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

# FORM 10-Q

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

**For the quarterly period ended March 31, 2021**

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** | **77-0056625** |
| (State or other jurisdiction of incorporation or organization) | (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: **None**

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 x 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 x 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 ¨ | Accelerated filer ¨ |
| Non-accelerated filer x | Smaller reporting company x |
| | 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 x

As of May 6, 2021, the issuer had 6,600,893 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 CONSOLIDAED BALANCE SHEETS
*(unaudited)*

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| | (in thousands, except share amounts) | |
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 6,098 | $ 6,120 |
| Restricted cash | 5 | 5 |
| Accounts receivable, net | 970 | 1,113 |
| Inventories | 881 | 866 |
| Prepaid expenses and other current assets | 337 | 392 |
| Total current assets | 8,291 | 8,496 |
| Property, plant and equipment, net | 364 | 407 |
| Intangible assets, net | 179 | 195 |
| Right-of-use assets | 272 | 334 |
| Deferred tax assets | 548 | 527 |
| Other assets | 64 | 63 |
| Total assets | $ 9,718 | $ 10,022 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Accounts payable | $ 286 | $ 235 |
| Accrued liabilities | 295 | 343 |
| Lease liabilities, current | 195 | 219 |
| PPP loan payable | — | 186 |
| Accrued income taxes | 53 | 59 |
| Total current liabilities | 829 | 1,042 |
| Long term liabilities | | |
| Lease liabilities, long term | 99 | 140 |
| Total long-term liabilities | 99 | 140 |
| Total liabilities | 928 | 1,182 |
| Commitments and contingencies (Note 9) | | |
| Stockholders' equity | | |
| Preferred stock, $0.01 par value: 1,000,000 shares authorized, no shares issued or outstanding | — | — |
| Common stock, $0.001 par value: 30,000,000 shares authorized, 6,600,893 shares issued and outstanding at March 31, 2021, and 6,600,550 shares issued and outstanding at December 31, 2020 | 7 | 7 |
| Additional paid-in-capital | 57,971 | 57,966 |
| Accumulated other comprehensive income | 25 | 37 |
| Accumulated deficit | (49,213) | (49,170) |
| Total stockholders' equity | 8,790 | 8,840 |
| Total liabilities and stockholders' equity | $ 9,718 | $ 10,022 |

See accompanying notes to these unaudited condensed consolidated financial statements.

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

| | Three months ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| | (in thousands, except per share data) | |
| Revenue, net | $ 1,568 | $ 1,691 |
| Cost of revenue | 694 | 732 |
| Gross profit | 874 | 959 |
| Operating expenses: | | |
| Engineering, research and development | 217 | 285 |
| Selling, general and administrative | 717 | 746 |
| Total operating expenses | 934 | 1,031 |
| (Loss) from operations | (60) | (72) |
| Other income (expense): | | |
| Other income (expense), net | 10 | 6 |
| (Loss) before income taxes | (50) | (66) |
| Income tax (benefit) | (7) | (48) |
| Net (loss) | $ (43) | $ (18) |
| Earnings (loss) per share – basic and diluted | $ (0.01) | $ (0.00) |
| Weighted average common shares outstanding – basic and diluted | 6,601 | 6,563 |

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

| | Three months ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| | (in thousands) | |
| Net (loss) | $ (43) | $ (18) |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | (12) | (20) |
| Comprehensive (loss) | $ (55) | $ (38) |

See accompanying notes to these unaudited condensed consolidated financial statements.

