INTERLINK ELECTRONICS INC
Form 10-Q
August 12, 2016
Table of Contents

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, 2016

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.)

31248 Oak Crest Drive, Suite 110
Westlake Village, California 91361

(Address of principal executive offices, zip code)

(805) 484-8855

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if smaller reporting company)	Smaller reporting company

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, 2016, the issuer had 7,328,055 shares of common stock issued and outstanding.

Table of Contents

INTERLINK ELECTRONICS, INC.

TABLE OF CONTENTS

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1.Financial Statements

INTERLINK ELECTRONICS, INC.

Condensed Consolidated Balance Sheets

(unaudited)

	June 30, 2016	December 31, 2015
	(in thousands, except par value)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,404	$ 4,435
Accounts receivable, net	1,735	1,599
Inventories	1,285	1,015
Prepaid expenses and other current assets	208	298
Total current assets	8,632	7,347
Property, plant and equipment, net	312	176
Intangibles, net	9	13
Other assets	61	26
Total assets	$ 9,014	$ 7,562
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 604	$ 484
Accrued liabilities	286	304
Deferred revenue, current	71	71
Total current liabilities	961	859
Deferred revenue, long term	13	40
Total liabilities	974	899
Commitments and contingencies (see note 9)		
Stockholders' equity		
Preferred stock, $0.01 par value: 1,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.001 par value: 30,000 shares authorized, 7,326 and 7,326 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	7	7
Additional paid-in-capital	60,294	60,251
Accumulated deficit	(52,261)	(53,595)

Total stockholders' equity	8,040	6,663
Total liabilities and stockholders' equity	$ 9,014	$ 7,562

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

Table of Contents

INTERLINK ELECTRONICS, INC.

Condensed Consolidated Statements of Income

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(in thousands, except per share data)		(in thousands, except per share data)	
Revenue, net	$ 3,054	$ 2,841	$ 5,859	$ 5,098
Cost of revenue	1,211	1,387	2,345	2,503
Gross profit	1,843	1,454	3,514	2,595
Operating expenses:				
Engineering, research and development	174	257	315	418
Selling, general and administrative	755	746	1,667	1,475
Total operating expenses	929	1,003	1,982	1,893
Income from operations	914	451	1,532	702
Other income:				
Other income, net	15	30	29	42
Income before income tax expense (benefit)	929	481	1,561	744
Income tax expense (benefit)	180	-	206	(11)
Net income	$ 749	$ 481	$ 1,355	$ 755
Earnings per share: basic and diluted	$ 0.10	$ 0.06	$ 0.18	$ 0.10
Weighted average common shares outstanding - basic	7,326	7,324	7,326	7,324
Weighted average common shares outstanding - diluted	7,406	7,324	7,400	7,324

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

Table of Contents

INTERLINK ELECTRONICS, INC.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Six months ended June 30, 2016	2015
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 1,355	$ 755
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	34	51
Stock based compensation	43	27
Changes in operating assets and liabilities:		
Accounts receivable	(136)	(309)
Inventories	(270)	86
Prepaid expenses and other current assets	90	49
Other assets	(35)	1
Accounts payable	120	(95)
Accrued liabilities	(18)	(19)
Deferred revenue	(27)	(3)
Net cash provided by operations	1,156	543
Cash flows from investing activities:		
Purchases of property and equipment	(166)	(41)
Net cash used in investing activities	(166)	(41)
Effect of exchange rate changes on cash and cash equivalents	(21)	(1)
Increase in cash and cash equivalents	969	501
Cash and cash equivalents, beginning of period	4,435	2,386
Cash and cash equivalents, end of period	$ 5,404	$ 2,887
Supplemental disclosure of non-cash activities:		
Income taxes paid	$ 22	$ 1

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

Table of Contents

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. 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 3 dimensional user inputs. Our principal executive office is located at 31248 Oak Crest Drive, Suite 110, Westlake Village, California 91361 and our telephone number is (805) 484-8855. Our website address is www.interlinkelectronics.com.

Fiscal Year

Our fiscal year is January 1 through December 31.

