
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2022

or

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

For the transition period from _____ to _____.

Commission file number 001-37659

INTERLINK ELECTRONICS, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

77-0056625
(I.R.S. Employer
Identification No.)

1 Jenner, Suite 200
Irvine, California 92618
(Address of principal executive offices, zip code)

(805) 484-8855
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.001 par value per share	LINK	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

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

As of August 11, 2022, the issuer had 6,604,298 shares of common stock issued and outstanding.

**INTERLINK ELECTRONICS, INC.
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PART I: FINANCIAL INFORMATION
Item 1. Financial Statements

INTERLINK ELECTRONICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
	<i>(in thousands, except par value)</i>	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,402	\$ 10,777
Restricted cash	5	5
Marketable securities	6,408	—
Accounts receivable, net	719	1,080
Inventories	1,008	814
Prepaid expenses and other current assets	475	391
Total current assets	<u>13,017</u>	<u>13,067</u>
Property, plant and equipment, net	245	338
Intangible assets, net	102	131
Right-of-use assets	252	163
Deferred tax assets	8	8
Other assets	41	72
Total assets	<u>\$ 13,665</u>	<u>\$ 13,779</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 371	\$ 338
Accrued liabilities	289	507
Lease liabilities, current	172	138
Accrued income taxes	136	54
Total current liabilities	<u>968</u>	<u>1,037</u>
Long-term liabilities		
Lease liabilities, long-term	87	37
Total long-term liabilities	<u>87</u>	<u>37</u>
Total liabilities	<u>1,055</u>	<u>1,074</u>
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock, \$0.01 par value: 1,000 shares authorized, 200 shares of Series A Convertible Preferred Stock issued and outstanding at both June 30, 2022 and December 31, 2021 (\$5.0 million liquidation preference)	2	2
Common stock, \$0.001 par value: 30,000 shares authorized, 6,602 shares issued and outstanding at both June 30, 2022 and December 31, 2021	7	7
Additional paid-in-capital	62,552	62,552
Accumulated other comprehensive income (loss)	(53)	96
Accumulated deficit	(49,898)	(49,952)
Total stockholders' equity	<u>12,610</u>	<u>12,705</u>
Total liabilities and stockholders' equity	<u>\$ 13,665</u>	<u>\$ 13,779</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

INTERLINK ELECTRONICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
		<i>(in thousands, except</i>		<i>per share data)</i>
Revenue, net	\$ 2,040	\$ 2,064	\$ 4,031	\$ 3,632
Cost of revenue	1,088	937	1,838	1,631
Gross profit	952	1,127	2,193	2,001
Operating expenses:				
Engineering, research and development	330	232	593	449
Selling, general and administrative	773	762	1,733	1,479
Total operating expenses	1,103	994	2,326	1,928
Income (loss) from operations	(151)	133	(133)	73
Other income (expense):				
Other income (expense), net	342	(29)	497	(19)
Income before income taxes	191	104	364	54
Income tax expense	79	41	110	34
Net income	\$ 112	\$ 63	\$ 254	\$ 20
Net income applicable to common stockholders	\$ 12	\$ 63	\$ 54	\$ 20
Earnings per common share – basic and diluted	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.00
Weighted average common shares outstanding – basic and diluted	6,602	6,601	6,602	6,601

See accompanying notes to these unaudited condensed consolidated financial statements.

INTERLINK ELECTRONICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	<i>(in thousands)</i>			
Net income	\$ 112	\$ 63	\$ 254	\$ 20
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(156)	35	(149)	23
Comprehensive income (loss)	<u>\$ (44)</u>	<u>\$ 98</u>	<u>\$ 105</u>	<u>\$ 43</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

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

<u>Three months ended June 30, 2022</u> (in thousands)	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in- Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balance at March 31, 2022	200	\$ 2	6,602	\$ 7	\$ 62,552	\$ 103	\$ (49,910)	\$ 12,754
Net income	—	—	—	—	—	—	112	112
Preferred stock dividends	—	—	—	—	—	—	(100)	(100)
Foreign currency translation adjustment	—	—	—	—	—	(156)	—	(156)
Balance at June 30, 2022	<u>200</u>	<u>\$ 2</u>	<u>6,602</u>	<u>\$ 7</u>	<u>\$ 62,552</u>	<u>\$ (53)</u>	<u>\$ (49,898)</u>	<u>\$ 12,610</u>

<u>Six months ended June 30, 2022</u> (in thousands)	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in- Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2021	200	\$ 2	6,602	\$ 7	\$ 62,552	\$ 96	\$ (49,952)	\$ 12,705
Net income	—	—	—	—	—	—	254	254
Preferred stock dividends	—	—	—	—	—	—	(200)	(200)
Foreign currency translation adjustment	—	—	—	—	—	(149)	—	(149)
Balance at June 30, 2022	<u>200</u>	<u>\$ 2</u>	<u>6,602</u>	<u>\$ 7</u>	<u>\$ 62,552</u>	<u>\$ (53)</u>	<u>\$ (49,898)</u>	<u>\$ 12,610</u>

<u>Three months ended June 30, 2021</u> (in thousands)	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in- Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balance at March 31, 2021	—	\$ —	6,601	\$ 7	\$ 57,971	\$ 25	\$ (49,213)	\$ 8,790
Net income	—	—	—	—	—	—	63	63
Foreign currency translation adjustment	—	—	—	—	—	35	—	35
Stock-based compensation expense	—	—	—	—	—	—	—	—
Balance at June 30, 2021	<u>—</u>	<u>\$ —</u>	<u>6,601</u>	<u>\$ 7</u>	<u>\$ 57,971</u>	<u>\$ 60</u>	<u>\$ (49,150)</u>	<u>\$ 8,888</u>