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

| | Three months ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net (loss) | $ (43) | $ (18) |
| Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 71 | 73 |
| Stock-based compensation | 5 | 19 |
| Amortization of right-of-use assets | 60 | 50 |
| Gain on forgiveness of PPP loan | (186) | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 143 | 11 |
| Inventories | (20) | 101 |
| Prepaid expenses and other assets | 55 | 60 |
| Accounts payable | 53 | 45 |
| Accrued liabilities | (48) | (20) |
| Accrued income taxes | (6) | 7 |
| Deferred taxes | (20) | — |
| Lease liabilities | (65) | (52) |
| Deferred revenue | — | (13) |
| Net cash provided by (used in) operating activities | (1) | 263 |
| Cash flows from investing activities: | | |
| Property, plant and equipment | (12) | — |
| Intangible assets | — | (34) |
| Net cash used in investing activities | (12) | (34) |
| Net cash provided by financing activities | — | — |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (9) | (20) |
| Net increase (decrease) in cash and cash equivalents | (22) | 209 |
| Cash, cash equivalents and restricted cash, beginning of period | 6,125 | 5,844 |
| Cash, cash equivalents and restricted cash, end of period | $ 6,103 | $ 6,053 |
| Reconciliation of cash, cash equivalents and restricted cash, end of period: | | |
| Cash and cash equivalents, end of period | $ 6,098 | $ 6,021 |
| Restricted cash, end of period | 5 | 32 |
| Cash, cash equivalents and restricted cash, end of period | $ 6,103 | $ 6,053 |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid | $ 6 | $ — |
| Interest paid | — | — |

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.

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 are establishing a Global Product Development and Materials Science Center in our existing Camarillo footprint, which we expect to be operational in May 2021. This facility will have a state-of-the-art printed electronics development laboratory as well as materials science lab. Our engineering team will be based in this center where we will work with our US and global customers on developing, engineering, prototyping and implementing our advanced HMI solutions. We also maintain a small embedded software and Internet-of-Things ("IoT") application development center in Singapore. We manufacture all our products in our printed electronics manufacturing facility in Shenzhen, China, which has been in operation since 2006. In addition, we maintain a global distribution and logistics center in Hong Kong, a technical sales office in Japan, and several manufacturer representatives and distributors in strategic locations in our key markets, all of which allows us to support our global customer base. We sell our products in a wide range of markets, including consumer electronics, automotive, industrial and medical. Our customers are some of the world's largest companies and most recognizable brands.

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

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

### Fiscal Year

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

### Basis of Presentation

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

The accompanying unaudited interim consolidated financial statements for the Company and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting. Accordingly, certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments and the elimination of intra-entity accounts) considered necessary for a fair presentation of all periods presented. The results of the Company's operations for any interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in our Annual Report on Form 10-K, which was filed the Securities and Exchange Commission, or SEC, on March 17, 2021.

**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**

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

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

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

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

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

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

**Warranty**

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

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 product revenues. Costs incurred for shipping and handling are included in cost of revenues.

**Engineering, Research and Development Costs**

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

**Marketing Costs**

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

**Stock-Based Compensation**

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

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

**Other Income, Net**

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

**Income Taxes**

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

**INTERLINK ELECTRONICS, INC.**

**Notes to Condensed Consolidated Financial Statements - continued**
*(unaudited)*

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

**Foreign Currency Translation**

The functional currency of our Chinese subsidiary is the Chinese Yuan Renminbi. The functional currency for our Hong Kong and Singapore subsidiaries is the United States dollar. However, our Hong Kong and Singapore subsidiaries also transact business in their local currency. Therefore, assets and liabilities are translated into United States dollars at the exchange rate in effect on the balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the respective periods. Foreign currency transaction and translation gains and losses are included in results of operations.

**Segment Reporting**

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

**Comprehensive Income**

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

**Earnings per Share**

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

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

**Leases**

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

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

**INTERLINK ELECTRONICS, INC.**

**Notes to Condensed Consolidated Financial Statements - continued**
*(unaudited)*

**Risk and Uncertainties**

Our future results of operations involve a number of risks and uncertainties. Factors that could affect our business or future results and cause actual results to vary materially from historical results include, but are not limited to, the rapid change in our industry; problems with the performance, reliability or quality of our products; loss of customers; impacts of doing business internationally, including foreign currency fluctuations; potential shortages of the supplies we use to manufacture our products; disruptions in our manufacturing facilities; changes in environmental directives impacting our manufacturing process or product lines; the development of new proprietary technology and the enforcement of intellectual property rights by or against us; our ability to attract and retain qualified employees; and our ability to raise additional capital.

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

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

**Fair Value Measurements**

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

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

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

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

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

**Recently Issued Accounting Pronouncements**

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**

The Company has evaluated subsequent events through May 6, 2021, being the date these condensed consolidated financial statements were issued.

