Interlink Electronics, Inc.
and Subsidiaries

Quarterly Report
for the Three and Six Months Ended
June 30, 2020

Interlink Electronics, Inc.
1 Jenner #200
Irvine, CA 92618
Phone: +1 (805) 484-8855
Fax: +1 (805) 484-9457
www.interlinkelectronics.com

INTERLINK ELECTRONICS, INC.
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Our Company

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 products and custom 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. The application of our HMI technology platforms includes vehicle entry, vehicle multi-media control interface, rugged touch controls, presence detection, collision detection, speed and torque controls, biological monitoring and others.

Interlink has been a leader in the printed electronics industry for over 30 years with the commercialization of our patented Force-Sensing Resistor (“FSR®”) technology that has enabled rugged and reliable HMI solutions. Our solutions have focused on handheld user input, menu navigation, cursor control, and other intuitive interface technologies for the world’s top electronics manufacturers.

We invented FSR® technology and pioneered commercialization of printed electronics manufacturing, paving the way for industry-wide adoption of force sensing technology. Our extensive knowledge and experience with this technology, along with the firmware we incorporate in our HMI solutions, differentiates us from other providers of HMI solutions. We, along with our customers, incorporate our FSR and force sensing sensors and modules into end user products. Our sensors and modules are used in electronics devices and systems where user input must be converted into useful output data. Our force sensing technology solution platforms enabled industry-first implementations in gaming, smartphone, rugged notebook, automotive cockpit and automotive entry applications. Consumer and end-user demand for enhanced user experience is driving the need for innovative multi-modal HMI technologies and applications. Force sensing input provides a critical novel modality that drives a paradigm shift in HMI.

Market requirements for innovative solutions that enable smaller, thinner devices, lower power consumption, highly refined designs, better navigation and more intuitive usability in all environments, are also driving increased demand for our products. Industry is moving towards the use of multi-modal HMI in the home, industrial, medical and automotive spaces. Interlink delivers cutting edge, high performance HMI solutions for customers who wish to replace outdated switches and knobs in these environments.

Significant market opportunities are rapidly emerging for us to improve upon the functionality of standard capacitive sensors which are widely available and competitively priced. Inadvertent activation, where users unintentionally activate a control, is a common problem with capacitive technology. In contrast, force sensing solutions require a deliberate application of force to operate. We have had recent success in using our force sensing solutions in combination with capacitive technologies to minimize the latter’s performance issues, enabling force sensing solutions to complement competitive technologies and provide hybrid solutions and open up new opportunities for growth. We continue to simultaneously expand our standard product portfolio and develop new technology platforms to grow existing markets and capture emerging markets. This portfolio expansion will incorporate other complimentary sensing technologies. This broader portfolio of technologies will allow us to use our expertise in integrating multiple sensing technologies for applications in the rapidly growing Internet-of-Things (“IoT”).

Interlink serves our world-wide customer base from our corporate headquarters in Irvine, California (Orange County area) and from our facility in Camarillo, California (Ventura County). We plan to establish a Global Product Development and Materials Science Center in our existing Camarillo footprint, which we expect to be operational by the end of 2020. This facility will have a state-of-the-art printed electronics development laboratory as well as materials science lab. Our engineering team will be based in this center where we will work with our US and global customers on developing, engineering, prototyping and implementing our advanced HMI solutions. We also maintain a small embedded software and IoT application development center in Singapore. We manufacture all our products in our printed electronics manufacturing facility in Shenzhen, China, which has been in operation since 2006. In addition, we maintain a global distribution and logistics center in Hong Kong, a technical sales office in Japan, and several manufacturer representatives and distributors in strategic locations in our key markets, all of which allows us to support our global customer base. We sell our products in a wide range of markets, including consumer electronics, automotive, industrial and medical. Our customers are some of the world's largest companies and most recognizable brands.

We were incorporated in California on February 27, 1985. On July 10, 1996, we re-incorporated into a Delaware corporation and, on July 20, 2012, we again changed our domicile from Delaware to Nevada by completing a merger with a newly formed Nevada corporation named Interlink Electronics Inc.

Our principal executive office is located at 1 Jenner, Suite 200, Irvine, California 92618 and our telephone number is (805) 484-8855. Our website address is www.interlinkelectronics.com. Interlink makes available its annual financial statements, quarterly financial statements, and other significant reports and amendments to such reports, free of charge, on its website as soon as reasonably practicable after such reports are prepared.

Results of Operations – Three and Six Months ended June 30, 2020

The following table sets forth certain unaudited condensed consolidated statements of income data for the periods indicated. The percentages in the table are based on net revenues.

	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
	$	%	$	%	$	%	$	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Revenue, net	$ 1,702	100.0 %	$ 2,006	100.0 %	$ 3,393	100.0 %	$ 3,456	100.0 %
Cost of revenue	704	41.4 %	953	47.5 %	1,436	42.3 %	1,703	49.3 %
Gross profit	998	58.6 %	1,053	52.5 %	1,957	57.7 %	1,753	50.7 %
Operating expenses:								
Engineering, research and development	293	17.2 %	88	4.4 %	578	17.0 %	340	9.8 %
Selling, general and administrative	664	39.0 %	594	29.6 %	1,410	41.6 %	1,385	40.1 %
Total operating expenses	957	56.2 %	682	34.0 %	1,988	58.6 %	1,725	49.9 %
Income (loss) from operations	41	2.4 %	371	18.5 %	(31)	(0.9) %	28	0.8 %
Other income (expense):								
Other income (expense), net	(8)	(0.5) %	57	2.8 %	(2)	(0.1) %	24	0.7 %
Income (loss) before income tax expense	33	1.9 %	428	21.3 %	(33)	(1.0) %	52	1.5 %
Income tax expense (benefit)	20	1.2 %	319	15.9 %	(28)	(0.8) %	257	7.4 %
Net income (loss)	$ 13	0.7 %	$ 109	5.4 %	$ (5)	(0.2) %	$ (205)	(5.9) %
Other comprehensive income, net of tax:								
Foreign currency translation adjustments	5	0.3 %	(55)	(2.7) %	(15)	(0.4)%	(5)	(0.1) %
Comprehensive income (loss)	$ 18	1.0 %	$ 54	2.7 %	$ (20)	(0.6) %	$ (210)	(6.0) %

Results of Operations for the three months ended June 30, 2020, as compared to the three months ended June 30, 2019

Revenue, net by Market is as follows:

	Three months ended June 30,					
	2020		2019			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Industrial	493	29.0 %	588	29.3 %	(95)	(16.1) %
Medical	120	7.0 %	744	37.1 %	(624)	(83.9) %
Consumer	262	15.4 %	147	7.3 %	115	78.2 %
Standard	827	48.6 %	527	26.3 %	300	57.0 %
Revenue, net	$ 1,702	100.0 %	$ 2,006	100.0 %	$ (304)	(15.2) %

We sell our custom products into the industrial, medical and consumer markets. We previously sold custom products in the automotive market and continue to peruse opportunities in that sector. We sell our standard products through various distribution networks. The ultimate customer for standards products may come from different markets which are often unknown to us at the time of sale. Each market has different product design cycles. Products with longer design cycles often have much longer product life-cycles. Automotive, industrial, and medical products generally have longer design and life-cycles than consumer products. We currently have products with life-cycles that have exceeded twenty years and are ongoing.

