Interlink Electronics, Inc.
and Subsidiaries

Consolidated Financial Statements
for the Years Ended December 31, 2019 and 2018

INTERLINK ELECTRONICS, INC.
INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Interlink Electronics Incorporated & Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Interlink Electronics, Incorporated & Subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for the years ended December 31, 2019 and 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial positions of the Company as of December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for the year ended December 31, 2019 and 2018, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph – Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of ASU No. 2016-02, *Leases (Topic 842)*, as amended, effective January 1, 2019, using the modified retrospective approach.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

RBSM LLP

RBSM LLP

We have served as the Company's auditor since 2017.
Larkspur, CA
May 13, 2020

INTERLINK ELECTRONICS, INC.
CONSOLIDATED BALANCE SHEETS
(AUDITED)

	December 31, 2019	December 31, 2018
	(in thousands, except par value)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,812	$ 6,102
Restricted cash	32	5
Accounts receivable, net	730	780
Inventories	927	1,071
Prepaid expenses and other current assets	330	303
Total current assets	7,831	8,261
Property, plant and equipment, net	633	701
Intangibles, net	171	121
Right-of-use	203	—
Deferred income taxes	435	470
Other assets	59	59
Total assets	$ 9,332	$ 9,612
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 218	$ 304
Accrued liabilities	302	297
Lease liabilities, current	154	—
Accrued income taxes	—	26
Deferred revenue, current	13	—
Total current liabilities	687	627
Long term liabilities		
Lease liabilities, long term	66	—
Deferred tax liability, long term	8	—
Total long-term liabilities	74	—
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, 6,563 and 6,483 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively	7	7
Additional paid-in-capital	57,940	57,871
Accumulated other comprehensive income	(93)	(67)
Accumulated deficit	(49,283)	(48,826)
Total stockholders' equity	8,571	8,985
Total liabilities and stockholders' equity	$ 9,332	$ 9,612

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

INTERLINK ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(AUDITED)

	Year ended December 31,	
	2019	2018
	(in thousands, except per share data)	
Revenue, net	$ 7,305	$ 8,904
Cost of revenue	3,995	4,000
Gross profit	3,310	4,904
Operating expenses:		
Engineering, research and development	916	908
Selling, general and administrative	2,608	3,246
Total operating expenses	3,524	4,154
Income(loss) from operations	(214)	750
Other income (expense):		
Other income (expense), net	39	60
Income(loss) before income tax expense	(175)	810
Income tax expense	282	188
Net income(loss)	(457)	622
Other comprehensive income(loss), net of tax:		
Foreign currency translation adjustments	(26)	(108)
Comprehensive income(loss)	$ (483)	$ 514
Earnings(loss) per share, basic and diluted	$ (0.07)	$ 0.09
Weighted average common shares outstanding - basic	6,543	6,899
Weighted average common shares outstanding - diluted	6,581	6,991

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

INTERLINK ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(AUDITED)

(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, 2018	7,336	$ 7	$ 60,527	$ 41	$ (49,448)	$ 11,127
Net income	—	—	—	—	622	622
Foreign currency translation adjustment	—	—	—	(108)	—	(108)
Stock Repurchase	(901)	—	(2,764)	—	—	(2,764)
Compensation expense related to equity awards, net of cancellations	48	—	108	—	—	108
Balance at December 31, 2018	6,483	7	57,871	(67)	(48,826)	8,985
Net income (loss)	—	—	—	—	(457)	(457)
Foreign currency translation adjustment	—	—	—	(26)	—	(26)
Stock Repurchase	(3)	—	(6)	—	—	(6)
Compensation expense related to equity awards, net of cancellations	83	—	75	—	—	75
Balance at December 31, 2019	6,563	$ 7	$ 57,940	$ (93)	$ (49,283)	$ 8,571

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

INTERLINK ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(AUDITED)