<u>Six months ended June 30, 2021</u> (in thousands)	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in- Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2020	—	\$ —	6,601	\$ 7	\$ 57,966	\$ 37	\$ (49,170)	\$ 8,840
Net income	—	—	—	—	—	—	20	20
Foreign currency translation adjustment	—	—	—	—	—	23	—	23
Stock-based compensation expense	—	—	—	—	5	—	—	5
Balance at June 30, 2021	<u>—</u>	<u>\$ —</u>	<u>6,601</u>	<u>\$ 7</u>	<u>\$ 57,971</u>	<u>\$ 60</u>	<u>\$ (49,150)</u>	<u>\$ 8,888</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Six months ended June 30,	
	2022	2021
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 254	\$ 20
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	131	145
Unrealized (gains) losses on marketable securities	(381)	—
Stock-based compensation	—	5
Gain on forgiveness of PPP loan	—	(186)
Adjustment to reconcile operating lease expense to cash paid	(5)	(9)
Loss on disposal of property and equipment	—	14
Deferred taxes	—	1
Changes in operating assets and liabilities:		
Accounts receivable	361	(60)
Inventories	(226)	(7)
Prepaid expenses and other assets	(56)	225
Accounts payable	74	127
Accrued liabilities	(210)	(50)
Accrued income taxes	86	9
Net cash provided by operating activities	<u>28</u>	<u>234</u>
Cash flows from investing activities:		
Purchases of marketable securities	(6,027)	—
Purchases of property, plant and equipment	(9)	(142)
Net cash used in investing activities	<u>(6,036)</u>	<u>(142)</u>
Cash flows from financing activities:		
Payment of dividends on preferred stock	(200)	—
Net cash used in financing activities	<u>(200)</u>	<u>—</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(167)	33
Net (decrease) increase in cash and cash equivalents	(6,375)	125
Cash, cash equivalents and restricted cash, beginning of period	10,782	6,125
Cash, cash equivalents and restricted cash, end of period	<u>\$ 4,407</u>	<u>\$ 6,250</u>
Reconciliation of cash, cash equivalents and restricted cash, end of period:		
Cash and cash equivalents, end of period	\$ 4,402	\$ 6,245
Restricted cash, end of period	5	5
Cash, cash equivalents and restricted cash, end of period	<u>\$ 4,407</u>	<u>\$ 6,250</u>
Supplemental disclosure of cash flow information:		
Income taxes paid (refunded), net	\$ 160	\$ (67)
Interest paid	—	—
Supplemental disclosure of non-cash investing and financing activities:		
Lease liabilities arising from obtaining right-of-use assets	\$ 178	\$ 50

See accompanying notes to these unaudited condensed consolidated financial statements.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – The Company and its Significant Accounting Policies

Description of Business

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

Interlink serves our world-wide customer base from our corporate headquarters in Irvine, California, our Global Product Development and Materials Science Center and distribution and logistics center in Camarillo, California, our printed-electronics manufacturing facility in Shenzhen, China, our engineering, research and development center in Singapore, and our distribution and logistics center in Hong Kong. We also maintain a technical and sales office in Japan, and we expect to launch an engineering, research and development center in the United Kingdom.

We were incorporated in California in 1985. In 1996, we re-incorporated into a Delaware corporation and, in 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 accordance with Rule 10-01 of Regulation S-X. 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 on Form 10-K, which was filed the Securities and Exchange Commission on March 29, 2022.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

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

We recognize revenue in accordance with Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (“ASC 606”), when our 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 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; 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.

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. Our warranty reserves are established at the time of sale and are updated throughout the warranty period based upon numerous factors including historical warranty return rates and claim costs over various warranty periods. Historically, our warranty returns have not been material.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

Shipping and Handling Fees and Costs

Amounts billed to customers for shipping and handling fees are presented in 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 and Advertising Costs

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

As of June 30, 2022, there were no stock-based compensation awards outstanding.

Other Income (Expense), Net

Other income (expense), net, consists of interest income, foreign currency exchange gains and losses, gains and losses on marketable securities, and other non-operating gains and losses.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

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 included in our U.S. federal income tax return as they are earned.

Foreign Currency Translation

The functional currency of our Chinese subsidiary is the Chinese Yuan Renminbi. The functional currency for our Hong Kong, Singapore and United Kingdom subsidiaries is the United States dollar. However, our Hong Kong, Singapore, and United Kingdom subsidiaries also transact business in their local currency. 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.

Comprehensive Income (Loss)

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

Segment Reporting

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

Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) applicable to common stockholders (i.e., net income (loss) adjusted for preferred stock dividends declared or accumulated) by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) by the weighted average number of diluted common shares, which is inclusive of common stock equivalents from unexercised stock options, unvested restricted stock units, and shares issuable upon conversion of convertible preferred stock. Unexercised stock options, unvested restricted stock units, and convertible preferred stock 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.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

Leases

We account for our 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 our 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, we have elected to combine lease and non-lease components. We exclude short-term leases having an initial term of 12 months or less from the new guidance as an accounting policy election, and recognize rent expense on a straight-line basis over the lease term.

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 and political instability; 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

Public health threats could adversely affect our ongoing or planned business operations. In particular, the outbreak of a novel coronavirus (COVID-19) in China resulted in quarantines, restrictions on travel and other business and economic disruptions. We cannot predict the scope and severity of potential business shutdowns or disruptions posed by public health threats, but if we or any of the third parties with whom we engage, including the suppliers, distributors, 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.