Basis of Presentation

The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. They do not include all of the information and footnotes required by GAAP for complete financial statements. The December 31, 2015 balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required for annual periods. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2015, included in our Annual Report filed with the SEC on March 25, 2016.

The condensed consolidated financial statements included herein are unaudited. However, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly our consolidated financial position and our consolidated results of operations and consolidated cash flows. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for future quarters or the full year.

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

Share and per share amounts and weighted-average grant date fair value reflect the two-for-one stock split effected on February 24, 2015 as well as the stock dividend paid on April 1, 2016 of one quarter of one share of common stock for every one share of common stock issued and outstanding on March 29, 2016. The number of authorized shares, common and preferred, and par values reflect the number of authorized shares and par values subsequent to increases to our common and preferred stock approved by the Board of Directors on February 24, 2015 and March 11, 2016, respectively.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and disclosures made in the accompanying notes to the condensed consolidated financial statements. Management regularly evaluates estimates and assumptions related to revenue recognitions, allowances for doubtful accounts, warranty reserves, inventory valuations reserves, stock-based compensation, purchased intangible asset valuations and useful

Table of Contents

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued

(unaudited)

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.

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.

Recent Accounting Pronouncements

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

In June 2014, the FASB issued ASU No. 2014-12, “Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)”, effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015. This update is intended to resolve the diverse accounting treatment of share-based payment awards whose performance target may be achieved after the requisite service period. An entity may apply the standards (1) prospectively to all share-based payment awards that are granted or modified on or after the effective date, or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Earlier application is permitted. Effective January 1, 2016, the Company adopted ASU No. 2014-12 and there was no impact to our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements – Going Concern (Sub-Topic 205-40)”, which provides guidance in GAAP about management’s responsibility to evaluate whether there is

Table of Contents

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued

(unaudited)

substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This update is effective for annual periods ending after December 15, 2016 and for annual periods and interim periods thereafter. Early application is permitted. The Company has not yet assessed the impact of ASU 2014-15 on its consolidated financial statements.

In February 2015, the Financial Accounts Standards Board, or FASB, issued ASU 2015-02, "Consolidation (Topic 810)," to change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The standard is effective for fiscal and interim periods within those fiscal years, beginning after December 15, 2015. Effective January 1, 2016, the Company adopted ASU No. 2015-12 and it had no impact on our consolidated financial statments.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which provides new guidance regarding the measurement of inventory. The new guidance requires most inventory to be measured at the lower of cost or net realizable value. The standard defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The standard applies to companies other than those that measure inventory using last-in, first-out ("LIFO") or the retail inventory method. The standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. Early application is permitted. The Company has not yet evaluated the impact of the adoption of this accounting standard on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes," which requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The ASU may be applied prospectively or retrospectively. The Company adopted the ASU No. 2015-17 on January 1, 2016, and it had no impact on our consolidated financial statements.

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

NOTE 2-INVENTORIES

Inventories consist of the following:

Inventories	June 30, 2016	December 31, 2015
	(in thousands)	
Raw materials	$ 688	$ 681
Work-in-process	365	172
Finished goods	232	162
Total inventories	$ 1,285	$ 1,015

NOTE 3-STOCKHOLDERS' EQUITY

On February 24, 2015, we completed a two (2) share for one (1) share forward stock split of our common stock, and on April 1, 2016, we completed a stock dividend of one quarter of one share of common stock for every one share of

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued

(unaudited)

common stock outstanding. All share amounts, exercise prices, and weighted-average grant date fair value for our common stock, stock options and restricted stock reflect the stock splits.

In conjunction with the February 24, 2015 stock split, the board of directors authorized the adoption of an amendment to the Articles of Incorporation to increase the Company's authorized Common Stock from 15,000,000 shares to 30,000,000 shares. The number of authorized shares, common and preferred, and par values in the accompanying unaudited condensed consolidated financial statements have been recast to reflect the number of authorized shares and par values on a post-split basis.