Overall revenues decreased 15.2% due to lower demand from our medical customer as Covid effected their planned manufacturing cycle. The timing of orders from our customers is not always predictable and can be concentrated in varying periods during the year to coincide with their project and building plans.

Although variable costs decreased consistent with the decrease in revenues, cost of revenue was impacted by tariffs imposed on our China manufactured items imported to our domestic operation in situations where we were unable to pass along those costs. In addition, start-up costs for moving our domestic manufacturing for our medical customer to our China operations increased our cost of revenue in the short term. We believe many of our existing customers have reduced orders until the uncertainty passes.

Some of our more recent custom product success for new product lines in the medical market is making its way into the pipeline as part of a long design cycle and revenues are being realized. Overall. we expect revenues to stabilize for the remainder of the year.

	Three months ended June 30,					
	2020		2019			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Cost of revenue	$ 704	41.4 %	$ 953	47.5 %	$ (249)	(26.1) %

Our cost of revenue is impacted by various factors including product mix, volume, material costs, manufacturing efficiencies, facilities costs, compensation costs and any provisions for excess and obsolete inventories. Cost of revenues decreased compared with the prior year as revenues decreased and due to improved efficiencies at our China facility.

	Three months ended June 30,					
	2020		2019			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Engineering, research and development	$ 293	17.2 %	$ 88	4.4 %	$ 205	233.0 %

Engineering and R&D expenses consist primarily of compensation expenses for employees engaged in research, design and development activities. Our R&D team focuses both on internal design development, as well as design development aimed at addressing customer design challenges, in order to develop our HMI solutions.

Our engineering and R&D costs were higher as compared with the same period in the prior year primarily due to research incentive grant from the Singapore government paid last year in the quarter ended June 30, 2019.

	Three months ended June 30,					
	2020		2019			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Selling, general and administrative	$ 664	39.0 %	$ 594	29.6 %	$ 70	11.8 %

Selling, general and administrative expenses consist primarily of compensation expenses, legal and other professional fees, facilities expenses and communication expenses. The major factor for the G&A expenses increased is the costs associated with submission of Form 10. Sales and marketing costs increased as a result of the Company building the sales and marketing team.

	Three months ended June 30,					
	2020		2019			
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Change	% Change
	(in thousands, except percentages)					
Income tax expense (benefit)	$ 20	60.6 %	$ 319	74.5 %	$ (299)	(93.7) %

Tax expense reflects statutory tax rates in the jurisdictions in which we operate adjusted for normal book/tax differences. Tax expense for 2019 was higher primarily as a result of withholding tax on dividends paid by a subsidiary to our U.S.-based parent company

Our effective tax rate is directly affected by the relative proportions of revenue and income before taxes in the jurisdictions in which we operate. Based on the expected mix of domestic and foreign earnings, we anticipate our effective tax rate to remain similar to the newly stated US statutory rate of 21% primarily due to a significant portion of our earnings originating in the higher rate China jurisdiction (25%), offset by lower rate jurisdictions in Singapore (17%) and Hong Kong (16.5%). State taxes also have an impact in the United States.

Discrete tax events may cause our effective rate to fluctuate on a quarterly basis. Certain events, including, for example, acquisitions and other business changes, which are difficult to predict, may also cause our effective tax rate to fluctuate.

We are subject to changing tax laws, regulations, and interpretations in multiple jurisdictions. Continued corporate tax reform continues to be a priority in the U.S. and other jurisdictions. Additional changes to the tax system in the U.S. could have significant effects, positive and negative, on our effective tax rate, and on our deferred tax assets and liabilities.

Results of Operations for the six months ended June 30, 2020, as compared to the six months ended June 30, 2019

Revenue, net by Market is as follows:

	Six months ended June 30, 2020		2019			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Industrial	885	26.1 %	1,017	29.4 %	(132)	(13.0) %
Medical	524	15.4 %	1,146	33.1 %	(622)	(54.3) %
Consumer	449	13.2 %	179	5.2 %	270	150.8 %
Standard	1,535	45.3 %	1,114	32.3 %	421	37.8 %
Revenue, net	$ 3,393	100.0 %	$ 3,456	100.0 %	$ (63)	(1.8) %

We sell our custom products into the industrial, medical and consumer markets. We previously sold custom products in the automotive market and continue to peruse opportunities in that sector. We sell our standard products through various distribution networks. The ultimate customer for standards products may come from different markets which are often unknown to us at the time of sale. Each market has different product design cycles. Products with longer design cycles often have much longer product life-cycles. Automotive, industrial, and medical products generally have longer design and life-cycles than consumer products. We currently have products with life-cycles that have exceeded twenty years and are ongoing.

Overall revenues decreased 1.8% due to lower demand from our medical customer as Covid effected their planned manufacturing cycle. This was offset by the timing of a standard product order from a longtime customer and increased demand for consumer product. In the normal cycle, some of our larger customers purchase in bulk quantities and absorption of these products can straddle several financial reporting periods. The timing of orders from our customers is not always predictable and can be concentrated in varying periods during the year to coincide with their project and building plans.

Many of our products are currently subject to import tariffs imposed on goods manufactured in China, increasing the cost to our customers

Some of our more recent custom product success for new product lines in the medical market is making its way into the pipeline as part of a long design cycle and revenues are just starting to be realized in 2019. Overall. we expect revenues to stabilize for the remainder of the year.

	Six months ended June 30, 2020		2019			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Cost of revenue	$ 1,436	42.3 %	$ 1,703	49.3 %	$ (267)	(15.7) %

Our cost of revenue is impacted by various factors including product mix, volume, material costs, manufacturing efficiencies, facilities costs, compensation costs and any provisions for excess and obsolete inventories. Cost of revenues decreased compared with the prior year as revenues decreased and due to improved efficiencies at our China facility.

