisable in accordance with the terms of the original grant agreements under the respective plans.

A summary of the activity under the Company's stock-based compensation plans for the three months ended March 31, 2014 is as follows:

		Stock Options				Stock Awards	
	Shares Available for Grant	Number Outstanding	Average Exercise Price per share	Average Intrinsic Value	Remaining Contractual Life (in years)	Number Granted	Fair Value
Balance at January 1, 2013	7,769,039	4,048,972	$ 1.94	$825,309	7.43		
Authorized	—						
Granted	(2,276,747)	2,115,725	$ 0.76			161,022	$135,600
Cancelled or Expired	(1,638,098)	(698,970)	$ 1.87				
Exercised		(188)	$ 0.72				
Balance at December 31, 2013	3,854,194	5,465,539	$ 1.49	$49,016	6.93		
Authorized	—						
Granted	(2,767,952)	2,680,000	$ 0.88			87,952	$84,035
Cancelled or Expired	247,902	(299,997)	$ 1.64				
Exercised		(2,625)	$ 0.72				
Balance at March 31, 2014	1,334,144	7,842,917	$ 1.28	$1,624,221	7.49		
		6,717,775	$ 1.35	$1,265,851	7.14		

Vested or expected to vest at March 31, 2014				
Exercisable at March 31, 2014	3,110,282	$ 1.94	$131,638	4.59

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The following table summarizes information about options outstanding as of March 31, 2014:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.52 - $ 0.80	1,877,646	9.11	$ 0.65	198,584	$ 0.71
$0.81 - $ 0.84	90,000	9.19	0.84	66,667	0.84
$ 0.85 - $ 0.88	2,665,000	9.95	0.88	833	0.88
$ 0.89 - $ 1.44	1,622,836	5.93	1.22	1,308,172	1.19
$ 1.45 - $ 6.95	1,587,435	2.94	2.76	1,536,026	2.78
$ 0.52 - $ 6.95	7,842,917	7.49	$ 1.28	3,110,282	$ 1.94

For the quarter ended March 31, 2014, the weighted-average grant date fair value per option for options granted during the period was $0.88. 2,625 options were exercised during the first quarter of 2014.

For the quarter ended March 31, 2013, the weighted-average grant date fair value per option for options granted during the period was $1.34. No options were exercised during the first quarter of 2013.

Restricted Stock Units

A summary of restricted stock unit (“RSUs”) activity for the three months ended March 31, 2014 is as follows:

Unvested Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	—	$ —
Granted	430,000	0.88
Vested	—	—
Forfeited	—	—
Unvested, end of period	430,000	$ 0.88

The fair value of the Company’s RSUs is calculated based upon the fair market value of the Company’s stock at the date of grant. As of March 31, 2014, there was $0.4 million of total unrecognized compensation cost related to unvested RSUs granted, which is expected to be recognized over a weighted average period of 4 years. As of March 31, 2014, an aggregate of 0.4 million RSUs were outstanding under the 2011 Plan.

Stock-Based Compensation Expense

The following table illustrates the stock-based compensation expense included in the condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31,	
	2014	2013
Cost of revenue	$5	$4
Research and development	18	22
Selling and marketing	51	151
General and administrative	126	234
Total	$200	$411

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At March 31, 2014, there was $2.1 million of unrecognized stock-based compensation expense, net of estimated forfeitures related to unvested options, that is expected to be recognized over a weighted-average period of 3.6 years. As of December 31, 2013, $0.4 million was accrued for and included in the accrued compensation and related benefits in the condensed consolidated balance sheets.

Common Stock Reserved for Future Issuance

As of March 31, 2014, the Company has reserved an aggregate of 11.6 million shares of its common stock for future issuance under its various equity incentive plans, of which 0.9 million shares are reserved for future grants under the 2011 Plan, 7.8 million shares are reserved for future issuance pursuant to outstanding options under all other stock option and incentive plans, and 2.9 million shares are reserved for future issuance under the ESPP.

As of March 31, 2014, the Company has reserved an aggregate of 3.3 million shares of common stock for future issuance in connection with its acquisition of Bluehill ID, consisting of 2.0 million shares for the outstanding options assumed at the closing of the Bluehill ID acquisition and 1.3 million shares for the noncontrolling shareholders of Bluehill ID.