NOTE 4-STOCK BASED COMPENSATION

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

Share amounts and weighted-average grant date fair values reflect the two-for-one stock split effected on February 24, 2015 and the one quarter of one share of common stock for every one share of common stock dividend effected on April 1, 2016.

Restricted Stock Units

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

Activity for our restricted stock units is as follows:

	Restricted Stock Units (in thousands)	Weighted-Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Restricted stock units, December 31, 2015	161	$ 3.16	3.30	$ 921
Awarded	—	$ —		
Released	—	$ —		
Forfeited	(6)	$ 6.00		
Restricted stock units, June 30, 2016	155	$ 3.05	2.72	$ 1,826

The aggregate intrinsic values in the preceding table for the restricted stock units outstanding represent the total pretax intrinsic value, based on our closing stock price of $11.78 and $5.71 as of June 30, 2016 and December 31, 2015, respectively. No restricted stock units vested in the six months ended June 30, 2016 or 2015.

Stock Options

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

Table of Contents

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued

(unaudited)

	Shares (in thousands)	Weighted Average Exercise Price		Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)	
Options outstanding, December 31, 2015	18	$	4.70	1.11	$	22
Granted	—	$	—			
Exercised	—	$	—			
Cancelled or expired	(6)	$	6.32			
Options outstanding, June 30, 2016	12	$	3.80	1.12	$	93
Options exercisable, June 30, 2016	12	$	3.80	1.12	$	93

This intrinsic value represents the excess of the fair market value of our common stock on the date of exercise over the exercise price of such options. The aggregate intrinsic values in the preceding table for the options outstanding represent the total pretax intrinsic value, based on our closing stock price of $11.78 and $5.71 as of June 30, 2016 and December 31, respectively, which would have been received by the option holders had those option holders exercised their in-the-money options as of those dates.

The fair value of stock-based option awards is estimated at the date of grant using the Black-Scholes option pricing model; however, the value calculated using an option pricing model may not be indicative of the fair value observed in a willing buyer/willing seller market transaction, or actually realized by the employee upon exercise. Expected volatility used to estimate the fair value of options granted is based on the historical volatility of our common stock. The risk-free interest rate is based on the United States Treasury constant maturity rate for the expected life of the stock option. The expected life of a stock award is the period of time that the award is expected to be outstanding. We have not granted options since 2008.

The following table provides additional information in regards to options outstanding as of June 30, 2016:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding (in thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable (in thousands)	Weighted Average Exercise Price
$ — - 1.56	4	1.77	$ 1.56	4	$ 1.56
$ 4.80 - 5.30	8	0.79	$ 4.97	8	$ 4.97
	12	1.12	$ 3.80	12	$ 3.80

NOTE 5-EARNINGS PER SHARE

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

Table of Contents

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued

(unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Net income	749	$ 481	$ 1,355	$ 755
Weighted average outstanding shares of common stock	7,326	7,324	7,326	7,324
Dilutive potential common shares from stock options and restricted stock units	80	-	74	—
Common stock and common stock equivalents	7,406	7,324	7,400	7,324
Earnings per share:				
Earnings per share, basic and diluted	$ 0.10	$ 0.06	$ 0.18	$ 0.10
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation	87	124	93	123

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

We manage and operate our business through one operating segment.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Customer A	20 %	23 %	20 %	20 %
Customer B	14 %	* %	13 %	* %
Customer C	12 %	16 %	11 %	19 %
Customer D	12 %	23 %	10 %	20 %
Customer E	10 %	*	10 %	*

*Less than 10% of total net revenues

Net revenues by geographic area are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
United States	$ 1,913	$ 1,576	$ 3,492	$ 2,872
Asia	632	862	1,317	1,387
Europe and other	509	403	1,050	839
Revenue, net	$ 3,054	$ 2,841	$ 5,859	$ 5,098

Revenues by geographic area are based on the country of shipment. 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.