INTERLINK ELECTRONICS, INC.**Notes to Condensed Consolidated Financial Statements - continued**
*(unaudited)***Recently Issued Accounting Pronouncements**

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

Subsequent Events

We have evaluated subsequent events through August 11, 2022, being the date these condensed consolidated financial statements were issued.

Note 2 – Details of Certain Financial Statement Components

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

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Inventories	(in thousands)	
Raw materials	\$ 672	\$ 447
Work-in-process	164	209
Finished goods	172	159
Total inventories	<u>\$ 1,008</u>	<u>\$ 814</u>

Property, plant and equipment, net, consisted of the following:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Property, plant and equipment, net	(in thousands)	
Furniture, machinery and equipment	\$ 1,678	\$ 1,696
Leasehold improvements	428	444
	<u>2,106</u>	<u>2,140</u>
Less: accumulated depreciation	(1,861)	(1,802)
Total property, plant and equipment, net	<u>\$ 245</u>	<u>\$ 338</u>

Depreciation expense totaled \$50 thousand and \$57 thousand for the three months ended June 30, 2022 and 2021, respectively. Depreciation expense totaled \$102 thousand and \$111 thousand for the six months ended June 30, 2022 and 2021, respectively.

Intangible assets, net consisted of the following:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Intangible assets, net	(in thousands)	
Patents and trademarks	\$ 658	\$ 658
Less: accumulated amortization	(556)	(527)
Total intangible assets, net	<u>\$ 102</u>	<u>\$ 131</u>

INTERLINK ELECTRONICS, INC.**Notes to Condensed Consolidated Financial Statements - continued**
(unaudited)

Amortization expense totaled \$13 thousand and \$17 thousand for the three months ended June 30, 2022 and 2021, respectively. Amortization expense totaled \$28 thousand and \$34 thousand for the six months ended June 30, 2022 and 2021, respectively. Future amortization expense on existing intangible assets is as follows:

Years ending December 31,	(in thousands)
2022 (remainder of year)	\$ 26
2023	42
2024	27
2025	7
	<u>\$ 102</u>

Accrued liabilities consisted of the following:

	June 30,	December 31,
	2022	2021
	(in thousands)	
Accrued liabilities		
Accrued compensation and benefits	\$ 172	\$ 402
Accrued vacation	94	82
Other accrued liabilities	23	23
Total accrued liabilities	<u>\$ 289</u>	<u>\$ 507</u>

Note 3 – Marketable Securities

Our marketable securities consist of equity securities classified as available-for-sale (“AFS”). AFS securities are carried at fair value on the condensed consolidated balance sheets. Unrealized gains and losses are reported in earnings within “other income (expense), net”. The specific identification method is used to determine realized gains and losses on AFS securities. During the three months and six months ended June 30, 2022, we purchased \$3.8 million and \$6.0 million of marketable equity securities, respectively. As of June 30, 2022, gross unrealized gains were \$381 thousand, and gross unrealized losses were \$0. As of June 30, 2022, our position in marketable equity securities had a historical cost of \$6.0 million and a fair value of \$6.4 million, as determined using Level 1 inputs on the fair value hierarchy.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

Note 4 – Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period, plus the dilutive effect of outstanding stock options, restricted stock units, and common shares issuable upon conversion of convertible preferred stock 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,	
	2022	2021	2022	2021
	(in thousands, except per share data)			
Net income	\$ 112	\$ 63	\$ 254	\$ 20
Less: Preferred stock dividends	(100)	—	(200)	—
Net income applicable to common stockholders	12	63	54	20
Weighted average common shares outstanding – basic	6,602	6,601	6,602	6,601
Dilutive potential common shares from stock options, restricted stock units, and convertible preferred stock	—	—	—	—
Weighted average common shares outstanding – diluted	6,602	6,601	6,602	6,601
Earnings per common share, basic	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.00
Earnings per common share, diluted	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.00
Shares subject to anti-dilutive stock options and restricted stock units excluded from calculation	—	—	—	—
Shares subject to anti-dilutive Series A Convertible Preferred Stock excluded from calculation	400	—	400	—

Note 5 – Significant Customers, Concentrations 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,	
	2022	2021	2022	2021
Customer A	24 %	14 %	30 %	* %
Customer B	* %	22 %	* %	25 %
Customer C	25 %	10 %	20 %	* %
Customer D	* %	* %	* %	12 %

* Less than 10% of total net revenues

INTERLINK ELECTRONICS, INC.**Notes to Condensed Consolidated Financial Statements - continued**
(unaudited)

Net revenues by geographic area are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
United States	\$ 995	\$ 590	\$ 1,996	\$ 860
Asia and Middle East	969	1,378	1,780	2,490
Europe and other	76	96	255	282
Revenue, net	<u>\$ 2,040</u>	<u>\$ 2,064</u>	<u>\$ 4,031</u>	<u>\$ 3,632</u>

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, 2022, three customers accounted for 28%, 21%, and 11% of total accounts receivable. At December 31, 2021, three customers accounted for 39%, 18%, and 12% of total accounts receivable. Our allowance for doubtful accounts was \$0 at both June 30, 2022 and December 31, 2021.

