INTERLINK ELECTRONICS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014
AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

INTERLINK ELECTRONICS, INC. AND SUBSIDIARIES

INDEX TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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INTERLINK ELECTRONICS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,619	$ 2,386
Accounts receivable	1,873	1,838
Inventories	934	1,056
Prepaid expenses and other current assets	165	286
Total current assets	6,591	5,566
Property, plant and equipment, net	200	154
Other intangible assets, net	14	23
Other assets	31	39
Total assets	$ 6,836	$ 5,782
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 304	$ 473
Accrued expenses and other current liabilities	286	300
Deferred revenue, current	71	53
Total current liabilities	661	826
Deferred revenue, long-term	52	92
Total liabilities	713	918
Commitments and contingencies (see note)		
Stockholder's 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, 5,860 shares outstanding at September 30, 2015 and December 31, 2014 respectively	6	6
Additional paid-in-capital	60,218	60,163
Accumulated deficit	(54,101)	(55,305)
Total stockholders' equity	6,123	4,864
Total liabilities and stockholders' equity	$ 6,836	$ 5,782

See accompanying notes to the unaudited condensed consolidated financial statements.

INTERLINK ELECTRONICS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Three months ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues, net	$ 2,646	$ 2,928	$ 7,744	$ 7,321
Cost of revenues	1,135	1,476	3,638	3,830
Gross profit	1,511	1,452	4,106	3,491
Operating expenses:				
Engineering, research and development	219	242	637	650
Selling, general and administrative	816	740	2,291	2,094
Total operating expenses	1,035	982	2,928	2,744
Income from operations	476	470	1,178	747
Other income (expense):				
Interest income	1	1	1	2
Other income (expense), net	(11)	6	31	22
Other income (expense), net	(10)	7	32	24
Income before income tax expense (benefit)	466	477	1,210	771
Income tax expense (benefit)	8	-	(3)	1
Net income	$ 458	$ 477	$ 1,213	$ 770
Earnings per share: basic and diluted	$ 0.08	$ 0.08	$ 0.21	$ 0.13
Weighted average common shares outstanding - basic	5,860	5,854	5,859	5,852
Weighted average common shares outstanding - diluted	5,865	5,856	5,864	5,854

See accompanying notes to the unaudited condensed consolidated financial statements.

INTERLINK ELECTRONICS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

(in thousands)

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2014	5,860	$ 6	$ 60,163	$ (55,305)	$ 4,864
Net income	-	-	-	1,213	1,213
Foreign currency translation adjustment	-	-	-	(9)	(9)
Compensation expense related to equity awards	-	-	55	-	55
Balance at September 30, 2015	5,860	$ 6	$ 60,218	$ (54,101)	$ 6,123

See accompanying notes to the unaudited condensed consolidated financial statements.

INTERLINK ELECTRONICS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$ 1,213	$ 770
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and Amortization	46	55
Stock-based compensation (forfeiture)	55	(42)
Other	(9)	2
Changes in operating asses and liabilities		
Accounts receivable	(35)	(329)
Inventories	122	(311)
Prepaid expenses and other assets	129	118
Accounts payable	(169)	122
Accrued expenses and other current liabilities	(14)	(3)
Deferred revenue	(22)	(47)
Net cash provided by operating activities	1,316	335
Cash flows from investing activities		
Capital expenditures	(83)	(106)
Costs of intangibles	-	(12)
Net cash used in investing activities	(83)	(118)
Cash flows from financing activities		
Proceeds from exercise of stock options	-	16
Net cash provided by financing activities	-	16
Net increase in cash and cash equivalents	1,233	233
Cash and cash equivalents, beginning of period	2,386	1,492
Cash and cash equivalents, end of period	$ 3,619	$ 1,725

See accompanying notes to the unaudited condensed consolidated financial statements.

INTERLINK ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 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 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, 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") for interim financial information. They do not include all of the information and footnotes required by GAAP for complete financial statements. The December 31, 2014 balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required for annual periods. Therefore, these financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2014, included in our Annual Report.