Table of Contents

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued

(unaudited)

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, 2016, four customers accounted for 24%, 21%, 12% and 12% of total accounts receivable, respectively. At December 31, 2015, four customers accounted for approximately 33%, 19%, 14% and 11% of total accounts receivable, respectively. Our allowance for doubtful accounts was nil and $10,000 as of June 30, 2016 and December 31, 2015, respectively.

Our long-lived assets were geographically located as follows:

	June 30, 2016	December 31, 2015
	(in thousands)	
United States	$ 60	$ 45
Asia	261	144
Total long-lived assets	$ 321	$ 189

NOTE 7-RELATED PARTY TRANSACTIONS

BKF Capital Group - We entered into an agreement, dated March 1, 2015 (the “Agreement”) with BKF Capital Group, Inc. (“BKF”). Pursuant to the Agreement, commencing on March 1, 2015, BKF shall occupy and use one furnished office, telephone and other services, located at our corporate offices. Pursuant to the Agreement, BKF shall pay to the Company a fee of $1,000 per month. BKF paid $3,000 and $4,000 for the three months ended June 30, 2016 and 2015, respectively. BKF paid $6,000 and $4,000 for the six months ended June 30, 2016 and 2015, respectively Steven N. Bronson, our CEO and Chairman, is also the Chairman, CEO and majority shareholder of BKF.

Qualstar Corporation (QBAK)- The Company agreed to reimburse, or be reimbursed by, Qualstar Corporation (“Qualstar”) for our occupation and use of a portion of their Simi Valley manufacturing location and other expenses paid by or on behalf of our Company. Steven N. Bronson, our CEO and Chairman, is also the Chairman and CEO of Qualstar. Transactions with Qualstar are as follows:

	Three months ended June 30,			
	2016		2015	
	Due from Qualstar	Due to Qualstar	Due from Qualstar	Due to Qualstar
	(in thousands)			
Balance at March 31,	$ —	$ 4	$ —	$ 6
Billed to Qualstar by Interlink	4	—	1	—
Paid by Qualstar to Interlink	—	—	—	—
Billed to Interlink by Qualstar	—	9	—	13
Paid by Interlink to Qualstar	—	(10)	—	(15)
Balance at June 30,	$ 4	$ 3	$ 1	$ 4

12

Table of Contents

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued

(unaudited)

	Six months ended June 30, 2016 Due from Qualstar	Due to Qualstar	2015 Due from Qualstar	Due to Qualstar
	(in thousands)			
Balance at January 1,	$ —	$ 6	$ 5	$ 2
Billed to Qualstar by Interlink	6	—	11	—
Paid by Qualstar to Interlink	(2)	—	(15)	—
Billed to Interlink by Qualstar	—	20	—	30
Paid by Interlink to Qualstar	—	(23)	—	(28)
Balance at June 30,	$ 4	$ 3	$ 1	$ 4

NOTE 8-INCOME TAXES

Income tax expense (benefit) as a percentage of income from operations before incomes taxes was 13.2% for the six months ended June 30, 2016 compared to (1.5)% for the comparable period in the prior year. Our income tax expense (benefit) is primarily impacted by domestic and foreign taxes as well as our ability to utilize our NOLs.

During the year ended December 31, 2015 we conducted an IRC Section 382 study to determine if we had experienced an ownership change. The results of the study concluded that the Company experienced an ownership change in February 2010. Of our federal NOL amount as of December 31, 2015, $49.1 million is subject to an annual Section 382 limitation due to the February 2010 ownership change. As of December 31, 2015, the available NOL carryforward is $1.6 million, $2.4 million and $176,000 for federal, state and foreign jurisdictions, respectively. The federal and state NOL carryforward is limited for use by IRC Section 382 at approximately $71,000 per year.

NOTE 9-COMMITMENTS AND CONTINGENCIES

Operating Leases

We lease facilities under non-cancellable operating leases. The leases expire at various dates through fiscal 2020 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 lease payments, including scheduled rent increases are recognized as rent expenses on a straight-line basis over the term of the lease.