	Six months ended June 30,					
	2020		2019			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Engineering, research and development	$ 578	17.0 %	$ 340	9.8 %	$ 238	70.0 %

Engineering and R&D expenses consist primarily of compensation expenses for employees engaged in research, design and development activities. Our R&D team focuses both on internal design development, as well as design development aimed at addressing customer design challenges, in order to develop our HMI solutions.

Our engineering and R&D costs were higher as compared with the same period in the prior year primarily due to research incentive grant from the Singapore government paid last year in the quarter ended June 30, 2019.

	Six months ended June 30,					
	2020		2019			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Selling, general and administrative	$ 1,410	41.6 %	$1,385	40.1 %	$ 25	1.8 %

Selling, general and administrative expenses consist primarily of compensation expenses, legal and other professional fees, facilities expenses and communication expenses. The major factor for the G&A expenses increased is the costs associated with submission of Form 10. Sales and marketing costs increased as a result of the Company building the sales and marketing team. We expect to incur additional SG&A as we expand our footprint and become a public reporting company by registering our common stock under the Securities Exchange Act of 1934. Although there may be a lag, we expect increases in global revenue to more than offset these new costs.

	Six months ended June 30,					
	2020		2019			
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Change	% Change
	(in thousands, except percentages)					
Income tax expense (benefit)	$ (28)	84.8 %	$ 257	494.2 %	$ (285)	N/A %

Tax benefit reflects statutory tax rates in the jurisdictions that we operate adjusted for normal book/tax differences. The tax benefit for the six months ended June 30, 2020 was a result of the mix of domestic and foreign earnings. Tax expense for 2019 was higher primarily as a result of withholding tax on dividends paid by a subsidiary to our U.S.-based parent company

Our effective tax rate is directly affected by the relative proportions of revenue and income before taxes in the jurisdictions in which we operate. Based on the expected mix of domestic and foreign earnings, we anticipate our effective tax rate to remain lower than the newly stated U.S. statutory rate primarily due to a significant portion of our earnings originating in lower rate foreign jurisdictions. Discrete tax events may cause our effective rate to fluctuate on a quarterly basis. Certain events, including, for example, acquisitions and other business changes, which are difficult to predict, may also cause our effective tax rate to fluctuate. We are subject to changing tax laws, regulations, and interpretations in multiple jurisdictions. Continued corporate tax reform continues to be a priority in the U.S. and other jurisdictions. Additional changes to the tax system in the U.S. could have significant effects, positive and negative, on our effective tax rate, and on our deferred tax assets and liabilities.

Liquidity and Capital Resources

Cash requirements for working capital and capital expenditures have been funded from cash balances on hand and cash generated from operations. As of June 30, 2020, we had cash and cash equivalents of $6.1million, working capital of $7.2 million and no indebtedness except the PPP loan of $185,530, which can be forgiven based upon the term of PPP. Cash and cash equivalents consist of cash and money market funds. We did not have any short-term or long-term investments as of June 30, 2020. Of the $6.1 million of cash balances on hand, $1.7 million was held by foreign subsidiaries. If these funds are needed for our operations in the U.S., we have several methods to repatriate without significant tax effects, including repayment of intercompany loans or distributions of previously taxed income. Other distributions may require us to incur U.S. or foreign taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate cash to fund our U.S. operations.

The Company received a loan from Silicon Valley Bank in the aggregate principal amount of $185,530 pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was enacted March 27, 2020. The loan is evidenced by a promissory note, dated April 21, 2020, issued by us to the lender, which note matures on April 20, 2022, and bears interest at a rate of 1.00% per annum, payable monthly commencing on November 21, 2020, following an initial deferral period as specified under the PPP. We may prepay the note at any time prior to maturity with no prepayment penalties. Proceeds from the loan will be used to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses, in accordance with the PPP. Under the terms of the PPP, up to the entire amount of principal and accrued interest may be forgiven to the extent loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP. We intend to use all or a substantial portion of the loan for designated qualifying expenses and to apply for forgiveness of all or a substantial portion of the loan in accordance with the terms of the PPP. No assurance can be given that we will obtain forgiveness of the loan in whole or in part. With respect to any portion of the loan that is not forgiven, the loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults and breaches of the note's provisions.

We believe that our existing cash and cash equivalents balance will be sufficient to maintain our current operations considering our current financial condition, obligations, the proceeds of the PPP loan and other expected cash flows. If our circumstances change, however, we may require additional cash. If we require additional cash, we may attempt to raise additional capital through equity, equity-linked or debt financing arrangements. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we could be subject to fixed payment obligations and could also be subject to restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to raise additional needed funds, we may also take measures to reduce expenses to offset any shortfall.

Stock Repurchases

On August 21, 2019, we repurchased 2,788 shares of our common stock at a purchase price of $1.95 per share from an existing stockholder in a private transaction approved by our Board of Directors. The repurchased shares were immediately retired and restored to the status of authorized and unissued shares.

At June 30, we had 6,600,550 shares of common stock issued and outstanding.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

INTERLINK ELECTRONICS, INC.
Condensed Consolidated Balance Sheets
(unaudited)

	June 30, 2020	December 31, 2019
	(in thousands, except par value)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,065	$ 5,812
Restricted cash	32	32
Accounts receivable, net	897	730
Inventories	817	927
Prepaid expenses and other current assets	344	330
Total current assets	8,155	7,831
Property, plant and equipment, net	515	633
Intangibles, net	191	171
Right-of-use	419	203
Deferred income taxes	396	435
Other assets	60	59
Total assets	$ 9,736	$ 9,332
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 176	$ 218
Accrued liabilities	331	302
Lease liabilities, current	225	154
Loan Payable PPP	186	—
Accrued income taxes	25	—
Deferred revenue, current	—	13
Total current liabilities	943	687
Long term liabilities		
Lease liabilities, long term	208	66
Deferred tax liability, long term	8	8
Total long-term liabilities	216	74
Total liabilities	1,159	761
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, 6,601 and 6,563 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	7	7
Additional paid-in-capital	57,966	57,940
Accumulated other comprehensive income	(108)	(93)
Accumulated deficit	(49,288)	(49,283)
Total stockholders' equity	8,577	8,571
Total liabilities and stockholders' equity	$ 9,736	$ 9,332

See accompanying notes to these unaudited condensed consolidated financial statements.

INTERLINK ELECTRONICS, INC.

Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(in thousands, except per share data)		(in thousands, except per share data)	
Revenue, net	$ 1,702	$ 2,006	$ 3,393	$ 3,456
Cost of revenue	704	953	1,436	1,703
Gross profit	998	1,053	1,957	1,753
Operating expenses:				
Engineering, research and development	293	88	578	340
Selling, general and administrative	664	594	1,410	1,385
Total operating expenses	957	682	1,988	1,725
Income (loss) from operations	41	371	(31)	28
Other income (expense):				
Other income (expense), net	(8)	57	(2)	24
Income (loss) before income tax expense	33	428	(33)	52
Income tax expense (benefit)	20	319	(28)	257
Net income (loss)	13	109	(5)	(205)
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	5	(55)	(15)	(5)
Comprehensive income (loss)	$ 18	$ 54	$ (20)	$ (210)
Earnings (loss) per share, basic and diluted	$ 0.00	$ 0.02	$ (0.00)	$ (0.03)
Weighted average common shares outstanding - basic	6,580	6,540	6,571	6,522
Weighted average common shares outstanding - diluted	6,580	6,581	6,571	6,563

See accompanying notes to these unaudited condensed consolidated financial statements.

INTERLINK ELECTRONICS, INC.
Statement of Changes in Stockholders' Equity
(unaudited)

For the three and six months ended June 30, 2020 and June 30, 2019

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity
Balance at March 31, 2020	6,563	$ 7	$ 57,959	$ (113)	$ (49,301)	$ 8,552
Net income (loss)	—	—	—	—	13	13
Foreign currency translation adjustment	—	—	—	5	—	5
Compensation expense related to equity awards, net of cancellations	38	—	7	—	—	7
Balance at June 30, 2020	6,601	$ 7	$ 57,966	$ (108)	$ (49,288)	$ 8,577

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity
Balance at March 31, 2019	6,523	$ 7	$ 57,894	$ (17)	$ (49,140)	$ 8,744
Net income (loss)	—	—	—	—	109	109
Foreign currency translation adjustment	—	—	—	(55)	—	(55)
Compensation expense related to equity awards, net of cancellations	37	—	2	—	—	2
Balance at June 30, 2019	6,560	$ 7	$ 57,896	$ (72)	$ (49,031)	$ 8,800

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2020	6,563	$ 7	$ 57,940	$ (93)	$ (49,283)	$ 8,571
Net income (loss)	—	—	—	—	(5)	(5)
Foreign currency translation adjustment	—	—	—	(15)	—	(15)
Compensation expense related to equity awards, net of cancellations	38	—	26	—	—	26
Balance at June 30, 2020	6,601	$ 7	$ 57,966	$ (108)	$ (49,288)	$ 8,577

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2019	6,483	$ 7	$ 57,871	$ (67)	$ (48,826)	$ 8,985
Net income (loss)	—	—	—	—	(205)	(205)
Foreign currency translation adjustment	—	—	—	(5)	—	(5)
Compensation expense related to equity awards, net of cancellations	77	—	25	—	—	25
Balance at June 30, 2019	6,560	$ 7	$ 57,896	$ (72)	$ (49,031)	$ 8,800

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

INTERLINK ELECTRONICS, INC.

Condensed Consolidated Statements of Cash Flows
(unaudited)

	Six months ended June 30, 2020	2019
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (5)	$ (205)
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	146	125
Stock based compensation	26	25
Amortization of right of use	97	94
Changes in operating assets and liabilities:		
Accounts receivable	(167)	(290)
Inventories	110	(180)
Prepaid expenses and other current assets	(14)	85
Other assets	(1)	—
Accounts payable	(42)	(115)
Accrued liabilities	29	(9)
Accrued income taxes	25	29
Deferred income taxes	39	48
Lease liabilities	(100)	(94)
Deferred other	(13)	—
Net cash provided (used) by operating activities	130	(487)
Cash flows from investing activities:		
Property, plant and equipment	—	(148)
Intangibles	(48)	(31)
Net cash used in investing activities	(48)	(179)
Cash flows from financing activities:		
Proceeds from Loan PPP	186	—
Net cash provided by financing activities	186	—
Effect of exchange rate changes on cash and cash equivalents	(15)	(5)
Net increase (decrease) in cash and cash equivalents	253	(671)
Cash, cash equivalents and restricted cash, beginning of period	5,844	6,107
Cash, cash equivalents and restricted cash, end of period	$ 6,097	$ 5,436
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 8	$ 181
Interest paid	—	—
Non -cash financing and investing activities	313	418

See accompanying notes to these unaudited condensed consolidated financial statements.

NOTE 1-THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Interlink serves our world-wide customer base from our corporate headquarters in Irvine, California (Orange County area) and from our facility in Camarillo, California (Ventura County). We plan to establish a Global Product Development and Materials Science Center in our existing Camarillo footprint, which we expect to be operational by the end of 2020. This facility will have a state-of-the-art printed electronics development laboratory as well as materials science lab. Our engineering team will be based in this center where we will work with our US and global customers on developing, engineering, prototyping and implementing our advanced HMI solutions. We also maintain a small embedded software and IoT application development center in Singapore. We manufacture all our products in our printed electronics manufacturing facility in Shenzhen, China, which has been in operation since 2006. In addition, we maintain a global distribution and logistics center in Hong Kong, a technical sales office in Japan, and several manufacturer representatives and distributors in strategic locations in our key markets, all of which allows us to support our global customer base. We sell our products in a wide range of markets, including consumer electronics, automotive, industrial and medical. Our customers are some of the world's largest companies and most recognizable brands.
We were incorporated in California on February 27, 1985. On July 10, 1996, we re-incorporated into a Delaware corporation and, on July 20, 2012, we again changed our domicile from Delaware to Nevada by completing a merger with a newly formed Nevada corporation named Interlink Electronics Inc.

Our principal executive office is located at 1 Jenner, Suite 200, Irvine, California 92618 and our telephone number is (805) 484-8855. Our website address is www.interlinkelectronics.com. Interlink makes available its annual financial statements, quarterly financial statements, and other significant reports and amendments to such reports, free of charge, on its website as soon as reasonably practicable after such reports are prepared.

Fiscal Year

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

Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intra-entity transactions and balances have been eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements for the Company and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting. Accordingly, certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments and the elimination of intra-entity accounts) considered necessary for a fair presentation of all periods presented. The results of the Company's operations for any interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in our Annual Report for the year ended December 31, 2019, which was posted to the OTC Markets website on May 15, 2020, and are included in the registration statement on Form 10.

Foreign Currency Translation

The functional currency of our Chinese subsidiary is the Chinese Yuan Renminbi. 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, 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. Foreign currency transaction and translation gains and losses 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.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (ASC 606), when its customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services.

To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation. The five-step model is applied to contracts when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services transferred to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are performance obligations and assess whether each promised good or service is distinct. We then recognize revenue in the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Delivery occurs when goods are shipped and title and risk of loss transfer to the customer, in accordance with the terms specified in the arrangement with the customer. Revenue recognition is deferred until the earnings process is complete.