	Twelve months ended December 31,	
	2019	2018
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (457)	$ 622
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	251	155
Stock based compensation	75	102
Amortization of right of use	(203)	—
Changes in operating assets and liabilities:		
Accounts receivable	50	594
Inventories	144	124
Prepaid expenses and other current assets	(27)	35
Other assets	—	—
Accounts payable	(86)	49
Accrued liabilities	5	(48)
Accrued income taxes	(26)	(77)
Deferred income taxes	35	23
Lease liabilities	220	—
Deferred other	21	—
Net cash provided by operating activities	2	1,579
Cash flows from investing activities:		
Property, plant and equipment	(141)	(304)
Share repurchase	(6)	(2,764)
Intangibles	(92)	(79)
Net cash used in investing activities	(239)	(3,147)
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	6
Net cash provided by financing activities	—	6
Effect of exchange rate changes on cash and cash equivalents	(26)	(108)
Net increase (decrease) in cash and cash equivalents	(263)	(1,670)
Cash, cash equivalents and restricted cash, beginning of period	6,107	7,777
Cash, cash equivalents and restricted cash, end of period	$ 5,844	$ 6,107
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 247	$ 310
Interest paid	—	—

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

INTERLINK ELECTRONICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1-THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

Interlink serves our world-wide customer base from our corporate headquarters in Camarillo, California (greater Los Angeles area), our global research and development (“R&D”) and engineering center in Singapore, our printed-electronics manufacturing facility in Shenzhen, China and our global distribution and logistics center in Hong Kong. We also maintain engineering, assembly and prototyping capabilities in Camarillo, California along with technical and sales offices in Japan and at multiple locations in the United States. Our principal executive office is located at 1267 Flynn Road, Camarillo, California 93012 and our telephone number is (805) 484-8855. Our website address is www.interlinkelectronics.com.

Fiscal Year

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Our reporting currency is the United States dollar.

Our consolidated financial statements include the accounts of Interlink Electronics and our subsidiaries in China, Hong Kong and Singapore. All intercompany accounts and transactions were eliminated in consolidation.

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. We recognize product revenues when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred; (iii) the price to the customer is fixed or determinable; and (iv) collection of the sales price is reasonably assured. 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 (Loss)

Comprehensive income includes all components of comprehensive income (loss), 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 continues to account for leases in the prior period financial statements under ASC Topic 840.

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.

Cash, Cash Equivalents and Restricted Cash

We invest excess cash in highly liquid interest-bearing instruments, including commercial paper or money market accounts. Investments with original maturity dates less than 90 days are classified as cash equivalents. Cash that is reserved for a specific purpose and therefore not available for immediate or general business use is classified as restricted cash. All of our cash, cash equivalents and restricted cash are held at major financial institutions in the United States, China and Singapore. Our balances in each country were insured at the maximum limit determined by each country. In the U.S., we had approximately $5.0 million and $4.9 million in excess of the Federal Deposit Insurance Corporation limit of $250 thousand per depositor, per insured bank at December 31, 2019 and 2018, respectively. Approximately $1.0 million and $1.7 million held in banks in China at December 31, 2019 and 2018, respectively were not insured. Approximately $232 thousand and $676 thousand held in banks in Singapore at December 31, 2019 and 2018, respectively were not insured.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoice amount and presented net of the allowance for doubtful accounts. Our receivables do not bear interest. We evaluate the collectability of accounts receivable at each balance sheet date using a combination of factors, such as specific customer historical experience and credit quality, overall historical data, age of the accounts receivable balances, and economic conditions that may affect a customer's ability to pay. We include any accounts receivable balances that are determined to be uncollectible in the overall allowance for doubtful accounts using the specific identification method. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Inventories

Inventories are stated at the lower of cost or net realizable value (NRV) and consist of materials, labor and overhead. Inventory costs are determined using standard costs which approximate actual costs under the first-in, first-out method. Costs include the costs of purchased finished products, sorted wafers, and outsourced assembly, testing and internal overhead. NRV is the amount by which the estimated selling price of the product exceeds the sum of any additional costs expected to be incurred on the sale of such product in the ordinary course of business.

We evaluate inventories for excess quantities and obsolescence. Our evaluation considers market and economic conditions; technology changes; new product introductions; and changes in strategic business direction. Estimates by their very nature include elements that are uncertain. In order to state the inventory at the lower of cost or NRV, we maintain reserves against individual stocking units. Inventory reserves, once established, are not reversed until the related inventories have been sold or scrapped. If future demand or market conditions are less favorable than our projections, a write-down of inventory may be required, and would be reflected in cost of product revenues sold in the period the revision is made.

Property, Plant and Equipment, Net

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization expense are calculated using the straight-line method over the assets' remaining estimated useful lives, ranging from two to five years for machinery and equipment, including product tooling; and the shorter of the lease terms or estimated useful lives for leasehold improvements. When property, plant and equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains and losses from retirements and asset disposals are recorded in selling, general and administrative ("SG&A") expenses. Repairs and maintenance on our property, plant and equipment are expensed in the period incurred.

