

INTERLINK ELECTRONICS INC  
Form 10-Q  
August 16, 2004

---

**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 June 30, 2004

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 No. 0-21858

**INTERLINK ELECTRONICS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**77-0056625**  
(I.R.S. Employer Identification Number)

**546 Flynn Road**

**93012**

Edgar Filing: INTERLINK ELECTRONICS INC - Form 10-Q

**Camarillo, California**  
(Address of principal executive offices)

(Zip Code)

**(805) 484-8855**

(Registrant's telephone number, including area code)

**Not applicable.**

(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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Shares of Common Stock Outstanding, at August 11, 2004: 11,584,412

---

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## INTERLINK ELECTRONICS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PAR VALUE)

	December 31, 2003	June 30, 2004 (Unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,061	\$ 6,410
Accounts receivable, less allowance for doubtful accounts of \$670 and \$628 at 2003 and 2004, respectively	9,123	8,336
Inventories	8,638	10,118
Prepaid expenses and other current assets	253	508
<b>Total current assets</b>	<b>24,075</b>	<b>25,372</b>
Property and equipment, net	1,270	1,265
Patents and trademarks, less accumulated amortization of \$1,109 and \$1,127 at 2003 and 2004, respectively	177	191
Other assets	60	299
<b>Total assets</b>	<b>\$ 25,582</b>	<b>\$ 27,127</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 706	\$ 647
Accounts payable	2,630	2,326
Accrued payroll and related expenses	590	776
Other accrued expenses	130	114
<b>Total current liabilities</b>	<b>4,056</b>	<b>3,863</b>
Long-term debt, net of current portion	1,010	713
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$5.00 par value (100 shares authorized, none issued and outstanding)		
Common stock, \$0.00001 par value (50,000 shares authorized, 11,155 and 11,581 shares issued and outstanding at 2003 and 2004, respectively)	31,668	33,294
Due from stockholders	(520)	(512)
Accumulated other comprehensive loss	(391)	(383)
Accumulated deficit	(10,241)	(9,848)
<b>Total stockholders' equity</b>	<b>20,516</b>	<b>22,551</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 25,582</b>	<b>\$ 27,127</b>

Edgar Filing: INTERLINK ELECTRONICS INC - Form 10-Q

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

**INTERLINK ELECTRONICS, INC.**

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

*(IN THOUSANDS, EXCEPT PER SHARE DATA)*

	<b>Three Month Period Ended June 30,</b>		<b>Six Month Period Ended June 30,</b>	
	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
Revenues	\$ 7,476	\$ 8,158	\$ 14,478	\$ 16,592
Costs of revenues	4,350	5,008	8,422	10,090
Gross profit	3,126	3,150	6,056	6,502
Operating expenses:				
Product development and research	817	1,001	1,736	1,906
Selling, general and administrative	2,112	2,049	4,064	4,189
Total operating expenses	2,929	3,050	5,800	6,095
Operating income	197	100	256	407
Other income (expense):				
Interest income (expense), net	(9)	(15)	(12)	(31)
Other income (expense)	5	8	195	34
Total other income (expense)	(4)	(7)	183	3
Income before provision for income taxes	193	93	439	410
Provision for income tax expense	12	17	18	17
Net income	\$ 181	\$ 76	\$ 421	\$ 393
Earnings per share basic	\$ .02	\$ .01	\$ .04	\$ .03
Earnings per share diluted	\$ .02	\$ .01	\$ .04	\$ .03
Weighted average shares basic	9,807	11,451	9,793	11,344
Weighted average shares diluted	11,108	12,981	10,797	12,770

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

**INTERLINK ELECTRONICS, INC.**

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

*(IN THOUSANDS)*

	<b>Six Month Period Ended June 30,</b>	
	<b>2003</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 421	\$ 393
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Provision for allowance for doubtful accounts receivable	33	(30)
Provision for excess inventories	(173)	(761)
Depreciation and amortization	311	349
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(1,957)	817
Prepaid expenses and other current assets	(71)	(255)
Inventories	(1,555)	(719)
Other assets	1	(239)
Accounts payable	1,385	(304)
Accrued payroll and other accrued expenses	(176)	170
<b>Net cash used in operating activities</b>	<b>(1,781)</b>	<b>(579)</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(126)	(326)
Costs of patents and trademarks		(32)
<b>Net cash used in investing activities</b>	<b>(126)</b>	<b>(358)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on debt	(448)	(356)
Proceeds from exercise of employee stock options	211	1,626
Due from shareholders		8
<b>Net cash provided by (used in) financing activities</b>	<b>(237)</b>	<b>1,278</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>13</b>	<b>8</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(2,131)</b>	<b>349</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	7,906	6,061
<b>End of period</b>	<b>\$ 5,775</b>	<b>\$ 6,410</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 25	\$ 46
Income taxes paid	\$ 1	\$ 1