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 the consolidated cash flows and the changes in our stockholders' equity. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for future quarters or the full year.

Share amounts and weighted-average grant date fair value reflect the four-for-one stock split effected on May 29, 2014 and the two-for-one stock split effected on February 24, 2015. 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 May 29, 2014 and February 24, 2015.

Use of Estimates
The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the 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 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.

Reclassification
Certain reclassifications have been made to prior year amounts and related footnotes to conform to current-year presentation with no changes to stockholders' equity or net income.

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 February 2015, the Financial Accounts Standards Board, or FASB, issued Accountings Standards Update, or ASU, 2015-02 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. We are currently evaluating this standard and after adoption, we will incorporate this guidance in our analysis for consolidations.

NOTE 2-INVENTORIES

Inventories consist of the following:

	September 30, 2015	December 31, 2014
	(in thousands)	
Raw materials	$ 647	$ 589
Work-in-process	178	326
Finished goods	109	141
Total inventories	$ 934	$ 1,056

NOTE 3-STOCKHOLDERS' EQUITY

On May 29, 2014, we completed a four (4) share for one (1) share forward stock split of Interlink Electronics' common stock. On February 19, 2015, we completed a two (2) share for one (1) share forward stock split of our common stock. 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 May 29, 2014 stock split, the board of directors authorized the adoption of an amendment to the Articles of Incorporation to increase the authorized number of shares of capital stock to 16,000,000 shares, consisting of 15,000,0000 shares of common stock, par value $0.001 and 1,000,000 shares of preferred stock, par value $0.01. In conjunction with the February 19, 2015 stock split, the board of directors authorized the adoption of an amendment to the Articles of Incorporation to increase its 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

Share amounts and weighted-average grant date fair value reflect the four-for-one stock split effected on May 29, 2014 and the two-for-one stock split effected on February 24, 2015.

Restricted Stock Units

Activity for our restricted stock units is as follows:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Restricted stock units, December 31, 2014	64,000	$ 1.25	3.60	$ 528,000
Awarded	65,000	$ 6.61		
Released	-	-		
Forfeited	-	-		
Restricted stock units, September 30, 2015	129,000	$ 3.95	3.50	$ 1,161,000

Stock Options

Under the terms of our 1996 Stock Incentive Plan (the "Plan"), officers and key employees may be granted non-qualified or incentive stock options, and outside directors and independent contractors may be granted non-qualified stock options. The aggregate number of shares that may be issued under the Plan is 7,250,000. New options are granted at fair market value on the date of grant, generally vest ratably over thirty-six months and have a ten-year term, but terminate earlier if employment is terminated. As of September 30, 2015, options for 149,500 shares of stock have been granted (15,928 are outstanding, and 133,572 have been exercised, forfeited or expired).

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2014	17,528	$ 7.05	1.87	$ 35,207
Granted	-	-		
Exercised	-	-		
Cancelled or expired	(1,600)	17.09		
Options outstanding, September 30, 2015	15,928	$ 6.04	1.28	$ 47,153
Options exercisable, September 30, 2015	15,928	$ 6.04	1.28	$ 47,153

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 $9.00 and $8.25 as of September 30, 2015 and December 31, 2014, respectively, which would have been received by the option holders had those option holders exercised their in-the-money options as of those dates. There are 15,928 in-the-money stock options that were exercisable as of September 30, 2015.

The following table provides additional information in regards to options outstanding as of September 30, 2015:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contrctual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.95	3,200	2.52	$ 1.95	3,200	$ 1.95
$6.00 - $8.13	12,728	0.97	$ 7.07	12,728	$ 7.07
	15,928	1.28	$ 6.04	15,928	$ 6.04

NOTE 5-EARNINGS PER SHARE

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

(In thousands, except per share amounts)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income	$ 458	$ 477	$ 1,213	$ 770
Weighted average outstanding shares of common stock	5,860	5,854	5,859	5,852
Dilutive potential common shares from stock options	5	2	5	2
Common stock and common stock equivalents	5,865	5,856	5,864	5,854
Loss per share:				
Basic and diluted net loss per share	$ 0.08	$ 0.08	$ 0.21	$ 0.13
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation	140	80	140	80

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

We manage and operate our business through one operating segment.