We perform periodic reviews to evaluate the recoverability of property, plant and equipment and to determine whether facts and circumstances exist that would indicate that the carrying amounts of property, plant and equipment exceed their fair values. If facts and circumstances indicate that the carrying amount of property, plant and equipment might not be fully recoverable, projected undiscounted net cash flows associated with the related asset or group of assets over their estimated remaining useful lives are compared against their respective carrying amounts. In the event that the projected undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets are written down to their estimated fair values. All long-lived assets to be disposed of are reported at the lower of carrying amount or fair market value, less expected selling costs.

Intangible Assets, Net

Our intangible assets consist primarily of patents and trademarks and are carried at cost less accumulated amortization. We evaluate our finite-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an intangible asset or asset group may not be recoverable. The carrying value of an intangible asset or asset group is not recoverable if the amounts of undiscounted future cash flows the assets are expected to generate (including any net proceeds expected from the disposal of the asset) are less than its carrying value. When we identify that an impairment has occurred, we reduce the carrying value of the asset to its comparable market value (if available and appropriate) or to its estimated fair value based on a discounted cash flow approach. Currently, we do not have goodwill or indefinite-lived intangible assets.

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 May 2014, the Financial Accounting Standards Board, ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." The amendments to this update supersede nearly all existing revenue recognition guidance under GAAP, including the revenue recognition requirements in ASC Topic 605, "*Revenue Recognition*.". The standard was originally set to become effective in annual periods beginning after December 15, 2016 and for interim and annual reporting periods thereafter. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers; Deferral of the Effective Date," which defers the effective date of ASU 2014-09 for all entities by one year, thereby delaying the effective date of the standard to January 1, 2018, with an option that would permit companies to adopt the standard as early as the original effective date. Early adoption prior to the original effective date is not permitted. The core principle of this Topic is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This Topic defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company adopted ASU 2014-09 effective January 1, 2018 and it did not result in material differences in the amount or timing of recognized revenue.

In January 2016, the FASB issued ASU No. 2016-01, "*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*", that amends existing guidance around classification and measurement of certain financial assets and liabilities. Changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the new guidance, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. For equity investments without readily determinable fair values, the cost method is also eliminated. However, most entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. The standard also requires that financial assets and liabilities be disclosed separately in the notes to the financial statements based on measurement principle and form of financial asset. The amendments in this guidance are effective for financial statements issued for interim and annual periods beginning after December 15, 2017. This standard did not have a significant impact on our consolidated financial statements or disclosures.

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, 2019, 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 October 2016, the FASB issued ASU No. 2016-16, "*Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,*" which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This amendment should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. ASU 2016-16 is effective for annual periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company adopted ASU 2016-16 effective January 1, 2018 and it did not 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.

In May 2017, the FASB issued ASU No. 2017-09, *Modification Accounting for Share-Based Payment Arrangements*, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. The Company adopted ASU 2017-09 effective January 1, 2018 and it did not have a significant impact on our consolidated financial statements or disclosures.

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-DETAILS OF CERTAIN FINANCIAL STATEMENT COMPONENTS

The following tables provide details of selected balance sheet items:

Inventories	**December 31, 2019**	**December 31, 2018**
	(in thousands)	
Raw materials	$ 540	$ 667
Work-in-process	253	280
Finished goods	134	124
Total inventories	$ 927	$ 1,071

Property, plant and equipment, net	**December 31, 2019**	**December 31, 2018**
	(in thousands)	
Furniture, machinery and equipment	$ 1,626	$ 1,481
Leasehold improvements	527	531
	2,153	2,012
Less: accumulated depreciation	(1,520)	(1,311)
Total property, plant and equipment, net	$ 633	$ 701

Depreciation expense totaled $225 thousand and $171 thousand in 2019 and 2018, respectively. There were no significant disposals of property, plant and equipment in 2019 and 2018.