We (i) input orders based upon receipt of a customer purchase order, (ii) confirm pricing through the customer purchase order record, (iii) validate creditworthiness through past payment history, credit agency reports and other financial data, and (iv) recognize revenue upon shipment of goods or when risk of loss and title transfer to the buyer. All customers have warranty rights, and some customers also have explicit or implicit rights of return. We establish reserves for potential customer returns or warranty repairs based on historical experience and other factors that enable us to reasonably estimate the obligation.

A portion of our product sales is made through distributors under agreements allowing for right of return. Our past history with these sell-through right of return provisions allow us to reasonably estimate the amount of inventory that could be returned pursuant to these agreements, and revenue is recognized accordingly.

We recognize revenue for non-recurring engineering or non-recurring tooling fees when there is persuasive evidence of an arrangement, performance obligations are identified, fees are fixed or determinable, delivery has occurred, and collectability is reasonably assured.

Warranty

We establish reserves for future product warranty costs that are expected to be incurred pursuant to specific warranty provisions with our customers. We generally warrant our products against defects for one year from date of shipment, with certain exceptions in which the warranty period can extend to more than one year based on contractual agreements. A warranty reserve is recorded against revenues when products are shipped. At each reporting period, we adjust our reserve for warranty claims based on our actual warranty claims experience as a percentage of net revenue for the preceding 12 months and also consider the effect of known operations issues that may have an impact that differs from historical trends. Historically, our warranty returns have not been material.

Shipping and Handling Fees and Costs

Amounts billed to customers for shipping and handling fees are presented in product revenues. Costs incurred for shipping and handling are included in cost of revenues.

Engineering, Research and Development Costs

Engineering, research and development ("R&D") costs are expensed when incurred. R&D expenses consist primarily of compensation expenses for employees engaged in research, design and development activities. R&D expenses also include depreciation and amortization, and overhead, including facilities expenses.

Marketing Costs

All of the costs related to marketing and advertising our products are expensed as incurred or at the time the marketing takes place.

Stock-based Compensation

All stock-based payments to employees, including grants of employee stock options and employee stock purchase rights, are recognized in the financial statements based on their respective grant date (measurement date) fair values. We calculate the compensation cost of full-value awards such as restricted stock based on the market value of the underlying stock at the date of the grant. We estimate the expected life of a stock award as the period of time that the award is expected to be outstanding. We are required to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service periods. We estimate the fair value of each option award as of the date of grant using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and that are freely transferable. The Black-Scholes option pricing model considers, among other factors, the expected life of the award and the expected volatility of our stock price. Although the Black-Scholes option pricing model meets the accounting guidance requirements, the fair values generated by the Black-Scholes option pricing model may not be indicative of the actual fair values of our awards, as it does not consider other factors important to those stock-based payment awards, such as continued employment, periodic vesting requirements, and limited transferability.

We have elected to recognize compensation expense for all stock-based awards on a straight-line basis over the requisite service period for the entire award. The amount of compensation expense recognized through the end of each reporting period is equal to the portion of the grant-date value of the awards that have vested, or for partially vested awards, the value of the portion of the award that is ultimately expected to vest for which the requisite services have been provided. The benefits of tax deductions in excess of recognized compensation cost are reported as a financing cash flow.

Other Income, Net

Other income, net, consists of interest income, foreign exchange gains and losses and other non-operating gains and losses.

Income Taxes

We account for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not determinable beyond a "more likely than not" standard, we establish a valuation allowance. To the extent we establish a valuation allowance or increase or decrease this allowance in a period, we include an expense or benefit within the tax provision in the statement of operations. We also utilize a "more likely than not" recognition threshold and measurement analysis for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We recognize potential accrued interest and penalties related to unrecognized tax benefits within the consolidated statements of operations as income tax expense.

We operate within multiple tax jurisdictions and are subject to audit in these jurisdictions. Our foreign subsidiaries are subject to foreign income taxes on earnings in their respective jurisdictions. Earnings of our foreign subsidiaries are not included in our U.S. federal income tax return until earnings are repatriated. We are generally eligible to receive tax credits on repatriated earnings on our U.S. federal income tax return for foreign taxes paid by our subsidiaries.

Comprehensive Income

Comprehensive income includes all components of comprehensive income, including net income and any changes in equity during the period from transactions and other events and circumstances generated by non-owner sources.

Earnings per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of diluted common shares, which is inclusive of common stock equivalents from unexercised stock options and restricted stock units. Unexercised stock options and restricted stock units are considered to be common stock equivalents if, using the treasury stock method, they are determined to be dilutive.

Under the two-class method of determining earnings for each class of stock, we consider the dividend rights and participating rights in undistributed earnings for each class of stock.

Leases

Effective January 1, 2019, the Company accounts for its leases under ASC 842. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases, and are recorded on the consolidated balance sheet as both a right of use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For finance leases, interest on the lease liability and the amortization of the right of use asset results in front-loaded expense over the lease term. Variable lease expenses are recorded when incurred.

In calculating the right of use and lease liability, the Company has elected to combine lease and non-lease components. The Company excludes short-term leases having initial term of 12 months or less from the new guidance as an accounting policy election, and recognizes rent expense on a straight-line basis over the lease term.

The Company entered into a sublease agreement to lease 4,351 square feet of space located in Irvine, California on June 8, 2020 for $5,439 per month with 3 percent annual increases starting July 1 2021. The ROU and lease liability included in the financials are $161 thousand and $16 thousand, respectively. The lease term begins July 1, 2020 and ends May 31, 2023. The space is used for executive offices, sales, finance and administration. The Company intends to sublease portions of the space to Qualstar Corporation and BKF Capital Group. Also, the company renewed its ShenZhen, China manufacturing facility lease with ROU of $146 thousand and lease liability of $147 thousand included in the financials.

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.

Public health threats could have an adverse effect on our operations and financial results.

Public health threats could adversely affect our ongoing or planned business operations. In particular, the outbreak in December 2019 of a novel coronavirus (COVID-19) in China has resulted in quarantines, restrictions on travel and other business and economic disruptions. We cannot presently predict the scope and severity of any potential business shutdowns or disruptions, but if we or any of the third parties with whom we engage, including the suppliers, distributers, resellers and other third parties with whom we conduct business, were to experience shutdowns or other business disruptions, our ability to conduct our business in the manner and on the timelines presently planned could be materially and adversely impacted.