Our long-lived assets were geographically located as follows:

	June 30,	December 31,
	2022	2021
	(in thousands)	
United States	\$ 387	\$ 536
Asia	261	176
Total long-lived assets	<u>\$ 648</u>	<u>\$ 712</u>

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

Note 6 – Related Party Transactions

Qualstar Corporation (OTCMKTS:QBAK)

Qualstar Corporation (OTCMKTS:QBAK) (“Qualstar”) is a related party. Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, is also the President, Chief Executive Officer and a director of Qualstar. Ryan J. Hoffman, our Chief Financial Officer, is also the Chief Financial Officer of Qualstar. Mr. Bronson, together with BKF Capital Group, Inc. (OTCMKTS:BKFG) which he controls, has a controlling interest in both Interlink and Qualstar. We have a facilities agreement with Qualstar to allow Qualstar to use of a portion of our Irvine, California and Los Angeles, California office facilities, for which we have agreed to split substantially all rent and lease-related costs on an apportioned basis according to the approximate relative usage levels by each entity. Qualstar also has a facilities agreement with us to allow us to use of a portion of its Camarillo, California office and warehouse facility, for which we have agreed to split substantially all rent and lease-related costs on an apportioned basis according to the approximate relative usage levels by each entity. In addition, we have various consulting agreements with Qualstar for certain of our respective employees and/or independent contractors that provide certain operational, sales, marketing, general and administrative services to the other entity. Interlink and Qualstar also agree to reimburse, or be reimbursed by, one another for expenses paid by one company on behalf of the other. Transactions with Qualstar and its subsidiaries are as follows:

	Three months ended June 30,			
	2022		2021	
	Due from Qualstar	Due to Qualstar	Due from Qualstar	Due to Qualstar
	(in thousands)			
Balance at April 1,	\$ 19	\$ 8	\$ 115	\$ 1
Billed (or accrued) to Qualstar by Interlink	200	—	266	—
Paid by Qualstar to Interlink	(196)	—	(365)	—
Billed (or accrued) to Interlink by Qualstar	—	22	—	30
Paid by Interlink to Qualstar	—	(23)	—	(30)
Balance at June 30,	<u>\$ 23</u>	<u>\$ 7</u>	<u>\$ 16</u>	<u>\$ 1</u>
	Six months ended June 30,			
	2022		2021	
	Due from Qualstar	Due to Qualstar	Due from Qualstar	Due to Qualstar
	(in thousands)			
Balance at January 1,	\$ 85	\$ 8	\$ 52	\$ 34
Billed (or accrued) to Qualstar by Interlink	385	—	475	—
Paid by Qualstar to Interlink	(447)	—	(511)	—
Billed (or accrued) to Interlink by Qualstar	—	44	—	54
Paid by Interlink to Qualstar	—	(45)	—	(87)
Balance at June 30,	<u>\$ 23</u>	<u>\$ 7</u>	<u>\$ 16</u>	<u>\$ 1</u>

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

BKF Capital Group (OTCMKTS:BKFG)

BKF Capital Group, Inc. (OTCMKTS:BKFG) (“BKF Capital”) is a related party. Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, is also the Chief Executive Officer and Chairman of BKF Capital. Ryan J. Hoffman, our Chief Financial Officer, is also the Chief Financial Officer of BKF Capital. Mr. Bronson, together with BKF Capital, has a controlling interest in Interlink. We have a facilities agreement with BKF Capital to allow BKF Capital to use a portion of our Irvine, California office facility, for which we have agreed to split substantially all rent and lease-related costs on an apportioned basis according to the approximate relative usage levels by each entity. In addition, we have consulting agreements with BKF Capital for certain of our respective employees and/or independent contractors that provide certain operational and general and administrative services to the other entity. Interlink and BKF Capital also agree to reimburse, or be reimbursed by, one another for expenses paid by one company on behalf of the other. Transactions with BKF Capital and its subsidiaries are as follows:

	Three months ended June 30,			
	2022		2021	
	Due from BKF Capital	Due to BKF Capital (in thousands)	Due from BKF Capital	Due to BKF Capital
Balance at April 1,	\$ 3	\$ —	\$ —	\$ —
Billed (or accrued) to BKF Capital by Interlink	22	—	12	—
Paid by BKF Capital to Interlink	(19)	—	(6)	—
Billed (or accrued) to Interlink by BKF Capital	—	30	—	—
Paid by Interlink to BKF Capital	—	(30)	—	—
Balance at June 30,	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 6</u>	<u>\$ —</u>
	Six months ended June 30,			
	2022		2021	
	Due from BKF Capital	Due to BKF Capital (in thousands)	Due from BKF Capital	Due to BKF Capital
Balance at January 1,	\$ 12	\$ —	\$ —	\$ —
Billed (or accrued) to BKF Capital by Interlink	60	—	13	—
Paid by BKF Capital to Interlink	(66)	—	(7)	—
Billed (or accrued) to Interlink by BKF Capital	—	60	—	—
Paid by Interlink to BKF Capital	—	(60)	—	—
Balance at June 30,	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 6</u>	<u>\$ —</u>

Note 7 – Income Taxes

Income tax expense as a percentage of income before income taxes was 41.4% for the three months ended June 30, 2022 versus 39.4% for the comparable period in the prior year. Income tax expense as a percentage of income before income taxes was 30.2% for the six months ended June 30, 2022 versus 63.0% for the comparable period in the prior year. Our income tax expense is impacted by the mix of domestic and foreign pre-tax earnings and losses, as well as the valuation allowance on certain of our net operating loss carryovers (“NOLs”). The effective income tax rates are higher than the blended statutory tax rates due to having incurred income tax expense on taxable income in certain jurisdictions, while not being able to benefit from losses in other jurisdictions for which our NOLs are subject to valuation allowance.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

We experienced an ownership change under IRC Section 382 in 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. As of June 30, 2022, all of the remaining federal and state NOLs are subject to annual limitations due to the 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 record a valuation allowance against our otherwise recognizable net deferred tax assets in the federal, state and foreign jurisdictions, and we determined, primarily due to cumulative domestic losses incurred over the three-year period ended December 31, 2021, that a valuation allowance on federal and state deferred tax assets was necessary at December 31, 2021. We determined no valuation allowance on foreign deferred tax assets was necessary at December 31, 2021. The amount of deferred tax assets considered realizable could be adjusted in future periods if estimates of future taxable income during the carryforward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for future profitability.