Intangibles, net	**December 31, 2019**	**December 31, 2018**
	(in thousands)	
Patents and trademarks	$ 573	$ 481
Less: accumulated amortization	(402)	(360)
Total intangibles, net	$ 171	$ 121

Amortization expense totaled $41 thousand and $28 thousand in 2019 and 2018, respectively. Future amortization on existing intangibles over the next five years is as follows:

Years ending December 31,	(in thousands)
2020	$ 50
2021	$ 48
2022	$ 38
2023	$ 25
2024	$ 10

Accrued liabilities	December 31, 2019	December 31, 2018
	(in thousands, except par value)	
Accrued warranty	$ 9	$ 4
Accrued wages and benefits	168	140
Accrued taxes, other than income taxes	3	2
Accrued vacation	83	91
Accrued other	39	60
Total accrued liabilities	$ 302	$ 297

NOTE 3-FAIR VALUE MEASUREMENTS

The following table summarizes the Company's cash and marketable securities using the hierarchy described in Note 1 under the heading "Fair Value Measurements":

	December 31, 2019			
	Adjusted Cost	Unrealized Gains (Losses)	Fair Value	Cash & Cash Equivalents
	(in thousands)			
Level 1:				
Cash	$ —	$ —	$ —	$ 5,812
Restricted cash	—	—	—	32
Total	$ —	$ —	$ —	$ 5,844

	December 31, 2018			
	Adjusted Cost	Unrealized Gains (Losses)	Fair Value	Cash & Cash Equivalents
	(in thousands)			
Level 1:				
Cash	$ —	$ —	$ —	$ 6,102
Restricted cash	—	—	—	5
Total	$ —	$ —	$ —	$ 6,107

NOTE 4-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 2016 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.

As of December 31, 2019, and 2018, none of our stock-based awards are classified as liabilities. We did not capitalize any stock-based compensation cost. At December 31, 2019, there was $26 thousand of unrecognized stock-based compensation expense related to non-vested restricted stock units, and the weighted average period over which the unearned stock-based compensation for the restricted stock units is expected to be recognized is approximately 0.38 years. All of our outstanding stock options are fully vested with no remaining unrecognized stock-based compensation expense. On a quarterly basis, we assess our estimate of forfeitures based on historical forfeiture activity and expected future employee attrition. We recognize the effect of adjustments made to forfeiture rates, if any, in the period we change the forfeiture estimate. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards and our stock price increases.

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 (in thousands)	Weighted-Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Restricted stock units, January 1, 2018	165	$ 3.47	1.35	$ 861
Awarded	5	$ 6.24		
Issued	(40)	$ 1.00		
Forfeited	(10)	$ 8.77		
Restricted stock units, December 31, 2018	120	$ 3.97	.70	$ 252
Awarded	—	$		
Issued	(78)	$ 3.05		
Forfeited	(5)	$ 8.81		
Restricted stock units, December 31, 2019	37	$ 5.23	0.38	$ 178

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 $4.75 and $2.10 as of December 31, 2019 and 2018, respectively. 77,500 and 40,000 restricted stock units vested in 2019 and 2018, respectively.

Stock based compensation incurred for the twelve months ended December 31, 2019 and 2018 was $64 thousand and $87 thousand, respectively.

Stock Options

The exercise price of our stock options is the closing price on the date the options are granted. 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, January 1, 2018	7	$	4.12	4.46	$	15
Granted	—					
Exercised	(4)	$	1.56			
Cancelled or expired	—					
Options outstanding, December 31, 2018	3	$	7.40	8.84	$	—
Granted	—					
Exercised	—					
Cancelled or expired	—					
Options outstanding, December 31, 2019	3	$	7.40	7.84	$	—
Options exercisable, December 31, 2019	3	$	7.40	7.84	$	—

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 $4.75 and $2.10 as of December 31, 2019 and 2018, 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 December 31, 2019:

		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	7.84	$	7.40	3	$	7.40
		3	7.84			3		7.40

NOTE 5-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:

	Year Ended December 31, 2019	Year Ended December 31, 2018
	(in thousands, except per share data)	
Net income(loss)	$ (363)	$ 622
Comprehensive income(loss)	$ (340)	$ 514
Weighted average outstanding shares of common stock	6,543	6,899
Dilutive potential common shares from stock options and restricted stock units	38	92
Common stock and common stock equivalents	6,581	6,991
Earnings(loss) per share, basic and diluted	$ (0.07)	$ 0.09
Comprehensive income(loss) per share: basic and diluted	$ (0.07)	$ 0.07
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation	3	31

NOTE 6-INCOME TAXES

Under GAAP, we use the asset and liability method of accounting for income taxes. Under this method, 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 bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Tax expense for 2019 was higher primarily as a result of tax on dividend paid by subsidiary to U.S. based parent Company.