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

	Remaining 2016	2017	2018	2019	Thereafter	Total
	(in thousands)					
Operating Leases	$ 128	$ 220	$ 184	$ 187	$ 195	$ 914

Litigation

From time to time, we are 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. We are not currently a party to any legal proceedings that we believe would reasonably be expected to have a material adverse effect on our business, financial condition or results of operation or cash flows.

INTERLINK ELECTRONICS, INC.

Notes to Condensed Consolidated Financial Statements - continued

(unaudited)

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 severance and change in control agreements with certain of our executives. These agreements provide for the payment of specific compensation benefits to such executives upon the termination of their employment with us.

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.

Table of Contents

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 and Section 21E of the Securities Exchange Act of 1934. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "would," "project," "plan," "expect" and similar expressi convey uncertainty of future events or outcomes are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following:

· our future financial and operating results;

· our business strategy;

· our intentions, expectations and beliefs regarding anticipated growth, market penetration and trends in our business;

· our dependence on growth in our customers' businesses;

· the effects of market conditions on our stock price and operating results;

· our ability to maintain our competitive technological advantages against competitors in our industry;

· our ability to timely and effectively adapt our existing technology and have our technology solutions gain market acceptance;

· our ability to introduce new products and bring them to market in a timely manner;

· our ability to maintain, protect and enhance our intellectual property;

· the effects of increased competition in our market and our ability to compete effectively;

· costs associated with defending intellectual property infringement and other claims;

· our expectations concerning our relationships with customers and other third parties;

- our expectations concerning relationships between our customers and their manufacturers;

- the attraction and retention of qualified employees and key personnel;

- future acquisitions of or investments in complementary companies or technologies; and

- our ability to comply with evolving legal standards and regulations, particularly concerning requirements for being a public company and United States export regulations.

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. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Form 10-Q may not occur, and actual results could differ materially and adversely from those anticipated or implied in our forward-looking statements.

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,

Table of Contents

levels of activity, performance or events and circumstances described in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. 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. 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 3 dimensional user inputs. Our disruptive, leading edge human machine interface (HMI) technology platforms are deployed in a wide range of markets including consumer electronics, automotive, industrial, and medical.

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

Interlink Electronics serves our world-wide customer-base from our corporate headquarters in Westlake Village, California (greater Los Angeles area), our global research and development center in Singapore, our printed-electronics manufacturing facility in Shenzhen, China, our global distribution and logistics center in Hong Kong, and technical and sales offices in North Carolina, USA and Japan.

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 31248 Oak Crest Drive, Suite 110, Westlake Village, California 91361 and our telephone number is (805) 484-8855. Our website address is www.interlinkelectronics.com.

Critical Account Policies and Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the condensed consolidated financial statements and accompanying notes to the condensed consolidated financial statements. Actual results could differ significantly from those estimates. We base our estimates on historical experience and on various other assumptions that we believe are reasonable in the circumstances. We regularly discuss with our audit committee the basis of our estimates. These estimates could change under different assumptions or conditions.

We believe that our critical account polices and estimates, as described in our annual Report on Form 10-K for the year ended December 31, 2015, are our most critical accounting policies and are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. There have been no significant changes to these polices during the six months ended June 30, 2016.

Impact of Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements see "Note 1 The Company and its Significant Accounting Policies – Recent Accounting Pronouncements" in the accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

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 June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
	$	%	$	%	$	%	$	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Revenue, net	$ 3,054	100.0 %	$ 2,841	100.0 %	$ 5,859	100.0 %	$ 5,098	100.0 %
Cost of revenue	1,211	39.7 %	1,387	48.8 %	2,345	40.0 %	2,503	49.1 %
Gross profit	1,843	60.3 %	1,454	51.2 %	3,514	60.0 %	2,595	50.9 %
Operating expenses								
Engineering, research and development	174	5.7 %	257	9.0 %	315	5.4 %	418	8.2 %
Selling, general and administrative	755	24.7 %	746	26.3 %	1,667	28.5 %	1,475	28.9 %
Total operating expenses	929	30.4 %	1,003	35.3 %	1,982	33.9 %	1,893	37.1 %
Income from operations	914	29.9 %	451	15.9 %	1,532	26.1 %	702	13.8 %
Other income:								
Other income, net	15	0.5 %	30	1.0 %	29	0.5 %	42	0.8 %
Income before income tax expense (benefit)	929	30.4 %	481	16.9 %	1,561	26.6 %	744	14.6 %
Income tax expense (benefit)	180	5.9 %	—	- %	206	3.5 %	(11)	(0.2) %
Net income	$ 749	24.5 %	$ 481	16.9 %	$ 1,355	23.1 %	$ 755	14.8 %

