

INTERLINK ELECTRONICS INC
Form 10-Q
May 14, 2004

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, 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

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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 May 6, 2004: 11,429,740

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

INTERLINK ELECTRONICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(IN THOUSANDS, EXCEPT PAR VALUE)

	December 31, 2003	March 31, 2004
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,061	\$ 7,039
Accounts receivable, less allowance for doubtful accounts of \$670 and \$711 at 2003 and 2004, respectively	9,123	8,116
Inventories	8,638	9,343
Prepaid expenses and other current assets	253	380
	<u> </u>	<u> </u>
Total current assets	24,075	24,878
Property and equipment, net	1,270	1,375
Patents and trademarks, less accumulated amortization of \$1,109 and \$1,117 at 2003 and 2004, respectively	177	169
Other assets	60	74
	<u> </u>	<u> </u>
Total assets	<u>\$ 25,582</u>	<u>\$ 26,496</u>
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 706	\$ 695
Accounts payable	2,630	2,549
Accrued payroll and related expenses	590	718
Other accrued expenses	130	96
	<u> </u>	<u> </u>
Total current liabilities	4,056	4,058
	<u> </u>	<u> </u>
Long-term debt, net of current portion	1,010	923
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 11,372 shares issued and outstanding at 2003 and 2004, respectively)	31,668	32,353
Due from stockholders	(520)	(520)
Accumulated other comprehensive loss	(391)	(394)
Accumulated deficit	(10,241)	(9,924)
	<u> </u>	<u> </u>
Total stockholders equity	20,516	21,515
	<u> </u>	<u> </u>
Total liabilities and stockholders equity	<u>\$ 25,582</u>	<u>\$ 26,496</u>

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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)

	Three Month Period Ended March 31,	
	2003	2004
Revenues	\$ 7,002	\$ 8,434
Cost of revenues	4,072	5,082
Gross profit	2,930	3,352
Operating expenses:		
Product development and research	919	905
Selling, general and administrative	1,952	2,140
Total operating expenses	2,871	3,045
Operating income	59	307
Other income (expense):		
Interest income (expense), net	(3)	(16)
Other income (expense)	190	26
Total other income (expense)	187	10
Income before provision for income tax	246	317
Provision for income tax expense	6	
Net income	\$ 240	\$ 317
Earnings per share basic	\$.02	\$.03
Earnings per share diluted	\$.02	\$.03
Weighted average shares basic	9,779	11,236
Weighted average shares diluted	10,485	12,559

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

INTERLINK ELECTRONICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN THOUSANDS)

	Three Month Period Ended March 31,	
	2003	2004
Cash flows from operating activities:		
Net income	\$ 240	\$ 317
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for allowance for doubtful accounts receivable	6	37
Provisions for excess inventories	(154)	(705)
Depreciation and amortization	163	188
Changes in operating assets and liabilities:		
Accounts receivable	(1,473)	970
Prepaid expenses and other current assets	(47)	(127)
Other assets	10	(14)
Accounts payable	217	(81)
Accrued payroll and other accrued expenses	(38)	94
Net cash provided by (used in) operating activities	(1,076)	679
Cash flows from investing activities:		
Purchases of property and equipment	(61)	(285)
Costs of patents and trademarks		
Net cash used in investing activities	(61)	(285)
Cash flows from financing activities:		
Principal payments on debt	(168)	(98)
Proceeds from exercise of employee stock options	1	685
Net cash provided by (used in) financing activities	(167)	587
Effect of exchange rate changes on cash and cash equivalents		(3)
Increase (decrease) in cash and cash equivalents	(1,304)	978
Cash and cash equivalents:		
Beginning of period	7,906	6,061
End of period	\$ 6,602	\$ 7,039
Supplemental disclosures of cash flow information:		
Interest paid	\$ 16	\$ 24
Income taxes paid	\$	\$ 1

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

INTERLINK ELECTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THREE MONTHS ENDED MARCH 31, 2003 and 2004 (UNAUDITED)

1. Basis of Presentation of Interim Financial Data

The financial information as of March 31, 2004, and for the three month periods ended, March 31, 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. 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):

	Three Months Ended March 31,	
	2003	2004
Weighted average shares outstanding basic	9,779	11,236
Effect of dilutive securities (options)	706	1,323
Weighted average shares diluted	10,485	12,559

3. Comprehensive Income (Loss)

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

	Accumulated Other Comprehensive Loss	Comprehensive Income (Loss)
	<u> </u>	<u> </u>
Balance at December 31, 2002	\$ (837)	
Net income		\$ 240
	<u> </u>	<u> </u>
Balance at March 31, 2003	\$ (837)	\$ 240
	<u> </u>	<u> </u>
Balance at December 31, 2003	\$ (391)	
Translation adjustment	(3)	\$ (3)
Net income		317
	<u> </u>	<u> </u>
Balance at March 31, 2004	\$ (394)	\$ 314
	<u> </u>	<u> </u>

4. 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 three months ended March 31, 2003 and 2004 is as follows (in thousands):

Three Months Ended:	Business Communications	Home Entertainment	E-Transactions	Specialty Components and Other	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
March 31, 2003					
Revenue	\$ 5,178	\$ 149	\$ 538	\$ 1,137	\$ 7,002
Gross profit	1,863	67	278	722	2,930
March 31, 2004					
Revenue	\$ 4,858	\$ 492	\$ 1,962	\$ 1,122	\$ 8,434
Gross profit	1,451	216	981	704	3,352

5. Inventories

Inventories consisted of the following (in thousands):

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	December 31, 2003	March 31, 2004
Raw material	\$ 3,991	\$ 4,272
Work in process	867	2,274
Finished goods	3,780	2,797
Total inventories	\$ 8,638	\$ 9,343

6. Stock Options

Under the terms of the Company's 1996 Stock Incentive Plan, as amended (the Plan), officers and key employees may be granted non-qualified or incentive stock options and outside directors and independent contractors of the Company may be granted non-qualified stock options. The aggregate number of shares which may be issued under the Plan is 5,500,000. Options are granted at fair market value on the date of grant and generally vest ratably over 36 months and have a five-year term but terminate earlier if employment is terminated. As of March 31, 2004, 5,355,000 have been granted (3,141,000 are outstanding and 2,214,000 have been exercised, forfeited or expired) and there were 145,000 options were available for grant.

First three months of 2004 activity under the Plan is summarized as follows (in thousands, except per share information):

	<u>Options</u>	<u>Wgt. avg. Exercise Price</u>
Outstanding - beginning of period	3,416	\$ 4.66
Granted	45	10.60
Exercised	(217)	3.17
Forfeited or expired	(103)	5.16
	<u>3,141</u>	
Outstanding - end of period	3,141	4.83
	<u>2,396</u>	
Exercisable - end of period	2,396	4.59

The following table summarizes information about stock options outstanding under the Plan as of March 31, 2004 (in thousands, except contractual life and exercise price per share information):

Exercise Price Per Share	# of Options Outstanding	Months Remaining		
		On		
		Contractual Life	Options Exercisable	Options Un-exercisable
\$ 2.40	591	31	481	110
2.70	47			