**INTERLINK ELECTRONICS, INC.**

**Notes to Condensed Consolidated Financial Statements - continued**
*(unaudited)*

**NOTE 2 – DETAILS OF CERTAIN FINANCIAL STATEMENT COMPONENTS**

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

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| | (in thousands) | |
| **Inventories** | | |
| Raw materials | $ 555 | $ 520 |
| Work-in-process | 229 | 246 |
| Finished goods | 97 | 100 |
| Total inventories | $ 881 | $ 866 |

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

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| **Property, plant and equipment, net** | (in thousands) | |
| Furniture, machinery and equipment | $ 1,661 | $ 1,662 |
| Leasehold improvements | 544 | 538 |
| | 2,205 | 2,200 |
| Less: accumulated depreciation | (1,841) | (1,793) |
| Total property, plant and equipment, net | $ 364 | $ 407 |

Depreciation expense totaled $54 thousand and $59 thousand for the three months ended March 31, 2021 and 2020, respectively.

Intangible assets, net consisted of the following:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| | (in thousands) | |
| **Intangible assets, net** | | |
| Patents and trademarks | $ 658 | $ 658 |
| Less: accumulated amortization | (479) | (463) |
| Total intangible assets, net | $ 179 | $ 195 |

Amortization expense totaled $17 thousand and $13 thousand for the three months ended March 31, 2021 and 2020, respectively. Future amortization expense on existing intangible assets over the next five years is as follows:

| **Years ending December 31,** | **(in thousands)** |
|---|---|
| 2021 (remainder of year) | $ 49 |
| 2022 | 54 |
| 2023 | 42 |
| 2024 | 27 |
| 2025 | 7 |
| Thereafter | — |
| | $ 179 |

**INTERLINK ELECTRONICS, INC.**

**Notes to Condensed Consolidated Financial Statements - continued**
*(unaudited)*

Accrued liabilities consisted of the following:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| | (in thousands) | |
| **Accrued liabilities** | | |
| Accrued warranty | $ 7 | $ 7 |
| Accrued wages and benefits | 138 | 180 |
| Accrued vacation | 103 | 110 |
| Accrued other | 47 | 46 |
| Total accrued liabilities | $ 295 | $ 343 |

**NOTE 3 – STOCK-BASED COMPENSATION**

Under the terms of our 2016 Omnibus Incentive Plan (the “2016 Plan”), officers and key employees could be granted restricted stock units, as well as non-qualified or incentive stock options, at the discretion of the Compensation Committee of the Board of Directors.

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

As of and for the period ended March 31, 2021, there were no stock-based compensation awards outstanding.

**NOTE 4 – EARNINGS PER SHARE**

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| | (in thousands, except per share data) | |
| Net income (loss) | $ (43) | $ (18) |
| Weighted average outstanding shares of common stock | 6,601 | 6,563 |
| Dilutive potential common shares from stock options and restricted stock units | — | 35 |
| Common stock and common stock equivalents | 6,601 | 6,598 |
| Earnings (loss) per share, basic and diluted | $ (0.01) | $ (0.00) |
| Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation | — | 6 |

**INTERLINK ELECTRONICS, INC.**

**Notes to Condensed Consolidated Financial Statements - continued**
*(unaudited)*

**NOTE 5 – SIGNIFICANT CUSTOMERS, CONCENTRATION OF CREDIT RISK AND GEOGRAPHIC INFORMATION**

We manage and operate our business through one operating segment.

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

| | Three months ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Customer A | 29% | 11% |
| Customer B | 17% | 10% |
| Customer C | *% | 24% |

*  Less than 10% of total net revenues

Net revenues by geographic area are as follows:

| | Three months ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| | (in thousands) | |
| United States | $ 270 | $ 742 |
| Asia and Middle East | 1,112 | 771 |
| Europe and other | 186 | 178 |
| Revenue, net | $ 1,568 | $ 1,691 |

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 March 31, 2021, two customers accounted for 46% and 12% of total accounts receivable, respectively. At December 31, 2020, two customers accounted for 47% and 22% of total accounts receivable, respectively. Our allowance for doubtful accounts was $0 at both March 31, 2021 and December 31, 2020.