The Internal Revenue 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.

Of the \$4.4 million of cash balances on hand at June 30, 2022, \$0.9 million was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we have several methods to repatriate the funds 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.

Note 8 – Commitments and Contingencies

Lease Agreements

We lease facilities under non-cancellable operating leases. The leases expire at various dates through fiscal 2024 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 capitalized during the six months ended June 30, 2022 was 7.0%, and during the six months ended June 30, 2021 was 5.5%.

ROU assets for operating leases are periodically reduced 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, 2022, we have not recognized any impairment losses for our ROU assets.

We monitor for events or changes in circumstances that require a reassessment 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.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

In June 2020, we entered into a sublease agreement to lease 4,351 square feet of office space located in Irvine, California for approximately \$6 thousand per month with 3 percent annual increases, plus common area maintenance costs. The lease term began July 1, 2020 and ends May 31, 2023. The space is used for executive offices, sales, finance and administration.

We lease a 14,476 square-foot manufacturing facility and administrative office in Shenzhen, China. In May 2022, we renewed this lease for the period June 1, 2022 through May 31, 2024 for approximately \$8 thousand per month.

We lease a 275 square-foot engineering and administrative office in Singapore for approximately \$1 thousand per month. This lease term ends May 2023.

We lease a 3,000 square-foot distribution facility in Hong Kong for approximately \$2 thousand per month. This lease term ends April 2023.

We lease a 500 square-foot sales office in Tokyo, Japan for approximately \$1 thousand per month. This lease term ends November 2022.

We sublease approximately 425 square-feet of office space in Los Angeles, California for approximately \$1 thousand per month. This lease term ends March 2023.

As of June 30, 2022, we had current and long-term lease liabilities of \$172 thousand and \$87 thousand, respectively, and ROU assets of \$252 thousand. As of December 31, 2021, we had current and long-term lease liabilities of \$138 thousand and \$37 thousand, respectively, and ROU assets of \$163 thousand. Future imputed interest as of June 30, 2022 totaled \$15 thousand. The weighted average remaining lease term of our leases as of June 30, 2022 is 1.3 years.

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

Years ending December 31,	(in thousands)
2022 (remainder of year)	\$ 99
2023	134
2024	41
Total undiscounted future non-cancelable minimum lease payments	274
Less: imputed interest	(15)
Present value of lease liabilities	\$ 259

During the three months ended June 30, 2022, we incurred approximately \$61 thousand in operating lease costs, of which \$30 thousand is included in cost of revenue and \$31 thousand is included in operating expenses in our condensed consolidated statements of operations. During the three months ended June 30, 2021, we incurred approximately \$84 thousand in operating lease costs, of which \$30 thousand is included in cost of revenue and \$54 thousand is included in operating expenses in our condensed consolidated statements of operations.

During the six months ended June 30, 2022, we incurred approximately \$122 thousand in operating lease costs, of which \$62 thousand is included in cost of revenue and \$60 thousand is included in operating expenses in our condensed consolidated statements of operations. During the six months ended June 30, 2021, we incurred approximately \$166 thousand in operating lease costs, of which \$59 thousand is included in cost of revenue and \$107 thousand is included in operating expenses in our condensed consolidated statements of operations.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

Litigation

We are not party to any legal proceedings as of June 30, 2022. 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 are updated throughout the warranty period based upon numerous factors including historical warranty return rates and claim costs 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.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued
(unaudited)

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.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “believe,” “may,” “will,” “potentially,” “estimate,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan,” “expect” and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements. These forward-looking statements speak only as of the date of this Form 10-Q and are subject to uncertainties, assumptions and business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth below in Part II, Item 1A, “Risk Factors,” and in our other reports filed with the Securities and Exchange Commission. You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances described in the forward-looking statements will be achieved or occur. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Form 10-Q to conform these statements to actual results or to changes in our expectations, except as required by law.

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

Overview

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, pressure mapping, biological monitoring and others.

Interlink has been a leader in the printed electronics industry for over 35 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.

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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 have established a Global Product Development and Materials Science Center in our Camarillo footprint. This facility has a state-of-the-art printed electronics development laboratory as well as materials science lab. Our engineering team is based in this center where we work with our U.S. and global customers on developing, engineering, prototyping and implementing our advanced HMI and sensing solutions. We also maintain a small embedded software and IoT application development center in Singapore, and we expect to launch an engineering, research and development center in the United Kingdom. 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.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). The preparation of consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statements presentation, financial condition, results of operations, and cash flows will be affected.

A description of our critical accounting policies that represent the more significant judgments and estimates used in the preparation of our financial statements was provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2022. There have been no changes to our critical accounting policies and estimates described in the Form 10-K that have had a material impact on our condensed consolidated financial statements and related notes.