As of March 31, 2014, the Company has reserved an aggregate of 19.9 million shares of common stock for future issuance pursuant to outstanding warrants, of which 4.9 million shares are reserved pursuant to outstanding warrants in connection with its April 2009 acquisition of Hirsch Electronics Corporation, 3.7 million shares are reserved pursuant to outstanding warrants in connection with its November 2010 private placement, 1.0 million shares are reserved pursuant to outstanding warrants related to the third Amendment of the Loan and Security Agreement with Hercules Technology Growth Capital, Inc. in August 2013, 9.3 million shares are reserved pursuant to outstanding warrants issued in connection with its August 2013 private placement, and 1.0 million shares are reserved pursuant to outstanding warrants related to the Credit Agreement with Opus Bank in March 2014. The warrants issued in connection with its April 2009 acquisition of Hirsch Electronics Corporation expired on April 30, 2014.

As of March 31, 2014, the Company has reserved an aggregate of 4.4 million shares of common stock for future issuance for contingent consideration in connection with its acquisition of idOnDemand.

As of March 31, 2014, the Company has reserved an aggregate of 4.3 million shares of common stock for future issuance to LPC under the Purchase Agreement.

Below is the summary of common stock reserved for future issuance as of March 31, 2014:

Exercise of outstanding stock options	7,842,917
Employee stock purchase plan	2,938,007
Shares of common stock available for grant under 2011 Plan	904,144
Noncontrolling interest and assumed options in Bluehill ID	3,297,112
Warrants to purchase common stock	19,933,047
Contingent consideration	4,424,779
Purchase agreement with LPC	4,308,244
Total	43,648,250

Net Loss per Common Share Attributable to Identive Group, Inc. Stockholders' Equity

Basic and diluted net loss per share is based upon the weighted average number of common shares outstanding during the period. For the three months ended March 31, 2014 and 2013, common stock equivalents consisting of outstanding stock options, RSUs and warrants were excluded from the calculation of diluted loss per share because these securities were anti-dilutive due to the net loss in the respective periods. The total number of shares excluded from diluted loss per share relating to these securities was 20,138,129 and 2,139,840 for the three months ended March 31, 2014 and 2013, respectively.

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5. Inventories

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

	March 31 2014	December 31, 2013
Raw materials	$3,575	$ 3,464
Work-in-progress	363	261
Finished goods	6,409	5,373
Total	$10,347	$ 9,098

6. Property and Equipment

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

	March 31 2014	December 31, 2013
Leasehold improvements	$1,238	$ 1,236
Furniture, fixture and office equipment	4,345	4,236
Machinery	6,893	6,843
Software	2,164	2,094
Total	14,640	14,409
Accumulated depreciation	(8,944)	(8,521)
Property and equipment, net	$5,696	$ 5,888

The Company recorded depreciation expense of approximately $0.4 million and $0.6 million during the three months ended March 31, 2014 and 2013, respectively. A net increase of $0.4 million in accumulated depreciation from December 31, 2013 is due to depreciation expense of $0.4 million recorded during the quarter.

7. Goodwill and Intangible Assets

Goodwill

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

	Total	Premises	Credentials	Identity	All Other
Balance at December 31, 2012	$24,664	$21,891	$ 522	$1,172	$1,079
Goodwill impairment during the period	(15,572)	(14,108)	(522)	—	(942)
Currency translation adjustment	(101)	—	—	36	(137)
Balance at December 31, 2013	8,991	7,783	—	1,208	—
Currency translation adjustment	3	—	—	3	—
Balance at March 31, 2014	$8,994	$7,783	$ —	$1,211	$—

In connection with the Company's 2014 organizational realignment, certain prior period amounts were reclassified to conform to the current period's segment presentation. Both as of March 31, 2014 and December 31, 2013, the gross amount of goodwill, excluding goodwill related to discontinued operations, was $41.8 million and accumulated goodwill impairment was $32.8 million. During the three months ended March 31, 2014 and year ended December 31, 2013, the Company wrote off goodwill of $1.3 million and $8.0 million, respectively related to divested businesses which existed at the time of sale of these subsidiaries which was reflected in discontinued operations. Of the total goodwill, a certain amount is designated in a currency other than U. S. dollars and is adjusted each reporting period for the change in foreign exchange rates between the balance sheet dates.