Our long-lived assets were geographically located as follows:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| | (in thousands) | |
| United States | $ 1,154 | $ 1,194 |
| Asia | 273 | 332 |
| Total long-lived assets | $ 1,427 | $ 1,526 |

**INTERLINK ELECTRONICS, INC.**

**Notes to Condensed Consolidated Financial Statements - continued**
*(unaudited)*

**NOTE 6 - RELATED PARTY TRANSACTIONS**

***Qualstar Corporation (OTCM: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 and Chief Executive Officer and 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 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. 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 are as follows:

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Due from Qualstar | Due to Qualstar | Due from Qualstar | Due to Qualstar |
| | (in thousands) | | | |
| Balance at January 1, | $ 52 | $ 34 | $ 24 | $ 12 |
| Billed (or accrued) to Qualstar by Interlink | 208 | — | 128 | — |
| Paid by Qualstar to Interlink | (145) | — | (151) | — |
| Billed (or accrued) to Interlink by Qualstar | — | 31 | — | 33 |
| Paid by Interlink to Qualstar | — | (58) | — | (38) |
| Balance at March 31, | $ 115 | $ 7 | $ 1 | $ 7 |

***BKF Capital Group (OTCM: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. BKF Capital, together with Mr. Bronson, has a controlling interest in Interlink. We have a facilities agreement with BKF Capital to allow BKF Capital to use of 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. 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. For the periods ended March 31, 2021 and 2020, BKF Capital paid Interlink $2 thousand and $0, respectively pursuant to these arrangements. For the periods ended March 31, 2021 and 2020, Interlink paid BKF Capital $0 pursuant to these arrangements.

**NOTE 7 – INCOME TAXES**

Income tax benefit as a percentage of income before income taxes was 14.0% for the three months ended March 31, 2021 versus tax expense of 72.7% for the comparable period in the prior year. Our income tax expense is primarily impacted by the mix of domestic and foreign pre-tax earnings, as well as our ability to utilize prior net operating loss carryovers ("NOLs").

The Company experienced an ownership change under IRC Section 382 in February 2010. In general, a Section 382 ownership change occurs if there is a cumulative change in our ownership by "5% shareholders" (as defined in the Internal Revenue Code of 1986, as amended) that exceeds 50 percentage points over a rolling three-year period. An ownership change generally affects the rate at which NOLs and potential other deferred tax assets are permitted to offset future taxable income. Certain state jurisdictions within which we operate contain similar provisions and limitations. All of the remaining federal and state NOLs as of March 31, 2021 are subject to annual limitations due to the February 2010 ownership change.

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

INTERLINK ELECTRONICS, INC.

**Notes to Condensed Consolidated Financial Statements - continued**
*(unaudited)*

**NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN**

During the second quarter of 2020, the Company received a loan from Silicon Valley Bank in the aggregate principal amount of $186 thousand pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The loan was evidenced by a promissory note, dated April 21, 2020, issued by us to the lender, which was scheduled to mature on April 20, 2022, and bore interest at a rate of 1.00% per annum. Proceeds from the loan were used to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses, in accordance with the PPP. Under the terms of the PPP, up to the entire amount of principal and accrued interest may be forgiven to the extent loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP. The full amount of the loan principal and interest was forgiven in February 2021. As there is currently no authoritative guidance with GAAP for accounting for a loan forgivable by a government entity, the Company elected to account for the loan forgiveness by analogy to International Accounting Standard 20, *Accounting for Government Grants and Disclosure of Government Assistance*, for which the forgiveness was recorded as contra-expense within selling, general and administrative expense, where the substantial majority of the Company's corresponding payroll and operating expenses are incurred. Forgiveness of the PPP loan resulted in contra-expense of $186 thousand being recorded in selling, general and administrative expense during the three months ended March 31, 2021.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

**Lease Agreements**

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

The rate implicit in each lease is not readily determinable, and we therefore use our incremental borrowing rate to determine the present value of the lease payments. No new ROU assets were capitalized during the three months ended March 31, 2021 or 2020.

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 March 31, 2021, 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.

In June 2020, the Company entered into a sublease agreement to lease 4,351 square feet of space located in Irvine, California for approximately $5 thousand per month with 3 percent annual increases. The lease term began July 1, 2020 and ends May 31, 2023. The space is used for executive offices, sales, finance and administration.