Four customers accounted for 23%, 15%, 14% and 13% of our net revenue for the three-month period ended September 30, 2015. As of September 30, 2015, five customers accounted for approximately 32%, 18%, 15%, 11% and 10% of total accounts receivable. Three customers accounted for 22%, 16% and 11% of the Company's net revenue for the three-month period ended September 30, 2014. As of September 30, 2014, four customers accounted for approximately 22%, 18%, 13% and 13% of total accounts receivable.

Three customers accounted for 21%, 17% and 17% of our net revenue for the nine-month period ended September 30, 2015. Three customers accounted for 17%, 17% and 10% of the Company's net revenue for the nine-month period ended September 30, 2014.

Net revenues by geographic area are as follows:

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
	(in thousands)		(in thousands)	
United States	$ 1,590	$ 1,713	$ 4,462	$ 4,252
Asia	669	821	2,056	1,700
Europe	356	357	1,104	1,233
Other	31	37	122	136
Revenue, net	$ 2,646	$ 2,928	$ 7,744	$ 7,321

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.

As of September 30, 2015 our property and equipment, net were geographically located as follows

	September 30, 2015
	(in thousands)
United States	$ 50
Asia	164
Long-lived assets	$ 214

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. For the three and nine months ended September 30, 2015, BKF paid $3,000 and $7,000, respectively, to the Company. Steven N. Bronson, our CEO and Chairman, is also the Chairman, CEO and majority shareholder of BKF.

We paid fees to a related party for consulting services of $0 and $18,750 for the three months ended September 30, 2015 and 2014, respectively. The Company paid fees to a related party for consulting services of $0 and $56,250 for the nine months ended September 30, 2015 and 2014 respectively.

Qualstar Corporation - 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, IT support 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 September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Paid to Qualstar	$ 15	$ 7	$ 45	$ 28
Reimbursed from Qualstar	$ 2	$ 22	$ 13	$ 133

NOTE 8-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 leases 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:

(in thousands)	Remaining in 2015	2016	2017	2018	2019	Thereafter	Total
Operating Leases	$ 42	$ 126	$ 77	$ 71	$ 73	$ 6	$ 395

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 the 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 significant.

Litigation

From time to time as a normal consequence of doing business, various claims and litigation may be asserted or commenced against the Company. In particular, the Company in the ordinary course of business may receive claims concerning contract performance, or claims that its products or services infringe the intellectual property of third parties. While the outcome of any such claims or litigation cannot be predicted with certainty, we do not believe that the outcome of any of such matters existing at the present time would have a material adverse effect on the Company's consolidated financial position or results of operations

Indemnifications

In the normal course of business, the Company provides certain indemnifications, commitments and guarantees of varying scope to customers, including against claims of intellectual property infringement made by third parties arising from the use of the Company's products. The Company also has certain obligations to indemnify its officers, directors and employees for certain events or occurrences while the officers, directors or employees are or were serving at the Company's request in such capacity. The duration of these indemnifications, commitments and guarantees varies and in certain cases is indefinite. Many of these indemnifications, commitments and guarantees do not provide for any limitation of the maximum potential future payments that the Company could be obligated to make. However, the Company's director and officer insurance policy may enable it to recover a portion of any future payments related to its officer, director or employee indemnifications. We also maintain general and product liability insurance which may provide a source of recovery to us in the event of an indemnification claim. Historically, costs related to these indemnifications, commitments and guarantees have not been significant. With the exception of the product warranty accrual associated with the Company's initial standard warranty, no liabilities have been recorded for these indemnifications, commitments and guarantees.