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

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

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

During the third quarter of fiscal 2013, the Company began a strategic review of certain under-performing business units for potential divestiture and to simplify the Company’s operations and market focus, and as a consequence

revised its forecasted revenue, gross margin and operating profit for future periods. In addition, the Company noted certain other indicators of impairment, including a change in management following the appointment of a new chief executive officer, a sustained decline in its stock price, and as a result of the U.S. Government budget sequester continued reduced performance in certain reporting units. Based on its reduced forecast and the indicators of impairment noted above, the Company performed an interim goodwill impairment analysis as part of its quarterly close as of September 30, 2013. Based on the results of step one of the goodwill impairment analysis, it was determined that the Company's net adjusted carrying value exceeded its estimated fair value for the Hirsch, ID Solutions, payment solution and idOnDemand reporting units. As a result, the Company proceeded to the second step of the goodwill impairment test for these four reporting units to determine the implied fair value of goodwill to calculate the impairment loss, if any.

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

Intangible Assets

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

Amortization period	Existing Technology 11.75 years	Customer Relationship 4 – 11.75 years	Trade Name 1 year	Total Total
Cost:				
Balance at December 31, 2012	$ 4,600	$ 10,732	$570	$15,902
Currency translation adjustment	—	15	—	15
Balance at December 31, 2013	$ 4,600	$ 10,747	$570	$15,917
Balance at March 31, 2014	$ 4,600	$ 10,747	$570	$15,917
Accumulated Amortization:				
Balance at December 31, 2012	$ (1,125)	$ (2,816)	$(285)	$(4,226)
Amortization expense	(341)	(865)	(285)	(1,491)
Currency translation adjustment	—	(16)	—	(16)
Balance at December 31, 2013	$ (1,466)	$ (3,697)	$(570)	$(5,733)
Amortization expense	(112)	(251)	—	(363)
Balance at March 31, 2014	$ (1,578)	$ (3,948)	$(570)	$(6,096)
Intangible Assets, net at December 31, 2013	$ 3,134	$ 7,050	$—	$10,184
Intangible Assets, net at March 31, 2014	$ 3,022	$ 6,799	$—	$9,821

Of the total intangible assets, certain acquired intangible assets are designated in a currency other than U.S. dollars and are adjusted each reporting period for the change in foreign exchange rates between the balance sheet dates. Each period the Company evaluates the estimated remaining useful life of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization and adjusts the useful life, as appropriate and amortization is prospectively adjusted over the remaining useful live. Intangible assets subject to amortization are amortized over their useful lives as shown in the table above. The Company evaluated its amortizable intangible assets for impairment at the end of each reporting periods and concluded that no indicators of impairment existed, other than the impairment identified in its interim assessment during the third quarter of 2013, as mentioned below.

As noted above, the Company began a strategic review of certain under-performing business units for potential divestiture during the third quarter of fiscal 2013. As a consequence, the Company performed an impairment analysis for intangible assets in accordance with its accounting policy for reviewing long-lived assets for impairment. As a result of this analysis, the Company identified that backlog is impaired and recorded an impairment charge in its consolidated statements of operations of $0.2 million during the year ended December 31, 2013. This impairment charge is related to the divested businesses and has been included within the results of discontinued operations. The Company expects to recover the remaining balance of identified intangible assets of $9.8 million as of March 31, 2014.

The following table illustrates the amortization expense included in the condensed consolidated statements of operations for the quarters ended March 31, 2014 and 2013 (in thousand):

	Three Months Ended March 31,	
	2014	2013
Cost of revenue	$112	$96
Selling and marketing	251	339
Total	$363	$435

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

March 31, 2014:	
2014 (remaining nine months)	$1,091
2015	1,455
2016	1,455
2017	1,455
2018	1,455
Thereafter	2,910
Total	$9,821

8. Related-Party Transactions

Hirsch Acquisition – Secure Keyboards and Secure Networks. Prior to the 2009 acquisition of Hirsch Electronics Corporation (“Hirsch”) by the Company, effective November 1994, Hirsch had entered into a settlement agreement (the “1994 Settlement Agreement”) with two limited partnerships, Secure Keyboards, Ltd. (“Secure Keyboards”) and Secure Networks, Ltd. (“Secure Networks”). Secure Keyboards and Secure Networks were related to Hirsch through certain common shareholders and limited partners, including Hirsch’s then President Lawrence Midland, who is now a director and President of the Company. Following the acquisition, Mr. Midland owned 30% of Secure Keyboards and 9% of Secure Networks. Secure Networks dissolved in 2012 and now Mr. Midland owns 24.5% of Secure Keyboards.