Recently Issued and Adopted Accounting Pronouncements

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

Results of Operations

The following table sets forth certain unaudited condensed consolidated statements of operations 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,			
	2022		2021		2022		2021	
	\$	%	\$	%	\$	%	\$	%
	(in thousands, except percentages)							
Revenue, net	\$ 2,040	100.0 %	\$ 2,064	100.0 %	\$ 4,031	100.0 %	\$ 3,632	100.0 %
Cost of revenue	1,088	53.3 %	937	45.4 %	1,838	45.6 %	1,631	44.9 %
Gross profit	952	46.7 %	1,127	54.6 %	2,193	54.4 %	2,001	55.1 %
Operating expenses:								
Engineering, research and development	330	16.2 %	232	11.2 %	593	14.7 %	449	12.4 %
Selling, general and administrative	773	37.9 %	762	36.9 %	1,733	43.0 %	1,479	40.7 %
Total operating expenses	1,103	54.1 %	994	48.2 %	2,326	57.7 %	1,928	53.1 %
Income (loss) from operations	(151)	(7.4)%	133	6.4 %	(133)	(3.3)%	73	2.0 %
Other income (expense):								
Other income (expense), net	342	16.8 %	(29)	(1.4)%	497	12.3 %	(19)	(0.5)%
Income before income taxes	191	9.4 %	104	5.0 %	364	9.0 %	54	1.5 %
Income tax expense (benefit)	79	3.9 %	41	2.0 %	110	2.7 %	34	0.9 %
Net income	\$ 112	5.5 %	\$ 63	3.1 %	\$ 254	6.3 %	\$ 20	0.6 %

Comparison of Three Months Ended June 30, 2022 and 2021

Revenue, net by the markets we serve is as follows:

	Three months ended June 30,				\$ Change	% Change
	2022		2021			
	Amount	% of Revenue	Amount	% of Revenue		
	(in thousands, except percentages)					
Industrial	\$ 738	36.2 %	\$ 434	21.0 %	\$ 304	70.0 %
Medical	494	24.2 %	285	13.8 %	209	73.3 %
Consumer	11	0.5 %	449	21.8 %	(438)	(97.6)%
Automotive	11	0.5 %	—	— %	11	100.0 %
Standard	786	38.5 %	896	43.4 %	(110)	(12.3)%
Revenue, net	\$ 2,040	100.0 %	\$ 2,064	100.0 %	\$ (24)	(1.2)%

We sell our custom products into the industrial, medical, consumer and automotive markets. We sell our standard products through various distribution networks. The ultimate customer for standard 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. 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.

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Revenues were up in the three months ended June 30, 2022 compared to the three months ended June 30, 2021 in the industrial and medical markets, and were down in the consumer markets and for our standard products. The increase in revenue from our industrial market customers was due to increased purchasing volume by these customers for use in their ongoing product lines resulting from changes in demand by their customers. The increase in revenue from our medical market customers is due to a continued increase in orders from and shipments to our largest medical customer, whose purchasing volume has increased as COVID-19 restrictions on their hospital installations have begun to subside. The decrease in revenue from our consumer market customers is primarily due to a design change by one of our largest consumer products customers. During 2022, we also sold products in the automotive market for the first time since 2018, as we are again pursuing a program with an automotive manufacturer. In all markets, 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.

	Three months ended June 30,					
	2022		2021		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue		
Gross profit	\$ 952	46.7 %	\$ 1,127	54.6 %	\$ (175)	(15.5)%

Our gross profit and gross margin percentage are impacted by various factors including product mix, customer mix, sales volume, and fluctuations in our cost of revenues, which are comprised of material costs, direct and indirect production labor costs, warehousing and logistics costs, facilities costs, and other costs related to production activities. Gross profit and gross margin percentage during the three months ended June 30, 2022 were down compared to the three months ended June 30, 2021 due primarily to higher materials and components costs on certain orders, and an increase in production labor costs due to higher production levels and expanded labor hours.

	Three months ended June 30,					
	2022		2021		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue		
Engineering, research and development	\$ 330	16.2 %	\$ 232	11.2 %	\$ 98	42.2 %

Engineering and R&D expenses consist primarily of compensation expenses for employees engaged in research, design and product development activities, and the cost of those employees' indirect supplies and allocation of facilities expenses. Our R&D team focuses both on internal design development in order to develop our HMI solutions, as well as design development aimed at addressing our customers' unique design challenges. Engineering and R&D costs for the three months ended June 30, 2022 were up compared to the three months ended June 30, 2021 due to increased engineering employee headcount and increased prototyping and product-development activities that coincide with supporting new and expanded customer programs and new products.

	Three months ended June 30,					
	2022		2021		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue		
Selling, general and administrative	\$ 773	37.9 %	\$ 762	36.9 %	\$ 11	1.4 %

Selling, general and administrative expenses consist primarily of compensation expenses, legal and other professional fees, facilities expenses and communication expenses. Selling, general and administrative costs for the three months ended June 30, 2022 were substantially unchanged compared to the three months ended June 30, 2021.

	Three months ended June 30,					
	2022		2021		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue		
Other income (expense), net	\$ 342	16.8 %	\$ (29)	(1.4)%	\$ 371	nm %

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Other income (expense), net consists of non-operating income and expenses, such as gains and losses on marketable securities, foreign currency transaction gains and losses, interest income and expense, and other non-operating items. Other income (expense), net for the three months ended June 30, 2022 was comprised of \$225 thousand of unrealized gains on marketable securities, and \$117 thousand of foreign currency transaction gains, while other income (expense), net for the three months ended June 30, 2021 was comprised of \$18 thousand of foreign currency transaction losses, and \$11 thousand of other non-operating expenses.

	Three months ended June 30,		2022		2021		Change in % of Pre-tax Income
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	\$ Change		
Income tax expense (benefit)	\$ 79	41.4 %	\$ 41	39.4 %	\$ 38	2.0 %	

Income tax expense (benefit) reflects statutory tax rates in the jurisdictions in which we operate adjusted for permanent book/tax differences. Our effective tax rate is directly affected by the relative proportions of earnings and losses in the jurisdictions in which we operate, including our current limitation on realizing tax benefits on domestic losses due to the valuation allowance on our domestic net operating loss carryforward. Based on the expected mix of domestic and foreign earnings, we anticipate our effective tax rate to remain similar to the U.S. 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 income taxes also have an impact in the U.S. In December 2021, the Company's income tax provision included a valuation allowance against domestic deferred tax assets due to recent history of U.S. taxable losses.

