

INTERLINK ELECTRONICS INC
Form 10-Q
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

or

Transition Report Pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission file number 001-37659

INTERLINK ELECTRONICS, INC.

(Exact name of registrant as specified in its charter)

Nevada	77-0056625
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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31248 Oak Crest Drive, Suite 110
Westlake Village, California 91361

(Address of principal executive offices, zip code)

(805) 484-8855

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of May 10, 2018, the issuer had 7,346,478 shares of common stock issued and outstanding.

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INTERLINK ELECTRONICS, INC.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

INTERLINK ELECTRONICS, INC.

Condensed Consolidated Balance Sheets

(unaudited)

	March 31, 2018	December 31, 2017
	(in thousands, except par value)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,965	\$ 7,772
Restricted cash	5	5
Accounts receivable, net	1,396	1,374
Inventories	1,068	1,195
Prepaid expenses and other current assets	278	338
Total current assets	10,712	10,684
Property, plant and equipment, net	639	525
Intangibles, net	84	69
Deferred income taxes	425	493
Other assets	60	59
Total assets	\$ 11,920	\$ 11,830
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 363	\$ 255
Accrued liabilities	302	345
Accrued income taxes	57	103
Total current liabilities	722	703
Total liabilities	722	703
Commitments and contingencies (see note 9)	—	—
Stockholders' equity		
Preferred stock, \$0.01 par value: 1,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.001 par value: 30,000 shares authorized, 7,342 and 7,328 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	7	7

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Additional paid-in-capital	60,395	60,527
Accumulated other comprehensive income	126	41
Accumulated deficit	(49,330)	(49,448)
Total stockholders' equity	11,198	11,127
Total liabilities and stockholders' equity	\$ 11,920	\$ 11,830

See accompanying notes to these condensed consolidated financial statements.

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INTERLINK ELECTRONICS, INC.

Condensed Consolidated Statements of Income and Comprehensive Income

(unaudited)

	Three months ended March 31,	
	2018	2017
	(in thousands, except per share data)	
Revenue, net	\$ 2,573	\$ 2,884
Cost of revenue	1,162	1,148
Gross profit	1,411	1,736
Operating expenses:		
Engineering, research and development	224	178
Selling, general and administrative	968	1,027
Total operating expenses	1,192	1,205
Income from operations	219	531
Other income (expense):		
Other income (expense), net	(46)	19
Income before income tax expense	173	550
Income tax expense	55	186
Net income	118	364
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	85	11
Comprehensive income	\$ 203	\$ 375
Earnings per share, basic and diluted	\$ 0.02	\$ 0.05
Weighted average common shares outstanding - basic	7,328	7,328
Weighted average common shares outstanding - diluted	7,416	7,412

See accompanying notes to these condensed consolidated financial statements.

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INTERLINK ELECTRONICS, INC.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three months ended March 31,	
	2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 118	\$ 364
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	86	40
Stock based compensation	30	29
Changes in operating assets and liabilities:		
Accounts receivable	(22)	90
Inventories	127	(83)
Prepaid expenses and other current assets	60	56
Other assets	(1)	(2)
Accounts payable	108	(85)
Accrued liabilities	(43)	(21)
Accrued income taxes	(46)	37
Deferred income taxes	68	45
Deferred revenue	—	(82)
Net cash provided by operating activities	485	388
Cash flows from investing activities:		
Property, plant and equipment	(195)	(16)
Repurchase stock	(162)	—
Intangibles	(20)	(19)
Net cash used in investing activities	(377)	(35)
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	—
Net cash provided by financing activities	—	—
Effect of exchange rate changes on cash and cash equivalents	85	11
Net increase in cash and cash equivalents	193	364
Cash, cash equivalents and restricted cash, beginning of period	7,777	6,014
Cash, cash equivalents and restricted cash, end of period	\$ 7,970	\$ 6,378
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 34	\$ 105

See accompanying notes to these condensed consolidated financial statements.

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INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

NOTE 1-THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Interlink Electronics, Inc. (“we,” “us,” “our,” “Interlink” or the “Company”) designs, develops, manufactures and sells a range of force-sensing technologies that incorporate our proprietary materials technology, firmware and software into a portfolio of standard sensor based products and custom sensor system solutions. These include sensor components, subassemblies, modules and products that support effective, efficient cursor control and novel three-dimensional user inputs. Our Human Machine Interface (“HMI”) technology platforms are deployed in a wide range of markets including consumer electronics, automotive, industrial, and medical.

Interlink serves our world-wide customer base from our corporate headquarters in Westlake Village, California (greater Los Angeles area), our global research and development (“R&D”) and engineering center in Singapore, our printed-electronics manufacturing facility in Shenzhen, China and our global distribution and logistics center in Hong Kong. We also maintain engineering, assembly and prototyping capabilities in Simi Valley, California along with technical and sales offices in Japan and at multiple locations in the United States. Our principal executive office is located at 31248 Oak Crest Drive, Suite 110, Westlake Village, California 91361 and our telephone number is (805) 484-8855. Our website address is www.interlinkelectronics.com.