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

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

The Company recognized $0.1 million and $0.2 million of interest expense for the interest accreted on the discounted liability amount during the three months ended March 31, 2014 and 2013, respectively, which is included as a component of interest expense, net in its condensed consolidated statements of operations. As of March 31, 2014 and December 31, 2013, $6.6 million and $6.7 million, respectively, were outstanding for related-party liability in connection with the Hirsch acquisition, of which $1.1 million was shown as a current liability on the condensed consolidated balance sheets.

The payment amounts for related party liability in connection with the Hirsch acquisition for the next five years are as follows (in thousands):

March 31, 2014:	
2014 (remaining nine months)	$1,125
2015	1,170
2016	1,217
2017	1,266
2018	1,316
Thereafter	2,919
Present value discount factor	(2,420)
Total	$6,593

Payment solution Acquisition – Unsecured Loan. In connection with its acquisition of payment solution in January 2012, through its majority-owned subsidiary Bluehill ID AG, the Company assumed an unsecured loan payable to Mountain Partners AG, a significant shareholder of the Company. As discussed in Note 2, Discontinued Operations, the Company sold payment solution in December 2013 and the loan liability was sold along with the sale of the subsidiary resulting in balance of zero as of December 31, 2013. Interest expense related to this loan for the three months ended March 31, 2013 has been included within the results of discontinued operations in its condensed consolidated statements of operations.

9. Financial Liabilities

Financial liabilities consist of (in thousands):

	March 31, 2014	December 31, 2013
Current liabilities:		
Secured note	$—	$ 2,971
Total current liabilities	$—	$ 2,971
Non-current liabilities:		
Secured term loan	$9,503	$ —
Secured note	—	$ 3,051
Bank revolving loan facility	4,000	—
Total non-current liabilities	$13,503	$ 3,051
Total	$13,503	$ 6,022

Bank Term Loan and Revolving Loan Facility

On March 31, 2014, Identive Group, Inc. (the “Company”) entered into a Credit Agreement (the “Credit Agreement”) with Opus Bank, a California commercial bank (“Opus”). The Credit Agreement provides for a term loan in aggregate principal amount of $10.0 million (“Term Loan”) which was drawn down on March 31, 2014, and an additional $10.0 million revolving loan facility (“Revolving Loan Facility”), of which $4.0 million was drawn down on March 31, 2014. In connection with the closing of the Credit Agreement, the Company repaid all outstanding amounts under its Loan and Security Agreement, dated as of October 30, 2012, as amended from time to time (the “Secured Debt Facility”), with Hercules Technology Growth Capital, Inc. The proceeds of the Term Loan and the initial loans under the Revolving Loan Facility, after payment of fees and expenses and all outstanding amounts under the Secured Debt Facility, are approximately $7.8 million. The obligations of the Company under the Credit Agreement are secured by substantially all assets of the Company. Certain of the Company’s material domestic subsidiaries have guaranteed the credit facilities and have granted to Opus security interests in substantially all of their respective assets. Both the Term Loan and the Revolving Loan Facility mature and will become due and payable on March 31, 2017 (the “Maturity Date”). Both the principal amount of Term Loan and the principal amount outstanding under the Revolving Loan Facility bear interest at a floating rate equal to the greater of (i) the prime rate plus 2.75% and (ii) 6.00%. Interest is payable monthly beginning on May 1, 2014. The principal balance of the Term Loan is payable in 24 equal monthly installments beginning on May 1, 2015. The Company may voluntarily prepay the Term Loan and outstanding amounts under the Revolving Loan Facility, without prepayment charges, and is required to make prepayments of the

Term Loan in certain circumstances using the proceeds of asset sales or insurance or condemnation events.