Results of Operations for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015

Revenue, net by Market is as follows:

Three months ended June 30,			
2016	2015		
Amount	Amount	Change	% Change

		% of Net Revenue			% of Net Revenue				
	(in thousands, except percentages)								
Automotive	$ 920	30.1	%	$ 836	29.4	%	$ 84	10.0	%
Industrial	313	10.2	%	284	10.0	%	29	10.2	%
Medical	361	11.8	%	458	16.1	%	(97)	(21.2)	%
Consumer	367	12.0	%	663	23.3	%	(296)	(44.6)	%
Standard	1,093	35.9	%	600	21.2	%	493	82.2	%
Revenue, net	$ 3,054	100.0	%	$ 2,841	100.0	%	$ 213	7.5	%

We sell our custom products into the following markets: automotive, industrial, medical and consumer. We sell our standard products in many different markets which are often unknown to us at the time of sale. Each market has different product design cycles. Products with longer design cycles often have much longer product life-cycles. Automotive, industrial, and medical products generally have longer design and life-cycles than consumer products. We currently have products with life-cycles that have exceeded twenty years and are ongoing.

The increase in net revenues was driven by increased sales of our custom products in the automotive and industrial markets, partially offset by decreased sales of our custom products into the medical and consumer markets. We also had a significant increase in sales of our standard products. The growth in our custom product sales was driven by increased sales to our current customers for use in ongoing product lines. The decrease in custom medical and consumer market sales was driven primarily by the timing of orders from our current customers in these markets. Standard product sales increased due to an increase in orders from our current customers. 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.

Table of Contents

	Three months ended June 30, 2016			2015						
	Amount	% of Net Revenue		Amount	% of Net Revenue		Change		% Change	
	(in thousands, except percentages)									
Cost of revenue	$ 1,211	39.7	%	$ 1,387	48.8	%	$	(176)	(12.7)	%

Our cost of revenue is impacted by various factors including product mix, volume, material costs, manufacturing efficiencies, facilities costs, compensation costs and any provisions for excess and obsolete inventories. Cost of revenue decreased compared with the same period in the prior year despite our increase in revenues. Cost of revenues decreased as a percentage of revenues primarily due to efficiencies gained, including improved utilization of fixed costs, as revenues increased.

	Three months ended June 30, 2016			2015						
	Amount	% of Net Revenue		Amount	% of Net Revenue		Change		% Change	
	(in thousands, except percentages)									
Engineering, research and development	$ 174	5.7	%	$ 257	9.0	%	$	(83)	(32.3)	%

Product development and research expenses, or R&D, 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 R&D costs decreased as compared to the prior year primarily due to a temporary realignment of R&D staffing. In future periods, we anticipate engineering, research and development costs to continue to surpass prior years as we normalize manufacturing staffing to meet our current production levels and then increase our engineering, research and development staffing to enhance our technology and product offerings. We intend to grow our global research and development center in Singapore substantially over the next five years, including expanding our research and development team by approximately 20% per year, expanding the size of the facility, and investing in additional tools and equipment. On February 24, 2016 we entered into a five-year lease agreement in Singapore and moved in to the new facility in July 2016.