The Company leases a 14,476 square-foot manufacturing facility and administrative office in Shenzhen, China. In May 2020, the Company renewed this lease for the period June 1, 2020 through May 31, 2022 for approximately $7 thousand per month through May 31, 2021 and increasing to approximately $8 thousand per month through May 31, 2022.

The Company leases a 4,544 square-foot engineering and administrative office in Singapore for approximately $10 thousand per month. This lease term ends July 2021.

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

The Company leases a 500 square-foot sales office in Tokyo, Japan for approximately $1 thousand per month. This lease term ends

November 2022.

As of March 31, 2021, the Company had current and long-term lease liabilities of $195 thousand and $99 thousand, respectively, and right-of-use assets of $272 thousand. As of December 31, 2020, the Company had current and long-term lease liabilities of $219 thousand and $140 thousand, respectively, and right of use assets of $334 thousand. Future imputed interest as of March 31, 2021 totaled $17 thousand. The weighted average remaining lease term of the Company's leases as of March 31, 2021 is 1.2 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)** |
|---|---|
| 2021 (remainder of year) | $ 165 |
| 2022 | 117 |
| 2023 | 29 |
| 2024 | — |
| 2025 | — |
| Thereafter | — |
| Total undiscounted future non-cancelable minimum lease payments | 311 |
| Less: imputed interest | (17) |
| Present value of lease liabilities | $ 294 |

**INTERLINK ELECTRONICS, INC.**

**Notes to Condensed Consolidated Financial Statements - continued**
*(unaudited)*

During the three months ended March 31, 2021, we recognized approximately $82 thousand, in operating lease costs. Operating lease costs of $30 thousand are included in cost of revenue, and $52 thousand are included in operating expenses in our consolidated statements of operations for the three months ended March 31, 2021.

During the three months ended March 31, 2020, we recognized approximately $59 thousand, in operating lease costs. Operating lease costs of $24 thousand are included in cost of revenue, and $35 thousand are included in operating expenses in our consolidated statements of operations for the three months ended March 31, 2020.

**Litigation**

We are not party to any legal proceedings as of March 31, 2021. We are occasionally involved in legal proceedings in the ordinary course of business, including actions against us which assert or may assert claims or seek to impose fines and penalties in substantial amounts. Related legal defense costs are expensed as incurred.

**Warranties**

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

**Intellectual Property Indemnities**

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

**Director and Officer Indemnities and Contractual Guarantees**

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

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

**INTERLINK ELECTRONICS, INC.**

**Notes to Condensed Consolidated Financial Statements - continued**
*(unaudited)*

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

**Guarantees and Indemnities**

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

**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, biological monitoring and others.

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

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

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

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

Interlink serves our world-wide customer base from our corporate headquarters in Irvine, California (Orange County area) and from our facility in Camarillo, California (Ventura County). We plan to establish a Global Product Development and Materials Science Center in our existing Camarillo footprint, which we expect to be operational in May 2021. This facility will have a state-of-the-art printed electronics development laboratory as well as materials science lab. Our engineering team will be based in this center where we will work with our U.S. and global customers on developing, engineering, prototyping and implementing our advanced HMI solutions. We also maintain a small embedded software and IoT application development center in Singapore. We manufacture all our products in our printed electronics manufacturing facility in Shenzhen, China, which has been in operation since 2006. In addition, we maintain a global distribution and logistics center in Hong Kong, a technical sales office in Japan, and several manufacturer representatives and distributors in strategic locations in our key markets, all of which allows us to support our global customer base. We sell our products in a wide range of markets, including consumer electronics, automotive, industrial and medical. Our customers are some of the world's largest companies and most recognizable brands.

**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 17, 2021. 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**

Recent accounting pronouncements are detailed in Note 1 to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**Results of Operations**

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

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | $ | % | $ | % |
| | (in thousands, except percentages) | | | |
| Revenue, net | $ 1,568 | 100.0% | $ 1,691 | 100.0% |
| Cost of revenue | 694 | 44.3% | 732 | 43.3% |
| Gross profit | 874 | 55.7% | 959 | 56.7% |
| Operating expenses: | | | | |
| Engineering, research and development | 217 | 13.8% | 285 | 16.9% |
| Selling, general and administrative | 717 | 45.7% | 746 | 44.1% |
| Total operating expenses | 934 | 59.6% | 1,031 | 61.0% |
| Income (loss) from operations | (60) | (3.8)% | (72) | (4.3)% |
| Other income (expense): | | | | |
| Other income (expense), net | 10 | 0.6% | 6 | 0.4% |
| Income (loss) before income taxes | (50) | (3.2)% | (66) | (3.9)% |
| Income tax expense (benefit) | (7) | (0.4)% | (48) | (2.8)% |
| Net income (loss) | $ (43) | (2.7)% | $ (18) | (1.1)% |