The Company paid $170,000 in customary Lender fees and expenses, including facility fees. In connection with the Company's entry into the Credit Agreement, the Company issued to Opus a warrant (the "Warrant") to purchase up to 1,000,000 shares of the Company's common stock at a per share exercise price of $0.99. The Warrant is immediately exercisable for cash or by net exercise and will expire 5 years after the date of issuance, which is March 31, 2019. The shares issuable upon exercise of the Warrant were registered in May 2014 at the request of Opus pursuant to the Registration Rights Agreement, entered into on March 31, 2014 by the Company and Opus. The Registration Rights Agreement provides for standard S-3 and piggyback registration rights. The Company calculated the fair value of the warrants using the Black-Scholes option pricing model using the following assumptions: estimated volatility of 92.09%, risk-free interest rate of 1.73%, no dividend yield, and an expected life of five years. The fair value of the warrants is determined to be $0.8 million. The warrants are classified as equity in accordance with ASC 505 as the settlement of the warrants will be in shares and are within the control of the Company. The Company allocated the considerations, both cash and equity, paid to Opus between Bank Term Loan and Revolving Loan Facility using relative value of these loans. The Company recognized $0.9 million in issuance costs, both cash and equity, related to the Bank Term Loan and Revolving Loan Facility. The cost consideration of $0.5 million allocated for Bank Term Loan are recorded as discounts on Bank Term Loan and reported in the balance sheet as an adjustment to the carrying amount of the secured term loan and not presented as a deferred charge, pursuant to ASC Topic 835-30, Imputation of Interest ("ASC 835-30"). The issuance costs and discounts on secured term loan are amortized into interest expense in accordance with ASC 835-30 over the term of the loan agreement.

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

Secured Debt Facility

On October 30, 2012, the Company entered into a Loan and Security Agreement (the "Loan Agreement") with Hercules Technology Growth Capital, Inc. (the "Lender"). The Loan Agreement provides for a term loan in aggregate principal amount of up to $10.0 million ("Maximum Term Loan Amount") with an initial drawdown of $7.5 million and, provided certain financial and other requirements are met, an additional $10.0 million in loan advances, all upon the terms and conditions set forth in the Loan Agreement. The initial drawdown of $7.5 million is reflected in the Secured Term Promissory Note dated October 30, 2012 (the "Secured Note"). The Company received net proceeds of $6.9 million after incurring $0.6 million in issuance costs related to the Secured Note. The issuance costs were being amortized into interest expense in accordance with ASC 835-30 over the term of the loan agreement. Amongst other commitments, the Loan Agreement required the Company to maintain a certain amount of revenue, EBITDA, and current ratio on a consolidated basis ("covenants"). If any covenants were not met, the violation may constitute an event of default. The Secured Debt Note matures on November 1, 2015 and bears interest at a rate of the greater of (i) the prime rate plus 7.75% and (ii) 11.00%. Interest on the Secured Note is payable monthly beginning on November 1, 2012, and the principal balance is payable in 30 equal monthly installments beginning on May 1, 2013.

In connection with the initial advance, the Company paid a $150,000 facility charge to the Lender, of which 50% would have been credited to the Company if all advances under the Loan Agreement were repaid on but not before maturity. The Company may prepay outstanding amounts under the Secured Note, subject to certain prepayment charges as set out in the Loan Agreement. The Company will also pay additional fees, consisting of end of term charge and success fee at the rate of 5% each of the maximum term loan amount, to the Lender in the aggregate of $1,000,000, payable in three equal annual installments beginning on October 30, 2013. The entire amount of these fees is immediately due and payable if the Company prepays all of its obligations under the Loan Agreement or if the Lender declares all obligations due and payable after an event of default thereunder. The Company recorded interest expense on the Secured Note of $0.4 million and $0.4 million during the three months ended March 31, 2014 and 2013, respectively, in its condensed consolidated statements of operations.

The Company and the Lender entered into a first amendment to the Loan Agreement on March 5, 2013 and as consideration for the first amendment, paid cash of $76,268 in fees. The Company entered into a second amendment to the Loan Agreement on April 22, 2013 and as consideration for the second amendment, paid cash of $114,397 in fees. The Company and the Lender entered into a third amendment to the Loan Agreement on August 7, 2013. As consideration for the third amendment, the Company paid cash of $106,000 in fees and issued warrants to purchase 992,084 shares of its common stock at an exercise price of $0.71 per share to Hercules. The warrants were issued in reliance upon the exemptions from the registration requirements under the Securities Act of 1933, as amended, in accordance with Section 4(a)(2) thereof. The term of the warrants is five years and contains usual and customary terms. The fair value of the warrants was determined to be $0.5 million. The warrants were classified as equity in

accordance with ASC 505 as the settlement of the warrants will be in shares and are within the control of the Company.