Fair Value Measurements

We determine fair value measurements based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, we follow the following fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) our own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs):

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets;

Level 2: Other inputs observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborate inputs; and

Level 3: Unobservable inputs for which there is little or no market data and which requires the owner of the assets or liabilities to develop its own assumptions about how market participants would price these assets or liabilities.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*", which replaces the existing guidance in ASC Topic 840, "Leases". The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and requires retrospective application. The Company adopted ASU 2016-02 as of January 1, 2019, which resulted in reclassifications to our balance sheet but an overall immaterial impact to our consolidated income or loss

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*", that significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income, including trade receivables. The standard requires an entity to estimate its lifetime "expected credit loss" for such assets at inception, and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The standard is effective for annual periods beginning after December 15, 2020, and interim periods therein. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. This standard is not expected to have a significant impact on our consolidated financial statements or disclosures.

In January 2017, the FASB issued ASU 2017-01, "*Business Combinations (Topic 805): Clarifying the Definition of a Business*", clarifying the definition of a business, reducing the number of transactions that need to be further evaluated and providing a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in the ASU specify that when the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the integrated set of assets and activities is not a business. The guidance also requires that an integrated set of assets and activities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output to be considered a business, and removes the evaluation of whether a market participant could replace the missing elements. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The Company will apply this standard to future transactions within the scope of the ASU.

We reviewed all other recently issued accounting pronouncements and concluded they are not applicable or not expected to be material to our financial statements.

NOTE 2-INVENTORIES

Inventories, stated at the lower of cost or net realizable value, consist of the following:

Inventories	June 30, 2010	December 31, 2019
	(in thousands)	
Raw materials	$ 495	$ 540
Work-in-process	228	253
Finished goods	94	134
Total inventories	$ 817	$ 927

NOTE 3-STOCK BASED COMPENSATION

Under the terms of our 2016 Omnibus Incentive Plan (the "2016 Plan"), officers and key employees could be granted restricted stock units, as well as non-qualified or incentive stock options, at the discretion of the Compensation Committee of the Board of Directors. The Plan replaces the 1996 Stock Incentive Plan (the "1996 Plan") which was terminated in December 2015; however, all grants issued under the 1996 Plan prior to its termination will continue to vest, expire or terminate in accordance with the 1996 Plan document and the terms of each award.

Restricted Stock Units

Our outstanding restricted stock unit grants vest over five years in installments of 50% on the fourth anniversary of the grant date and the remaining 50% on the fifth anniversary of the grant date. Unvested restricted shares are forfeited if the recipient's employment terminates for any reason other than death, disability or special circumstances as determined by the Compensation Committee of the Board of Directors.

Activity for our restricted stock units is as follows:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(in thousands)		(years)	(in thousands)
Restricted stock units, December 31, 2019	37	$ 5.23	0.38	$ 178
Awarded	—	$		
Issued	(37)	$		
Forfeited	—	$		
Restricted stock units, June 30, 2020	—	$ —	—	$ —

The aggregate intrinsic values in the preceding table for the restricted stock units outstanding represent the total pretax intrinsic value, based on our closing stock price of $5.35 and $4.75 as of June 30, 2020 and December 31, 2019, respectively. A total of thirty-seven thousand five hundred restricted stock units vested in the six months ended June 30, 2020.

Stock based compensation incurred for the three and six months ended June 30, 2020 was $7 thousand and $26 thousand, respectively, as compared to $2 thousand and $25 thousand for the comparable periods ended June 30, 2019.

Stock Options

The exercise price of our stock options is the closing price on the date the options are granted. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Options generally expire 10 years from the date of grant. The following table summarizes the activity for the remaining options outstanding under the Plan:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, December 31, 2019	3	$ 7.40	7.84	$ —
Granted	—			
Exercised	—			
Cancelled or expired	—			
Options outstanding, June 30, 2020	3	$ 7.40	7.34	$ —
Options exercisable, June 30, 2020	3	$ 7.40	7.34	$ —

This intrinsic value represents the excess of the fair market value of our common stock on the date of exercise over the exercise price of such options. The aggregate intrinsic values in the preceding table for the options outstanding represent the total pretax intrinsic value, based on our closing stock price of $5.35 and $4.75 as of June 30, 2020 and December 31, 2019, respectively, which would have been received by the option holders had those option holders exercised their in-the-money options as of those dates.

The fair value of stock-based option awards is estimated at the date of grant using the Black-Scholes option pricing model; however, the value calculated using an option pricing model may not be indicative of the fair value observed in a willing buyer/willing seller market transaction, or actually realized by the employee upon exercise. Expected volatility used to estimate the fair value of options granted is based on the historical volatility of our common stock. The risk-free interest rate is based on the United States Treasury constant maturity rate for the expected life of the stock option. The expected life of a stock award is the period of time that the award is expected to be outstanding.

The following table provides additional information in regards to options outstanding as of June 30, 2020:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding (in thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable (in thousands)	Weighted Average Exercise Price
$ 7.40	3	7.34	$ 7.40	3	$ 7.40
	3	7.34		3	7.40

NOTE 4-EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period, plus the dilutive effect of outstanding stock options and restricted stock-based awards using the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands, except per share data)		(in thousands, except per share data)	
Net income (loss)	$ 13	$ 109	$ (5)	$ (205)
Comprehensive income (loss)	$ 18	$ 54	$ (20)	$ (210)
Weighted average outstanding shares of common stock	6,580	6,540	6,571	6,522
Dilutive potential common shares from stock options and restricted stock units	—	41	—	41
Common stock and common stock equivalents	6,580	6,581	6,571	6,563
Earnings (loss) per share, basic and diluted	$ 0.00	$ 0.02	$ (0.00)	$ (0.03)
Comprehensive income (loss) per share: basic and diluted	$ 0.00	$ 0.01	$ (0.00)	$ (0.03)
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation	3	—	3	—

NOTE 5-EQUITY TRANSACTIONS

On August 21, 2019, we repurchased 2,788 shares of our common stock at a purchase price of $1.95 per share from an existing stockholder in a private transaction approved by our Board of Directors. The repurchased shares were immediately retired and restored to the status of authorized and unissued shares.

At June 30, 2020 we had 6,60,550 shares of common stock issued and outstanding.

NOTE 6-SIGNIFICANT CUSTOMERS, CONCENTRATION OF CREDIT RISK AND GEOGRAPHIC INFORMATION

We manage and operate our business through one operating segment.

Net revenues from customers equal to or greater than 10% of total net revenues are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Customer A	15 %	* %	13 %	* %
Customer B	12 %	* %	* %	* %
Customer C	12 %	14 %	11 %	14 %
Customer D	10 %	11 %	* %	11 %
Customer E	* %	37 %	15 %	33 %

* Less than 10% of total net revenues

Net revenues by geographic area are as follows:

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	(in thousands)		(in thousands)	
United States	$ 680	$ 998	$ 1,422	$ 1,670
Asia and Middle East	871	849	1,642	1,429
Europe and other	151	159	329	357
Revenue, net	$ 1,702	$ 2,006	$ 3,393	$ 3,456

Revenues by geographic area are based on the country of shipment destination. The geographic location of distributors and third-party manufacturing service providers may be different from the geographic location of the purchasers and/or ultimate end users.