***Comparison of Three Months Ended March 31, 2021 and 2020***

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

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | 2020 | | | |
| | Amount | % of Net Revenue | Amount | % of Net Revenue | $ Change | % Change |
| | (in thousands, except percentages) | | | | | |
| Industrial | $ 538 | 34.3% | $ 392 | 23.2% | $ 146 | 37.2% |
| Medical | 43 | 2.7% | 404 | 23.9% | (361) | (89.4)% |
| Consumer | 449 | 28.6% | 187 | 11.1% | 262 | 140.1% |
| Standard | 538 | 34.3% | 708 | 41.8% | (170) | (24.0)% |
| Revenue, net | $ 1,568 | 100.0% | $ 1,691 | 100.0% | $ (123) | (7.3)% |

We sell our custom products into the industrial, medical and consumer markets. We previously sold custom products in the automotive market and continue to pursue opportunities in that sector. 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.

Revenues were up in the three months ended March 31, 2021 compared to the three months ended March 31, 2020 in the industrial and consumer markets, and were down in the medical markets and for our standard products. The increase in revenue from our industrial market customers is 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 consumer market customers is due to an increase in purchase levels on corresponding products and programs. The decrease in revenue from our medical market customers is primarily due to significant reduction of shipments to our largest medical customer, which is subject to delays in installing devices that use our products in hospitals due to COVID-19 restrictions. The decrease in revenue on our standard products is due to cyclical purchasing pattern of some of our larger customers who took delivery of bulk quantities during 2020. In the normal cycle, some of our larger customers purchase in bulk quantities and absorption of these products can straddle several financial reporting periods. 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 March 31, 2021 Amount | 2021 % of Net Revenue | 2020 Amount | 2020 % of Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | (in thousands, except percentages) | | | | | |
| Gross profit | $ 874 | 55.7% | $ 959 | 56.7% | $ (85) | (8.9)% |

Our gross profit and gross margin percentage are impacted by various factors including product mix, customer mix, volume, material costs, manufacturing efficiencies, facilities costs, compensation costs and provisions for excess and obsolete inventories. The decrease in gross profit for the three months ended March 31, 2021 as compared with the prior year was due to the decrease in revenues, while gross margin percentage was substantially unchanged.

| | Three months ended March 31, 2021 Amount | 2021 % of Net Revenue | 2020 Amount | 2020 % of Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | (in thousands, except percentages) | | | | | |
| Engineering, research and development | $ 217 | 13.8% | $ 285 | 16.9% | $ (68) | (23.9)% |

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

Our engineering and R&D costs were down for the three months ended March 31, 2021 when compared with the prior year because we reduced costs and headcount at our Singapore R&D center during 2020 as part of the transfer of the lab to Camarillo, California.

| | Three months ended March31, 2021 Amount | 2021 % of Net Revenue | 2020 Amount | 2020 % of Net Revenue | Change | % Change |
|---|---|---|---|---|---|---|
| | (in thousands, except percentages) | | | | | |
| Selling, general and administrative | $ 717 | 45.7% | $ 746 | 44.1% | $ (29) | (3.9)% |

Selling, general and administrative expenses consist primarily of compensation expenses, legal and other professional fees, facilities expenses and communication expenses. Selling, general and administrative expenses decreased during the three months ended March 31, 2021 as compared with the prior year due to recording forgiveness of the $186 thousand PPP loan, offset by increases in sales, marketing, finance and administrative personnel, and an increase in legal costs and filing fees associated with relisting with Nasdaq during the quarter.

| | Three months ended March 31, 2021 Amount | 2021 % of Pre-tax Income | 2020 Amount | 2020 % of Pre-tax Income | Change | % Change |
|---|---|---|---|---|---|---|
| | (in thousands, except percentages) | | | | | |
| Income tax expense (benefit) | $ (7) | 14.0% | $ (48) | (72.7)% | $ 41 | nm % |

Income tax expense (benefit) reflects statutory tax rates in the jurisdictions that we operate adjusted for normal book/tax differences. The tax benefit for the three month periods ended March 31, 2021 and 2020 was a result of operating losses for the quarters.