The considerations, both cash and equity, paid for the loan agreement amendments as mentioned above were recorded as discounts on secured note and reported in the balance sheet as an adjustment to the carrying amount of the secured debt liability and not presented as a deferred charge, pursuant to ASC 835-30. The loan agreement amendments fees are amortized into interest expense pursuant to ASC 835-30 over the remaining term of the loan agreement. As mentioned above, the Company repaid all outstanding amounts under its secured debt facility with Hercules in connection with entering into the Credit Agreement with Opus as of March 31, 2014 and recorded $1.6 million in additional interest expense during the three months ended March 31, 2014 in its condensed consolidated statements of operations. The total amount of $1.6 million in interest expense includes $0.9 million related to write-off of deferred costs, $0.6 million related to write-off of discounts on the secured note and $0.1 million related to prepayment fees as stipulated in the Loan Agreement and forfeiture of facility charge paid at the inception of the agreement.

Other Obligations

In connection with its acquisition of payment solution in January 2012, through its majority-owned subsidiary Bluehill ID AG the Company had acquired obligations for equipment financing liabilities, a bank loan and a revolving line of credit payable to a bank. As disclosed in Note 2, Discontinued Operations, the Company sold payment solution in December 2013 and all the financial liabilities were sold along with the sale of the subsidiary, resulting in balances of zero as of December 31, 2013. Interest expense related to these financial obligations for the three months ended March 31, 2013 has been included within the results of discontinued operations in its condensed consolidated statements of operations.

In connection with its acquisition of Bluehill ID, the Company had acquired an obligation for a mortgage loan and a related revolving line of credit payable to a bank. The mortgage loan and the revolving line of credit were related to Multicard Nederland BV, one of the 100%-owned subsidiaries of Bluehill ID, and were secured by the land and building to which they relate as well as total inventory, machinery, stock, products and raw materials of the subsidiary. As disclosed in above in Note 2, Discontinued Operations, the Company sold Multicard Nederland BV in December 2013 and all the loan liabilities were sold along with the sale of the subsidiary, resulting in balances of zero as of December 31, 2013. Interest expense related to this mortgage loan and revolving line of credit for the three months ended March 31, 2013 has been included within the results of discontinued operations in its condensed consolidated statements of operations.

The following table summarizes the Company’s financial obligations for the next five years as of March 31, 2014 (in thousands):

	2014	2015	2016	2017	Total
Bank term loan and revolving loan facility	$ —	$3,333	$5,000	$5,667	$14,000

10. Segment Reporting, Geographic Information and Major Customers

ASC Topic 280, Segment Reporting (“ASC 280”) establishes standards for the reporting by public business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method for determining what information to report is based on the way that 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. The Company’s chief operating decision makers (“CODM”) are considered to be its CEO and CFO.

Identiv’s trust solutions allow people to trust their premises, information systems, and even everyday items. To deliver these solutions, the Company reorganized its operations into four reportable business segments in the first quarter of 2014 principally by product families: Premises, Identity, Credentials and All Other. As a result of the change, product families and services were organized within the four segments. To provide improved visibility and comparability, the Company reclassified segment operating results for 2013 to conform to the 2014 organizational realignments. In the Premises segment, Identiv’s Trust for Premises solution secures buildings via an integrated access control system. Identiv’s uTrust premises products offerings include MX controllers, Velocity management software, TS door readers, and third party products. In the Identity segment, Identiv delivers a solution to secure enterprise information including

PCs, networks, email encryption, login, and printers via delivery of smart card reader products and Identity Management via our idOnDemand service. In the Credentials segment, the Company offers standards-driven hardware products using near field communication ("NFC"), radio frequency identification ("RFID") and smart card technologies, including inlays, tags, readers and other products. In the All Other segment, the Company offers products, including Chipdrive and Media readers. The products included in the All Other segment do not meet the quantitative thresholds for determining reportable segments in accordance with ASC 280 and therefore have been combined for reporting purposes.