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. 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.

Comparison of Six Months Ended June 30, 2022 and 2021

Revenue, net by the markets we serve is as follows:

	Six months ended June 30,		2022		2021		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue				
Industrial	\$ 1,313	32.6 %	\$ 973	26.8 %	\$ 340	34.9 %		
Medical	1,197	29.7 %	328	9.0 %	869	264.9 %		
Consumer	49	1.2 %	897	24.7 %	(848)	(94.5)%		
Automotive	14	0.3 %	—	— %	14	100.0 %		
Standard	1,458	36.2 %	1,434	39.5 %	24	1.7 %		
Revenue, net	\$ 4,031	100.0 %	\$ 3,632	100.0 %	\$ 399	11.0 %		

Revenues were up in the six months ended June 30, 2022 compared to the six months ended June 30, 2021 in the industrial and medical markets and for our standard products, and were down in the consumer markets. The increase in revenue from our industrial market customers was due to increased purchasing volume by and shipments to these customers. The increase in revenue from our medical market customers is due to a continued increase in shipments to our largest medical customer, whose purchasing volume has increased as COVID-19 restrictions have begun to subside. The decrease in revenue from our consumer market customers is primarily due to a design change by one of our largest consumer products customers. During 2022, we also sold products in the automotive market for the first time since 2018, as we are again pursuing a program with an automotive manufacturer. In all markets, 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.

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	Six months ended June 30					
	2022		2021		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue		
Gross profit	\$ 2,193	54.4 %	\$ 2,001	55.1 %	\$ 192	9.6 %

Gross profit during the six months ended June 30, 2022 was up compared to the six months ended June 30, 2021 due to an increase in revenue, while gross margin percentage was down in the corresponding period due primarily to higher materials and components costs on certain orders, and an increase in production labor costs due to higher production levels and expanded labor hours.

	Six months ended June 30,					
	2022		2021		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue		
Engineering, research and development	\$ 593	14.7 %	\$ 449	12.4 %	\$ 144	32.1 %

Engineering and R&D costs for the six months ended June 30, 2022 were up compared to the three months ended June 30, 2021 due to increased engineering employee headcount and increased prototyping and product-development activities that coincide with supporting new and expanded customer programs and new products.

	Six months ended June 30,					
	2022		2021		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue		
Selling, general and administrative	\$ 1,733	43.0 %	\$ 1,479	40.7 %	\$ 254	17.2 %

Selling, general and administrative costs for the six months ended June 30, 2022 were up compared to the six months ended June 30, 2021 due to increased costs of professional services, as well as prior year having included a \$186 thousand benefit from forgiveness of the PPP loan.

	Six months ended June 30,					
	2022		2021		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue		
Other income (expense), net	\$ 497	12.3 %	\$ (19)	(0.5)%	\$ 516	nm %

Other income (expense), net consists of non-operating income and expenses, such as gains and losses on marketable securities, foreign currency transaction gains and losses, interest income and expense, and other non-operating items. Other income (expense), net for the six months ended June 30, 2022 was comprised of \$381 thousand of unrealized gains on marketable securities, \$115 thousand of foreign currency transaction gains, and \$1 thousand of other non-operating expenses, while other income (expense), net for the six months ended June 30, 2021 was comprised of \$8 thousand of foreign currency transaction losses, and \$11 thousand of other non-operating expenses.

	Six months ended June 30,					
	2022		2021		\$ Change	Change in % of Pre-tax Income
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income		
Income tax expense (benefit)	\$ 110	30.2 %	\$ 34	63.0 %	\$ 76	(32.8)%

Income tax expense (benefit) reflects statutory tax rates in the jurisdictions in which we operate adjusted for permanent book/tax differences. Our effective tax rate is directly affected by the relative proportions of earnings and losses in the jurisdictions in which we operate.

Liquidity and Capital Resources

Cash requirements for working capital and capital expenditures have been funded from cash balances on hand, cash generated from operations, and sales of equity securities. As of June 30, 2022, we had cash and cash equivalents of \$4.4 million, working capital of \$12.0 million and no indebtedness. Cash and cash equivalents consist of cash and money market funds. Of the \$4.4 million of cash balances on hand, \$0.9 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.

We have outstanding 200,000 shares of our 8.0% Series A Convertible Preferred Stock that has an aggregate liquidation preference of \$5.0 million, for which we pay, when, as and if declared by our board of directors, monthly cumulative cash dividends at an annual rate of 8.0%, which is equivalent to \$0.16667 per month and \$2.00 per annum per share, based on a per share liquidation preference of \$25.00. Dividends on the Series A Convertible Preferred Stock are payable monthly in arrears on the 15th day of each calendar month. Our board of directors commenced paying dividends on our Series A Convertible Preferred Stock in November 2021, and we expect that our board of directors will continue to declare and pay monthly cash dividends on our Series A Convertible Preferred Stock, subject to the limitations to do so under Nevada law.

We believe that our existing cash and cash equivalents balance will be sufficient to maintain our current operations considering our current financial condition, obligations, 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.