	Three months ended June 30,						
	2016		2015				
	Amount	% of Net Revenue	Amount	% of Net Revenue		Change	% Change
	(in thousands, except percentages)						
Selling, general and administrative	$ 755	24.7 %	$ 746	26.3 %		$ 9	1.2 %

Selling, general and administrative expenses, or SG&A, consist primarily of compensation expenses, legal and other professional fees, facilities expenses and communication expenses. SG&A expenses were consistent with the prior period although lower compensation costs reflected a temporary realignment of our sales and marketing team. We intend to add senior management to the sales and marketing team. This was offset by increased professional fees as a result of our successful efforts to regain active filing status with the Securities and Exchange Commission and our relisting on NASDAQ. We also had an increases in insurance costs.

Table of Contents

Results of Operations for the six months ended June 30, 2016, as compared to the six months ended June 30, 2015

Revenue, net by Market is as follows:

	Six months ended June 30, 2016			2015					
	Amount	% of Net Revenue		Amount	% of Net Revenue		Change	% Change	
	(in thousands, except percentages)								
Automotive	$ 1,726	29.5	%	$ 1,400	27.5	%	$ 326	23.3	%
Industrial	610	10.4	%	520	10.2	%	90	17.3	%
Medical	662	11.3	%	969	19.0	%	(307)	(31.7)	%
Consumer	808	13.8	%	997	19.5	%	(189)	(19.0)	%
Standard	2,053	35.0	%	1,212	23.8	%	841	69.4	%
Revenue, net	$ 5,859	100.0	%	$ 5,098	100.0	%	$ 761	14.9	%

The increase in net revenues was driven by increased sales of our custom products in the automotive, and industrial markets, partially offset by decreased sales of our custom products into the medical and consumer markets. We also had a significant increase in sales of our standard products. The growth in our custom product sales was driven by increased sales to our current customers for use in ongoing product lines. The decrease in custom medical and consumer market sales was driven primarily by the timing of orders from our current customers in these markets. Standard product sales increased due to an increase in orders from our current customers. 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.

	Six months ended June 30, 2016			2015					
	Amount	% of Net Revenue		Amount	% of Net Revenue		Change	% Change	
	(in thousands, except percentages)								
Cost of revenue	$ 2,345	40.0	%	$ 2,503	49.1	%	$ (158)	(6.3)	%

Cost of revenue was lower compared with the same period in the prior year despite our increase in revenues. Cost of revenues decreased as a percentage of revenues primarily due to efficiencies gained, including improved utilization of fixed costs, as revenues increased.

	Six months ended June 30,							
	2016			2015				
	Amount	% of Net Revenue		Amount	% of Net Revenue		Change	% Change	
	(in thousands, except percentages)							
Engineering, research and development	$ 315	5.4	%	$ 418	8.2	%	$ (103)	(24.6) %

Our R&D costs decreased as compared to the prior year primarily due to a temporary decrease in R&D staffing. In future periods, we anticipate engineering, research and development costs to continue to surpass prior years as we normalize manufacturing staffing to meet our current production levels and then increase our engineering, research and development staffing to enhance our technology and product offerings. We intend to grow our global research and development center in Singapore substantially over the next five years, including expanding our research and development team by approximately 20% per year, expanding the size of the facility, and investing in additional tools and equipment. On February 24, 2016 we entered into a five-year lease agreement in Singapore and moved into the new facility in July 2016.

Table of Contents

	Six months ended June 30,						
	2016		2015				
	Amount	% of Net Revenue	Amount	% of Net Revenue		Change	% Change
	(in thousands, except percentages)						
Selling, general and administrative	$ 1,667	28.5 %	$ 1,475	28.9 %		$ 192	13.0 %

SG&A expenses were driven by increased professional fees as a result of our successful efforts to regain active filing status with the Securities and Exchange Commission and our relisting on NASDAQ. We also had an increases in insurance costs. We added a Vice President of Sales and Marketing in August 2016.

Liquidity and Capital Resources

As of June 30, 2016, we had cash and cash equivalents of $5.4 million of which $470,000 was held by our foreign subsidiaries, working capital of $7.7 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 June 30, 2016.

We believe that our existing cash and cash equivalents balance will be sufficient to meet our business requirements for at least the next twelve months. 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 will 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.