We provide credit only to creditworthy third parties who are subject to our credit verification procedures. Accounts receivable balances are monitored on an ongoing basis, and accounts deemed to have credit risk are fully reserved. At June 30, 2020, three customers accounted for 29%, 11% and 10% of total accounts receivable, respectively. At December 31, 2019, four customers accounted for 29%, 20%, 11% and 11% of total accounts receivable, respectively. Our allowance for doubtful accounts was $0 thousand at June 30, 2020 and December 31, 2019, respectively.

Our long-lived assets (property, plant and equipment plus intangibles, net) were geographically located as follows:

	June 30, 2020	December 31, 2019
	(in thousands)	
United States	$ 212	$ 200
Asia	494	604
Total long-lived assets	$ 706	$ 804

NOTE 7-RELATED PARTY TRANSACTIONS

BKF Capital Group (OTCM:BKFG)

Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, and Raymond M. Li, our Chief Financial Officer, simultaneously serve as officers of Qualstar Corporation (OTCMKTS: QBAK) and BKF Capital Group, Inc. (OTCMKTS: BKFG). Mr. Bronson serves as President and Chief Executive Officer of Qualstar Corporation and as the Chairman of the Board and Chief Executive Officer for BKF Capital Group, Inc., and Mr. Li serves as Chief Financial Officer of each of Qualstar Corporation and BKF Capital Group, Inc. We have entered into the following cost sharing arrangements with Qualstar and BKF Capital. For the three and six months ended June 30, 2019 BKF paid Interlink $2,000.

Irvine, CA Facility: We entered into a sublease agreement for our corporate headquarters in Irvine, CA in June 2020. We have an oral agreement with Qualstar and BKF Capital to allow each use of a portion of the premises, and have agreed to split all rent and lease-related costs as follows: 47.5% for Interlink, 47.5% for Qualstar, and 5% for BKF Capital. For the three and six months ended June 30, 2019 BKF paid Interlink $250.

We entered into an agreement, dated March 1, 2017 with BKF Capital Group, Inc. ("BKF"). Pursuant to the agreement, BKF occupies and uses one furnished office, telephone and other services, located at our corporate offices, for a fee of $1,000 per month. The agreement was amended effective February 1, 2017 reducing the fee to $250 per month. In addition, we will occasionally pay administrative expenses on behalf of BKF, and BKF will reimburse the Company. On March 1, 2018, BFK leased executive office space in Charleston, SC. Interlink used a portion of this office space for a proportionate fee. BKF still utilized a portion of the Interlink offices in California for the $250 per month fee. Effective March 1, 2018 we modified the existing agreement and entered into a cost-sharing agreement with Interlink that calls for a monthly net settlement of all shared costs between the use of the California and the South Carolina offices, including rent, administrative expenses and similar costs.

In February 2019, BKF chose not to renew the lease for executive office space in Charleston, SC. BKF still paid for office space located at Interlink's corporate offices in Westlake Village, CA, for a fee of $250 per month until June 2019, when Interlink moved its corporate headquarters to Camarillo, CA in a facility shared with Qualstar Corporation. Beginning in June 2019 and going forward, BKF Capital pays Qualstar directly for the $250 per month fee.

For the three and six months ended June 30, 2020 BKF paid $0 and $0, respectively to the Company as compared to $750 and $1,500 to the comparable periods ended June 30, 2019. Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, is also the Chairman of the Board, Chief Executive Officer and majority shareholder of BKF. At June 30, 2020 and December 31, 2019, there were no amounts owed between the companies.

Qualstar Corporation (OTCM:QBAK)

The Company agreed to reimburse, or be reimbursed by, Qualstar Corporation ("Qualstar") for our occupation and use of a portion of their Camarillo manufacturing location and other expenses paid by one company on behalf of the other. In addition, the Company and Qualstar have entered into shared services agreements for marketing, executive and finance
support services. Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, is also the President and Chief Executive Officer of Qualstar. Transactions with Qualstar are as follows:

	Three months ended June 30,			
	2020		2019	
	Due from Qualstar	Due to Qualstar	Due from Qualstar	Due to Qualstar
	(in thousands)			
Balance at March 31,	$ 1	$ 7	$ 35	$ 2
Billed to Qualstar by Interlink	126	—	60	—
Paid by Qualstar to Interlink	(79)	—	(94)	—
Billed to Interlink by Qualstar	—	20	—	4
Paid by Interlink to Qualstar	—	(20)	—	(5)
Balance at June 30,	$ 48	$ 7	$ 1	$ 1

	Six months ended June 30,			
	2020		2019	
	Due from Qualstar	Due to Qualstar	Due from Qualstar	Due to Qualstar
	(in thousands)			
Balance at January 1,	$ 24	$ 12	$ 3	$ 2
Billed to Qualstar by Interlink	254	—	114	—
Paid by Qualstar to Interlink	(230)	—	(116)	—
Billed to Interlink by Qualstar	—	53	—	10
Paid by Interlink to Qualstar	—	(58)	—	(11)
Balance at June 30,	$ 48	$ 7	$ 1	$ 1

NOTE 8-INCOME TAXES

Income tax expense as a percentage of income before income taxes was 60.6% for the three months ended June 30, 2020 versus tax expense of 74.5 % for the comparable period in the prior year. Our income tax expense is primarily impacted by the mix of domestic and foreign pre-tax earnings, as well as our ability to utilize prior net operating loss carryovers (“NOLs”).

The Company experienced an ownership change under IRC Section 382 in February 2010. In general, a Section 382 ownership change occurs if there is a cumulative change in our ownership by “5% shareholders” (as defined in the Internal Revenue Code of 1986, as amended) that exceeds 50 percentage points over a rolling three-year period. An ownership change generally affects the rate at which NOLs and potential other deferred tax assets are permitted to offset future taxable income. Certain state jurisdictions within which we operate contain similar provisions and limitations. All of the remaining federal and state NOLs as of June 30, 2020 are subject to annual limitations due to the February 2010 ownership change.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. We analyzed our need to maintain the valuation allowance against our otherwise recognizable deferred tax assets in the federal, state and foreign jurisdictions and had previously recorded a full valuation allowance. During the fourth quarter of 2016, we determined, given our current earnings and anticipated future earnings, that sufficient evidence existed to reach a conclusion that the valuation allowance was no longer warranted.