The components of earnings before income tax provision (benefit) for the years ended December 31, 2019 and 2018 were as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
	(in thousands)	
Income (loss) before income tax provision (benefit):		
Domestic	$ (383)	$ 239
Foreign	208	571
	$ (175)	$ 810

Income tax provision (benefit) consists of the following for the years ended December 31, 2019 and 2018:

	Year Ended December 31, 2019	Year Ended December 31, 2018
	(in thousands)	
Income tax provision (benefit):		
Current		
Federal	$ 69	$ 52
State	2	9
Foreign	155	117
Total current	226	178
Deferred:		
Federal	2	10
State	(2)	21
Foreign	56	(21)
Total deferred	56	10
Total income tax provision	$ 282	$ 188

A reconciliation of the income tax provision (benefit) by applying the statutory United States federal income tax rate to net income before income tax provision (benefit) is as follows:

	December 31, 2019 $	2019 %	2018 $	2018 %
	(in thousands, except percentages)			
Federal income tax provision (benefit) at statutory rate	$ (37)	(21.0) %	$ 170	21.0 %
State tax expense net of federal tax benefit	(1)	(0.6) %	20	2.5 %
Foreign taxes	(4)	(2.3) %	12	1.5%
Other	75	42.9%	(15)	(1.9) %
Foreign withholding and dividend	255	145.7 %	—	— %
Change in valuation allowance	(6)	(3.4) %	1	0.1 %
Income tax provision	$ 282	(161.3) %	$ 188	23.2 %

Deferred tax assets and liabilities are recognized for future tax consequences between the carrying amounts of assets and liabilities and their respective tax basis using enacted tax rates in effect for the fiscal year in which the differences are expected to reverse. Significant deferred tax assets and liabilities, consist of the following:

	December 31, 2019	December 31, 2018
	(in thousands)	
Deferred tax assets, net		
Net operating loss carryforward	$ 236	$ 243
Credits	—	6
Accruals	11	16
Reserves	8	3
Fixed assets and intangible property	48	95
Stock compensation	125	107
Other	7	6
Total deferred tax assets	435	476
Valuation allowance	—	(6)
Net deferred tax assets	$ 435	$ 470

Deferred taxes are recorded for the following Net Operating Losses ("NOLs") that can be used in future tax years:

	December 31, 2018	December 31, 2017
	(in millions)	
Net operating losses		
Federal	$ 0.8	$ 0.8
State	1.0	0.9
Foreign	0.0	0.2
	$ 1.8	$ 2.1

The federal and state NOLs expire at various dates between 2020 through 2030. Foreign NOLs are related to the jurisdictions of Singapore and Hong Kong and may be carried forward indefinitely.

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 amount as of December 31, 2019 are subject to annual limitations due to the February 2010 ownership change, at approximately $71,000 per year. Because these limitations preclude the use of a large portion of these NOLs, the Company permanently wrote-off the related deferred tax assets during the year ended December 31, 2015. Because the Company maintained a full valuation allowance against these deferred tax assets, this write-off had no impact on tax expense. At December 31, 2019, the gross NOLs without regard to this permanent write-off is $48.3 million for federal and $13.9 million for state. A roll-forward of the NOLs for which deferred tax assets are now recorded is as follows:

	December 31, 2019	December 31, 2018
	(in millions)	
Net operating losses		
Balance at January 1,	$ 1.9	$ 2.0
NOL generated (utilized)	(0.1)	(0.1)
NOL expired unused	—	—
Other, including changes in foreign exchange rates	—	—
Balance at December 31,	$ 1.8	$ 1.9

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 record a valuation allowance against our otherwise recognizable net deferred tax assets in the federal, state and foreign jurisdictions and determined that no valuation allowance was necessary ay December 31, 2019 or 2018.

The Tax Code includes a provision, referred to as Global Intangible Low-Taxed Income ("GILTI"), which provides for a 10.5% tax on certain income of controlled foreign corporations. We have elected to account for GILTI as a period cost if and when occurred, rather than recognizing deferred taxes for basis differences expected to reverse.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. U.S. federal income tax returns after 2015 remain open to examination. We and our subsidiaries are also subject to income tax in multiple state and foreign jurisdictions. Generally, state and foreign income tax returns after 2014 remain open to examination. No income tax returns are currently under examination. As of December 31, 2019, and 2018, the Company does not have any unrecognized tax benefits, and continues to monitor its current and prior tax positions for any changes. The Company recognizes penalties and interest related to unrecognized tax benefits as income tax expense. For the years ended December 31, 2019 and 2018, there were no penalties or interest recorded in income tax expense.