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

**Liquidity and Capital Resources**

Cash requirements for working capital and capital expenditures have been funded from cash balances on hand and cash generated from operations. As of March 31, 2021, we had cash and cash equivalents of $6.1 million, working capital of $7.5 million and no indebtedness. Cash and cash equivalents consist of cash and money market funds. We did not have any short-term or long-term investments as of March 31, 2021. Of the $6.1 million of cash balances on hand, $1.7 million was held by foreign subsidiaries. If these funds are needed for our operations in the U.S., we have several methods to repatriate without significant tax effects, including repayment of intercompany loans or distributions of previously taxed income. Other distributions may require us to incur U.S. or foreign taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate cash to fund our U.S. operations.

During the second quarter of 2020, the Company received a loan from Silicon Valley Bank in the aggregate principal amount of $186 thousand pursuant to the Paycheck Protection Program (the “PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The loan was evidenced by a promissory note, dated April 21, 2020, issued by us to the lender, which was scheduled to mature on April 20, 2022, and bore interest at a rate of 1.00% per annum. Proceeds from the loan were used to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses, in accordance with the PPP. Under the terms of the PPP, up to the entire amount of principal and accrued interest was eligible to be forgiven to the extent loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP. The full amount of the loan principal and interest was forgiven in February 2021.

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:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| | (in thousands) | |
| Net cash provided by (used in) operating activities | $ (1) | $ 263 |
| Net cash used in investing activities | (12) | (34) |
| Net cash provided by financing activities | — | — |

*Net Cash Provided by Operating Activities*

For the three months ended March 31, 2021, the $1 thousand of cash used in operating activities was attributable to net loss of $43 thousand, adjusted for non-cash charges of $136 thousand, non-cash gain on forgiveness of PPP loan of $186 thousand, and cash provided by changes in operating assets and liabilities of $92 thousand.

For the three months ended March 31, 2020, the $263 thousand of cash provided by operating activities was attributable to net loss of $18 thousand, adjusted for non-cash charges of $142 thousand, and cash provided by changes in operating assets and liabilities of $139 thousand.

Accounts receivable decreased from $1,113 thousand at December 31, 2020 to $970 thousand at March 31, 2021 due to lower shipments during the first quarter of 2021 compared to the fourth quarter of 2020. Many of our customers pay promptly and accounts receivable is generally related to the most recent shipments. Inventories increased from $866 thousand at December 31, 2020 to $881 thousand at March 31, 2021. Inventory balances fluctuate depending on the timing of materials purchases and product shipments. Prepaid expenses and other current assets decreased from $392 thousand at December 31, 2020 to $337 thousand at March 31, 2021, and accounts payable and accrued liabilities increased from $578 thousand at December 31, 2020 to $581 thousand at March 31, 2021, primarily due to the timing of payment for purchases of materials and other services provided.

*Net Cash Used in Investing Activities*

Net cash used in investing activities of $12 thousand for the three months ended March 31, 2021 consisted purchases of property, plant, and equipment. Net cash used in investing activities of $34 thousand for the three months ended March 31, 2020 consisted of legal costs related to securing patents on new products and processes developed thereunder.

*Net Cash Provided by Financing Activities*

There was no cash provided by or used in financing activities during the three months ended March 31, 2021 and 2020.

**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 March 31, 2021, 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 March 31, 2021, 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 March 31, 2021 that materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

**Limitations on Effectiveness of Controls and Procedures**

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

## 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 17, 2021. There have been no material changes to such risk factors during the three months ended March 31, 2021.

### 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 | Bylaws of the Registrant | 10 | 000-21858 | 3.2 | February 17, 2016 | |
| 3.3 | 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 |

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* 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: May 6, 2021

**Interlink Electronics, Inc.**
**(Registrant)**

By: /s/ Ryan J. Hoffman
Ryan J. Hoffman
Chief Financial Officer
*(Principal Financial and Accounting Officer)*