Edgar Filing: INTERLINK ELECTRONICS INC - Form 10-Q

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

**INTERLINK ELECTRONICS, INC.**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THREE AND SIX MONTHS ENDED JUNE 30, 2003 and 2004 (UNAUDITED)

**1. Basis of Presentation of Interim Financial Data**

The financial information as of June 30, 2004, and for the three month and six month periods ended June 30, 2003 and 2004 included in this report, is unaudited. Such information, however, reflects all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. The interim statements should be read in conjunction with the financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

**2. Significant Accounting Policies Reserve for Estimated Product Returns**

While not an explicit part of our terms and conditions or product sales, we do, on a discretionary basis, grant product exchanges for our distribution and reseller customers in our branded business communications market for similar products of equal value if these exchanges meet certain other criteria. We record provisions for the estimated amounts of products to be returned in such exchanges through adjustments to revenues and cost of revenues. We estimate future product returns based on recent return history, inventory status and product sell-through statistics received from our major distributors, discussions regarding product sales activity with our major reseller customers, and current industry product and technology trends.

**3. Earnings Per Share**

For all periods presented, per share information was computed pursuant to provisions of the Statement of Financial Accounting Standards ( SFAS ) No. 128, Earnings Per Share , issued by the Financial Accounting Standards Board ( FASB ). The computation of earnings per share basic is based upon the weighted average number of common shares outstanding during the periods presented. Earnings per share diluted also includes the effect of common shares contingently issuable from options and warrants in periods in which they have a dilutive effect.

Common stock equivalents are calculated using the treasury stock method. Under the treasury stock method, the proceeds from the assumed conversion of options and warrants are used to repurchase outstanding shares using the average market price for the period.

The following table contains information necessary to calculate earnings per share (in thousands):

Six Months



Edgar Filing: INTERLINK ELECTRONICS INC - Form 10-Q

	Three Month Ended June 30,		Ended June 30,	
	2003	2004	2003	2004
Weighted average shares outstanding basic	9,807	11,451	9,793	11,344
Effect of dilutive securities (employee stock options)	1,301	1,530	1,004	1,426
Weighted average shares diluted	11,108	12,981	10,797	12,770

**4. Comprehensive Income (Loss)**

The following table provides the data required to calculate comprehensive income (loss) in thousands:

	<b>Accumulated Other Comprehensive Loss</b>	<b>Comprehensive Income (Loss)</b>
	<u>                    </u>	<u>                    </u>
Balance at December 31, 2002	\$ (837)	
Translation adjustment	13	\$ 13
Net income		421
	<u>                    </u>	<u>                    </u>
Balance at June 30, 2003	\$ (824)	\$ 434
	<u>                    </u>	<u>                    </u>
Balance at December 31, 2003	\$ (391)	
Translation adjustment	8	\$ 8
Net income		393
	<u>                    </u>	<u>                    </u>
Balance at June 30, 2004	\$ (383)	\$ 401
	<u>                    </u>	<u>                    </u>

**5. Segment Information**

The Company has four business segments: (i) business communications; (ii) home entertainment; (iii) e-transactions; and (iv) specialty components. The accounting policies of the segments are the same as those described in Management's Discussion and Analysis of Financial Condition and Results of Operations - Application of Critical Accounting Policies and Estimates; however, the Company evaluates performance based on revenue and gross profit. The Company does not allocate any other income, expenses or assets to these segments nor does it track revenue by product. Reportable segment information for the six months ended June 30, 2003 and 2004 is as follows (in thousands):

<b>Six Months Ended:</b>	<b>Business Communications</b>	<b>Home Entertainment</b>
<u>                    </u>	<u>                    </u>	<u>                    </u>