Fiscal Year

Our fiscal year is the calendar year reporting cycle beginning January 1 and ending December 31.

Basis of Presentation

The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. They do not include all of the information and footnotes required by GAAP for complete financial statements. The December 31, 2017 balance sheet data was derived from the Company’s audited consolidated financial statements, but does not include all disclosures required for annual periods. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2017, included in our Annual Report on Form 10-K, filed with the SEC on March 15, 2018.

The condensed consolidated financial statements included herein are unaudited. However, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly our consolidated financial position and our consolidated results of operations and consolidated cash flows. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for future quarters or the full year.

Our condensed consolidated financial statements include the accounts of Interlink and our subsidiaries in Shenzhen, China, Hong Kong and Singapore. All intercompany accounts and transactions between our consolidated operations have been eliminated.

Foreign Currency Translation

The functional currency of our Chinese subsidiary is the Chinese Yuan Renminbi. Translation adjustments are an inherent result of the process of translating our Chinese subsidiary 's financial statements from Renminbi to United States dollars. Assets and liabilities are translated into United States dollars at the exchange rate in effect on the balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the respective periods.

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INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued

(unaudited)

Translation adjustments are not included in determining net income for the period but are accumulated in a separate component of consolidated equity until a recognition event takes place.

The functional currency for our Hong Kong and Singapore subsidiaries is the United States dollar. However, our Hong Kong and Singapore subsidiaries also transact business in their local currency. Therefore, the effect of exchange rate changes on transactions denominated in currencies other than the functional currency are included in results of operations.

Segment Reporting

We operate in one reportable segment: the manufacture and sale of force sensing technology solutions.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and disclosures made in the accompanying notes to the consolidated financial statements. Management regularly evaluates estimates and assumptions related to revenue recognition, allowances for doubtful accounts, warranty reserves, inventory valuation reserves, stock-based compensation, purchased intangible asset valuations and useful lives, asset retirement obligations, and deferred income tax asset valuation allowances. These estimates and assumptions are based on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results we experience may differ materially and adversely from our original estimates. To the extent there are material differences between the estimates and the actual results, our future results of operations will be affected.

Risk and Uncertainties

Our future results of operations involve a number of risks and uncertainties. Factors that could affect our business or future results and cause actual results to vary materially from historical results include, but are not limited to, the rapid change in our industry; problems with the performance, reliability or quality of our products; loss of customers; impacts of doing business internationally, including foreign currency fluctuations; potential shortages of the supplies we use to manufacture our products; disruptions in our manufacturing facilities; changes in environmental directives impacting our manufacturing process or product lines; the development of new proprietary technology and the enforcement of intellectual property rights by or against us; our ability to attract and retain qualified employees; and our ability to raise additional capital.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” The amendments to this update supersede nearly all existing revenue recognition guidance under GAAP, including the revenue recognition requirements in ASC Topic 605, “Revenue Recognition.” The standard was originally set to become effective in annual periods beginning after December 15, 2016 and for interim and annual reporting periods thereafter. In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers; Deferral of the Effective Date,” which defers the effective date of ASU 2014-09 for all entities by one year, thereby delaying the effective date of the standard to January 1, 2018, with an option that permitted companies to adopt the standard as early as the original effective date. Early adoption prior to the original effective date was not permitted. The core principle of this Topic is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for

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INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued

(unaudited)

those goods or services. This Topic defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Effective January 1, 2018, the Company adopted ASU No. 2014-12 and it did not have a material effect on our consolidated financial statements or the timing of when we recognize revenue.

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis”, to change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The standard is effective for fiscal and interim periods within those fiscal years, beginning after December 15, 2015. Effective January 1, 2016, the Company adopted ASU No. 2015-02 and it had no impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory”, which provides new guidance regarding the measurement of inventory. The new guidance requires most inventory to be measured at the lower of cost or net realizable value. The standard defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The standard applies to companies other than those that measure inventory using last-in, first-out (“LIFO”) or the retail inventory method. The standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. Early application is permitted. Effective January 1, 2017, the Company adopted ASU No. 2015-11 and it had no impact on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”, that amends existing guidance around classification and measurement of certain financial assets and liabilities. Changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the new guidance, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. For equity investments without readily determinable fair values, the cost method is also eliminated. However, most entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. The standard also requires that financial assets and liabilities be disclosed separately in the notes to the financial statements based on measurement principle and form of financial asset. The amendments in this guidance are effective for financial

statements issued for interim and annual periods beginning after December 15, 2017. Effective January 1, 2018, the Company adopted A