NOTE 7-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:

	Year ended December 31,	
	2019	2018
Customer A	37 %	16 %
Customer B	10 %	* %
Customer C	10 %	11 %
Customer D	* %	17 %

Net revenues by geographic area are as follows:

	Year ended December 31,	
	2019	2018
	(in thousands)	
United States	$ 3,726	$ 3.785
Asia and Middle East	2,949	4,319
Europe and other	630	800
Revenue, net	$ 7,305	$ 8.904

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 December 31, 2019, four customers accounted for 29%, 20%, 11% and 11% of total accounts receivable. At December 31, 2018, two customers account for approximately 35% and 29% of total accounts receivable. Our allowance for doubtful accounts was $0 at both December 31, 2019 and December 31, 2018.

As of December 31, 2019, our long-lived assets were geographically located as follows:

	December 31, 2019	December 31, 2018
	(in thousands)	
United States	$ 200	$ 142
Asia	604	680
Total long-lived assets	$ 804	$ 822

NOTE 8-RETIREMENT SAVINGS PLAN

We have a qualified retirement plan under the provisions of Section 401(k) of the Internal Revenue Code covering all U.S. employees. Participants in this plan may contribute between 1% and 60% of their eligible pay on a pretax basis, up to the annual Internal Revenue Service dollar limits. The Company will make matching contributions in an amount equal to 50% of the participant's deferral contributions, not to exceed $500. All contributions, including the Company match, are vested immediately. Our matching contributions to the plan were $3 thousand and $4 thousand in 2019 and 2018, respectively.

NOTE 9-RELATED PARTY TRANSACTIONS

BKF Capital Group (OTC:BKFG)

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 years ended December 31, 2019 and 2018, BKF paid $2 thousand and $4 thousand, respectively to the Company. 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 December 31 2019 and December 31, 2018, there were no amounts owed between the companies.

Qualstar Corporation (NASDAQ: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:

	Year ended December 31,			
	2019		2018	
	Due from Qualstar	Due to Qualstar	Due from Qualstar	Due to Qualstar
	(in thousands)			
Balance at January 1,	$ 3	$ 2	$ 17	$ —
Billed to Qualstar by Interlink	269	—	217	—
Paid by Qualstar to Interlink	(248)	—	(231)	—
Billed to Interlink by Qualstar	—	52	—	17
Paid by Interlink to Qualstar	—	(42)	—	(15)
Balance at December 31,	$ 24	$ 12	$ 3	$ —

NOTE 10-COMMITMENTS

Lease Agreements

We lease facilities under non-cancellable operating leases. The leases expire at various dates through fiscal 2021 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 twelve months ended December 31, 2019 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 December 31, 2019, 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.

As of December 31, 2019, the Company had current and long-term lease liabilities of $154,000 and $66,000, respectively, and right of uses assets of $203,000. Future imputed interest as of December 31, 2019 totaled $11,000.

Future minimum lease payments under non-cancellable operating leases that have remaining non-cancellable lease terms in excess of one year are as follows:

	2020	2021	2022	2023	Thereafter	Total
			(in thousands)			
Operating Leases	$ 178	$ 68	$ 0	$ 0	$ 0	$ 246

In the Company's financial statements for periods prior to January 1, 2019, the Company accounts for leases under ASC 840, and provides for rent expense on a straight-line basis over the lease terms. Net rent expense for the twelve months ended December 31, 2019 was $283,000.

NOTE 11-CONTINGENCIES

We are not party to any legal proceedings at December 31, 2019. 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

The Company was approved and received $185,530 from the Paycheck Protection Program (PPP) on April 21, 2020. Silicon Valley Bank approved the loan with maturity date April 20, 2022 with an interest rate of 1%. The funds will be used for payroll related costs, rent and utilities. The loan can be forgiven at the end of the PPP program June 30, 2020. Strict guidelines must be followed in order for the loan to be forgiven.

The loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities (due to likely high subscription, at least 75% of the forgiven amount must have been used for payroll). Loan payments will also be deferred for six months. No collateral or personal guarantees are required. Neither the government nor lenders will charge small businesses any fees.

Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease.

This loan has a maturity of 2 years and an interest rate of 1%.