There can be no assurances that we will be able to raise additional needed capital on acceptable terms or at all, and the failure to do so could adversely affect our ability to achieve our business objectives. In addition, if our future operating performance is below our expectations, our liquidity and ability to operate our business could be adversely affected.

Cash Flow Analysis

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

	Six months ended June 30,	
	2016	2015
	(in thousands)	
Net cash provided by operations	$ 1,156	$ 543
Net cash used in investing activities	$ (166)	$ (41)
Net cash provided by financing activities	$ —	$ —

Net Cash Provided By Operating Activities

For the six months ended June 30, 2016, the $1,156,000 in net cash provided by operating activities was primarily attributable to net income of $1,355,000 and adjustments for non-cash charges of $77,000. The net change to operating assets of $276,000 was primarily due to the increase of $136,000 in accounts receivable and $270,000 in inventory, as well as an increase of $102,000 in accounts payable and accrued liabilities partially offset by a decrease of $27,000 in deferred revenue and a decrease of $55,000 in all other assets including prepaids.

Accounts receivable increased from $1.6 million at December 31, 2015 to $1.7 million at June 30, 2016 due to the timing of shipments and payments during the period. We had no past due accounts receivable at June 30, 2016. Inventories increased from $1.0 million at December 31, 2015 to $1.3 million at June 30, 2016. Inventory balances will fluctuate depending on the timing of materials purchases and product shipment. Accounts payable and accrued liabilities increased from $788,000 at December 31, 2015 to $890,000 at June 30, 2016 primarily due to the timing of payment for materials purchases. Deferred revenue decreased from $111,000 at December 31, 2015 to $84,000 at June 30, 2016 primarily due to the recognition of non-recurring engineering fees as deliverables were provided to the customer.

Net Cash Used In Investing Activities

Net cash used in investing activities of $166,000 for the six months ended June 30, 2016 related to the expansion of our new research and development center in Singapore.

Off-Balance Sheet Arrangements

At June 30, 2016 and 2015, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Contractual Obligations and Commercial Commitments

Indemnification Agreements

In the ordinary course of business, we enter into agreements of varying scope and terms pursuant to which we agree to indemnify customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by us or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with directors and certain officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. No demands have been made upon us to provide indemnification under such agreements and there are no claims that we are aware of that could have a material effect on our consolidated financial position and results of operations.

Operating Leases

We lease various office and manufacturing facilities, including our corporate headquarters in Westlake Village, California, under operating lease agreements that expire through 2020. The terms of the lease agreements provide for rental payments on a graduated basis. We recognize rent expense on a straight-line basis over the lease periods.

Commitments

As of June 30, 2016, our principal commitments consisted of obligations under the operating leases for our offices. The following table summarizes our future minimum payments under these arrangements:

	Remaining 2016	2017	2018	2019	Thereafter	Total
	(in thousands)					
Operating Leases	$ 128	$ 220	$ 184	$ 187	$ 195	$ 914

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.

Table of Contents

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, 2016, 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, 2016, 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, 2016 that materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

Table of Contents

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 for the year ended December 31, 2015. There have been no material changes to such risk factors during the six months ended June 30, 2016.

Item 2.Unregistered Sales of Equity Securities and Use of Proceeds

On April 1, 2016, we issued an aggregate of 1,465,243 shares of our common stock to our stockholders of record at the close of business on March 29, 2016, as a stock dividend of one quarter of a share of common stock for every one share of common stock issued and outstanding at the record date. The issuance of the shares as a stock dividend was not a "sale" within the meaning of, and not required to be registered under, the Securities Act of 1933, as amended.

Item 6.Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File Number	Exhibit	Filing Date	Filed Herewith
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	
10.1	Interlink Electronics, Inc. 2016 Omnibus Incentive Plan	8-K	001-37659	10.1	June 22, 2016	
31.1	Certification of Principal Executive Officer and 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					X

	2002	
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

#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.

Table of Contents

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 12, 2016	Interlink Electronics, Inc. (Registrant)
	By: /s/ Steven N. Bronson Steven N. Bronson Chief Executive Officer and Chief Financial Officer (Principal Financial and Accounting Officer)