Cash Flow Analysis

Our cash flows from operating, investing and financing activities are summarized as follows:

	Six Months Ended	
	June 30,	
	2022	2021
	(in thousands)	
Net cash provided by operating activities	\$ 28	\$ 234
Net cash used in investing activities	(6,036)	(142)
Net cash used in financing activities	(200)	—

Net Cash Provided By Operating Activities

For the six months ended June 30, 2022, the \$28 thousand of cash provided by operating activities was attributable to net income of \$254 thousand, adjusted for non-cash charges of \$126 thousand, unrealized gains on marketable securities of \$381 thousand, and cash provided by changes in operating assets and liabilities of \$29 thousand.

Accounts receivable decreased from \$1.1 million at December 31, 2021 to \$719 thousand at June 30, 2022 due to higher collections the first half of 2022 compared to the fourth quarter of 2021. Many of our customers pay promptly and accounts receivable is generally related to the most recent shipments. Inventories increased from \$814 thousand at December 31, 2021 to \$1.0 million at June 30, 2022. Inventory balances fluctuate depending on the timing of materials purchases and product shipments. Prepaid expenses and other current assets increased from \$391 thousand at December 31, 2021 to \$475 thousand at June 30, 2022. The balance of our prepaid expenses and other assets fluctuates with the timing of payments of insurance premiums, advances, and estimated income taxes. Accounts payable and accrued liabilities decreased from \$845 thousand at December 31, 2021 to \$660 thousand at June 30, 2022, primarily due to the timing of payment for purchases of materials, compensation accruals, and other outside services.

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For the six months ended June 30, 2021, the \$234 thousand of cash provided by operating activities was attributable to net income of \$20 thousand, adjusted for non-cash charges of \$164 thousand, non-cash gain on forgiveness of PPP loan of \$186 thousand, and cash provided by changes in operating assets and liabilities of \$236 thousand.

Net Cash Used In Investing Activities

Net cash used in investing activities of \$6.0 million for the six months ended June 30, 2022 consisted of purchases of \$6.0 million of marketable securities and \$9 thousand of property, plant, and equipment. Net cash used in investing activities of \$142 thousand for the six months ended June 30, 2021 consisted of purchases of property, plant, and equipment.

Net Used In Financing Activities

Net cash used in financing activities of \$200 thousand for the six months ended June 30, 2022 consisted of payment of dividends on our Series A Convertible Preferred Stock. There was no cash provided by or used in financing activities during the six months ended June 30, 2021.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The phrase “disclosure controls and procedures” refers to controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, or the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, or SEC. Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our chief executive officer, or CEO, and chief financial officer, or CFO, as appropriate to allow timely decision regarding required disclosure.

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 30, 2022, the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our CEO and CFO had concluded that as of June 30, 2022, our disclosure controls and procedures were designed at a reasonable assurance level and were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There was no change in our internal control over financial reporting during the period ended June 30, 2022 that materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

The Company’s internal control over financial reporting includes policies and procedures that (1) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with

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authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. In addition, the design of any system of controls is based in part on certain assumptions about the likelihood of future events, and controls may become inadequate if conditions change. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

PART II: OTHER INFORMATION**Item 1A. Risk Factors**

This Quarterly Report on Form 10-Q contains forward-looking statements, which are subject to a variety of risks and uncertainties. Other actual results could differ materially from those anticipated in those forward-looking statements as a result of various factors, including those set forth in the risk factors relating to our business and common stock contained in Item 1A of our Annual Report on Form 10-K filed with the SEC on March 29, 2022. There have been no material changes to such risk factors during the three months ended June 30, 2022.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	Articles of Incorporation of the Registrant	10	000-21858	3.1	February 17, 2016	
3.2	Certificate of Designations of Series A Preferred Stock	8-K	001-37659	3.1	October 25, 2021	
3.3	Bylaws of the Registrant	10	000-21858	3.2	February 17, 2016	
3.4	Amendment to Bylaws of the Registrant	10	000-21858	3.3	February 17, 2016	
31.1	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X
104	The cover page from Interlink Electronics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in iXBRL (Inline eXtensible Business Reporting Language) and contained in Exhibit 101.					X

* The information in this exhibit is furnished and deemed not filed with the Securities and Exchange Commission for purposes of section 18 of the Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of Interlink Electronics, Inc. under the Securities Act of 1933, as amended, or the Exchange Act of 1934, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 11, 2022

Interlink Electronics, Inc.
(Registrant)

By: /s/ Ryan J. Hoffman

Ryan J. Hoffman

Chief Financial Officer

(Principal Financial and Accounting Officer)

**Certification of Principal Executive Officer
Pursuant To Exchange Act Rules 13a-14(a) and 15d-14(a),
As Adopted Pursuant To
Section 302 of Sarbanes-Oxley Act of 2002**

I, Steven N. Bronson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Interlink Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2022

/s/ Steven N. Bronson
Steven N. Bronson, Chief Executive Officer
(Principal Executive Officer)

**Certification of Principal Financial Officer
Pursuant To Exchange Act Rules 13a-14(a) and 15d-14(a),
As Adopted Pursuant To
Section 302 of Sarbanes-Oxley Act of 2002**

I, Ryan J. Hoffman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Interlink Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2022

/s/ Ryan J. Hoffman

Ryan J. Hoffman, Chief Financial Officer
(Principal Financial and Accounting Officer)

**Certification of Principal Executive Officer and Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), Steven N. Bronson, Chief Executive Officer (Principal Executive Officer) and Ryan J. Hoffman, Chief Financial Officer (Principal Financial and Accounting Officer) of Interlink Electronics, Inc. (the "Company"), hereby certifies that, to the best of his knowledge:

1. Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2022

/s/ Steven N. Bronson

Steven N. Bronson
Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2022

/s/ Ryan J. Hoffman

Ryan J. Hoffman
Chief Financial Officer
(Principal Financial and Accounting Officer)