NOTE 9-COMMITMENTS AND CONTINGENCIES

Lease Agreements

We lease facilities under non-cancellable operating leases. The leases expire at various dates through fiscal 2023 and frequently include renewal provisions for varying periods of time, provisions which require us to pay taxes, insurance and maintenance costs, and provisions for minimum rent increases. Minimum leases payments, including scheduled rent increases are recognized as rent expenses on a straight-line basis over the term of the lease.

The rate implicit in each lease is not readily determinable, and we therefore use our incremental borrowing rate to determine the present value of the lease payments. The weighted average incremental borrowing rate used to determine the initial value of right of use (ROU) assets and lease liabilities during the three months ended June 30, 2020 was 6.75%.

Right of use assets for operating leases are periodically reduce by impairment losses. We use the long-lived assets impairment guidance in ASC Subtopic 360-10, Property, Plant and Equipment – Overall, to determine whether a ROU asset is impaired, and if so, the amount of the impairment loss to recognize. As of June 30, 2020, we have not recognized any impairment losses for our ROU assets.

We monitor for events or changes in circumstances that require a reassessment of one of our leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

The Company entered into a sublease agreement to lease 4,351 square feet of space located in Irvine, California on June 8, 2020 for $5,439 per month with 3 percent annual increases starting July 1 2021. The ROU and lease liability included in the financials are $161 thousand and $16 thousand, respectively. The lease term begins July 1, 2020 and ends May 31, 2023. The space is used for executive offices, sales, finance and administration. The Company intends to sublease portions of the space to Qualstar Corporation and BKF Capital Group. Also, the company renewed its ShenZhen, China manufacturing facility lease with ROU of $146 thousand and lease liability of $147 thousand included in the financials.

Right of Use Assets

We have various operating leases for office space that expire through 2023. Below is a summary of our right of use assets and liabilities as of June 30, 2020 (in thousands).

Right-of-use assets	$	419
Lease liability obligations	$	433
Lease liability obligations, less current portion		(225)
Total lease liability obligations, long term	$	208
Weighted-average remaining lease term		2.01 years
Weighted-average discount rate		6.75%

During the three and six months ended June 30, 2020, we recognized approximately $51 thousand and $110 thousand respectively in operating lease costs. Operating lease costs of $19 thousand and $43 thousand are included in cost of revenue, and $32 thousand and $67 thousand are included in operating expenses in our consolidated statement of operations for the three and six months ended June 30, 2020. During the three and six months ended June 30, 2020, cash paid for operating leases was approximately $62 thousand and $134 thousand respectively.

During the three and six months ended June 30, 2019, we recognized approximately $76 thousand and $154 thousand respectively in operating lease costs. Operating lease costs of $30 thousand and $60 thousand are included in cost of revenue, and $46 thousand and $94 thousand are included in operating expenses in our consolidated statement of operations for the three and six months ended June 30, 2019. During the three and six months ended June 30, 2019, cash paid for operating leases was approximately $77 thousand and $152 thousand respectively.

Approximate future minimum lease payments for our right of use assets over the remaining lease periods as of June 30, 2020, are as follows (in thousands):

Remainder of 2020	$	116
2021		218
2022		104
2023		29
Total minimum payments		467
Less: amount representing interest		(34)
Total	$	433

Litigation

We are not party to any legal proceedings at June 30, 2020. We are occasionally involved in legal proceedings in the ordinary course of business, including actions against us which assert or may assert claims or seek to impose fines and penalties in substantial amounts. Related legal defense costs are expensed as incurred.

Warranties

We establish reserves for future product warranty costs that are expected to be incurred pursuant to specific warranty provisions with our customers. We generally warrant our products against defects for one year from date of shipment, with certain exceptions in which the warranty period can extend to more than one year based on contractual agreements. Our warranty reserves are established at the time of sale and updated throughout the warranty period based upon numerous factors including historical warranty return rates and expenses over various warranty periods. Historically, our warranty returns have not been material.

Intellectual Property Indemnities

We indemnify certain customers and our contract manufacturers against liability arising from third-party claims of intellectual property rights infringement related to our products. These indemnities appear in development and supply agreements with our customers as well as manufacturing service agreements with our contract manufacturers, are not limited in amount or duration and generally survive the expiration of the contract. Given that the amount of any potential liabilities related to such indemnities cannot be determined until an infringement claim has been made, we are unable to determine the maximum amount of losses that we could incur related to such indemnifications.

Director and Officer Indemnities and Contractual Guarantees

We have entered into indemnification agreements with our directors and executive officers, which require us to indemnify such individuals to the fullest extent permitted by Nevada law. Our indemnification obligations under such agreements are not limited in amount or duration. Certain costs incurred in connection with such indemnifications may be recovered under certain circumstances under various insurance policies. Given that the amount of any potential liabilities related to such indemnities cannot be determined until a lawsuit has been filed, we are unable to determine the maximum amount of losses that we could incur relating to such indemnities.

We have also entered into an employment agreement with Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer. This agreement contains certain severance and change in control obligations. Under the agreement, if Mr. Bronson's employment is terminated due to his death or disability (as such terms are defined in the agreement), Mr. Bronson or his beneficiaries will be entitled to receive: (i) his base compensation to the end of the monthly pay period immediately following the date of termination; (ii) accrued bonus payments; and (iii) all unvested equity and/or options issued by the Company shall immediately fully vest. If Mr. Bronson's employment is terminated by him for good reason (as such term is defined in the agreement), or by us without cause, then Mr. Bronson will be entitled to receive: (i) his base compensation to the date of termination; (ii) a severance payment equal to twelve months of his base compensation; (iii) any earned bonus compensation; (iv) employee benefits for twelve months following the date of termination; (v) any vested company match 401k or other retirement contribution; and (vi) all unvested equity and/or options issued by the Company shall immediately fully vest.

In the event of a change in control of the Company (as such term is defined in the agreement), Mr. Bronson is entitled to receive: (i) a change in control payment in an amount equal to twelve months of his base compensation, payable as of the date the change in control occurs; and (ii) all unvested equity and/or options issued by the Company shall immediately fully vest.

Guarantees and Indemnities

In the normal course of business, we are occasionally required to undertake indemnification for which we may be required to make future payments under specific circumstances. We review our exposure under such obligations no less than annually, or more frequently as required. The amount of any potential liabilities related to such obligations cannot be accurately determined until a formal claim is filed. Historically, any such amounts that become payable have not had a material negative effect our business, financial condition or results of operations. We maintain general and product liability insurance which may provide a source of recovery to us in the event of an indemnification claim.

Subsequent Events

None as of August 17, 2020.