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

Net revenue and gross profit information by segment for the three months ended March 31, 2014 and 2013 is as follows (in thousands):

	Three Months Ended March 31, 2014	2013
Premises:		
Net revenue	$3,467	$4,984
Gross profit	2,144	3,151
Gross profit %	62 %	63 %
Identity:		
Net revenue	$5,020	$4,554
Gross profit	2,237	1,647
Gross profit %	45 %	36 %
Credentials:		
Net revenue	$7,467	$5,479
Gross profit	1,644	1,665
Gross profit %	22 %	30 %
All Other:		
Net revenue	$1,206	$938
Gross profit	615	290
Gross profit %	51 %	31 %
Total:		
Net revenue	$17,160	$15,955
Gross profit	6,640	6,753
Gross profit %	39 %	42 %

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

	Three Months Ended March 31, 2014	2013
Americas:		
United States	$8,618	$8,059
Total Americas	8,618	8,059
Europe and the Middle East:		
Germany	4,698	4,753
Total Europe and the Middle East	4,698	4,753
Asia-Pacific:	3,844	3,143
Total Revenues	$17,160	$15,955

Americas	50	%	51	%
Europe and the Middle East	27	%	30	%
Asia-Pacific	23	%	19	%
Total	100	%	100	%

One customer represented 15% of total revenue for the three months ended March 31, 2014. No customer exceeded 10% of total revenue for the three months ended March 31, 2013. One customer represented 19% of the Company’s accounts receivable balance at March 31, 2014. No customer represented 10% of the Company’s accounts receivable balance at December 31, 2013.

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

	March 31, 2014	December 31, 2013
Property and equipment, net:		
Americas:		
United States	$1,785	$ 1,693
Other	1	1
Total Americas	1,786	1,694
Europe:		
Germany	1,699	1,839
Other	—	—
Total Europe	1,699	1,839
Asia-Pacific:		
Singapore	2,119	2,258
Other	92	97
Total Asia-Pacific	2,211	2,355
Total	$5,696	$ 5,888

11. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (“AOCI”), net of related taxes, as of March 31, 2014 and December 31, 2013 are as follows (in thousands):

	Foreign Currency Translation	Defined Benefit Pension Plans	Total
Balance as of December 31, 2012	$ 1,611	$ (232)	$1,379
Other comprehensive income before reclassifications	(988)	—	(988)
Amounts reclassified from AOCI	604	232	836
Net other comprehensive (loss) income	(384)	232	(152)
Balance as of December 31, 2013	$ 1,227	$ —	$1,227
Other comprehensive income before reclassifications	107	—	107
Net other comprehensive income	107	—	107
Balance as of March 31, 2014	$ 1,334	$ —	$1,334

There were no reclassifications out of AOCI for the three month period ended March 31, 2014. The reclassifications out of AOCI for the three month period ended March 31, 2013 were immaterial and have been included within results of discontinued operations in the Company’s condensed consolidated statements of operations.

12. Restructuring and Severance

During the first quarter of 2014, certain employees related to non-core functions were terminated as part of management's efforts to simplify business operations which began in 2013. As a result, the Company recorded $0.4 million in restructuring and severance costs related to severance paid or accrued for these employees in its condensed consolidated statements of operations for the three months period ended March 31, 2014.

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

Of the total restructuring and severance accrual, $1.1 million is included in the other accrued expenses and liabilities and $0.2 million is included in the other long-term liabilities in the condensed consolidated balance sheets. Below are the details related to the restructuring and severance during the three months ended March 31, 2014 and during the year ended December 31, 2013 (in thousands):

	Restructuring and Severance
Balance as of December 31, 2012	$ —
Expense recorded during 2013	1,770
Payments and changes in estimates during 2013	(621)
Balance as of December 31, 2013	$ 1,149
Expense recorded during Q1 2014	437
Payments and changes in estimates during Q1 2014	(313)
Balance as of March 31, 2014	$ 1,273

13. Other accrued expenses and liabilities

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

	March 31, 2014	December 31, 2013
Accrued restructuring	$1,124	$ 909
Accrued professional fees	640	973
Income taxes payable	388	532
Other accrued expenses	2,572	2,825
Total	$4,724	$ 5,239

14. Commitments and Contingencies

The Company leases its facilities, certain equipment, and automobiles under non-cancelable operating lease agreements. Those lease agreements existing as of March 31, 2014 expire at various dates during the next five years.

The Company recognized rent expense of $0.4 million and $0.5 million in its condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013, respectively.

Purchases for inventories are highly dependent upon forecasts of customer demand. Due to the uncertainty in demand from its customers, the Company may have to change, reschedule, or cancel purchases or purchase orders from its suppliers. These changes may lead to vendor cancellation charges on these purchases or contractual commitments.

The following table summarizes the Company's principal contractual commitments as of March 31, 2014 (in thousands):

	Operating Lease	Purchase Commitments	Other Contractual Commitments	Total
2014 (remaining 9 months)	$ 1,260	$ 10,950	$	